

September 10, 2019

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based -Term Loan	50.00	30.00	[ICRA]A- (Stable); reaffirmed
Long term/ Short term: Fund-based	190.00	250.00	[ICRA]A-(Stable) /[ICRA]A2+; reaffirmed
Short term: Non-fund based (sublimit)	(51.00)	(51.00)	[ICRA]A2+; reaffirmed
Short term: Fund-based facilities	0.00	50.00	[ICRA]A2+; reaffirmed
Unallocated Limits	58.00	3.00	[ICRA]A-(Stable) /[ICRA]A2+ reaffirmed
Total	298.00	333.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings factors the healthy financial performance of SKM Animal Feeds and Foods (India) Private Limited (SKM/ the company) in FY2019 characterised by healthy growth in revenue (by 16.5%), stable cash accruals, and strong debt protection metrics. The ratings continue to be supported by SKM's dominant market position in the animal feed segment in Tamil Nadu, its presence across divisions like cattle and poultry feeds, edible oil, egg trading and poultry, and vast experience of the promoter in the feed industry spanning over two decades.

The ratings also consider the vulnerability of SKM's earnings to highly competitive intensity, both from organised and unorganised players, which limits pricing power and inherent risks in poultry and related businesses in the form of volatile realisations, vulnerability of margins to the movement in raw material prices, disease outbreaks etc. SKM's accruals in FY2019 was partly hit by a one-time write-off of long pending receivables to the tune of Rs. 25 crore; nevertheless, the overall credit profile remains stable.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that SKM will continue to benefit from 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

Stable financial profile – SKM reported a 16.5% YoY revenue growth during FY2019 aided by growth across key divisions. Healthy growth in volume in feed (9.4%), vegetable oil (34%) and livestock divisions (~19% for sale of live birds and

processed chicken) supported the growth in revenues during FY2019 while realisations grew marginally. The company's operating and net margins contracted by 60 bps and 30 bps to 4.3% and 1.2% respectively for FY2019, the same is on account of one-time write-off of bad debts to the tune of Rs. 25.0 crore and rise in raw material prices, which was not fully passed on to the end customers. SKM's liquidity remains adequate with cash balances of Rs. 90.4 crore as on March 31, 2019. With higher accruals and lower interest costs, the debt indicators improved with net debt to OPBDITA and interest coverage ratio stood at 1.9 times and 6.3 times for FY2019 (vis-à-vis 2.2 times and 4.5 times for FY2018). Given the stable demand outlook for the poultry industry and absence of any major capital expenditure, SKM is likely to maintain stable credit profile over the medium term.

Diversified revenues across various segments – The company was initially established as a feed manufacturer and over the years, it has diversified its product portfolio. Feeds represented 64% of revenues for FY2018 (stood at 86% six years back), Vegetables oils (10%), trading of eggs and raw materials (4%), processed chicken and live birds (22%). Within feeds, it also supplies cattle feeds thus insulating the earnings from any adverse shocks in poultry segment. Cattle feed represents ~45% of total feed sales in terms of volumes.

Dominant market position in South India - By virtue of its long-standing presence of over three decades coupled with stable growth, SKM holds a dominant market presence in South India in the feeds segment especially in the Tamil Nadu and Kerala region, amidst rising competition. That said, the market remains highly competitive resulting in pricing pressure.

Vast experience of promoters – The company has been established by Mr. SKM Maeilanandhan in 1981 and is currently being managed by promoter's son Dr. M. Chandrasekar, who has vast experience of over two decades in poultry and animal feeds business.

Credit challenges

Drop in margins in FY2019 due to one-time write-off of bad debts – The management had written-off bad debts to the tune of Rs. 25.0 crore during FY2019 primarily for the supplies in the livestock (contributes 64.3% of the total bad debts) and feed divisions (32.2%). The write-off coupled with sharp rise in raw material prices had contracted the operating margins of the company by 100 bps to 4.3%. With the RM prices continuing to rise in current fiscal, the company's ability to pass on the input costs and achieve higher margins will be critical in improving the earnings.

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

Volatility in average realisations and risks of disease outbreaks - The business profile is exposed to the volatility in average realisations which is dependent on input raw material prices like maize and soya. Further SKM's business is exposed to risks of disease outbreaks (bird flu etc), the timeliness of which cannot be predicted.

Liquidity position: Adequate

SKM's liquidity has remained adequate with positive fund flow from operations in FY2019. Its average working capital utilization was high at 90% of sanctioned limits and 85% of drawing power for July 2018 to June 2019. Going forward, SKM has repayment obligations of Rs. 12.5 crore each in FY2020 and FY2021 and Rs. 6.25 crore in FY2022. Also, the www.icra.in

company's capex over the medium term is likely to be moderate at 40-50 crore per year. With the capex and repayment obligations likely to be lower compared to anticipated accruals, ICRA expects SKM's liquidity position to remain adequate over the medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade SKM's rating if the company demonstrates an improvement in its operating margin at over 5.5% on a sustained basis.

Negative triggers – Negative pressure on SKM's rating could arise if the company witness sustained drop in operating margins to 3.5% or below there by resulting in lower than expected accruals and increase in working capital borrowings.

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 the SKM Animal Feeds and Foods (India) Private Limited

About the company

SKM Animal Feeds and Foods (India) Limited ("SKM"/ "The Company") was promoted by Mr. SKM Maeilanandhan in 1981 in Erode with the main object of producing Poultry and Cattle feeds. The Company started its Feed Plant in 1983 and later ventured into the business of manufacturing and marketing of edible oils as a backward integration for the feed business. The Company, currently managed by the promoter's son Dr. M. Chandrasekar, has the following divisions – (i) Feed Division (for preparation of poultry and cattle feeds) (64% of revenues), (ii) Vegetable Oil Division -processing and trading of Rice Bran Oil, Coconut oil, Sesame oil, Palm oil, Sunflower oil etc (10%), (iii) Trading of Eggs and raw materials (4%), and (iv) Breeding Farm and processed chicken (22%). The company has merged its group entity M/s Pradeep Krishna Industries Private Limited with SKM for deriving operational synergies during FY2018.

Key financial indicators

	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	2,259.1	2,631.4
PAT (Rs. crore)	32.9	32.9
OPBDIT/OI (%)	4.9%	4.3%
RoCE (%)	17.2%	14.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.3
Total Debt/OPBDIT (times)	2.6	2.7
Interest Coverage (times)	4.5	6.3
DSCR	3.4	2.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount O/s	Rating	FY2019	FY2018	FY2017
				10-Sep-2019	25-Jun 2018	04-Aug 2017	24-Feb 2017
1 Fund-based - Term Loan	Long Term	30.00	30.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2 Fund-based facilities	Long Term/Short Term	250.00		[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-
3 Non-fund based (sublimit)	Short Term	(51.00)		[ICRA]A2+	[ICRA]A2+	-	-
4 Fund-based facilities	Short Term	50.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5 Unallocated Limits	Long Term/Short Term	3.00		[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-
6 Non-fund-based facilities	Short Term	-			-	[ICRA]A2+	[ICRA]A2+

Amount in Rs. crore

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Dropline OD	Nov 2017		Nov 2021	30.00	[ICRA]A-(Stable)
NA	Cash Credit/ WCDL				250.00	[ICRA]A-(Stable)/ [ICRA]A2+
NA	WCDL				50.00	[ICRA]A2+
NA	Letter of Credit				(50.00)	[ICRA]A2+
NA	Bank Guarantee				(1.00)	[ICRA]A2+
NA	Unallocated facilities				3.00	[ICRA]A-(Stable)/ [ICRA]A2+

* Letter of Credit and Bank Guarantee are a sub-limit of cash credit/WCDL of Rs. 250.00 crore
Source: SKM Animal Feeds and Foods (India) Private Limited

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