

March 15, 2021

## MM International: Ratings downgraded to [ICRA]D

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	15.04	15.04	[ICRA]D; downgraded from [ICRA]BB- (Stable)
Long Term – Fund Based/CC	21.50	21.50	[ICRA]D; downgraded from [ICRA]BB- (Stable)
Long Term/ Short term – Unallocated	03.46	03.46	[ICRA]D/[ICRA]D; downgraded from [ICRA]BB-(Stable)/ [ICRA]A4
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating downgrade factors in MM International's constrained liquidity position on account of its exposure to a Group entity involved in the construction business, leading to delays in debt servicing. ICRA notes that MM International was the primary borrower for a loan against property (LAP) in which two of the partners – Mr Rajesh Vora and Mr Ram Vora are the co-borrowers, and on which facility there were debt servicing irregularities. The proceeds from the LAP facility were on-lend to the Group construction entity to meet its business needs. Further, the ratings are constrained by MMI's modest scale of operations with an operating income (OI) of Rs. 67.47 crore registered in FY2020, which limits its competitive position. The ratings remain constrained by MMI's concentrated customer base with top two customers contributing to over 40% of its revenues during the last three years. The ratings take into account the firm's leveraged capital structure with a gearing of 1.71 times as on March 31, 2020, led by modest net worth position and high debt levels. The ratings remain constrained by the limited value addition involved in its operations, which, along with intense competition in the spice processing industry, restricts its pricing flexibility. Being a net exporter, the profitability is exposed to significant foreign exchange (forex) risk, though the same is mitigated to the extent of forward contracts booked by the firm. The ratings factor in the susceptibility of its revenues and profitability to commodity price fluctuations, which are influenced by external factors such as agro-climatic conditions, adverse changes in Government policies related to exports/imports of commodities, export incentives/duty structure, among others. ICRA notes the risks inherent in a partnership concern, including the risk of any substantial capital withdrawal by the partners.

The ratings, however, continue to factor in the established track record of the promoters of MM International (MMI) in the spice industry spanning over three decades and the low product concentration, with its top five products contributing 37% to the total revenues in FY2020. The ratings draw comfort from MMI's diversified geographical presence with exports to countries such as the UK, Australia, Spain, Canada, the US, and so on.

### Key rating drivers and their description

#### Credit challenges

**Constrained liquidity position due to exposure to Group entity, leading to delays in debt servicing** – MM International has defaulted in the LAP loan taken by the firm, which it has been further on-lend to its Group's construction business, which is run by the brothers Mr Rajesh Vora and Mr Ram Vora. The delays in EMI payment was primarily due to the pandemic-related business challenges encountered by the Group's construction business.

**Weak competitive position due to modest scale of operations** – MMI’s scale of operations has remained modest over the years with an OI of Rs. 69.63 crore and Rs. 67.47 crore registered in FY2019 and FY2020, respectively. As a result, the firm’s competitive position remains weak. Nonetheless in FY2021, MMI has been experiencing improved demand for its products and has been able to run its operations during the lockdown as the products come under the essential goods category. As a result, it registered healthy sales of Rs. 46.24 crore in H1 FY2021.

**Leveraged capital structure due to weak net worth levels and high debt** – The firm’s total debt consists of a term loan, a working capital loan from the bank and interest-bearing unsecured loans. The capital structure remained highly leveraged with gearing of 1.71 times, led by its high working capital loan of Rs. 17.79 crore as on March 31, 2020. The high debt resulted in a weak Total Debt/OPBDIT ratio of 6.12 times in FY2020.

**Modest profitability in spice processing, vulnerable to commodity price fluctuations and forex fluctuations** – Limited value addition involved in the firm’s operations, which, along with intense competition in the spice processing industry, restricts its pricing flexibility. High depreciation charges and interest expenses have further put pressure on the firm’s profitability over the years. Moreover, being a net exporter, MMI’s profitability remains vulnerable to fluctuations in commodity prices and foreign exchange rates. It reported net profit margins (NPM) of 5.52% in FY2020 (provisional) against a net loss of 0.84% in FY2019 owing to a decline in interest expenses led by debt prepayment, a conversion of the term loan to foreign currency term loan and lower working capital utilisation, coupled with the decrease in depreciation charges. The NPM was also supported by non-operating income in the form of income from the sale of property in FY2020.

**High customer concentration risk; however, widespread network of retail chains in international markets mitigates the risk to an extent** – MMI’s customer base consists of retailers and traders, who supply ingredients to food manufacturers. The credit period offered to the customers ranges from nil to 90 days. The firm’s customer base is highly concentrated with the top two customers contributing to over 40% of the total revenues from FY2018-FY2020. However, the fact that its customers have an established network of retail stores in the international markets mitigates the risk to an extent.

**Risk of capital withdrawal inherent in partnership firm** – Given MMI’s constitution as a limited liability partnership firm, it is exposed to discrete risks, including the possibility of capital withdrawal by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of the partners.

## Credit strengths

**Established track record of promoters in spices industry** – MMI was incorporated in 1997 and its operations are being managed by the Mumbai-based Vora family. The promoters have experience of over 30 years in the spice industry, enabling MMI to establish its position in the market.

**Low product concentration risk and diversified geographical presence** – MMI trades in over 150 spices, blended spices and food products. Although turmeric, chilli powder, cumin and coriander form its core products, the top five products contributed ~37% to the revenues in FY2020, indicating low product concentration risk. Further, the firm has a diversified geographical presence with exports to countries such as the UK, Australia, Spain, Canada and the US, among others.

## Liquidity position: Poor

The firm's liquidity is poor owing to modest cash flow from operations, moderate debt repayments, and funding commitments to weaker Group entities.

## Rating sensitivities

**Positive factors** – Sustained track record of timely debt servicing would lead to an upgrade in the rating

**Negative factors** – NA

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the company

MM International was established in 1997 by the Vora family, which is involved in spice trading for the last 100 years. The firm processes spices and exports them to international markets. MMI trades in over 150 products, exporting them to different countries (such as New Zealand, Australia, Japan, South Korea, Belgium, England, Italy, the US and Canada). However, it primarily trades in four major spices (coriander, turmeric, cumin and chilli powder), which contribute to most of its revenues.

As per FY2020 provisional estimates, MMI reported a net profit of Rs.3.72 crore on an OI of Rs.67.47 crore, against a net loss of Rs.(0.59) crore on an OI of Rs.69.63 crore in the previous year.

## Key financial indicators (audited)

MM International	FY2019	FY2020
Operating Income (Rs. crore)	69.6	67.5
PAT (Rs. crore)	-0.6	3.7
OPBDIT/OI (%)	8.2	9.1
PAT/OI (%)	4.5	14.8
Total Outside Liabilities/Tangible Net Worth (times)	3.2	1.9
Total Debt/OPBDIT (times)	6.1	4.2
Interest Coverage (times)	2.0	2.9

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

**Status of non-cooperation with previous CRA:** MMI did not provide the requisite information to CRISIL needed to conduct its surveillance rating process and was, therefore, classified as 'Issuer not-cooperating'. Based on the publicly available information; CRISIL has revised the ratings to 'CRISIL B+/Stable/CRISIL A4 Issuer Not Cooperating' from 'CRISIL BB/Stable/CRISIL A4+ Issuer Not Cooperating' assigned to the Rs. 38.00-crore bank facilities of MMI in July 2020.

**Any other information:** None

## Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 30, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					March 15, 2021	October 30, 2020			
1	Term Loans	Long-term	15.04	7.26	[ICRA]D	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
2	Fund based Cash Credit	Long-term	21.50	-	[ICRA]D	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
3	Unallocated Limited	Long-term and short term	3.46	-	[ICRA]D	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]BB-(Stable)/[ICRA]A4	-	-

Amount in Rs. crores

## 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 [click here](#)

#### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	April 2016	4.90%	Oct 2022	15.04	[ICRA]D
NA	Fund based limits	NA	NA	NA	21.05	[ICRA]D
NA	Unallocated limits	NA	NA	NA	3.46	[ICRA]D

Source: Company

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

Company Name	Consolidation Approach
Not Applicable	

Source: Company

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