

SKM Egg Products Export (India) Limited

July 6, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long/Short-term Bank Facilities	26 (reduced from 27)	CARE BBB; Negative /CARE A3 (Triple B; Outlook: Negative /A Three)	Reaffirmed
Short-term Bank Facilities	44 (enhanced from 38)	CARE A3 (A Three)	Reaffirmed
Total Facilities	70 (Rupees Seventy crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SKM Egg Products Export (India) Limited (SKML) continue to derive strength from vast experience of the promoters and long operational track record of SKML for more than two decades in the egg powder business, strategically located manufacturing facilities with adherence to high quality standards, diversified product offerings, well-established distribution network and comfortable gearing & coverage indicators.

The ratings are, however, constrained by SKML's geographical & client concentration risk, susceptibility of profitability to volatile egg prices & foreign exchange fluctuations, working capital intensive nature of operations and moderate profitability during FY17. The ratings also factor in the susceptibility to the outbreaks of bird flu and other diseases.

Going forward, ability of SKML to increase its scale of operations by adding new product blends & catering to new markets, improve its profit margins and prudently manage its working capital requirements would remain the key rating sensitivities

Outlook: Negative

The outlook is 'Negative' as the realization on egg powder which is a key product for the company has been declining and with increase in egg prices, the key input for the same, the margins are expected to be muted going forward. Any sharp decline in this spread and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in rating. The outlook may be revised to 'Stable' if the company is able to ramp up sales with diversified products and improve profitability

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & long operational track record for more than two decades:

Mr SKM Maeilanandhan, promoter of the SKM group has vast experience of nearly four decades in the poultry and related industries. Mr Maeilanandhan is assisted by his son, Mr Shree Shivkumar with over 20 years of experience in the industry. SKML has a long track record of operations for over two decades in manufacturing and export of egg powder.

Strategically located manufacturing facility with adherence to high quality standards:

All the poultry farms including the company's own farm are strategically located within a radius of about 30-40 km from the company's manufacturing unit thereby providing easy access to the raw material and ensuring lesser breakage of eggs during transit.

The plant's construction and machinery installation confirms to EU/USFDA regulations and the entire unit is HACCP (Hazard Analysis Critical Control Point) Certified.

Diversified product offerings and established distribution network:

SKML has a diversified range of products which are broadly classified under egg powder, bakery mix and liquid egg. Export sales mix consists of egg yolk powder around 45%, egg albumen powder around 25%, whole egg powder around 20% and the rest by liquid egg, while domestic sales is majorly from sale of bakery mix and eggs. Direct customer sale forms only 25-30% of the total sales as the rest are through distribution agents in each of the countries it operates.

Comfortable gearing and coverage indicators, however moderated during FY17:

The overall gearing stood comfortable at 0.65x as on March 31, 2017 (PY: 0.64x). With the decline in PBILDT in FY17, the interest coverage moderated from 20.21x in FY16 to 3.74x during FY17. The cash accruals decreased to Rs.12.7 crore in FY17 from Rs.33 crore in FY16 resulting in the moderation of Total Debt/ GCA of 4.58x as on March 31, 2017 (PY: 1.74x).

Key Rating Weaknesses

Revenue concentration risk:

SKML's top 5 customer's account for 61% (PY: 68%) of its total sales during FY17 and majority of sales is contributed by Japan followed by Germany and Netherlands. SKML's dependence on these agents & higher concentration on Japanese and European markets exposes the company to any change in consumption pattern in these markets and entry of alternate products.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Moderate financial performance during FY17:

The operating income declined by 23.2% from Rs.283 crore in FY16 to Rs.218 crore in FY17 mainly on account of unfavorable prices for egg powder in export market particularly Japan and also due to the increase in domestic egg prices. The PBILDT margin and PAT margin declined from 17.20% and 7.99% respectively in FY16 to 8.45% and 1.15% respectively in FY17.

Working Capital intensive nature of operations:

The operations of SKML are working capital intensive in nature due to its nature of business and its requirement to maintain high inventory for export orders and diversified product profile. SKML has sanctioned pre-shipment & post-shipment working capital facilities of Rs.70 crore and the average working capital utilisation for the past 12 months ended March 2017, remained high at 93.67%.

Susceptibility of profitability to volatility in egg prices and foreign exchange rates:

The average price of egg as per NECC (National Egg Co-ordination Committee) during FY16 is at Rs.3.39 per egg and Rs.3.69 per egg during FY17. With raw material cost accounting for nearly 80% of overall cost of production, ability of the company to pass on the increase in price to its customers plays a significant role in the overall profitability.

More than 90% of revenue of SKML is generated in foreign currency while the raw material is procured locally barring certain consumables. Any steep movement in the currency exchange rates can have a bearing on the profitability of the company.

Vulnerability to outbreaks of flu and other diseases:

Intermittent outbreaks of bird flu have affected poultry and poultry products export since 2006. A ban on exports could lead to products being piled up leading to an excess supply situation thereby causing a sharp fall in end product prices. Such scenario is expected to have an impact on the company's revenues as well as profitability.

Analytical approach:

Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

SKML, promoted in 1995 by Mr SKM Maeilanandhan (Chairman), is a Joint Sector Undertaking along-with Tamil Nadu Industrial Development Corporation Limited (TIDCO). SKML is engaged in manufacture & sale of egg powder and liquid egg with varieties of blends used in various segments of the food industry and in the health & pharmaceuticals sector. As on March 31, 2017, the company had an installed capacity to break 1.8 million eggs per day to produce 6,900 MT of egg powder annually at its unit in Erode.

During FY17 (audited), the company reported PAT of Rs.2.5 crore on total operating income of Rs.217.9 crore as against Rs.22.7 crore and Rs.283.3 crore respectively during FY16.

Status of non-cooperation with previous CRA:

CRISIL has conducted the review on the basis of best available information and has classified the SKML as 'Not cooperating' vide its press release dated June 6, 2017.

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	26.00	CARE BBB; Negative / CARE A3
Fund-based - ST-Foreign Bill Discounting	-	-	-	39.00	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	11.22	Suspended	-	-	-	1)Suspended (23-Feb-15)
2.	Fund-based - ST-EPC/PSC	ST	52.75	Suspended	-	-	-	1)Suspended (23-Feb-15)
3.	Non-fund-based - ST-BG/LC	ST	2.45	Suspended	-	-	-	1)Suspended (23-Feb-15)
4.	Term Loan-Long Term	LT	17.27	Suspended	-	-	-	1)Suspended (23-Feb-15)
5.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	26.00	CARE BBB; Negative / CARE A3	-	1)CARE BBB / CARE A3 (20-May-16)	-	-
6.	Fund-based - ST-Foreign Bill Discounting	ST	39.00	CARE A3	-	1)CARE A3 (20-May-16)	-	-
7.	Fund-based - ST-Standby Line of Credit	ST	5.00	CARE A3	-	1)CARE A3 (20-May-16)	-	-
8.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3	-	1)CARE A3 (20-May-16)	-	-
9.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A3	-	-	-	-

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