November 10, 2022

Mukka Proteins Limited: Ratings upgraded to [ICRA]BBB and [ICRA]A3+; outlook remains Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	8.35	2.92	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long-term/Short-term Packing Credit	130.00	150.00	[ICRA]BBB (Stable)/ [ICRA]A3+; upgraded from [ICRA]BBB- (Stable)/ [ICRA]A3 and assigned to enhanced limits
Short-term Standby Letter of Credit	9.94	9.94	[ICRA]A3+; upgraded from [ICRA]A3
Total	**148.29**	**162.86**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Mukka Proteins Limited (MPL), Haris Marine Products Private Limited, Ocean Aquatic Proteins LLC, Oman, Atlantic Marine Products Private Limited, Ento Proteins Private Limited, Pacific Marine Products, Progress Frozen and Fish Sterilization, MFSI Bangladesh Limited, Ocean Proteins Private Limited, Ullal Fish Meal and Oil Company, and Mangalore Fish Meal and Oil Company given the close operational, financial and managerial linkages among them.

The upgrade of MPL's ratings factors in the substantial improvement in its liquidity position over the past 12 months along with a sharp increase in its top line and profitability in FY2022, leading to an improvement in the debt protection metrics. ICRA expects a sizeable top line growth in the current fiscal as well, aided by an increase in export sales. The debt protection indicators are also likely to remain at a comfortable level in the current fiscal. The ratings continue to favourably consider MPL's established presence and its status as a leading player in the fish meal industry and the established relationship with its existing customers, which ensures repeat orders.

The ratings, however, remain constrained by the exposure of MPL's margins to adverse movements in raw fish and fish meal prices, which are driven by demand-supply conditions. The ratings are also impacted by MPL's leveraged capital structure and high total debt/OPBDITA, though the same improved to an extent in FY2022, due to its high dependence on working capital borrowings. ICRA notes that MPL's business profile is susceptible to adverse changes in government regulations pertaining to export incentives, fishing bans etc. The company also remains exposed to forex risks, although the same is mitigated to an extent as it hedges around 50% of its forex exposure through forward contracts.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that MPL will continue to leverage its established position to maintain its business position and profitability levels.

Key rating drivers and their description

Credit strengths

Established presence in the fish meal industry – The Mukka Group, a dominant player in the fish meal/ oil industry, has been involved in this line of business for over five decades and the promoters have an extensive experience in this industry. This has helped them in developing relationships with 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. Long relationship with various suppliers also ensures availability of raw fish with no major interruptions.

Healthy scale-up of operations during the past few years; operating margin improved in FY2022 – The consolidated top line of the Group grew consistently over the past years and had witnessed a substantial growth of ~27% in FY2022. Domestic sales surged by ~170% during the same period owing to strong demand and the management's focus on the Indian market. However, export sales declined by ~50% in FY2022 due to container availability issues and a significant increase in freight cost. The operating margin also improved to 6.4% in FY2022 from 4.1% in FY2021 on the back of favourable realisations, leading to an improvement in debt protection metrics.

Financial risk profile characterised by healthy RoCE and comfortable interest coverage – MPL's RoCE improved to 17.5% in FY2022 from 9.2% in FY2021, aided by a robust growth in its absolute level of profit due to the proportionately higher increase in realisations over its cost. With an improvement in profitability, the interest coverage also increased to 5.1 times in FY2022 from 3.1 times in FY2021.

Established relationship with key customers ensures repeat orders – Established relationships with key customers, including Avanti Feeds Limited, Abis Exports India Private Limited and G.C Luckmate Trading Limited etc., lead to regular and repeat orders and provide revenue visibility. Repeat orders also reflect MPL's acceptable product quality. Although MPL derived around 80% of its FY2022 sales from the top-3 customers, the credit profiles of these customers negate counterparty risk to a large extent.

Credit challenges

Margins exposed to raw material and fish meal prices – The company's 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. Fish meal prices also remain volatile depending on the demand-supply dynamics and have a bearing on the company's margins.

Leveraged capital structure; high TD/OPBDITA – MPL continues to remain highly reliant on short-term borrowings owing to the working-capital intensive nature of operations. Its total debt level increased to Rs. 184.3 crore as on March 31, 2022 from Rs. 159.2 crore as on March 31, 2021. Although the gearing improved to 1.9 times as on March 31, 2022 from 2.3 times as on March 31, 2021, the same still remained at a high level. Even though the total debt/OPBITA remained high at 3.7 times as on March 31, 2022, it improved from 6.3 times as on March 31, 2021 due to a substantial increase in the operating profit. Going forward, ICRA expects the same to improve steadily.

Exposure to government regulations and foreign currency fluctuation risk – MPL continues to derive a sizeable portion of its sales from the export markets (~65% in FY2021 and ~26% in FY2022) and thus its profitability is supported to an extent by the export incentives received from the Government of India (GoI). Therefore, any adverse changes in the rates of export incentives can hamper the business profiles of all entities in the fish meal industry, including MPL. Moreover, any ban or restriction on fishing can also affect the raw material availability. MPL remains exposed to forex fluctuation risk, however, the same is mitigated to an extent as it hedges around 50% of its forex exposure through forward contracts.

Liquidity position: Adequate

The liquidity profile of MPL is likely to remain adequate. MPL's fund flow from operations improved by ~129% on a YoY basis to ~Rs. 30 crore in FY2022. However, cash flow from operations continued to remain negative in FY2022 as well due to an increase in the working capital requirement. The repayment obligations stand at Rs. 6.1 crore, Rs. 2.6 crore and Rs. 2.4 crore in FY2023, FY2024 and FY2025, respectively. Nevertheless, ICRA notes that MPL had undrawn bank lines of Rs. 45 crore, including working capital demand loan, and unutilised reverse factoring facilities of Rs. 7 crore on TREDS platform as on

October 31, 2022. Besides, with no major capex plans in the near term, the liquidity of the company is expected to remain adequate.

Rating sensitivities

Positive factors – ICRA could upgrade MPL's ratings if there is an increase in revenues and earnings, leading to an improvement in the liquidity profile with adequate buffer in the working capital limits.

Negative factors – Pressure could arise on the ratings if a reduction in earnings or any significant additional investments in Group entities or an elongated working capital cycle impacts the liquidity of the company. Specific credit metrics that could lead to ratings downgrade include OPBDITA/Interest of less than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Consolidation
Parent/Group support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MPL along with its subsidiaries, associates and investee partnership firms as enlisted in Annexure II.

About the company

Mukka Proteins Ltd (MPL) was originally established in 2003 as a partnership firm. Subsequently, in 2010, the partnership firm was reconstituted into a private limited company. The company produces fish meal, fish oil and fish soluble paste from raw fish. The company has a manufacturing unit and a blending unit in Mangalore. In FY2022, MPL derived around 74% of its sales from the domestic market and the remaining from export market. Vietnam and Taiwan are the company's major export destinations.

Key financial indicators (Audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	606.8	771.7
PAT (Rs. crore)	7.2	24.8
OPBDIT/OI	4.1%	6.4%
PAT/OI	1.2%	3.2%
Total outside liabilities/Tangible net worth (times)	4.1	3.2
Total debt/OPBDIT (times)	6.3	3.7
Interest coverage (times)	3.1	5.1

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

Standalone	FY2021	FY2022
Operating income (Rs. crore)	539.5	694.6
PAT (Rs. crore)	2.1	18.3
OPBDIT/OI	1.9%	4.9%
PAT/OI	0.4%	2.6%
Total outside liabilities/Tangible net worth (times)	3.6	3.0
Total debt/OPBDIT (times)	12.4	4.7
Interest coverage (times)	1.5	4.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 10, 2022	Oct 05, 2021	Sep 28, 2020	--
1	Terms Loans	Long-term	2.92	2.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	--
2	Packing Credit	Long-term/ Short-term	150.00	--	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	--
2	Standby Letter of Credit	Short-term	9.94	--	[ICRA]A3+	[ICRA]A3	--	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Terms Loans	Simple
Packing Credit	Simple
Standby Letter of Credit	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
--	Terms Loans	Jan 2021	NA	April 2023	2.92	[ICRA]BBB (Stable)
--	Packing Credit	NA	NA	NA	150.00	[ICRA]BBB (Stable)/ [ICRA]A3+
--	Standby Letter of Credit	NA	NA	NA	9.94	[ICRA]A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	MPL Ownership/Profit Sharing Ratio	Consolidation Approach
Haris Marine Products Private Limited (HMPPL)	98%	Full Consolidation
Ocean Aquatic Proteins LLC, Oman	63%	Full Consolidation
Atlantic Marine Products Private Limited	50.99%	Full Consolidation
Ento Proteins Private Limited	49.95%	Equity Method
Pacific Marine Products	31.3%	Equity Method
Progress Frozen and Fish Sterilization	51%	Equity Method
MFSI Bangladesh Limited	49%	Equity Method
Ocean Proteins Private Limited	40%	Equity Method
Ullal Fish Meal and Oil Company	96%	Equity Method
Mangalore Fish Meal and Oil Company	-*	Equity Method

Source: MPL; *90% owned by HMPPL

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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