October 05, 2021

# Mukka Proteins 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 | 10.00 | 8.35 | [ICRA]BBB- (Stable); reaffirmed |
| Long-term/ Short-term – Fund Based – PCFC/PC-INR | 105.00 | 130.00 | [ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed |
| Short-term – Non-fund-based – SBLC | - | 9.94 | [ICRA]A3; reaffirmed |
| Total | **115.00** | **148.29** | |

**Instrument details are provided in Annexure-1*

# Rationale

ICRA has taken a consolidated view of Mukka Proteins Limited (MPL), Haris Marine Products Pvt Ltd (HMPPL), Ocean Aquatic LLC, Atlantic Marine Products Pvt. Ltd., Ento Proteins Private Limited, Progress Frozen and Fish Sterilization, KGN Marine Products, Ullal Fish Meal and Oil Company and Mangalore Fish Meal and Oil Company for arriving at the ratings due to same management control and operational and financial linkages among them.

The ratings factor in the company's established presence in the fish meal processing industry and its healthy scale of operations, which grew by around 10% in FY2021 owing to a healthy demand from international markets despite supply constraints because of various pandemic-related restrictions. The ratings also consider the company's established relationship with reputed customers including Avanti Feeds Limited and G. C. Lukmate Trading Limited, which ensures repeat orders and reflects its acceptable product quality. The company also has a diversified geographical presence as it exports to various countries such as Vietnam, Taiwan, Bangladesh, China etc. It derives around 35% of revenues from domestic sales.

The ratings are, however, constrained by MPL's leveraged capital structure and moderate coverage indicators, which deteriorated in FY2021 due to a decline in profit and an increase in the overall debt level. The ROCE also moderated to around 11% in FY2021 from 16.38% in FY2020. The ratings also consider the vulnerability of its margins to fluctuations in raw material prices, which is dependent on availability. The fragmented industry structure along with volatile realisations also keep the margins under check. Besides, the company remains vulnerable to any adverse changes in Government regulations in India and foreign trade policies of importing nations. The company remains exposed to forex risk as around 65% of the revenue is generated from export. Nevertheless, the same is mitigated largely by hedging through forward contracts and import done by the company, which acts as a natural hedge. The ratings are also constrained by the company's stretched liquidity position with limited buffer in working capital limits. ICRA expects the liquidity profile of the entity to improve if it can raise the planned Rs. 150 crore in a timely manner. The same would be a key rating sensitivity.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company is expected to maintain its business positioning/ revenue growth, while improving its profitability levels.

# Key rating drivers and their description

## Credit strengths

**Established presence in the fish meal industry –** The company, a dominant player in the fish meal/ oil industry, has been involved in this line of business for around six decades and the promoters have an extensive experience in this industry. This helped them in developing established relationships with their customers, ensuring repeat orders. Moreover, location of the plants across multiple coastlines secures timely availability of fresh raw fish in sufficient quantity and ensures better product quality due to lower transportation time. Relationship built over time with various suppliers also ensures availability of raw fish with no major interruptions.

**Healthy scale-up of operations during past two years –** The company's operating income increased significantly by ~35% in FY2020 to ~Rs. 555 crore and grew by ~10% in FY2021 to Rs. ~611 crore primarily due to healthy demand from international customers despite supply constraints arising from various pandemic-related restrictions. Although the export is likely to be impacted in the current fiscal due to a shortage in container availability and a significant increase in freight cost, ICRA does not expect any significant moderation in the top line as domestic demand remains buoyant.

**High geographical diversification –** The company supplies to various parts of the world, ensuring high geographical diversification. In FY2021, the company derived around 65% of its revenue (~61% in FY2020) from the overseas markets such as Vietnam, Bangladesh, Taiwan, China etc. In India, the company sells in various states including Telangana, Karnataka, Maharashtra, Kerala etc. Presence across various geographies in the domestic as well as international markets mitigates revenue risks arising from competition/ slowdown in a particular region and lends stability to revenues.

**Established relationship with key customers ensures repeat orders –** Established relationship with reputed customers, including G. C. Lukmate Trading Limited, Avanti Feeds Limited etc., leads to regular and repeat orders and provides revenue visibility. Repeat orders from the existing reputed clientele (domestic/ export) reflects its acceptable product quality. The recent increase in soya prices has also benefitted the company as there is a significant demand of fishmeal from poultry integrators and poultry feed manufacturers. Although this has positively impacted the current realisations and consequently the margins, this may not be sustainable once the new crop (soya) arrives in October-November.

## Credit challenges

**Margins exposed to raw material and fish meal prices –** The company's operating margins are vulnerable to fluctuating raw material prices, which cannot be passed on to the customers immediately/ completely. The availability of raw materials is seasonal in nature, and the prices of raw fish varies in tandem with catch in each market. Fishmeal prices also remain volatile depending on the demand-supply dynamics and have a bearing on the company's margins.

**Highly fragmented industry due to low entry barriers –** The fishmeal industry is highly fragmented and the company faces competition from other organised and unorganised players due to relatively low entry barriers in the fish meal industry. This limits its pricing flexibility and bargaining power with customers, putting pressure on the margins.

In January 2020, taking note of the incessant juvenile fishing in some coastal states to meet the requirements for fishmeal and fish oil production, which resulted in depletion of food fish resources, the Marine Products Exports Development Authority (MPEDA) imposed a moratorium on the registration of new fish meal/ oil units and the expansion of production capacity of the existing units. This positively impacted the business profiles of the existing players in the fish meal/ oil industry, including MPL.

**Moderate financial risk profile –** The company's operating margin declined to 4.75% in FY2021 from 5.38% in FY2020 primarily due to a decline in the export incentive, and an increase in the selling expense and employee cost. The ROCE also moderated to ~11% in FY2021 from 16.4% in FY2020. The company's gearing stood high at 2.28 times as on March 31, 2021 owing to the working capital intensive nature of operations. Reduced margin and high gearing impacted the coverage indicators as reflected in an interest coverage of 3.61 times (4.14 times in FY2020) and TD/ OPBDITA of 5.49 times (4.74 times in FY2020) as on March 31, 2021. The company's liquidity profile also remained stretched with limited buffer in working capital limits. ICRA expects the liquidity profile of the entity to improve, going forward, if it can raise the planned Rs. 150 crore in a timely manner, which would be a key rating sensitivity.

**Exposure to Government regulations and foreign currency fluctuation risk –** The company derives the major portion of its revenue (~65% in FY2021) from the export market and thus receives export incentives from the Government of India (GoI), which support its operating profitability. Discontinuation of incentives under the Merchandise Exports from India Scheme (MEIS) from January 2021 and recent introduction of Remission of Duties and Taxes on Export Products (RoDTEP) at a lower rate are likely to have a bearing on the company's profitability. Hence, the company will remain exposed to regulations framed by the GoI from time to time. Additionally, any adverse changes in the foreign trade policies of the importing nations may negatively impact the company's business profile. Also, the company is exposed to fluctuations in foreign exchange rates as the major portion of the revenue is derived from exports. However, the risk is mitigated as the receivables are hedged through forward contracts and imports act as a natural hedge.

## Liquidity position: Stretched

The company's liquidity remains stretched. Increasing working capital requirement to fund the revenue growth led to a negative cash flow from operations over the past few years. Cash outlay for the capex of around Rs. 11 crore in FY2021 impacted the cash flows further, resulting in a negative free cash flow of around Rs. 5 crore. The annual long-term debt repayment obligation stands at Rs. 4.14 crore, Rs. 4.56 crore and Rs. 1.28 crore in FY2022, FY2023 and FY2024, respectively. The liquidity is expected to improve going forward due to the likely improvement in profitability and/ or the fund-raising program of Rs. 150 crore planned by MPL.

### Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings of the company if there is an increase in the margin, leading to an improved capital structure and coverage metrics along with an improvement in the liquidity profile with adequate buffer in the working capital limits. Specific credit metrics that could lead to an upgrade of ratings is Total Debt/OPBDITA of less than 2.5 times on a sustained basis.

**Negative factors –**Pressure on the ratings could arise if the margins are significantly impacted, resulting in a stretch in liquidity and coverage indicators. Any significant additional investments in Group entities and/ or an elongated working capital cycle could also impact the ratings. Specific credit metrics that could lead to ratings downgrade include OPBIDTA/Interest of less than 2.8 times on a sustained basis.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Approach - Consolidation |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of the Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them. |

## About the company

Mukka Proteins Limited (MPL) (erstwhile Mukka Sea Food Industries Ltd.) was originally established in 1960 in Mangalore as a proprietorship concern and was converted into a private limited company in 2010. The processing unit is located in Mukka, Surathkal. The company is involved in the production of fish meal, fish oil and fish soluble paste. The company exports to countries like Taiwan, Vietnam, Bangladesh etc.

## Key financial indicators (audited)

| Consolidated | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 555.3 | 610.9 |
| PAT (Rs. crore) | 13.6 | 11.0 |
| OPBDIT/OI (%) | 5.4% | 4.7% |
| PAT/OI (%) | 2.4% | 1.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 4.1 | 4.1 |
| Total Debt/OPBDIT (times) | 4.7 | 5.5 |
| Interest Coverage (times) | 4.1 | 3.6 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA:

| Name of the CRA | Date of Press Release | Rating Action |
|---|---|---|
| India Ratings | October 05, 2018 | IND BB (ISSUER NOT COOPERATING); IND A4+ ISSUER NOT COOPERATING; |

## Any other information: None

# Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | Oct 05, 2021 | Sep 28, 2020 | | |
| 1 | Term Loans | Long-term | 8.35 | 8.35 | **[ICRA]BBB- (Stable)** | **[ICRA]BBB- (Stable)** | | |
| 2 | Fund based bank – PCFC/PC-INR | Long-term and short term | 130.00 | -- | **[ICRA]BBB- (Stable)/[ICRA]A3** | **[ICRA]BBB- (Stable)/[ICRA]A3** | | |
| 3 | Non fund based – SBLC | Short-term | 9.94 | -- | **[ICRA]A3** | -- | | |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based – Term Loan | Simple |
| Long-term/ Short -term – Fund Based – PCFC/PC-INR | Simple |
| Short Term – Non Fund Based SBLC | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

| ISIN No/Banker Name | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loan | Jan 2020 | NA | Jan 2023 | 8.35 | [ICRA]BBB- (Stable) |
| NA | PCFC/PC-INR | NA | NA | NA | 130.00 | [ICRA]BBB- (Stable)/[ICRA]A3 |
| NA | SBLC | NA | NA | NA | 9.94 | [ICRA]A3 |

***Source:*** *Mukka Proteins Limited*

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | MPL Ownership | Consolidation Approach |
|---|---|---|
| Haris Marine Products Private Limited | 98% | Full Consolidation |
| Ocean Aquatic LLC, Oman | 63% | Full Consolidation |
| Atlantic Marine Products Private Limited | 51% | Full Consolidation |
| Ento Proteins Private Limited | 100% | Full Consolidation |
| Progress Frozen and Fish Sterlisation | 51% | Equity Method |
| Ullal Fish Meal and Oil Company | 98% | Equity Method |
| KGN Marine Products | 20% | Equity Method |
| Mangalore Fish Meal and Oil Company | - | Equity Method |

***Source:*** *Mukka Proteins Limited and Haris Marine Products Private Limited*

***Note:*** *ICRA has taken a consolidated view of the parent (MPL), its subsidiaries and associates while assigning the rating.*

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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