

May 31, 2022

SKM Animal Feeds and Foods (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Term Loan	14.58	0.00	-
Long-term/ Short-term: Fund-based	300.00	300.00	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed
Short-term: Non-fund Based (sublimit)	(125.00)	(125.00)	[ICRA]A1; Reaffirmed
Short-term: Fund-based Facilities	125.00	125.00	[ICRA]A1; Reaffirmed
Unallocated Limits	0.00	14.58	[ICRA]A1; Reaffirmed
Total	439.58	439.58	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to be supported by the dominant market position of SKM Animal Feeds and Foods (India) Private Limited (SKM / the company) in the animal feed segment in Tamil Nadu and Kerala, its diversified presence across divisions like cattle and poultry feeds, edible oil, egg trading and poultry, and the vast experience of the promoters in the feed industry spanning over four decades. The ratings also consider the healthy financial profile of SKM, characterised by strong earnings, comfortable debt indicators and liquidity profile. The ratings also factor the favourable demand in the domestic market for livestock and animal feed. For FY2022 (provisional), the company's revenues stood at Rs. 4,241 crore (up 27% YoY) with operating and net margins of 3.7% and 2.0%, respectively. SKM's coverage indicators are comfortable with Total debt to OPBDITA at 1.9 times and interest coverage of 11.5 times.

The ratings, however, remain constrained by the vulnerability of SKM's earnings to movements in raw material prices, intense competition from both organised and unorganised players with consequent impact on pricing power. The rating also considers the inherent risks in poultry and related businesses like disease outbreaks and volatile realisations. In FY2022, the company's earnings in the livestock segment were impacted by the effect of high soya prices (up over 70% YoY).

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that SKM will continue to benefit from the stable demand outlook for the animal feed and poultry segments and its dominant position in the feed business in Tamil Nadu and Kerala.

Key rating drivers and their description

Credit strengths

Dominant market position in the animal feeds business in South India – By virtue of its extensive presence of over four decades coupled with stable growth, SKM holds a dominant market presence in the feeds segment in South India, especially

in Tamil Nadu and Kerala, amid rising competition. The market, however, remains highly competitive resulting in pricing pressure.

Diversified revenues across the feed, oil, trading, and livestock segments – The company was initially established as a feed manufacturer and over the years, it has diversified its product portfolio. Feeds represented 57% of its revenues in FY2022 (down from 78.3% in FY2016), followed by trading in processed chicken and live birds (35%), vegetables oils (7%), and trading of eggs and raw materials (~1%). Its feed division also supplies cattle feed, thus, insulating its earnings from any adverse shocks in the poultry segment. Cattle feed represents ~47% of its total feed sales in terms of volumes and the diversity mitigates product-specific risks to an extent. In FY2022, revenues from the feed segment grew by 27%; while livestock, oil and trading divisions grew by 33%, 4% and 14%, respectively.

Following 13.9% growth in FY2021, SKM's revenues for FY2022 grew by 27.3% YoY. Especially in the feed division, realisations increased by ~21% in FY2022, while volumes increased by 5%. However, the operating margins of SKM stood at 3.7%, which is below the historical range of 4-5%, primarily due to the steep inflation in raw material prices (especially soya) and the company's inability to pass on the same to its end-customers.

Significant experience of promoters in the animal feeds business for nearly four decades – The company was established by Mr. SKM Maeilanandhan in 1981 and is currently being managed by his son, Dr. M Chandrasekar, who has vast experience of over two decades in the poultry and animal feed business. This has aided SKM in establishing a strong relationship with its customers and suppliers.

Credit challenges

Intense competition from unorganised and organised players; low entry barriers – SKM faces stiff competition from both organised and unorganised players owing to limited entry barriers, and the commoditised nature of its business. Limited value addition coupled with heightened competition results in limited pricing flexibility leading to thin profit margins for the industry.

Earnings vulnerable to volatility in raw material prices – SKM's earnings are vulnerable to the demand fluctuations and volatility in raw material prices. While SKM's revenues witnessed a 27.3% YoY growth in FY2022, the operating and net margins contracted by 590 bps and 460 bps, respectively, owing to the impact of raw material inflation. The prices of key raw materials, maize and soya, increased by ~27% and ~73%, respectively, consequently resulting in contraction of operating margins. Given the uncertain geo-political environment, the prices of raw materials are likely to remain at elevated levels. Moreover, SKM's business segments cater to markets with less propensity of transfer costs to customers. Going forward, its margins shall remain vulnerable to the movement in input prices. Any sharp fluctuation in demand or raw material prices will continue to influence the earnings of poultry and feed players like SKM. The gearing and total debt to the OPBDITA ratio stood at 0.8x and 1.9x, respectively, in FY2022.

Risks of disease outbreaks – SKM's business is exposed to risks of unpredictable disease outbreaks (bird flu). However, diversification of revenues across various segments and its established brand position mitigate the risks to an extent.

Liquidity position: Adequate

SKM's liquidity has remained adequate with positive fund flow from operations in FY2022. It had a cash balance of Rs. 90.5 crore as on March 31, 2022, with an average working capital utilisation of 85.3% of the total sanctioned limits and 78.8% of the drawing power in the one year up to March 2022. Going forward, SKM has no repayment obligations given the closure of all its term loans. Also, the company's capex over the medium term is likely to be moderate at Rs. 50 crore in FY2023, Rs. 50 crore in FY2024 and Rs. 50 crore in FY2025. With the capex likely to be lower than anticipated accruals, ICRA expects SKM's liquidity position to remain adequate over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade SKM’s rating if the company demonstrates an improvement in its revenues, operating margins and debt indicators on a sustained basis.

Negative factors – Negative pressure on SKM’s rating could arise with sharp and sustained deterioration in credit metrics. Specific metrics resulting in a rating downgrade includes total debt to OPBDITA of more than 2.25 times on a sustained basis. Any large impact on the credit profile from any disease outbreaks could also result in a downgrade. Any non-favourable action of the Income Tax Department against the company could be another downgrading factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of SKM Animal Feeds and Foods (India) Private Limited

About the company

SKM Animal Feeds and Foods (India) Limited was promoted by Mr. SKM Maeilanandhan in 1981 in Erode (Tamilnadu) for producing poultry and cattle feed. The company started its feed plant in 1983 and later ventured into manufacturing and marketing edible oils as a backward integration for the feed business. The company, currently managed by the promoter’s son, Dr. M Chandrasekar, has four key divisions. (i) The feed division (for preparation of poultry and cattle feed) (57% of revenues in FY2022), (ii) the vegetable oil division for processing and trading rice bran oil, coconut oil, sesame oil, palm oil, sunflower oil, etc (7%), (iii) the trading of eggs and raw materials (~1%), and (iv) the breeding farm and processed chicken division (35%). During FY2018, the company merged its group entity, M/s Pradeep Krishna Industries Private Limited, with itself for deriving operational synergies.

Key financial indicators (audited)

SKM Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2,925.8	3,332.9
PAT (Rs. crore)	(24.0)	218.6
OPBDIT/OI (%)	1.3%	9.6%
PAT/OI (%)	-0.8%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.1
Total Debt/OPBDIT (times)	6.8	1.0
Interest Coverage (times)	1.6	21.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2022	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 31, 2022	November 26, 2021	Mar 24, 2021	Sep 10, 2019
1	Fund-based - Term Loan	Long-term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Fund-based facilities	Long-term and short-term	300.00	300.00	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+
3	Non-fund based (sublimit)	Short-term	(125.00)	20.44	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4	Fund-based facilities	Short-term	125.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
5	Unallocated Limits	Long-term and short-term	-	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+
6	Unallocated Limits	Short-term	14.58	-	[ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term – Fund Based Working Capital	Simple
Non-fund based (sublimit)	Very Simple
Fund-based facilities	Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/ WCDL	NA	NA	NA	300.00	[ICRA]A(Stable)/ [ICRA]A1
NA	WCDL	NA	NA	NA	125.00	[ICRA]A1
NA	Letter of Credit	NA	NA	NA	(125.00)	[ICRA]A1
NA	Unallocated	NA	NA	NA	14.58	[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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Branches



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