

Press Release

Tolar Ocean Products Private Limited

December 21, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.22.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.22.00 Crore bank facilities of Tolar Ocean Products Private Limited (TOPPL). The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of long track record of operations and extensive experience of the promoters. The rating, however, continues to remain constrained at the same level on account of working capital-intensive operations driven majorly by high inventory levels, decline in revenues and profitability margins in FY2020, average financial risk profile, stretched liquidity marked by high bank limit utilization and the impact on operations in FY2021 due to global outbreak of COVID-19.

About the Company

Udupi (Karnataka) - based, TOPPL was incorporated in 1996 and is promoted by Mr. Prakash Tolar. The company is engaged in processing, export and trading of frozen and chilled seafood (Indian Mackerel, Ribbon Fish, Squid, Sardine, Cuttlefish, Vannamei Shrimps). TOPPL sources its products from Goa, Andhra Pradesh, Kerala, Karnataka, Ratnagiri, Karwar and Mumbai and primarily exports to the countries like Vietnam, Thailand, Bangkok, China, and Malaysia.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of TOPPL to arrive at the rating.

Key Rating Drivers

Strengths

- Established presence in the sea food industry and experienced management

The promoter, Mr. Prakash Tolar has over two decades of experience in the sea food industry. The extensive experience has enabled the company establish healthy relationships with customers and suppliers. Export accounts for ~70 percent of the total sales and the company exports to Vietnam, Thailand, Bangkok, China and Malaysia among others.

Acuite believes that the promoter's experience and healthy relationship with customers and suppliers, coupled with healthy demand for fish is expected to support its business risk profile over the medium term.

Weaknesses

- Average financial risk profile

TOPPL's financial risk profile is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing stood at 2.09 times as on 31 March 2020 against 1.94 times as on 31 March 2019. TOL/TNW stood at 2.68 times as on 31 March 2020 against 2.43 times as on 31 March 2019. Tangible net worth of the company stood modest at Rs.7.79 Cr as on 31 March 2020 against Rs.7.57 Cr as on 31 March 2019. Of the total debt of Rs.16.28 Cr as on 31 March 2020, long-term debt stood at Rs.2.25 Cr, short-term debt stood at Rs.13.56 Cr and unsecured loans stood at Rs.0.47 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 2.18 times and 0.08 times respectively in FY2020. DSCR stood at 1.13 times in FY2020. The company reported cash accruals of Rs.1.28 Cr for FY2020 against moderate repayment

obligations of Rs.0.80 Cr. Further, annual cash accruals are expected to be in the range of about Rs.1.30 Cr-Rs.2.94 Cr in the medium term against moderate repayment obligations in the range of Rs.1.45 Cr-Rs.2.53 Cr. Acuite believes that the ability of the company to improve its capital structure by improvement in the net worth will be a key rating sensitivity.

• Working capital intensive operations

TOPPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 129 days in FY2020 against 81 days in FY2019 owing to high inventory days. The inventory days were recorded at 116 days in FY2020 against 74 days in FY2019; since the export market was impacted due to the global outbreak of covid-19. Further, the inventory holding policy followed by the company is 45 days to cater to spot orders. The debtors' days were recorded at 15 days in FY2020 against 8 days in FY2019 which is corresponding to normal terms with the customers. However, working capital bank lines remains utilized at ~82 percent for last eight months ended November, 2020.

Acuite believes that the working capital operations are expected to remain on similar lines with respect to the inventory cycle; which will remain a key rating sensitivity factor.

• High competition

The company operates in a highly competitive industry with the presence of a large number of organized as well as unorganized players in India.

• Susceptibility to risks inherent in the sea food industry

The company remains vulnerable to the inherent risks in the seafood industry. These include susceptibility to diseases, climate changes, and adverse changes in policies among others.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Stretched

TOPPL has stretched liquidity position as reflected by modest net cash accruals, high bank limit utilization and intensive working capital operations. The company generated cash accruals of Rs.1.28 Cr in FY2020 against moderate repayment obligations of Rs.0.80 Cr. It is expected to generate cash accruals in the range of Rs.1.30 Cr-Rs.2.94 Cr over the medium term, against long-term repayment obligations in the range of Rs.1.45 Cr-Rs.2.53 Cr. Unencumbered cash and bank balances stood at Rs.0.28 Cr as on 31 March 2020 with a current ratio of 1.30 times in the same period. The working capital operations are intensive marked by GCA of 129 days for FY2020. The working capital limits remains utilized at ~82 percent for the last eight months ended November, 2020.

Acuite believes that liquidity profile is expected to remain stretched on account of modest net cash accruals, working capital-intensive operations and high bank limit utilization.

Outlook: Stable

Acuite believes that TOPPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	65.74	87.28
PAT	Rs. Cr.	0.22	0.80
PAT Margin	(%)	0.34	0.92
Total Debt/Tangible Net Worth	Times	2.09	1.94
PBDIT/Interest	Times	2.18	1.96

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Mar-2019	Cash Credit	Long Term	2.00	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BB-/ Stable (Reaffirmed)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Reaffirmed)
27-Feb-2018	Cash Credit	Long Term	2.00	ACUITE BB-/ Stable (Upgraded)
	Term Loan	Long Term	2.00	ACUITE B+ (Withdrawn)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Upgraded)
	Term Loan	Long Term	2.00	ACUITE BB-/ Stable (Assigned)
11-Mar-2017	Term Loan	Long Term	2.00	ACUITE B+/ Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE B+/ Stable (Assigned)
	Packing Credit	Short Term	14.00	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/ Stable (Reaffirmed)
Term Loan	1: Apr-2014 2: Nov-2016 3: Aug-2017	1: 10.70 % 2: 11.10% 3: 9.65 %	1: Dec-2020 2: May-2021 3: Sep-2023	2.00	ACUITE BB-/ Stable (Reaffirmed)
Packing Credit #	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A4+ (Reaffirmed)

#(PCL – Pre Shipment Credit)includes sublimit of (FDBN / FDBP/ FDBD – towards post shipment finance – export receivable finance) of Rs.4.50 Cr.

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President – Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Ashvita Ramesh Analyst - Rating Operations Tel: 022-49294065 ashvita.ramesh@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,481 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité's rating scale and its definitions.