

## Shalimar Nutrients Pvt Ltd

March 22, 2018

### Summary of rated instruments

| Instrument  | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                                     |
|---|-----------------------------------|----------------------------------|---|
| Fund-based-Term Loan  | 15.79                             | 12.99                            | [ICRA]A (Stable); upgraded from [ICRA]A- (Stable) |
| Fund-based-Cash Credit  | 30.00                             | 30.00                            | [ICRA]A (Stable); upgraded from [ICRA]A- (Stable) |
| Fund-based-Packing Credit/Bill Discounting/Foreign Bill Discounting | (15.00)#                          | (15.00)#                         | [ICRA]A (Stable); upgraded from [ICRA]A- (Stable) |
| Non-fund-based-Bank Guarantee                                       | 2.00                              | 2.00                             | [ICRA]A1; upgraded from [ICRA]A2+                 |
| Non-fund-based-Letter of Credit                                     | (5.00)#                           | (5.00)#                          | [ICRA]A1; upgraded from [ICRA]A2+                 |
| Unallocated   | 15.21                             | 18.01                            | [ICRA]A (Stable); upgraded from [ICRA]A- (Stable) |
| <b>Total</b>  | <b>63.00</b>                      | <b>63.00</b>                     |   |

#sub-limit of cash credit limit

### Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 12.99-crore<sup>1</sup> (reduced from Rs. 15.79 crore) term-loan facility, Rs. 30.00-crore cash-credit facility, Rs. 15.00-crore (sub-limit of cash credit limit) packing credit/bill discounting/foreign bill discounting facility, and Rs. 18.01-crore (increased from Rs. 15.21-crore) unallocated limit of Shalimar Nutrients Pvt Ltd (SNPL)<sup>2</sup> to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating assigned to the Rs. 2.00-crore bank guarantee limit, and Rs. 5.00-crore (sub-limit of cash-credit facility) letter-of-credit facility of SNPL to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus).

### Rationale

While arriving at SNPL's ratings, ICRA has taken a consolidated view of the credit profiles of Shalimar Hatcheries Limited (SHL), Sona Vets Private Limited (SVPL), Shalimar Pellet Feeds Limited (SPFL) and Shalimar Nutrients Pvt Ltd (SNPL) (referred to as Shalimar Group/ Group) given the operational and financial linkages between the four companies and a common management shared by them.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

The upgrade in the ratings takes into account the improvement in the overall financial risk profile of the Group, reflected by higher absolute profits, improved return on capital employed and debt-coverage indicators. While arriving at the ratings, ICRA also took into account the increase in broiler realizations and stable feed costs during the current financial year which is expected to further strengthen the Group's profitability in FY2018. Moreover, absence of any significant capex plan by the company in the near to medium term is likely to strengthen the capital structure and support its cash flows, going forward. The ratings continue to draw comfort from the established presence of the Shalimar Group in the poultry and related business, and operational linkages of SNPL with other group entities which support its market position. ICRA further notes that SNPL enjoys a location-specific advantage due to presence of its manufacturing units in Nagpur, Maharashtra, which is in close proximity to key soybean-growing areas.

The ratings are, however, constrained by the susceptibility of SNPL's operating profit margin to fluctuations in the price of soya bean seeds due to the raw-material intensive nature of business, where soybean seed accounts for around 85% of the total raw material consumption cost. Since soya bean is an agricultural produce, availability of the same is exposed to agro-climatic conditions. Moreover, as a major portion of revenue is derived from sale of soya de-oiled cake, the profitability of SNPL remains dependent on the performance of the consuming animal-husbandry industry. Being a backward integration arm of the Shalimar Group, the company's client base is significantly concentrated, with sales to Group companies accounting for around 60% of the total sales in FY2017. ICRA notes that though SNPL is exposed to client-concentration risk, the same is mitigated by the established financial profile of its clients.

## Outlook: Stable

ICRA believes that SNPL will continue to benefit from the extensive experience of its promoters in the poultry and related business. The outlook may be revised to 'Positive' if there is an overall improvement in the financial risk profile of the company. The outlook may be revised to 'Negative' if there is a significant deterioration in the profitability and cash accruals of the company owing to adverse movement in raw-material prices.

## Key rating drivers

### Credit strengths

**Established presence of the Shalimar Group in the poultry and related business; operational linkages with the Group supports its market position** – SNPL is a part of the Shalimar Group, which has a dominant presence in the poultry industry, primarily in eastern and north-eastern part of India. The Group has been involved in this line of business for over four decades. SNPL is the backward-integration arm of the Shalimar Group, and is involved in production of soya DOC and refined soyabean oil. The entire requirement of soya de-oiled cake for preparation of poultry feed by the Group is sourced from SNPL, thereby supporting the operational profile of SNPL.

**Improvement in overall financial risk profile in FY2017** – SNPL's overall financial risk profile improved in FY2017, as reflected by healthy return on capital employed of 25.29%, and a conservative gearing of 0.54 times as on March 31, 2017. The operating profitability of SNPL witnessed a sharp increase in FY2017 to 3.96% from 2.87% in FY2016 owing to decline in cost of soybean seeds by around 12% due to healthy crop production. Improvement in net cash accruals coupled with decline in debt levels, resulted in healthy debt-coverage indicators in FY2017, as reflected by interest cover of 4.34 times, total debt/OPBDITA of 0.91 times and NCA/total debt of 72%. Additionally, absence of any significant capex plan by the company in the near to medium term is likely to strengthen the capital structure and support its cash flows, going forward.

**Location-specific advantage due to proximity to soya-bean growing regions** – The manufacturing units of SNPL are located in Nagpur, Maharashtra. Thus, by virtue of its plant location, the company enjoys proximity to its main raw material, soybean seeds, which are produced in abundance in Maharashtra and Madhya Pradesh.

## Credit challenges

### **Profitability vulnerable to movement in raw-material price and demand of soya DOC from the consuming industry –**

The key raw material for SNPL is soybean seed, which accounts for around 85% of the total raw material consumption cost. Since soya bean is an agricultural produce, availability of the same is exposed to agro-climatic conditions. The company's profitability thus remains susceptible to fluctuations in the price of soybean seeds due to the raw-material intensive nature of the business. As a major portion of the revenue is derived from sale of soya DOC, the profitability of the entity would remain dependent on the performance of the consuming animal husbandry industry which itself is cyclical in nature.

**High client-concentration risk** - The revenues of the company are dominated by soybean de-oiled cake with the same accounting for ~61% to the total sales, followed by refined oil sales contributing 35% to the net sales, and the rest being contributed by sales of other by-products such as acid oil, lecithin oil and spentearth among others. Being a backward integration arm of the Shalimar Group, the company's client base is significantly concentrated, with sales to Group companies accounting for around 60% of the total sales in FY2017. ICRA notes that though SNPL is exposed to client-concentration risk, the same is mitigated by the strong financial profile of its clients.

**Analytical approach:** While arriving at SNPL's ratings, ICRA has taken a consolidated view of the credit profiles of Shalimar Hatcheries Limited (SHL), Sona Vets Private Limited (SVPL), Shalimar Nutrients Pvt Ltd (SNPL) and Shalimar Pellet Feeds Limited (SPFL) (referred to as Shalimar Group/ Group) given the operational and financial linkages between the four companies and a common management shared by them.

### **Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Solvent Extraction \(Edible Oil\) Industry](#)

## About the company:

Incorporated on December 21, 2010, Shalimar Nutrients Private Limited (SNPL) was set up as a backward integration arm of the Shalimar Group. The company has a solvent extraction unit and a refinery unit. The company is a part of the Shalimar Group based out of Kolkata, West Bengal which has presence across soya extraction and refining, poultry and aqua-feed manufacturing, breeder farming, hatching, broiler farming, chicken processing, layer farming and milk processing into milk and milk products.

## Key financial indicators

|                              | FY 2016 | FY 2017 |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 456.70  | 586.30  |
| PAT (Rs. crore)              | 1.75    | 7.24    |
| OPBDIT/ OI (%)               | 2.87%   | 3.96%   |
| RoCE (%)                     | 11.92%  | 25.29%  |
| Total Debt/ TNW (times)      | 1.72    | 0.54    |
| Total Debt/ OPBDIT (times)   | 3.87    | 0.91    |
| Interest coverage (times)    | 2.22    | 4.34    |
| NWC/ OI (%)                  | 5%      | 2%      |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

|   |            | Current Rating (FY2018)  |                               |                                | Chronology of Rating History for the past 3 years |                                |                         |  |
|---|------------|--------------------------|-------------------------------|--------------------------------|---|--------------------------------|-------------------------|--|
| Instrument  | Type       | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating in FY2018 Mar-18 | Date & Rating in FY2017 Feb-17                    | Date & Rating in FY2016 Jan-16 | Date & Rating in FY2015 |  |
| 1 Fund-based-Term Loan  | Long-term  | 12.99                    | 12.99                         | [ICRA]A (Stable)               | [ICRA]A- (Stable)                                 | [ICRA]A- (Stable)              | -                       |  |
| 2 Fund-based-Cash Credit  | Long-term  | 30.00                    | -                             | [ICRA]A (Stable)               | [ICRA]A- (Stable)                                 | [ICRA]A- (Stable)              | -                       |  |
| 3 Fund-based-Packing Credit/Bill Discounting/Foreign Bill Discounting | Long-term  | (15.00)#                 | -                             | [ICRA]A (Stable)               | [ICRA]A- (Stable)                                 | [ICRA]A- (Stable)              | -                       |  |
| 4 Non-fund-based-Bank Guarantee                                       | Short-term | 2.00                     | -                             | [ICRA]A1                       | [ICRA]A2+   | [ICRA]A2+                      | -                       |  |
| 5 Non-fund-based-Letter of Credit                                     | Short-term | (5.00)#                  | -                             | [ICRA]A1                       | [ICRA]A2+   | [ICRA]A2+                      | -                       |  |
| 6 Unallocated   | Long-Term  | 18.01                    | -                             | [ICRA]A (Stable)               | [ICRA]A- (Stable)                                 | [ICRA]A- (Stable)              | -                       |  |

#sub-limit of cash-credit facility

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

| ISIN No | Instrument Name  | Date of Issuance / Sanction | Coupon Rate/Commission | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|--|-----------------------------|------------------------|---------------|--------------------------|----------------------------|
| NA      | Term Loans   | FY2015                      | 9.40%                  | FY2021        | 12.99                    | [ICRA]A (Stable)           |
| NA      | Cash Credit  | -                           | 9.40%%                 | NA            | 30.00                    | [ICRA]A (Stable)           |
| NA      | Packing Credit/Bill Discounting/Foreign Bill Discounting | -                           | -                      | NA            | (15.00)#                 | [ICRA]A (Stable)           |
| NA      | Bank Guarantee   | -                           | -                      | NA            | 2.00                     | [ICRA]A1                   |
| NA      | Letter of Credit   | -                           | -                      | NA            | (5.00)#                  | [ICRA]A1                   |
| NA      | Unallocated  |                             |                        | NA            | 18.01                    | [ICRA]A (Stable)           |

Source: Shalimar Nutrients Pvt Ltd

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For more information, visit [www.icra.in](http://www.icra.in)

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