

SKM Egg Products Export (India) Limited
 September 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	3.33 (Reduced from 3.80)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	36.00	CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three)	Reaffirmed
Short-term Bank Facilities	49.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	88.33 (Rs. Eighty eight crore and thirty three lakh 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, adequate liquidity and comfortable gearing & debt coverage indicators. The ratings also take note of the improved profitability margins for FY20 (refers to the period April 1 to March 31) on account of reduced egg prices.

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

Rating Sensitivities**Positive Factors**

- Consistent growth in the scale of operations with diversification into multiple product segments
- Sustainable improvement in the operating margins upwards of 9%-10% by focusing on higher-margin products

Negative Factors

- Decline in profit margins on a consistent basis
- Any large debt-funded capex leading to deterioration in capital structure or increase in leverage ratios above the range of 0.80-1.00x

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:

SKML has a diversified range of products which are broadly classified under egg powder, bakery mix and liquid egg. Product sales mix as a percentage of total sales for FY20 comprised of egg yolk powder around 36%, egg albumen powder around 16%, whole egg powder around 14% and the rest by liquid egg. Exports contributed to about 78% of sales and rest

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

domestic sales is majorly feed sales .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.

Stable financial performance, with improved profitability margins in FY20

The operating income remained more or less stable at Rs.293.04 crore in FY20 (PY: Rs.299.16 crore), with a growth of 15% in the sale volume. The marginal moderation in TOI is on account of reduction in end prices of albumin powder. However, despite the drop in realisations and TOI, the PBILDT margins improved from 7.45% in FY19 to 9.63% in FY20 on account of reduced raw material costs and favourable rupee. In Q1FY21, the company recorded a TOI of Rs. 62 crore and PBILDT margin of 12.02% on the back of favourable material costs.

Comfortable gearing and coverage indicators

The company's major part of the debt profile consists of working capital borrowings and negligible amount of term loans. The overall gearing moderated to 0.66x as on March 31, 2020 against at 0.46x as on March 31, 2019 due to higher utilization of working capital limits, however still stood comfortable. The company had stocked up more inventory due to favourable egg prices which led to higher utilization of working capital limits. The interest coverage ratio remained comfortable at 4.73x (PY: 5.25x), total Debt/ GCA also stood comfortable at 3.37 years (PY : 2.75 years) as on March 31, 2020.

Key Rating Weaknesses

Revenue concentration risk:

SKML's top five customers account for 62% (PY: 66%) of its total sales during FY20 and majority of sales are contributed by Japan followed by Russia 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.

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 75% of the total sales, the 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 the 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 the end product prices. Such scenario is expected to have an impact on the company's revenues as well as profitability.

Liquidity- Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis minimal repayment obligations of Rs.1 crore and cash balance of Rs.23 crore. During FY20, falling egg prices and lower demand from international market in the last quarter of FY20 led to holding of higher inventory in the form of both raw material & finished goods. The absolute inventory level increased to Rs. 70 crore as on March 31, 2020 against Rs. 42 cr as on March 31, 2019 resulting in elongation in operating cycle to 77 days in FY20 against 52 days in Fy19. The average working capital utilization for the past 12 months period ended July 2020 stood at 91.37%. The company had unencumbered cash and bank balance of Rs 21.47 Crores as on March 31, 2020. The company has availed moratorium from its bankers for the interest portion of CC & TL, however term loan principal obligations are being met on time.

Prospects

India is the 5th largest producer of eggs in the world with annual egg production of 56 billion eggs. Egg prices are sensitive to market dynamics and controlled by NECC (National Egg Co-ordination Committee), while prices of egg powder depend on international market demand. Movement of egg prices, egg powder prices and exchange rate impact SKML's performance. Going forward, sustainability of demand for egg powder in its export markets and the ability of the company to pass on any adverse variations in its raw material (egg) prices would be crucial for its prospects.

Analytical approach: Standalone

Applicable Criteria

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

[CARE's Criteria on assigning Outlook and credit watch to Credit Ratings](#)

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

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

[Criteria for Short-term Instruments](#)

[Rating Methodology - Consolidation & Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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 the manufacture and 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 June 30, 2019, the company had an installed capacity to break 1.80 million eggs per day to produce 6,900 MT of egg powder annually at its unit in Erode.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	299.72	293.04
PBILDT	22.33	28.23
PAT	6.05	5.28
Overall gearing (times)	0.46	0.66
Interest coverage (times)	5.25	4.73

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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	-	-	-	36.00	CARE BBB; Stable / CARE A3
Fund-based - ST-Foreign Bill Discounting	-	-	-	39.00	CARE A3
Fund-based - LT-Term Loan	-	-	September 2023	3.33	CARE BBB; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	10.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ST-Packing Credit in Foreign Currency	LT/ST	36.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (02-Mar-20) 2)CARE BBB; Stable / CARE A3 (31-Jul-19)	1)CARE BBB; Stable / CARE A3 (05-Oct-18)	1)CARE BBB; Negative / CARE A3 (06-Jul-17)
2.	Fund-based - ST-Foreign Bill Discounting	ST	39.00	CARE A3	-	1)CARE A3 (02-Mar-20) 2)CARE A3 (31-Jul-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Jul-17)
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (31-Jul-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Jul-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)Withdrawn (31-Jul-19)	1)CARE A3 (05-Oct-18)	1)CARE A3 (06-Jul-17)
5.	Fund-based - LT-Term Loan	LT	3.33	CARE BBB; Stable	-	1)CARE BBB; Stable (02-Mar-20) 2)CARE BBB; Stable (31-Jul-19)	1)CARE BBB; Stable (05-Oct-18)	-
6.	Non-fund-based - ST-Credit Exposure Limit	ST	10.00	CARE A3	-	1)CARE A3 (02-Mar-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
3.	Fund-based - ST-Foreign Bill Discounting	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple

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

Contact us

Media Contact

Name: Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name - Ms. Swathi Subramanian
Contact no.- 94442 34834
Email ID- swathi.subramanian@careratings.com

Relationship Contact

Name: Mr. V. Pradeep Kumar
Contact no. : 98407 54521
Email ID : pradeep.kumar@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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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