

January 09, 2025

Mukka Proteins Limited: Ratings downgraded to [ICRA]BBB (Stable)/ [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Packing Credit	240.00	240.00	[ICRA]BBB (Stable)/ [ICRA]A3+; downgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2
Short-term Standby Letter of Credit	9.94	9.94	[ICRA]A3+; downgraded from [ICRA]A2
Long-term Cash Credit	10.00	10.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Short-term Unallocated Limits	2.92	2.92	[ICRA]A3+; downgraded from [ICRA]A2
Total	262.86	262.86	

*Instrument details are provided in Annexure-I

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, 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 rating action on the bank lines of MPL considers its weaker-than-expected performance in FY2025. In H1 FY2025, the company's revenues declined by ~47% on a YoY basis with contraction in volumes and realisations amid moderation in fish meal prices due to oversupply situation globally. Overall, exports of fishmeal from India declined by ~45% in H1 FY2025 with unfavourable realisations restricting domestic industry players to meet the regular offtake. While MPL's performance in H1 FY2025 was subdued, its revenues and earnings are expected to be relatively better over the next few quarters, and expectations of gradual liquidation of its inventory. While the company's capital structure improved in FY2024 following completion of the initial public offering, a sharp increase in the working capital borrowing has led to a weakening of coverage indicators, with interest coverage ratio weakening to 1.4 times in H1 FY2025 from 4.6 times in FY2024. With expectation of relatively better performance in H2, the debt metrics shall improve accordingly.

The ratings, however, continue to derive comfort from MPL's established presence with a healthy market share and status as a leading player in the fish meal and fish oil industry along with the long relationship with its existing customers, which ensure repeat orders. Limited capex requirements have kept the company's dependency on term debt minimal over the years. ICRA notes that the company is in the process of making a preferential allotment of equity shares with a planned fund raise of Rs. 98.0 crore towards acquisitions and expansion towards business and product diversification.

The ratings remain constrained by vulnerability of MPL's margins to adverse movements in raw fish and fish meal prices, which are driven by demand-supply conditions, and any 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 long-term rating reflects ICRA's expectation of MPL's improvement in revenues and operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the ratings outstanding.

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 extensive experience in this industry. This has helped them develop established customer relationships, ensuring repeat orders. Moreover, the location of its manufacturing plants across multiple coastlines secures the 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 the availability of raw fish with no major interruptions.

Healthy market share in fish meal segment – MPL generated the major portion of its operating income from the sale of fish meal. In FY2024, the company derived ~88% of its operating income (standalone) from the sale of fish meal and ~92% in H1 FY2025. MPL is one of the largest players in the Indian fish meal industry, having an export market share of about ~22%¹ in India's fish meal exports in FY2024, establishing a strong presence in the fish meal industry. While there has been a steep decline in export volumes in H1 FY2025, with exports dipping by ~38%, the entity had ~21%¹ export market share in H1 FY2025.

Established relationship with key customers ensures repeat orders – Established relationships with key customers led to regular and repeat orders, providing revenue visibility for MPL. Repeat orders also reflect MPL's acceptable product quality. Although MPL derived ~49% and ~38% of its top line (standalone) in FY2024 and H1 FY2025, respectively from the top three customers, the credit profiles of these customers mitigate counterparty risk to a large extent.

Credit challenges

Decline in scale of operations due to weak demand – While MPL's operating income witnessed a healthy revenue growth over the last five fiscals until FY2024, it contracted steeply by ~47% to Rs. 321.7 crore in H1 FY2025 (on a YoY basis). Sales volume and realisation for fish meal decreased by ~46% and 17%, respectively, in H1 FY2025, on an annualised basis, due to increased competition from global market and decline in demand from key export markets. A modest recovery is expected in H2 FY2025, with the entity liquidating its inventory over the near-to-medium term.

Increased inventory holdings funded through working capital borrowings weaken its coverage indicators – An increase in working capital borrowings has weakened the coverage indicators of MPL on a consolidated basis, with the interest coverage ratio weakening to 1.4 times as of September 30, 2024, from 4.6 times as of March 31, 2024, due to a rise in interest cost. The working capital intensity, as indicated by NWC/OI, increased to 104% as of September 30, 2024, from 38% as of March 31, 2024, with a rise in inventory holding and moderation in sales volumes. Owing to the seasonal availability of raw materials, the inventory holding period normally ranges between 80 and 90 days. However, in H1 FY2025, with a decline in MPL's revenue and increased stocking, the inventory holding had increased to ~308 days. Nevertheless, the same is expected to improve in H2 FY2025 with the likely liquidation of inventory over the near-to-medium term and expected improvement in demand for fish meal over the medium term.

Margins exposed to raw materials 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 the 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.

¹ As per Ministry of Commerce and Industry

Exposure to changes in Government regulations and foreign currency fluctuation risk – MPL derived a sizeable portion of its sales from the export markets in FY2024 and H1 FY2025, 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.

Environmental and Social risks

Environmental consideration: The fish meal industry remains exposed to the risk of tightening coastal regulation related to fishing, environmental impact and remedial measures for pollution and effluent treatment. Further, its operations remain exposed to regulations from Government and other food safety agencies. Extreme weather conditions such as cyclonic storms and unpredictable rainfall, adverse changes in global temperature and weather pattern can also affect its raw material availability, and in turn, may lead to higher input costs.

Social consideration: MPL, like most corporates, remains exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and the overall well-being. Besides, human rights issues and inability to ensure diversity, while providing equal opportunity could pose social risks for the company. Further, any significant increase in wage rates may affect its cost structure, impacting the margins. Shortage of skilled workers could also affect operations/growth plan and remains a key concern. Entities also remain exposed to any major shift in consumer preferences or developments, affecting discretionary consumer spending in key markets.

Liquidity position: Adequate

The liquidity profile of MPL is likely to remain adequate. MPL had free cash and bank balances of Rs. 91.2 crore and undrawn working capital limits of Rs. 32.2 crore as on March 31, 2024 (standalone). The average utilisation of the sanctioned working capital limits stood at ~90% of its sanctioned limits of Rs. 350.0 crore (standalone) during the last 12 months ending in November 2024. MPL has no major debt-funded capital expenditure plans, and it has repayment obligations of ~Rs. 6.8 crore in FY2025.

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 liquidation of inventory holding, resulting in better liquidity position.

Negative factors – Pressure on the ratings may arise if there is a reduction in earnings or if any significant additional investment or support is extended to any of the Group entities or an inability to liquidate its inventory from its current elongated levels, impacting its liquidity. Specific credit metrics that could lead to ratings downgrade include an OPBDITA/Interest of less than 3.0 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 and in 2019 it was converted into a public limited company. In March 2024, MPL's shares were listed on the National Stock Exchange and the Bombay Stock Exchange. The company produces fish meal, fish oil and fish soluble paste from raw fish. The company has a manufacturing units and a blending unit in Mangalore. In FY2024, MPL derived ~66% of its standalone sales from the export market and the remaining from the domestic market.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	1,173.6	1,389.1	321.7
PAT	46.1	71.2	6.7
OPBDIT/OI	7.5%	8.3%	7.6%
PAT/OI	3.9%	5.1%	2.1%
Total outside liabilities/Tangible net worth (times)	2.7	1.3	1.2
Total debt/OPBDIT (times)	3.0	3.2	8.7
Interest coverage (times)	5.3	4.6	1.4

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore;

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	Type	Amount rated (Rs. crore)	Current rating (FY2025)		Chronology of Rating History for the past 3 years				
			Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	
			09-Jan-25	25-Nov-24	16-Oct-23	21-Aug-23	10-Nov-22	5-Oct-21	
1	Packing Credit	240.00	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	
2	Standby Letter of Credit	9.94	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3	
3	Cash Credit	10.00	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	--	--	--	
4	Unallocated Limits	2.92	[ICRA]A3+	[ICRA]A2	[ICRA]A2	--	--	--	
5	Terms Loans	--	--	--	--	--	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Packing Credit	Simple
Standby Letter of Credit	Very Simple
Cash Credit	Simple
Unallocated Limits	Not Applicable

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
NA	Packing Credit	NA	NA	NA	240.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Standby Letter of Credit	NA	NA	NA	9.94	[ICRA]A3+
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BBB (Stable)
NA	Unallocated Limits	NA	NA	NA	2.92	[ICRA]A3+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	MPL Ownership/Profit Sharing Ratio	Consolidation Approach
Haris Marine Products Private Limited (HMPPL)	98.0%	Full Consolidation
Ocean Aquatic Proteins LLC, Oman	63.0%	Full Consolidation
Atlantic Marine Products Private Limited	60.0%	Full Consolidation
Ento Proteins Private Limited	50.0%	Equity Method
Pacific Marine Products	31.3%	Equity Method
Progress Frozen and Fish Sterilization	51.0%	Equity Method
Ocean Proteins Private Limited	40.0%	Equity Method
Ullal Fish Meal and Oil Company	96.0%	Equity Method
Mangalore Fish Meal and Oil Company	-*	Equity Method

Source: MPL; *90% owned by HMPPL

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