Press Release

Sikkim Iffco Organics Limited

May 04, 2023

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	-	-

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'.**

Rating Rationale

The reaffirmation of rating continues to factor the strong parentage of IFFCO; which holds 51% stake and the Government of Sikkim; which holds the rest 49% in the company. Acuite has taken into consideration the high demand for organic spices in the international market and the presence of IFFCO's directors in the management of the company. However, the rating has been constraint on account of continuous delay in project execution which are led by COVID-19 and another geographical factors.

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.

Standalone (Unsupported) Rating

ACUITE BB (read as 'ACUITE double B') / 'Stable'

Analytical Approach

Acuite has notched up the standalone rating of SIOL for the parental support from Indian Farmers Fertilizers Cooperative Limited (IFFCO). The notch up is factored on account of SIOL's status as a subsidiary of IFFCO and its management control kept with the latter.

Key Rating Drivers

Strengths

Strong Parent Entity with experience in agricultural sector

Sikkim IFFCO Organics Limited is a joint venture subsidiary of IFFCO (51 PERCENT) and the Government of Sikkim (49 Percent). IFFCO, a multi-state co-operative society founded in 1967, The society is engaged in the business of manufacturing and marketing of fertilizers. IFFCO reported profit after tax (PAT) of Rs. 1883.77 crore on operating income of Rs. 40171.67 crore in FY22. The project will contribute to IFFCO's existing organic products segment and cater to the needs of export markets. 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

Delay in Project 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 a certificate from pollution control board and received the same in the month of Dec 2020. The 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, civil construction started from October 2020, due to monsoon season in Rangpo from July-September. As per last year's review, the project was expected to commence in June 2022. The project is further delayed and is currently expected to be started September 2023 as the company witnessed logistics challenge due to steep terrains and weather dependency for specific organic spice.

However, it is expected that the company will start its commercial production by September 2023, for which the required land has been leased, plant and machinery has been purchased and installed. The delay is due the electricity connection in the plant which is in process to be completed in coming months.

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 Position

Adequate

SIOL has adequate liquidity position. While internal cash flow generation will be uncertain in the first year of operations i.e. FY24, 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.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.58	0.03
PAT	Rs. Cr.	(0.04)	(0.09)
PAT Margin	(%)	(7.42)	(325.30)
Total Debt/Tangible Net Worth	Times	0.56	0.50
PBDIT/Interest	Times	1.57	0.83

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-52.htm
- Manufacturing Entities: 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
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Feb 2022	Term Loan	Long Term	33.00	ACUITE A- | Stable (Reaffirmed)
19 Nov 2020	Term Loan	Long Term	33.00	ACUITE A- | Stable (Upgraded from ACUITE BBB | Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	01 Jul 2019	Not Applicable	Not Applicable	Simple	33.00	ACUITE A- | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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