

October 15, 2024

SKM Animal Feeds and Foods (India) Private Limited: Long-term rating reaffirmed; Short-term rating downgraded to [ICRA]A2+, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based limits	275.00	275.00	[ICRA]A (Stable) / [ICRA]A2+; Long-term rating reaffirmed and short term rating downgraded from [ICRA]A1
Long-term/Short-term – Unallocated	65.00	0.00	-
Short-term – Fund-based – Sublimit	(50.00)	(200.00)	Downgraded to [ICRA]A2+ from [ICRA]A1
Short-term – Non-fund based limits	120.00	200.00	Downgraded to [ICRA]A2+ from [ICRA]A1; assigned for enhanced limits
Total	460.00	475.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action for 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 correction in short-term rating considers the moderation in liquidity profile, following weaker-than-expected accruals in FY2024. Although the company has adequate liquidity, ICRA notes that the free cash balance has reduced on a sustained basis compared to the historical levels (barring the cyclical highs in seasonally good quarters) and is expected to remain so going forward as well.

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. SKM has a diversified product portfolio comprising animal feeds (55.7% in FY2024), processed chicken and live birds (39.1%), vegetables oil (4.9%), and trading (0.3%). SKM's feed division also supplies cattle feed, thus, insulating its earnings from any adverse shocks in the poultry segment to an extent. The diversified revenue base mitigates the company's earnings from product-specific risks to an extent. The ratings also draw comfort from the company's comfortable capital structure, with a gearing of 0.6 times as on March 31, 2024¹ supported by its healthy scale of operations, moderate capex over the years and low working capital intensity.

SKM's operating income moderated in FY2024 by 3.7% YoY to Rs. 3,999.5 crore, impacted by the company's strategy to reduce the non-margin accretive bulk oil sales, decline in the feed realisation and higher competition. The company's operating margins have remained volatile over years ranging from sub 2% to 10% in the last few years. For FY2024, the operating margins improved to 3.4% in FY2024 from 1.7% in FY2023 supported by favourable RM prices, despite the impact of weak performance of the livestock division. However, extraordinary losses to the tune of Rs. 47.1 crore from sale of machinery impacted the net margins and accruals in FY2024. For Q1 FY2025, SKM reported YoY decline of 6% in revenues to Rs. 1,023.6 crore, while its operating margin improved to 10.2% supported by favourable broiler prices. The company has undertaken several cost-optimisation/margin improvement measures, and this is likely to improve profits and accruals going forward. Accordingly, the debt metrics (Total Debt to OPBDITA was 2.4x in FY2024 while interest coverage was 5.6 times in FY2024) are likely to improve as well, in the absence of debt-funded capex plans going forward. However, risks pertaining to cyclicity, regional concentration, competition and disease outbreaks, on revenues and margins exist.

¹ Unaudited

The Stable outlook on the long-term rating factors in ICRA's expectation that the company will sustain its overall credit profile supported by the stable demand outlook for its products and its established presence in South India, adequate liquidity and anticipated improvement in debt metrics.

Key rating drivers and their description

Credit strengths

SKM remains a dominant player in animal feeds business in South India; extensive 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, with cumulative experience of close to four decades in the poultry and animal feed business. This has supported SKM in establishing a strong relationship with its customers and suppliers. 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 – SKM has a diversified product portfolio comprising animal feeds (55.7% in FY2024), processed chicken and live birds (39.1%), vegetables oil (4.9%), and trading (0.3%). SKM's feed division also supplies cattle feed, thus, insulating its earnings from any adverse shocks in the poultry segment to an extent. The diversified revenue base mitigates the company's earnings from product-specific risks to an extent.

Comfortable capital structure – SKM's capital structure remained comfortable with a gearing of 0.6 time in FY2024² (PY: 0.7x) supported by its healthy scale of operations, moderate capex in the last few years and low working capital intensity (NWC/OI of 11.5% in FY2024). ICRA expects the capital structure to remain comfortable going forward as well supported by anticipated healthy accruals and absence of debt-funded capex over the medium term.

Credit challenges

Profit margins vulnerable to price volatility in RM prices; livestock segment continues to report net losses – SKM's operating margins have remained volatile over years, impacted by raw material price fluctuations, ranging from sub 2% to 10% in the last few years. For FY2024, the company reported operating margins of 3.4% in FY2024. The fluctuations in profit margins have, in turn, led to volatility in earnings for the company. Further, SKM's livestock segment has been reporting continued net losses since FY2022 and the company reported extraordinary losses to the tune of Rs. 47.1 crore from sale of machinery impacting accruals further. The company has undertaken several cost-optimisation/margin improvement measures, and this is likely to improve profits and accruals going forward. Although the company has adequate liquidity, ICRA notes that the free cash balance has reduced on a sustained basis compared to the historical levels (barring the cyclical highs in seasonally good quarters) and is expected to remain so going forward as well.

Exposed to inherent risks from disease outbreaks and industry cyclicality - 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 cyclicality in the poultry industry. However, its revenue diversification and adequate liquidity mitigate the risks to an extent.

Intense competition from unorganised and organised players; revenues concentrated in South India - 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 have resulted in limited pricing flexibility for industry players. Further, the company's revenues are concentrated in the South India, with Tamil Nadu contributing around 75% of the revenues. This exposes the company to region-specific risks.

Liquidity position: Adequate

SKM's liquidity is expected to remain adequate, supported by anticipated fund flow from operations, free cash and bank balance of Rs. 97.4 crore and undrawn working capital limit of over Rs. 100.0 crore as on June 30, 2024. SKM's working capital utilisation stood at around 75% of the drawing power for the last 12 months ended in June 2024. ICRA notes that the free cash balance has reduced on a sustained basis compared to the historical levels (barring the cyclical highs in seasonally good

² Unaudited

quarters) and is expected so going forward. The company has no term loan obligations. Its annual capex over the medium term is likely to be moderate at Rs. 30.0-40.0 crore for FY2025 to FY2027. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of cash and yet be left with a cash surplus.

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	Corporate Credit Rating Methodology
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

SKM Animal Feeds and Foods (India) Limited was promoted by Mr. SKM Maeilanandhan in 1981 for producing poultry and cattle feed. The company started with a feed plant in 1983 and later ventured into the business of manufacturing and marketing of edible oils as backward integration for the feed business. SKM currently has a diversified product portfolio comprising animal feeds (55.7% in FY2024), processed chicken and live birds (39.1%), vegetables oil (4.9%) and trading (0.3%). The company’s operations are based in Erode, Tamil Nadu. It is managed by Dr. M Chandrasekar, the son of the founder, and is wholly owned by the promoters.

Key financial indicators

Standalone	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	4,153.8	3,999.5
PAT	14.1	12.9
OPBDIT/OI	1.7%	3.4%
PAT/OI	0.3%	0.3%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	4.6	2.4
Interest coverage (times)	3.4	5.6

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; PAT excludes profit from associates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Oct 15, 2024	Date	Rating	Date	Rating	Date	Rating
Fund Based – Term Loan	Long term	-	-	31-Jul-23	-	31-May-22	-	26-Nov-21	[ICRA]A (Stable)
Fund Based limits	Long term / short term	275.00	[ICRA]A (Stable) / [ICRA]A2+	31-Jul-23	[ICRA]A (Stable) / [ICRA]A1	31-May-22	[ICRA]A (Stable) / [ICRA]A1	26-Nov-21	[ICRA]A (Stable) / [ICRA]A1
Unallocated Limits	Long term / short term	0.00	-	31-Jul-23	[ICRA]A (Stable) / [ICRA]A1	31-May-22	-	26-Nov-21	-
Fund Based – Sublimit	Short term	(200.00)	[ICRA]A2+	31-Jul-23	[ICRA]A1	31-May-22	[ICRA]A1	26-Nov-21	[ICRA]A1
Non-Fund Based limits	Short term	200.00	[ICRA]A2+	31-Jul-23	[ICRA]A1	31-May-22	-	26-Nov-21	-
Fund Based Facilities	Short term	0.00	-	31-Jul-23	-	31-May-22	[ICRA]A1	26-Nov-21	[ICRA]A1
Unallocated Limits	Short term	0.00	-	31-Jul-23	-	31-May-22	[ICRA]A1	26-Nov-21	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – fund based limits	Simple
Short Term – Fund Based – Sublimit	Simple
Short Term – Non-fund based limits	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]A2+
NA	Sublimit – WCDL	NA	NA	NA	(200.00)	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	200.00	[ICRA]A2+

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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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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