

Press Release

S M Marine Products

February 13, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.12.00 Cr. (Enhanced from Rs.9.00 Cr)
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B Minus**) to the Rs.7.00 crore and assigned short term '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.5.00 crore bank facilities of S M Marine Products (SSMP). The outlook is '**Stable**'.

Established in 2006 as a partnership firm, SMMP is promoted by fourteen partners at Mangalore (Karnataka). The firm is engaged in the manufacturing and export of fishmeal and fish oil, sardines being its major raw material. The fishmeal is used as an ingredient in manufacturing fish and poultry feeds and fish oil, which finds its application in the pharmaceutical industry. SMMP has manufacturing unit in Mangalore having with an installed crushing capacity of 350 tonnes per day. It procures raw fish, from the local agents and sells fish meal and oil in the domestic as well as international markets.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SSMP to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of the promoters in the fish meal and fish oil manufacturing business**

The firm has been involved in the manufacturing of fish meal and fish oil since 2006. The promoters have extensive experience spanning one to two decades in the manufacturing of fishmeal and fish oil business. Their extensive experience has helped the firm to develop long term relations with customers and suppliers. The revenue of the company is grew by a CAGR of 47 per cent over the last four years through FY 2019. The firm has reported revenue of Rs.56.94 Cr in FY2019 as compared to Rs.36.56 Cr in FY2018. However during the current financial year for 9M2020 firm has reported revenue of 18.00 crore till December, 2019 and estimating about 25-30 crore in FY2020. The reduction in the revenues is majorly on account of unavailability of raw fish due to seasonal factors.

Further firm operations are in close proximity to the material source which is critical for the seafood industry, as the shelf life for raw fish is low at around one to two days. The firm's manufacturing plant is located at Mangalore which also reduces the transportation cost and time.

Acuité believes that the firm will be able to sustain its existing business risk profile on the back of extensive experience of the partners and its established market position.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the firm is moderate marked by modest tangible net worth, leveraged capital structure and moderate debt protection measures. The net worth of the firm stood at Rs.6.27 crore as on 31 March 2019 as against Rs.4.84 crore as on 31 March FY2018. The gearing (Debt to Equity) and Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.82 times and 3.10 times respectively , as on 31 March, 2019 as against 1.81 times and 2.70 times as on 31 March, 2018.

Its debt protection measures Interest Coverage Ratio (ICR) improved to 4.19 times in FY2019 against 3.36 times in FY2018 due to increase in profitability. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.30 times in FY2019 as against 0.22 times in FY2018.

Acuité believes that the financial risk profile of SSMP will continue to remain moderate over the medium term on account of its moderate net worth, profitability margins.

- **Vulnerability of profitability to fluctuations in the raw material prices and adverse foreign exchange fluctuations**

The firm procures its major raw material, i.e. sardines, from local markets. Due to climatic changes, availability of sardines is a major challenge that could severely impact revenues from fishmeal segment. The prices of sardines and fishmeal are market determined and fluctuating in nature that affects the margins of the firm. Further, the firm's margins are also susceptible to the currency fluctuations. The seafood industry is highly competitive and fragmented marked by presence of several organised and unorganised players, thereby putting pressure on the profitability margins.

- **Moderate working Capital Cycle**

SSMP's working capital is moderate as is reflected by its gross current asset (GCA) days of around 105 days for FY2019. The company maintains inventory of around two months. SSMP extends a credit period of 30-45 days to its customer. On the other hand, the company gets 45-60 days credit from its suppliers. However, there is high utilisation of working capital facilities its bank line at an average of ~99 percent over the last six months through December 2019. Acuite expects the working capital management to remain moderate over the medium term on account of limited credit period extended to its customer.

Liquidity Position: Stretched

The SSMP has stretched liquidity position marked by moderate net cash accruals to its maturing debt obligations. SSMP has generated cash accruals of Rs.3.48 crore for FY2019, while its maturing debt obligations were around Rs.1.00 crore for the same period. The cash accruals of the SSMP are estimated in the range of Rs.1.40-2.80 crore during 2020-22 against repayment obligation of Rs.1.00 crore during the same period. Its working capital operations are moderate marked by gross current asset (GCA) days of 105 days for FY2019. However, there is high utilisation of working capital facilities its bank line at an average of ~99 percent over the last six months through December 2019. Acuité believes that with modest accruals and moderate working capital operations, the liquidity profile continues to be stretched over the medium term.

Rating Sensitivity

- Substantial improvement in scale of operation and profitability margins over the medium term.
- Further deterioration in capital structure.

Material covenants

None

Outlook: Stable

Acuité believes that SSMP will maintain a 'Stable' outlook over the medium term from its promoter's experience and established relationship with its clientele. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of further deterioration in the firm's financial risk profile or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	56.94	36.56
PAT	Rs. Cr.	1.90	0.78
PAT Margin	(%)	3.33	2.14
Total Debt/Tangible Net Worth	Times	1.82	1.81
PBDIT/Interest	Times	4.19	3.36

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-59.htm>
- 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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Feb-2019	Cash Credit	Long Term	4.00	ACUITE BB- Issuer not co-operating*
	Term Loans	Long Term	5.00	ACUITE BB- Issuer not co-operating*
09-Jan-2018	Cash Credit	Long Term	4.00	ACUITE BB-/Stable (Assigned)
	Term Loans	Long Term	5.00	ACUITE BB-/Stable (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	4.00	ACUITE BB- /Stable (Reaffirmed)
Term Loan	02-09-2016	Not Applicable	30-04-2023	3.00	ACUITE BB- /Stable (Reaffirmed)
FDBP (Bill Discounting)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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