

Press Release

Sikkim Iffco Organics Limited

November 19, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Upgraded from ACUITE BBB/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.33.00 crore bank facilities of Sikkim Iffco Organics Limited (SIOL). The outlook is '**Stable**'.

Reason for revision in rating

The revised rating takes into account the expectation of significant funding and management support from IFFCO, the achievement of financial closure and commencement of project construction. The rating has also factored in the presence of a Debt Service Reserve Account (DSRA) along with a Trust and Retention Account (TRA) and a well-defined waterfall mechanism in the loan facility.

Acuite has reassessed the parent support for SIOL based on the role of IFFCO in funding the project in Sikkim, the managerial control and importantly, the sharing of the brand name.

About the Company

SIOL, incorporated in April, 2018, is a 51:49 joint venture of Indian Farmers Fertilizer Cooperative 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 December 2021. SIOL will mainly cater to the European market.

About the Parent Company

IFFCO, established in 1967 as a cooperative society, is the largest fertiliser manufacturer in India. It was set up for an easy supply of fertilisers to cooperative societies at government-prescribed rates. 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. It had a production of 4.87 million tonnes of urea and 4.27 million tonnes of complex fertilisers in FY20 (4.56 and 3.59 million tonnes in FY19). IFFCO reported a profit after tax (PAT) of Rs. 1004.56 Cr. on operating income of Rs.29412.44 Cr. in FY20.

Analytical Approach

Acuite had notched up the standalone rating of SIOL for the parental support from Indian Farmers Fertilizer Cooperative Limited (IFFCO) in the initial rating exercise. However, the notch up has been reassessed and reviewed in the current exercise given SIOL's status as a subsidiary of IFFCO and the management control kept with the latter. Further, Acuite has also considered credit enhancement in the form of DSRA equivalent to one quarter of interest and principal installments and escrow mechanism with a well-defined waterfall mechanism, as specified in the loan sanction letter while arriving at the rating.

Key Rating Drivers

Strengths

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

SIOL is a joint venture subsidiary of IFFCO (51 per cent stake) and GoS (49 per cent stake). IFFCO, a Multi-State cooperative society founded in 1967, has established the presence of operations 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. The project will contribute to IFFCO's existing organic products segment and cater to the needs of export markets. The Board comprises three nominees from IFFCO and two from GoS. IFFCO's current net cash accruals are of the order of Rs 1500 Cr and with its high financial flexibility, it is in a very comfortable position to support the modest equity and other funding requirements if any, in SIOL. Further, IFFCO has given an undertaking to the lenders to retain the management control and shareholding of 51 per cent. Also, IFFCO will provide SIOL with requisite technical, financial and managerial expertise and that IFFCO will exercise their rights to ensure the project is not abandoned till entire loan amount is paid in full. The continued ownership and management of the company by IFFCO will be a key rating sensitivity.

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

- **Debt servicing supported by debt service reserve account (DSRA) and trust & retention account (TRA)**

SIOL shall at all times during the currency of the facility maintain a Debt Service Reserve (DSRA) amount equivalent to debt service requirements of the lender to cover principal and interest payments of one quarter. DSRA will be created after the commencement of operations. Further, the company has maintained TRA in which all the funds draw down, receivables and any other realizations from the project are deposited. There is a waterfall mechanism for the withdrawals through the sub accounts of the TRA.

- **Healthy demand for organic spices and location advantage**

The company is expected to cater largely to European and Asian countries which have a huge demand for organic spices. The rise in demand for organic spices in the food and beverage sector has stimulated the market for organic flavors. The demand for organically grown spices is expected to increase as awareness of the harmful effects of chemicals, pesticides and additives increase. Besides export, the company will also cater to domestic requirement.

Further, the company benefits from the location of the unit as Sikkim has an abundant supply of raw materials required. Sikkim has a suitable climate for agricultural and horticultural products. It supports multiple crops; viz., rice, wheat, maize, millet, barley, urad, pea, soya bean, mustard and large cardamom. Sikkim is the top producer of large cardamom, contributing over 80 per cent to India's total production. In August 2019, Sikkim was declared as world's first 100 per cent organic state by UN Food and Agriculture (FAO).

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

Weaknesses

- **Project execution and offtake risk**

Sikkim IFFCO is setting up a spices processing unit at an estimated cost of Rs.50.37 Cr. to be funded through equity of Rs.17.37 Cr. (Rs.9.00 Cr. by IFFCO and Rs.8.37 Cr. by GoS by way of land) and term loan of Rs.33.00 Cr. As on March 31, 2020, Rs.17.37 Cr. has been infused by way of equity. The company has completed financial closure with bankers for the term loan. As on 30 September, 2020 the term loan amount disbursed is ~Rs. 4.75 Cr. The civil work and installation of machinery are expected to be completed by November, 2021. Operations are likely to commence from December, 2021. Initially, SIOL was expecting to commence the operations in the month of April 2020 but the process got delayed due to pending formalities and Covid-19. However, the company has received an extension of 18 months and the construction work has begun from October, 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 the 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.
- Any significant change in the credit quality of IFFCO

Material Covenants

- The Borrower shall at all times during the currency of the facility maintain a Debt Service Reserve (DSRA) amount equivalent to debt service requirements of a lender to cover principal and interest payments of the ensuing 1 quarter.
- The Borrower shall maintain Trust and Retention Account (TRA) prior to disbursement to the satisfaction of lender into which all the funds drawdown, receivables and any other realizations from the project whatsoever, shall be deposited. The same shall be utilised/applied in a manner and priority stipulated in the Trust and Retention Account Agreement.

Liquidity Position: Adequate

SIOL has adequate liquidity position. While internal cash flow generation will be uncertain in the first year of operations, i.e. FY22, the company will continue to get support from IFFCO. The maturing debt obligations are expected to stand at Rs.4.15 Cr. for FY22-23. The liquidity of the company will be dependent on the ability of the promoters, i.e. IFFCO to fund the liquidity deficit in the initial stage of operations. However, the presence of DSRA and TRA provides an additional cushion to the liquidity.

Outlook: Stable

Acuite believes that SIOL will maintain a 'Stable' credit profile over the medium term on the back of support expectations from IFFCO. The outlook may be revised to 'Positive' if the company stabilises operations as scheduled and exhibits the 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 or any deterioration in the credit quality of the parent company, IFFCO.

About the Rated Entity - Key Financials*

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	NA	NA
PAT	Rs. Cr.	NA	NA
PAT Margin	(%)	NA	NA
Total Debt/Tangible Net Worth	Times	NA	NA
PBDIT/Interest	Times	NA	NA

*Not Applicable as the commercial operations are yet to commence.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Oct2019	Term Loan	Long Term	33.00	ACUITE BBB/Stable (Assigned)

*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 Loan	01-Jul-2019	Not Applicable	31-Mar-2029	33.00	ACUITE A-/Stable (Upgraded from ACUITE BBB/Stable)

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