

Press Release
SIKKIM IFFCO ORGA NICS LIMITED
February 17, 2022
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	33.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	33.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs.33.0 crore bank facilities of Sikkim Iffco Organics Limited (SIOL). The outlook is '**Stable**'. The reaffirmation of rating continues to factor the strong parentage of IFFCO; which holds 51% stake in the company and achievement of financial closure. The rating; however, is constrained by continuous delay in project execution led by COVID-19 and geographical constraints.

About the Company

Sikkim Iffco Organics Limited (SIOL), incorporated in April, 2018, is a 51:49 joint venture of Indian Farmers Fertilizer Limited (IFFCO) and State Government of Sikkim (GoS). SIOL is developing a processing facility for spices like ginger, turmeric, large cardamom and buckwheat in Rangpo, Sikkim.

Analytical Approach

Acuité had notched up the stand alone 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 (outstanding rating of AA by OCRA) and its management control kept with the latter. Further, Acuité has also considered credit enhancement in the form of DSRA equivalent to one quarter of interest and principal instalments and escrow mechanism with a well-defined waterfall mechanism, as specified in the SBI sanction letter while arriving at the rating.

Key Rating Drivers

Strengths

Strong Parent Entity with experience in agricultural sector

Sikkim IFFCO Organics Limited (SIOL) 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 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. IFFCO reported profit after tax (PAT) of Rs. 1,753.89 crores on operating income of Rs. 27,884.71 crores in FY21. The credit profile of IFFCO has also been strengthened by OCRA on account of improved financial performance. 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 from Government of Sikkim (GoS).

On financial front, IFFCO had contributed equity to the tune of Rs.8.73 crore. Further, Rs.1.71 crore has been incurred by IFFCO on the behalf of SIOL. IFFCO management has also been rendering its strategic and management advice.

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.

Weaknesses

Slow progress of project with continuous delay in execution

The project, when planned was initially expected to be commissioned from March, 2020. However, due to delay in completing the formalities with the Sikkim State Government for land lease and foundation stone laying ceremony which was completed in December, 2020, the company had to apply for timeline extension for further 18 months. Also, the company had applied for certificate from pollution control board and received the same in the month of Dec 2020. Company had awarded demolition work of the existing structure with construction of new boundary wall at plant site to the local contractor of the Sikkim state and the same work has been completed in the month of Feb 2020. SIOL started the tender process for awarding the EPC contract in the month of Feb 2020 but due to COVID -19 pandemic, the awarding of tender got delayed and the same has been completed in the month of July 2020. However, the civil construction started from October 2020, due to monsoon season in Rangpo from July-September. The project was expected to commence from December 2021. The company had also witnessed logistics challenge due to steep terrain and absence of adequate labor despite COVID relaxations.

At present, civil works are in progress and the company has already ordered machineries and the commercial operations are expected to commence from June 2022. As on February 07, 2022, the company has incurred total cost of Rs.23.37 crores out of Rs.50.07 crore.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- >Successful execution of project without further delay.
- >Any further delay in project, resulting in cost overrun.
- >Any significant change in credit quality of IFFCO

Material covenants

None

Liquidity: 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 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 is expected to provide additional cushion to the liquidity.

Outlook: Stable

Acuité believes that the outlook on SIOL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability and successful execution of project. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company and delay in commencement of project.

About the Rated Entity - Key Financials

NA as the entity is in project

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

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Nov 2020	Term Loan	Long Term	33.00	ACUITE A- Stable (Upgraded from ACUITE BBB Stable)
09 Oct 2019	Term Loan	Long Term	33.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Term Loan	01-07-2019	Not available	Not available	33.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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