

July 31, 2023

## SKM Animal Feeds and Foods (India) Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated	Current Rated	Rating Action
	Amount (Rs. crore)	Amount (Rs. crore)	
Long-term/Short-term – Fund-based Facilities	300.00	275.00	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed
Long-term/Short-term – Unallocated	0.00	65.00	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed / Assigned for enhanced amount
Short-term – Fund-based – Sublimit	(125.00)	(50.00)	[ICRA]A1; Reaffirmed
Short-term – Non-fund Based Facilities	0.00	120.00	[ICRA]A1; Reaffirmed
Short-term – Fund-based Facilities	125.00	0.00	-
Short-term – Unallocated Limits	14.58	0.00	-
<b>Total</b>	<b>439.58</b>	<b>460.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings outstanding on the bank lines of SKM Animal Feeds and Foods (India) Private Limited (SKM / the company) consider ICRA's expectation of a sustained financial performance for the company in the near to medium term, supported by its dominant presence in the animal feeds business in Southern India, diversified revenue base and stable demand outlook. The promoters have close to four decades in the poultry and animal feed business, which has supported SKM in establishing a strong relationship with its customers and suppliers. Further, the company's financial profile is supported by comfortable capital structure, with a gearing of 0.6 times as on March 31, 2023<sup>1</sup> supported by its healthy scale, moderate capex and low working capital intensity.

SKM's operating income moderated in FY2023 by 2.1% YoY to Rs. 4,146.7 crore, impacted by lower sales volumes in the feed division, even as realisation improved on YoY basis. The feed raw material prices increased by over 20% while SKM's average realisation increased by ~7%, leading to a dip in margins. The company reported operating margins of 1.8% (PY:3.5%) and net cash accruals of Rs 48.7 crore (PY: Rs. 113.7 crore), owing to inability to completely pass on the raw material price increases because of lower realisation in the poultry industry and intense competition. However, in Q1 FY2024, the revenues grew by 5.5% on an annualised basis, aided by higher volumes and stable realisations. The softening of raw material costs has supported operating margins, which stood at 5.6% in Q1 FY2024, and ICRA expects the margins to be in the ~4-5% range going forward. While coverage metrics weakened in FY2023 with SKM reporting a net debt/OPBDITA of 4.2 times and interest coverage of 3.1 times, they improved to 1.0 time and 9.9 times respectively in Q1 FY2024. It is expected to improve on YoY basis in FY2024, as accruals improve, amid moderate capex plans and low working capital intensity. However, risks pertaining to cyclicity and impact of competition and disease outbreaks, if any, on revenues and margins exist.

With regard to the pending case with Income Tax department, the company was in receipt of an assessment order demanding payment of Rs. 8.4 crore pertaining to FY2021, the same has been accounted as contingent liability, although SKM has filed a petition against the assessment order. The undrawn line of working capital and unencumbered cash and bank balance will support the company in taking care of any liabilities that may arise because of this.

<sup>1</sup> Unaudited

## Key rating drivers and their description

### Credit strengths

**SKM remains a dominant player in the animal feeds business in South India; significant experience of promoters in the business** – The company was established by Mr. SKM Maeilanandhan in 1981 and is currently managed by his son, Dr. M Chandrasekar, who has experience of over two decades in the poultry and animal feed business. This has supported SKM in establishing a strong relationship with its customers and suppliers. By virtue of its extensive presence of over four decades and stable growth, SKM continues to hold a dominant market position in the feeds segment in South India, especially in Tamil Nadu, Karnataka, and Kerala.

**Diversified revenues base** – The company was initially established as a feed manufacturer and has diversified its product portfolio over the years. Feeds represented 54.5% of revenues for FY2023, followed by processed chicken and live birds (37.4%), the vegetables oils (7.8%), and trading of eggs and raw materials (0.3%). SKM's feed division also supplies cattle feed, thus, insulating its earnings from any adverse shocks in the poultry segment. Further, the company's proposed plan to expand revenues from the processed chicken and vegetable oil segment are expected to support its diversification, going forward.

**Comfortable capital structure** – SKM has a comfortable capital structure with a gearing of 0.6 time in FY2023<sup>2</sup> supported by its healthy scale of operations (Rs. 4,146.7 crore revenues in FY2023), moderate capex and low working capital intensity (NWC/OI of 11.2% in FY2023). ICRA expects the capital structure to remain comfortable going forward as well supported by anticipated healthy accruals and in the absence of debt-funded capex over the medium term.

### Credit challenges

**Lower margins in FY2023 due to sharp increase in raw material prices; expected to improve in FY2024**– SKM's operating income moderated in FY2023 by 2.1% to Rs. 4,146.7 crore from Rs. 4,235.3 crore in FY2022, impacted by lower sales volumes, even as realisation improved on YoY basis. The feed raw material prices increased by over 20% while SKM's average realisation increased only by 7.1%, leading to dip in margins. The company reported operating margins of 1.8% (PY:3.5%) and net cash accruals of Rs 48.7 crore (PY: Rs. 113.7 crore), owing to inability to completely pass on the raw material price increases because of lower realisation in the poultry industry and intense competition. However, in Q1 FY2024, the revenues grew by 5.5% on an annualised basis, aided by higher volumes and stable realisations. The softening of raw material costs has supported operating margins, which stood at 5.6% in Q1 FY2024, and ICRA expects the margins to be in the ~4-5% range going forward. While coverage metrics weakened in FY2023 with SKM reporting a net debt/OPBDITA of 4.2 times and interest coverage of 3.1 times, they improved to 1.0 time and 9.9 times respectively in Q1 FY2024. It is expected to improve on YoY basis in FY2024, as accruals improve, amid moderate capex plans and low working capital intensity.

**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 and relatively high competition result in limited pricing flexibility for industry players.

**Exposed to inherent risks from disease outbreaks and industry cyclical** - Akin to other poultry players, SKM is susceptible to risks arising from potential outbreak of Avian influenza (bird flu). SKM's margins also remain vulnerable to the inherent cyclical nature in the poultry industry. However, its revenue diversification and adequate liquidity mitigate the risks to an extent.

### Liquidity position: Adequate

SKM's liquidity is expected to remain adequate, supported by anticipated fund flow from operations, undrawn working capital lines of Rs. 71.9 crore (against the sanctioned limit) and unencumbered cash and bank balance of Rs. 17.6 crore as on June 30, 2023. SKM's working capital utilisation stood at 87.6% of the sanctioned limit for the 12-month period ending June 2023. Owing to the absence of any term loans on its books, the company has no repayment obligations. Its annual capex over the medium term is likely to be moderate at ~Rs. 40.0 crore for FY2024 to FY2026. Overall, ICRA expects the company to meet its medium term commitments through internal sources of cash and yet be left with a cash surplus.

<sup>2</sup> Unaudited

## 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 cash flow from operations, liquidity and 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.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of SKM Animal Feeds and Foods (India) Private Limited.

## About the company

SSKM Animal Feeds and Foods (India) Limited was promoted by Mr. SKM Maeilanandhan in 1981 in Erode (Tamil Nadu) for producing poultry and cattle feed. SKM is involved in manufacturing of animal feed (poultry and cattle feed), sale of live broiler birds, processed chicken, vegetable oils and trading of raw materials/eggs. 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 Mr. Maeilanandhan’s son, Dr. M Chandrasekar, has four key divisions—(i) The feed division (poultry and cattle feed) (54.5% of revenues in FY2023); (ii) the livestock farming and processed chicken division (37.4%); (iii) the vegetable oil division (7.8%); and (iv) the trading division (0.3%).

## Key Financial Indicators

Standalone	FY2022 (Audited)	FY2023 (Unaudited)
Operating income	4,235.3	4,146.7
PAT	84.6	20.7
OPBDIT/OI	3.5%	1.8%
PAT/OI	2.0%	0.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	2.0	4.4
Interest coverage (times)	11.1	3.1

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				July 31, 2023	May 31, 2022	Nov 26, 2021	Mar 24, 2021
1 Fund Based – Term Loan	Long term	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund Based Facilities	Long term / short term	275.00	253.10	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1
3 Unallocated Limits	Long term / short term	65.00	-	[ICRA]A (Stable) / [ICRA]A1	-	-	-
4 Fund Based – Sublimit	Short term	(50.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Non-Fund Based Facilities	Short term	120.00	-	[ICRA]A1	-	-	-
6 Fund Based Facilities	Short term	0.00	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
7 Unallocated Limits	Short term	0.00	-	-	[ICRA]A1	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Fund Based Facilities	Simple
Long Term/Short Term – Unallocated Limits	Not Applicable
Short Term – Fund Based – Sublimit	Simple
Short Term – Non-Fund Based Facilities	Very Simple

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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument Details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/WCDL	NA	NA	NA	275.00	[ICRA]A (Stable)/[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	65.00	[ICRA]A (Stable)/[ICRA]A1
NA	Sublimit - WCDL	NA	NA	NA	(50.00)	[ICRA]A1
NA	Letter of Credit	NA	NA	NA	120.00	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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