August 21, 2023

Mukka Proteins Limited: Ratings upgraded to [ICRA]BBB+ and [ICRA]A2; outlook remains Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	2.92	-	-
Long-term/Short-term Packing Credit	150.00	152.92	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded from [ICRA]BBB (Stable)/ [ICRA]A3+
Short-term Standby Letter of Credit	9.94	9.94	[ICRA]A2; upgraded from [ICRA]A3+
Total	**162.86**	**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 significant improvement in revenue and profit in FY2023 (provisional) on a YoY basis on the back of favourable demand conditions amid a reduction in fish meal/fish oil output from Peru, the largest producer globally. The production in Peru was impacted by lower raw material availability, leading to a shortage in fish meal and fish oil supply in the international market. Consequently, exports of these products from India witnessed a substantial YoY growth in FY2023, which also supported MPL's sales volumes. Moreover, ICRA expects MPL to post a strong revenue growth in the current fiscal as well, primarily aided by higher export sales as raw material availability issues persist in Peru. The rating upgrade also factors in the improvement in MPL's liquidity position over the past year. The ratings continue to favourably consider MPL's established presence and its status as a leading player in the fish meal and fish oil industry along with the long relationship with its existing customers ensure repeat orders. ICRA also derives comfort from MPL's comfortable interest coverage and healthy RoCE.

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, arising from its high dependence on working capital borrowings. ICRA notes that MPL's overall operational profile is susceptible to adverse changes in government regulations pertaining to export incentives, fishing bans etc. The company also remains exposed to forex fluctuation risk, 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 grow its top line and maintain 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 and fish 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 established relationships with its customers, ensuring repeat orders. Moreover, location of the plants across multiple coastlines secures timely availability of raw fish in sufficient quantity and ensures better product quality due to lower transportation time. Long relationships with various suppliers also ensure availability of raw fish with no major interruptions.

Healthy scale-up of operations during the past few years – MPL's consolidated top line surged by ~53% in FY2023 on a YoY basis on the back of a decrease in output from Peru (amid lower raw material availability), and favourable global demand conditions. The realisations were also buoyant due to the same reasons. MPL's export sales almost tripled to ~Rs. 561 crore in FY2023 from ~Rs. 197 crore in FY2022. The company is expected to register a healthy top-line growth in FY2024 as well, aided by its planned expansion in China. The operating margin also improved by 80 bps to 7.2% in FY2023 (provisional) on the back of favourable realisations.

Financial risk profile characterised by healthy RoCE and comfortable interest coverage – MPL's RoCE improved to 21.9% in FY2023 (provisional) from 17.6% in FY2022, aided by a strong growth in its absolute profits amid a substantial growth in revenues. The interest coverage remained comfortable at 5.2 times in FY2023 (provisional) against 5.1 times in FY2022.

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 58% of its top line (standalone) in FY2023 from the top three 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 – MPL's margins remain 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 vary in tandem with catch in each market. Fish meal prices also remain volatile depending on te 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. 283.6 crore as on March 31, 2023 (provisional) from Rs. 175.1 crore as on March 31, 2022 primarily due to higher working capital borrowings availed to fund the revenue growth and also due to an increase in its working capital intensity. Consequently, it resulted in a leveraged capital structure, as reflected in the gearing of 2 times and TOL/ TNW of 3.1 times as on March 31, 2023 (provisional). The total debt/OPBDITA also remained high at 3.3 times in FY2023 (provisional; 3.6 times in FY2022). Going forward, ICRA expects the same to improve steadily.

Exposure to changes in Government regulations and foreign currency fluctuation risk – MPL derived ~48% of its sales from the export markets in FY2023 and thus its profitability is supported to an extent by the export incentives received from the Government of India (GoI). Any adverse change in the rates of export incentives can hamper the business profiles of all entities in the fish meal/fish oil business, 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 to ~Rs. 50.8 crore in FY2023 from ~Rs. 30 crore in FY2022. However, cash flow from operations continued to remain negative in FY2023 due to an increase in the working capital requirement amid a substantial revenue growth and an increase in the working capital intensity of operations. The repayment obligations stand at Rs. 4.7 crore, Rs. 5.8 crore and Rs. 5.8 crore in FY2024, FY2025 and FY2026, respectively. Nonetheless, buffer in the working capital limit of close to Rs. 80 crore at the end of July 2023 and the absence of major capex plan is expected to support the liquidity of the company.

Rating sensitivities

Positive factors – ICRA could upgrade MPL's ratings if there is an increase in revenues and earnings, leading to an improvement in capital structure and liquidity position. Specific metrics that could lead to an upgrade include TOL/TNW of less than 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings may arise if a reduction in earnings or if any significant additional investment or support is extended to any Group entities or an elongated working capital cycle impact the liquidity of the company. Specific credit metrics that could lead to ratings downgrade include an OPBDITA/Interest of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 as 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 52% of its standalone sales from the domestic market and the remaining from the export market. Vietnam, Chile and Taiwan were the company's major export destinations.

Key financial indicators

Consolidated	FY2022 (Audited)	FY2023 (Provisional)
Operating income (Rs. crore)	771.7	1,184.2
PAT (Rs. crore)	24.8	44.5
OPBDIT/OI	6.4%	7.2%
PAT/OI	3.2%	3.8%
Total outside liabilities/Tangible net worth (times)	2.8	3.1
Total debt/OPBDIT (times)	3.6	3.3
Interest coverage (times)	5.1	5.2

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

Standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income (Rs. crore)	694.6	1067.6
PAT (Rs. crore)	18.3	39.8
OPBDIT/OI	4.9%	6.8%
PAT/OI	2.6%	3.7%
Total outside liabilities/Tangible net worth (times)	3.0	3.0
Total debt/OPBDIT (times)	4.7	3.3
Interest coverage (times)	4.1	4.8

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 (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 21, 2023	Nov 10, 2022	Oct 05, 2021	Sep 28, 2020
1	Packing Credit	Long-term/ Short-term	152.92	--	[ICRA]BBB+ (Stable)/ [ICRA]A2	[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]A2	[ICRA]A3+	[ICRA]A3	--
3	Terms Loans	Long-term	--	--	--	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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
--	Packing Credit	NA	NA	NA	152.92	[ICRA]BBB+ (Stable)/ [ICRA]A2
--	Standby Letter of Credit	NA	NA	NA	9.94	[ICRA]A2

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	50%	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.

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