September 28, 2020

Mukka Sea Food Industries Ltd.: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based / TL	10.0	[ICRA]BBB-(Stable); assigned
Long term / Short term – Fund based	105.0	[ICRA]BBB-(Stable)/[ICRA]A3; assigned
Total	**115.0**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Mukka Sea Food Industries Ltd. (MSFIL), Haris Marine Products Pvt. Ltd. (HMPPL), Ocean Aquatic LLC, Atlantic Marine Products Pvt. Ltd., and Progress Fish Sterilization due to same management control.

The rating factors in the Group's established presence in the fish meal processing industry and its healthy scale up of operations with revenue growth of 13.2% during the past three years on the back of healthy demand for its products in domestic and international markets. The rating notes the Group's reputed clientele such as Avanti Feeds Limited, G. C. Lukmate Trading Limited and Spectra Hexa Feeds Limited. The Group has a diversified geographical presence as it exports to various countries such as Vietnam, Taiwan, Bangladesh, Saudi Arabia, etc, and derives around 35% of revenues from domestic sales.

The rating is, however, constrained by leveraged capital structure and moderate coverage indicators. The rating considers the vulnerability of its margins to fluctuations in raw material prices and exchange rates. The fragmented industry structure also keeps the margins under check. The rating is constrained by the Group's stretched liquidity position with limited buffer in working capital limits.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the Group will continue to maintain its scale of operations given the healthy demand from its reputed customer base.

Key rating drivers and their description

Credit strengths

Established presence in fish meal industry – The Group has been involved in fish meal production for over six decades and the promoters have extensive experience in the industry. The company has a reputed customer base, which includes G. C. Lukmate Trading Limited, Avanti Feeds Limited, Spectra Hexa Feeds Limited, etc, leading to regular and repeat orders.

Healthy scale up of operations during past two years – The scale of the business has increased significantly during the past two years to Rs. 578.9 crore in FY2020 from Rs. 399.5 crore in FY2018 owing to healthy demand from the domestic as well as international customers. While the revenues in Q1 FY2021 were impacted marginally by the Covid-19 pandemic, the operating income (OI) is expected to improve in H2 FY2021 with regular order inflow and healthy order book of around Rs. 100.0 crore to be supplied over the next two months.

High geographical diversification – The Group is present in various parts of the world and has been able to acquire a reputed clientele. It derives a major part of its revenue from the overseas markets such as Vietnam, Bangladesh, Taiwan, Saudi Arabia, etc. In India, the Group sells in various states including Telangana, Karnataka, Maharashtra, and Kerala, which reduces the sales dependence on a particular region.

Credit challenges

Margins exposed to raw material and fish meal prices – The Group's operating margins are vulnerable to fluctuating raw material prices, which cannot be passed on to the customers completely. Moreover, its margins are exposed to fluctuations in exchange rates as exports account for ~65% of its revenues. However, hedging of the receivables through foreign currency working capital funding mitigates the risk to an extent.

Highly fragmented industry due to absence of entry barriers – The Group faces competition from other organised and unorganised players in the absence of entry barriers in the fish meal industry, which limits its pricing flexibility and bargaining power and exerts pressure on its margins.

Moderate coverage indicators – The Group had a high gearing of 2.1 times and TOL/TNW of 3.5 times as on March 31, 2020 owing to the working capital-intensive nature of operations. The coverage indicators were also moderate with Total debt/OPBDITA at 3.6 times and NCA/total debt at 20.4% in FY2020.

Liquidity position: Stretched

The Group's liquidity is **stretched** with limited buffer of Rs. 3-5 crore in working capital limits and low retained cash flows against repayment obligations of around Rs. 3.0 crore per annum.

Rating sensitivities

Positive triggers – ICRA could upgrade the Group's rating if it sustains the growth in revenue and margins, improves its capital structure, coverage metrics and its liquidity position with adequate buffer in working capital limits.

Negative triggers – Negative pressure could arise on the Group's rating if significant decline in revenues or margins impact the coverage indicators. Any further stretch in the liquidity position because of higher investments in Group companies or stretch in the working capital cycle could impact the rating. Specific credit metrics that could lead to a rating downgrade includes OPBIDTA/Interest of less than 2.8 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the Haris Marine Products Pvt. Ltd., Mukka Sea Food Industries Ltd., Ocean Aquatic LLC, Atlantic Marine Products Pvt. Ltd., Progress Fish Sterilization

About the company

Mukka Sea Foods Industries Limited (MSFIL) was originally established in 1960 at Mangalore as a proprietorship concern and was converted to private limited company in 2010. Haris Marine Products Private Limited (HMPPL) was a partnership firm established in 1977. It was reconstituted as a private limited company in FY2020. The Group is involved in the production of fish meal, fish oil and fish soluble paste from raw fish. The Group sells fish meal in India and exports to countries such as Vietnam, Bangladesh, Taiwan, etc. The Group's registered office is in Attavar, Mangalore (Karnataka) and the processing unit is at Mukka, Surathkal. MSFIL acquired controlling stake in HMPPL, Ocean Aquatic LLC, Atlantic Marine Products Pvt. Ltd. in FY2020 and these companies sell significant part of their production to MSFIL.
In FY2020, on a provisional basis, the Group reported a net profit of Rs. 25.0 crore on an OI of Rs. 578.9 crore compared to a net profit of Rs. 15.3 crore on an OI of Rs. 412.7 crore in the previous year.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	412.7	578.9
PAT (Rs. crore)	15.3	25.0
OPBDIT/OI (%)	6.3%	7.0%
PAT/OI (%)	3.7%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	3.8	3.5
Total Debt/OPBDIT (times)	3.5	3.6
Interest Coverage (times)	5.0	5.1

**Provisional numbersfor FY2020*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating 28-Sep-2020	FY2020 -	FY2019 -	FY2018 -
1	Term loan	Long Term	10.0	9.46	[ICRA]BBB-(Stable)	-	-	-
2	Cash credit	Long Term / Short term	105.0	-	[ICRA]BBB-(Stable)/[ICRA]A3			

Amount in Rs. Crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan – FCTL	Jan 2020	NA	Jan 2023	10.0	[ICRA]BBB-(Stable)
NA	Working capital facilities	NA	NA	NA	105.0	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Mukka Sea Food Industries Pvt. Ltd.

Analyst Contacts

K Ravichandran
+91 44 4496 4301
ravichandran@icraindia.com

R Srinivasan
+91 44 4496 4315
r.srinivasan@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Akshay Dangi
+91 40 4067 6528
akshay.dangi@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999