

SKM Egg Products Export (India) Limited

October 5, 2018

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|---------------------------------|--|---|---|
| Long term Bank Facilities | 5 | CARE BBB; Stable (Triple B; Outlook: Stable) | Assigned |
| Long/Short-term Bank Facilities | 26 | CARE BBB; Stable /CARE A3 (Triple B; Outlook: Stable /A Three) | Revised from CARE BBB; Negative/ CARE A3 (Triple B; Outlook: Stable/ A Three) |
| Short-term Bank Facilities | 49 (enhanced from 44) | CARE A3 (A Three) | Reaffirmed |
| Total Facilities | 80 (Rupees Eighty 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 & debt 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. 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: Stable

The outlook is revised from 'Negative' to 'Stable' as the realization of egg powder which is a key product for the company has started improving during Q1FY19 which together with the recent addition of new products in domestic market are expected to improve the margins going forward.

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 nearly 25 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 60 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:

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

SKML has a diversified range of products which are broadly classified under egg powder, bakery mix and liquid egg. Product sales mix consists of egg yolk powder around 30%, egg albumen powder around 21%, whole egg powder around 18% and the rest by liquid egg, while domestic sales is majorly from s feeds. On an average, the 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:

The overall gearing stood comfortable at 0.49x as on March 31, 2018 (PY: 0.49x). The interest coverage improved from 3.54x during FY17 to 8.31x during FY18. The cash accruals also has increased to Rs.15.48 crore in FY18 from Rs.11.97 crore in FY17 resulting in the improvement of Total Debt/GCA of 2.83x as on March 31, 2018 (PY: 3.64x).

Key Rating Weaknesses

Revenue concentration risk:

SKML's top 5 customer's account for 53% (PY: 61%) of its total sales during FY18 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.

Moderate financial performance during FY18 however improved in Q1FY19

The operating income improved by 37% from Rs.218 crore in FY17 to Rs.299 crore mainly on account of increase in traded goods sales in the form of animal feeds. The PBILDT margin declined from 7.94% in FY17 to 6.52% in FY18 due to the increased trading of domestic feeds apart from the lower spread on Albumin powder. However with improved sales realization of egg powder during Q1FY19 which together with favourable forex movement had resulted in increased PBILDT margin of 8.53% during Q1FY19 (Prov.)

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 May 2018, remained at 83%. SKML has a cash and bank balances of Rs. 19.99 crore as on March 31, 2018.

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

Egg prices are sensitive to market dynamics and controlled by NECC (National Egg Co-ordination Committee). With raw material cost accounting for nearly 80% of total sales, ability of the company to pass on the increase in price to its customers plays a significant role in the overall profitability.

More than 60% 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:

A ban on exports due to bird flu 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](#)
[Factoring Linkages in Ratings](#)

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 sector. As on March 31, 2018, the company had an installed capacity to break 1.65 million eggs per day to produce 6,900 MT of egg powder annually at its unit in Erode.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 217.87 | 299.16 |
| PBILDT | 17.31 | 19.51 |
| PAT | 1.78 | 0.98 |
| Overall gearing (times) | 0.49 | 0.49 |
| Interest coverage (times) | 3.54 | 8.31 |

A: Audited;

Status of non-cooperation with previous CRA:

Not Applicable

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.

Analyst Contact:

Name: Mrs Swathi Subramanian

Tel: 0422 – 450 2399

Mobile: +91 94442 34834

Email: swathi.subramanian@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan | - | - | Sep 2023 | 5.00 | CARE BBB; Stable |
| Fund-based - LT/ ST-Packing Credit in Foreign Currency | - | - | - | 26.00 | CARE BBB; Stable / CARE A3 |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 3.00 | CARE A3 |
| Non-fund-based - ST-Letter of credit | - | - | - | 7.00 | CARE A3 |
| Fund-based - ST-Foreign Bill Discounting | - | - | - | 39.00 | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT/ ST-Packing Credit in Foreign Currency | LT/ST | 26.00 | CARE BBB; Stable / CARE A3 | - | 1)CARE BBB; Negative / CARE A3 (06-Jul-17) | 1)CARE BBB / CARE A3 (20-May-16) | - |
| 2. | Fund-based - ST-Foreign Bill Discounting | ST | 39.00 | CARE A3 | - | 1)CARE A3 (06-Jul-17) | 1)CARE A3 (20-May-16) | - |
| 3. | Fund-based - ST-Standby Line of Credit | ST | 5.00 | CARE A3 | - | - | 1)CARE A3 (20-May-16) | - |
| 4. | Non-fund-based - ST-Letter of credit | ST | 7.00 | CARE A3 | - | 1)CARE A3 (06-Jul-17) | 1)CARE A3 (20-May-16) | - |
| 5. | Non-fund-based - ST-Bank Guarantees | ST | 3.00 | CARE A3 | - | 1)CARE A3 (06-Jul-17) | - | - |
| 6. | Fund-based - LT-Term Loan | LT | 5.00 | CARE BBB; Stable | - | - | - | - |

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 851111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com