

Press Release

Akash Fishmeal and Fishoil Private Limited

October 09, 2020



Rating Downgraded

Total Bank Facilities Rated*	Rs.29.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B' (read as ACUITE B)**' from '**ACUITE BB-' (read as ACUITE double B minus)**' on the Rs.29.50 crore bank facilities of Akash Fishmeal and Fishoil Private Limited (AFPL). The outlook is '**Stable**'.

The downgrade in the rating is on account of decline in the operating income of the company, deterioration in the financial risk profile; intensive working capital operation and stretched liquidity. The operating income of the company has declined by around 76.88 percent to Rs.17.65crore (Prov.) in FY2020 from Rs.76.32crores in FY2019. The deterioration in the operating performance of the company was mainly because the factory was closed in the first half of FY2020 due to protest against the Government's implementation of GST on the fishmeal. Further issues like climatic changes and implementation of nationwide lockdown in the view of pandemic Covid-19 also impacted the company's performance in FY2020.

Incorporated in the year 2015, AFPL is a Sindhudurg, Maharashtra based company. The company is engaged in the manufacturing of fishmeal and fish oil and has a manufacturing capacity of 400 metric tons per day. The operations of the company are handled by Mr. Mohamed Queresh, Mr. Mohamed Suhel, Mr. Fairoz Thota, Mr. Syed Abbasaiib Thota and others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management**

AFPL was incorporated in the year 2015. The promoters of the company have more than two decades of experience in the seafood industry. The promoters of the company also have two other companies, namely, Goan Fresh Marine Exports Private Limited and Ocean Pearl Fisheries, which are engaged in the business of processing and cutting marine products. The extensive experience of the promoters has helped the company to maintain a healthy relationship with its customers and suppliers.

Acuité believes that the company will benefit from the extensive experience of the promoters, along with a healthy relationship with its customer and suppliers.

Weaknesses

- **Working capital intensive nature of operations**

AFPL's working capital operation is intensive in nature marked by its gross current asset (GCA) days of around 157 days (Prov.) in FY2020 as against 84 days in FY2019. The working capital cycle days stood at 66 (Prov.) in FY2020 as against 46 days in FY2019. AFPL has receivable days of 71 (Prov.) as on 31 March, 2020 as against 38 days as on 31 March, 2019. On the other hand, the company has a credit payment of 20 days (Prov.) as on 31 March, 2020 as against 24 days as on 31 March, 2019. The average

bank limit utilization stood moderate at around 78.16 percent for six months ended August, 2020, while its peak utilization was high at around 79.80 percent during the same period. Acuité expects the working capital management to remain intensive over the medium term on account of high credit terms offered to their customer.

- **Below Average Financial Risk Profile**

AFPL's financial risk profile is below average marked by low net worth, high gearing and low debt protection metrics. The company's net worth has declined to Rs.6.62crore (Prov.) as on March 31, 2020 as against Rs.12.27crore as on March 31, 2019. The gearing is high at around 3.06 times (Prov.) as on March 31, 2020 as against 1.68 times as on March 31, 2019. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stand at 3.06 times (Prov.) as against 2.00 times as on March 31, 2019. The company, on the other hand, generated cash accruals of Rs.(5.66)crore (Prov.) in FY2020.

The revenue of the company has declined by around 76.88 percent to Rs.17.65crore (Prov.) in FY2020 from Rs.76.32crore in FY2019. This is because the factory was closed in the first half of FY2020 due to protest against the Government's implementation of GST on the fishmeal. Then and thereafter, the climatic changes and implementation of nationwide lockdown in the view of Covid-19 also impacted the business of the company. EBITDA in absolute term has declined to Rs.(3.20)crore (Prov.) in FY2020 as against Rs.5.66crore in FY2019. Subsequently, the PAT of the company has declined to Rs.(5.66)crore (Prov.) in FY2020 from Rs.(1.37)crore in FY2019. The decline in the profitability level, coupled with a moderate debt level, has led to low debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at (0.28) times (Prov.) and (1.21) times (Prov.) respectively as against 0.14times and 1.73times in FY2019, respectively. The Debt-EBITDA ratio stands at (6.53) time (Prov.) in FY2020 against 3.64 time in FY2019.

- **Vulnerability to risks and highly fragmented industry**

The company is exposed to risks inherent in the seafood industry such as vulnerability to diseases, climatic changes apart from changes in government policies. AFPL operates in a highly competitive and fragmented industry characterized by large numbers of unorganized players affecting profitability margins.

Liquidity Position: Stretched

The company has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. (5.66) crore (Prov.) in FY2020 as against the maturing debt obligations of Rs.2.50crore during the same period. The company's working capital operation is intensive marked by the gross current asset (GCA) days of 157 days (Prov.) in FY2020 as against 84 days in FY2019. The average bank limit utilization stood moderate at around 78.16 per cent for six months ended August, 2020. The company maintains unencumbered cash and bank balances of Rs.0.14crore (Prov.) as on 31 March 2020. The current ratio of the company has declined to 0.45 times (Prov.) as on 31 March 2020 from 0.82 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain stretch in the near term on account of low net cash accruals as compared to its debt repayment obligations.

Rating Sensitivities

- Significant improvement in the working capital management
- Scaling up operation along with improvement in profitability margins

Outlook: Stable

Acuité believes that AFPL will maintain a stable outlook over the medium term backed by its experienced management in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates healthy growth in its revenues while achieving sustained improvement in the operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative', in case of further decline in the company's revenue, profit margin also further deterioration in the company's financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	17.65	76.32
PAT	Rs. Cr.	(5.66)	(1.37)
PAT Margin	(%)	(32.07)	(1.79)
Total Debt/Tangible Net Worth	Times	3.06	1.68
PBDIT/Interest	Times	(1.21)	1.73

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

Care, vide its press release dated July 20, 2020 had denoted the rating of Akash Fishmeal and Fishoil Private Limited as 'CARE B/Stable/CARE A4; Issuer Not Co-operating' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Any Material Covenants

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jul-2019	Cash Credit	Long Term	20.00	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long Term	5.95	ACUITE BB-/Stable (Reaffirmed)
	Proposed	Long Term	3.55	ACUITE BB-/Stable (Reaffirmed)
21-Jun-2018	Cash Credit	Long Term	15.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	14.50	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	20.00	ACUITE B/Stable (Downgraded from ACUITE BB-/Stable)
Term loan	June 23, 2015	Not Applicable	April 24, 2022	4.26	ACUITE B/Stable (Downgraded from ACUITE BB-/Stable)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.24	ACUITE B/Stable (Downgraded from ACUITE BB-/Stable)

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About Acuité Ratings & Research:

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