

Press Release

Tolar Ocean Products Private Limited

February 24, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	4.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	22.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 Cr bank facilities of Tolar Ocean Products Private Limited (TOPPL). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating reaffirmation draws comfort from the long track record of operations, extensive experience of the promoters and recovery in the operating performance in 10MFY22 after a subdued performance in FY21 on account of COVID-19 spread. The rating, however, continues to remain constrained on account of working capital intensive operations driven majorly by high inventory levels, average financial risk profile marked by highly leveraged capital structure, stretched liquidity and the impact on operations in FY21 due to global outbreak of COVID-19.

About the Company

TOPPL, incorporated in the year 1996, is a Karnataka-based company promoted by Mr. Prakash Tolar. The company is engaged in processing and export of frozen and chilled seafood, primarily various types of fishes.

TOPPL sources its products from Goa, Andhra Pradesh, Kerala, Karnataka, Ratnagiri, Karwar and Mumbai and primarily exports it to the countries like Vietnam, Thailand, Bangkok, China, and Malaysia. The export shipment is done through Mangalore port.

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 2 decades of experience in the sea food industry. His extensive experience has enabled the company to establish healthy relationships with customers and suppliers. Export account for more than half of the total sales and the company exports to Vietnam, Thailand, Bangkok, China and Malaysia among others.

Acuité 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.

Improvement in operating performance in 10MFY22 albeit subdued performance in FY2021

The net sales increased from Rs.42.47 Cr. in FY21 to Rs.63.29 Cr in 10MFY22, thereby surpassing the whole-year net sales of FY20 & FY21, owing to the resumption in the market sentiments post COVID-19 restrictions being eased. However, TOPPL witnessed a subdued operating performance in FY21, reflected in the decline in the operating income from Rs.65.73 Cr in FY20 to Rs.44.04 Cr in FY21 owing to the disruptions caused by the COVID-19 pandemic leading to logistical hick-ups for the export shipments. TOPPL's profitability was largely unaffected by the decline in revenue in FY21. The operating and net margin improved from 3.91 per cent and 0.34 per cent respectively in FY20 to 5.93 per cent and 0.64 per cent respectively in FY21 owing to lower material consumption, coupled with decrease in various selling expenses. Nevertheless, given the subdued scale of operations, the net profitability also stood almost flat at Rs.0.28 Cr in FY21 as against 0.22 Cr in FY20.

TOPPL's ability to sustain its revenue growth & profitability while maintaining its profit margins shall remain critical from the credit perspective.

Weaknesses

Working capital intensive nature of operations

The operations of TOPPL are working capital intensive in nature marked by elongated inventory holding of 248 days in FY21 as against 116 days in FY20, which is also reflected in the elongated gross current assets days and working capital cycle of 246 days and 229 days respectively in FY21 as against 129 days and 110 days respectively in FY20. The significant elongation in the inventory holding in FY21 over FY20 was owing to slower inventory turnaround on the back of a significant decline in the scale of operations in that year. However, the working capital cycle is expected to improve as the operational performance improves in FY22. Given the working capital intensity, the company's dependence on the working capital bank facilities is moderately high, marked by average working capital limit utilization of ~67 per cent in the last six months ended January 2022.

Acuité believes going forward TOPPL's ability to improve its working capital cycle will remain key rating sensitivity.

Average financial risk profile

The financial risk profile of TOPPL stood average marked by small tangible net-worth base, leveraged & deteriorating capital structure and moderate debt coverage indicators. The tangible net-worth stood small at Rs.8.08 Cr as on March 31, 2021 as against Rs.7.79 Cr as on March 31, 2020. The leveraged capital structure is reflected in high overall gearing and TOL/TNW which deteriorated from 2.09 times and 2.68 times respectively as on March 31, 2020 to 2.75 times and 3.24 times respectively as on March 31, 2021, which has also been at its peak over FY19-FY21. The deterioration was on account of COVID-19 loans in the form of CELC and UGECL being availed by the company to support the working capital operations, as against low accretion of profits. Given this, the debt coverage indicators also deteriorated with the interest coverage and DCSR having deteriorated from 2.15 times and 1.27 times respectively in FY20 to 1.92 times and 1.30 times respectively in FY21, whereas the same stood moderate. Going forward, over the medium-term, the gearing is expected to be in the range of 2.50–3.50 times and interest coverage in the range of 1.90-2.90 times.

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 in the financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material covenants

None

Liquidity Position: Stretched

The liquidity profile of TOPPL is stretched marked by low cushion in net cash accruals vis-à-vis debt repayment obligations, highly working capital intensive nature of operations albeit moderately utilized working capital limits, and low free cash & bank balance. The operations of the company are highly working capital intensive in nature with gross current assets days and working capital cycle of 246 days and 229 days respectively in FY21 as against 129 days and 110 days respectively in FY20. Given this, the average working capital utilization in the last 6 months ended January 2022 stood moderately high at 66.57 per cent. Moreover, the company generated low net cash accruals worth Rs.1.31 Cr and Rs.1.16 Cr in FY20 and FY21 respectively as against debt repayment obligations worth Rs.0.78 Cr and Rs.0.58 Cr in those respective years. The company is expected to generate net cash accruals in the range of Rs.2.50-3 Cr over FY22-FY23, as against debt repayment obligations worth Rs.1.50-2 Cr over the same period. On the other hand, the current ratio stood moderate at 1.62 times as on March 31, 2021 as against 1.36 times as on March 31, 2020, whereas the free cash & liquid investments stood low at Rs.0.30 Cr as on March 31, 2021 as against Rs.0.52 Cr as on March 31, 2020.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	44.04	65.73
PAT	Rs. Cr.	0.28	0.22
PAT Margin	(%)	0.64	0.34
Total Debt/Tangible Net Worth	Times	2.75	2.09
PBDIT/Interest	Times	1.92	2.15

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Dec 2020	Cash Credit	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
14 Mar 2019	Packing Credit	Short Term	18.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE A4+ Stable (Reaffirmed)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
27 Feb 2018	Cash Credit	Long Term	2.00	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Term Loan	Long Term	2.00	ACUITE B+ Stable (Withdrawn)
	Packing Credit	Short Term	18.00	ACUITE A4+ (Upgraded from ACUITE A4)
	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Term Loan	02-08-2017	9.65	02-09-2023	2.00	ACUITE BB- Stable Reaffirmed

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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 8,850 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 Kanjurmarg, Mumbai.

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