

Press Release

Sikkim Iffco Organics Limited

October 09, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 33.00 crore bank facilities of SIKKIM IFFCO ORGANICS LIMITED (Sikkim IFFCO). The outlook is '**Stable**'.

Sikkim IFFCO, incorporated in April, 2018, is a 51:49 joint venture of Indian Farmers Fertilizer Limited (IFFCO) and State Government of Sikkim (GoS). Sikkim IFFCO is developing a processing facility for spices such as ginger, turmeric, large cardamom and buckwheat in Rangpo (Sikkim). The project is expected to commence operations from April, 2020.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of Sikkim IFFCO. The rating has been notched up for parent support from Indian Farmers Fertilizer Cooperative Limited (IFFCO).

Key Rating Drivers

Strengths

- **Established track record of promoters in the agriculture industry**

Sikkim IFFCO is a joint venture subsidiary of IFFCO (51 per cent stake) and GoS (49 per cent stake). IFFCO, a multi-state co-operative society founded in 1967, has established presence of operations in general insurance to rural telecom, apart from its core business of manufacturing and selling of organic & in-organic fertilizers, seeds and plant protection chemicals. IFFCO reported profit after tax (PAT) of Rs. 937.17 crore on operating income of Rs. 20787.55 crore in FY18. The project will contribute to IFFCO's existing organic products segment and cater to the needs of export markets. The Board comprises of three nominees from IFFCO and two from GoS. The continued ownership and management of the company by IFFCO will be a key rating sensitivity.

Acuite expects Sikkim IFFCO to benefit from the established presence of IFFCO in the market and the presence of GoS as an equity partner in the project.

- **Healthy demand for organic spices**

The company is expected to cater largely to European and Asian countries, which has a huge demand for organic spices. Besides export, the company will also cater to domestic requirement. Further, the company benefits from the location of the unit as Sikkim has abundant supply of raw materials required.

Acuite expects Sikkim IFFCO to benefit from the demand for organic spices both domestic and overseas.

Weaknesses

- **Project execution risk and offtake risk**

Sikkim IFFCO is setting up a spices processing unit at an estimated cost of Rs.50.08 crore to be funded through equity of Rs.17.08 crore (Rs.8.71.00 crore by IFFCO and Rs. 8.37 crore by GoS by way of land) and term loan of Rs. 33.00 crore. As on March 22, 2019, Rs. 0.25 crore has been infused by way of equity. The company has completed financial closure with bankers for the term loan. The civil work and installation of machinery is expected to be completed by March, 2020. Operations are likely to commence from April, 2020. The project is exposed to moderate execution risk which is significantly mitigated by IFFCO's presence. From an offtake stand point, Sikkim IFFCO will be exposed to offtake risk in the initial stages as it will face competitive pressures from other existing well

entrenched players operating in the region. The revenue pick up of the project is expected to be gradual. Since the operating cash flows will stabilise over a period of time, the repayment is expected after commencement of operations in order to align operational cash flows to the debt service commitments.

Acuite believes that Sikkim IFFCO's credit performance over the medium term will be exposed to the moderate execution risk and its ability to generate cash flows commensurate with its debt servicing obligations will be critical.

Rating Sensitivity

- Timely completion of project and commencement of commercial operations.

Material Covenants

None

Liquidity Position: Adequate

Sikkim IFFCO has adequate liquidity position. Acuite does not foresee any positive net cash accruals in the first year of operations. However, Sikkim IFFCO will continue to get support from IFFCO. The maturing debt obligations are expected to stand at Rs. 4.15 crore for FY21-22. The liquidity of the company is likely to remain average over the medium term on account of nascent stage of operations and will rely on the ability of the promoters i.e. IFFCO to fund the liquidity deficit in the initial stage of operations.

Outlook: Stable

Acuite believes that Sikkim IFFCO will maintain a 'Stable' credit profile over the medium term on the back of support from IFFCO. The outlook may be revised to 'Positive' if the company stabilises operations as scheduled and exhibits ability to generate cash flows commensurate as per its debt. Conversely, the outlook may be revised to 'Negative' in case of delay in commencement of commercial operations and slower than expected pick up in revenues affecting its debt servicing ability.

About the Parent Company

Indian Farmers Fertilizer Cooperative Limited (IFFCO) is one of India's largest cooperative society, which is wholly-owned by Indian Cooperatives. Founded in 1967 with just 57 cooperatives, IFFCO today is a confederation of over 36,000 Indian Cooperatives with diversified business interests ranging from General Insurance to Rural Telecom, apart from its core business of manufacturing and selling of organic & in-organic fertilizers, seeds and plant protection chemicals. Through these cooperatives, IFFCO is reaching to approximately 55 million farmers in India. IFFCO provides fertilizers to the corners of India, reaching farmers who live in some of the most challenging terrains and locations in the world. IFFCO transports its products by rail 91 percent and 9 percent by road.

About the Rated Entity - Key Financials

Not Applicable as the commercial operations are yet to commence.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-24.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB / Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294031 aishwarya.phalke@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.