

Milsha Agro Exports Pvt. Ltd.

December 27, 2018

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based– Term Loan	2.00	[ICRA]B+ (Stable); Assigned
Fund-based– Packing Credit	12.00	[ICRA]A4; Assigned
Fund based – Foreign Bills Discount against Letter of Credit	5.00	[ICRA]A4; Assigned
Non-fund based –Forward Contract	1.00	[ICRA]A4; Assigned
Non-fund based – Bank Guarantee^	(0.50)	[ICRA]A4; Assigned
Total	20.00	

*Instrument details are provided in Annexure-1

^ Sub-limit of packing credit

Rationale

The assigned ratings take into account the operations of Milsha Agro Exports Pvt. Ltd. (MAEPL) in a highly fragmented and low value additive shrimp processing industry with intense competition from domestic as well as international players, limiting the margins. The ratings also consider the inherent risks in the industry including susceptibility to diseases outbreak, climatic risk, and changes in government policies, which could impact the demand and supply of the industry. The ratings are also impacted by the weak financial profile of MAEPL with low profitability, a leveraged capital structure and constrained liquidity position. The ratings further consider the high geographical concentration of MAEPL's revenue and its exposure to forex risk.

The ratings, however, favourably consider more than four decades of experience of the promoter in the seafoods industry. The ratings also positively factor in the location-specific advantage of the company as it is located in proximity to the major aquaculture regions of West Bengal. Besides, MAEPL witnessed a healthy top-line growth in FY2018.

Outlook: Stable

ICRA believes that MAEPL will continue to benefit from the experience of its promoter and favourable demand prospects in the seafood industry. The outlook may be revised to Positive if the company is able to increase its scale of operations while improving its profitability, capital structure and coverage indicators. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens its liquidity.

Key rating drivers

Credit strengths

Long experience of the promoter in the seafoods industry – MAEPL's promoter, Mr. Ram Milan Singh, has an experience of more than 40 years in the seafoods industry. The promoter's long experience mitigates operational risk to an extent.

Proximity to major aquaculture region of West Bengal – The company's processing plant is located in proximity to the major aquaculture regions of West Bengal, resulting in easy availability of raw materials.

Healthy growth in revenues witnessed in FY2018 – MAEPL witnessed a healthy revenue growth of 110% in FY2018 over the previous year on account of an increase in sales volume. However, the decline in realisations in the Vannamei category of shrimps exported resulted in a decline in operating margin to 1.73% in FY2018 from 3.44% in FY2017.

Credit challenges

Weak financial profile characterised by a highly leveraged capital structure and depressed coverage indicators – The capital structure of the company has remained leveraged, as depicted by a gearing of 2.10 times as on March 31, 2018. High debt levels and low profitability kept the coverage indicators depressed, as reflected by an interest coverage of 2.11 times, NCA/total debt of 13% and TD/OPBDITA of 7.14 in FY2018.

High geographical concentration of revenue – The geographical concentration of revenue has remained high with 95% of the export sales derived from Vietnam and Japan. Going forward, geographical concentration is expected to reduce on account of increasing presence of MAEPL in the US market.

Fragmented industry structure with intense competition – Indian seafood export industry is highly fragmented with few large players and several small processors in addition to the intense competition faced by the Indian exporters from countries like Ecuador, Indonesia and Vietnam, which are the major producers of Vannamei category of shrimp.

Inherent risks in the seafood industry – The risk of extreme climatic conditions and disease outbreaks are inherent to shrimp farming. Extreme climatic condition would result in adverse farming conditions, which in turn increase the mortality rate and affect the quality of shrimp farmed. Any such situation would affect the availability of raw materials.

Foreign exchange rate fluctuation risk – The company generates a significant portion of its revenue from export sales, which contributed around 93% to its total turnover in FY2018. This exposes MAEPL to foreign exchange rate fluctuation risk in the absence of a formal hedging mechanism.

Liquidity position

The company has generated positive fund flow from operations (FFO) over the past few years. The average fund-based working capital utilisation has remained at a high level during the last one year. ICRA notes that the company has long-term debt-servicing obligations in the near to medium term, which are likely to exert pressure on its liquidity position.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial statements of the company.

About the company

Incorporated in 2009, Milsha Agro Exports Pvt. Ltd. (MAEPL) is involved in processing and export of shrimps. The processing unit of the company is located in Kolkata, West Bengal with an installed processing capacity of 30 tonne per day and a storage capacity of 180 tonne. The business was started by Mr. Ram Milan Singh in the 1970s through a partnership firm, Veejay Impex.

Key financial indicators (audited)

Standalone	FY2017	FY2018
Operating Income (Rs. crore)	35.01	73.42
PAT (Rs. crore)	0.25	0.54
OPBDIT/ OI (%)	3.44%	1.73%
RoCE (%)	8.10%	10.57%
Total Debt/ TNW (times)	2.14	2.10
Total Debt/ OPBDIT (times)	6.39	7.14
Interest Coverage (times)	2.62	2.11

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore) March 31, 2018	Date & Rating December 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan	Long Term	2.00	NA*	[ICRA]B+ (Stable)	-	-	-
2 Packing Credit	Short Term	12.00	-	[ICRA]A4	-	-	-
3 Foreign Bills Discount against Letter of Credit	Short Term	5.00	-	[ICRA]A4	-	-	-
4 Forward Contract	Short Term	1.00	-	[ICRA]A4	-	-	-
5 Bank Guarantee^	Short Term	(0.50)	-	[ICRA]A4	-	-	-

^ Sub-limit of packing credit

* Term loan has not been disbursed yet.

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	26-Sept-18	NA	-*	2.00	[ICRA]B+ (Stable)
-	Packing Credit	NA	NA	NA	12.00	[ICRA]A4
-	Foreign Bills Discount against Letter of Credit	NA	NA	NA	5.00	[ICRA]A4
-	Forward Contract	NA	NA	NA	1.00	[ICRA]A4
-	Bank Guarantee [^]	NA	NA	NA	(0.50)	[ICRA]A4

Source: MAEPL

[^] Sub-limit of packing credit

* The Term loan has not been disbursed yet.

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