

Press Release

Akash Fishmeal and Fishoil Private Limited

October 19, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.50	ACUITE B+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	29.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) on the Rs. 29.50 Cr bank facilities of Akash Fishmeal and Fishoil Private Limited (AFPL). The outlook is 'Stable'.

Rationale for upgrade

The rating upgrade takes into account the improvement in revenue from Rs. 17.72 Cr in FY2020 to Rs. 80.86 Cr in FY2022 (provisional). The revenue increase is majorly attributable to increased sales quantity in FY2022. Further, the operating margins of the company improved to 6.62 percent in FY2022 (provisional) against 5.87 percent in the previous year. Additionally, Acuite marks an improvement in the working capital cycle; the gross current assets days reduced by 135 in FY2022 (provisional) against the previous year.

However, the rating remains constrained due to the below average financial risk profile marked by gearing of 6.37 times as on March 31, 2022 (provisional). Additionally, due to seasonal nature of the raw material the margins are highly susceptible to fluctuations in raw material prices. Further, profitability is also highly susceptible to change in interest rates due to high debt levels of the company.

About the Company

Incorporated in the year 2015, AFPL is a Sindhudurg, Maharashtra based company. The company is engaged in the manufacturing of fishmeal and fish oil. The installed capacity is 550 MT per day. The operations of the company are handled by Mr. Nadukandi Purayil Aziz, Mr. Thota Mohammed Suhel, Mr. Fairoz Thota, Mr. Thota Jaaved, Mr. Thota Junaid Majeed, Mr. Haneef Abbasaheb Thota, Mr. Mohammed Fahim, Mr. Riyaz Ahmed, Mr. Shyam Chandrakant Sarang, Mr. Mohammed Quresh, Mr. Thota Rafeeq, Mr. Thota Abbasaheb Abeed, Mr. Sayed Abbasaib Thota and Mr. Mohammed Fayaz Hamid.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of AFPL to arrive

at the rating.

Key Rating Drivers

Strengths

- **Experienced management:**

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 and long association with its customer and suppliers.

- **Improving scale of operations:**

The revenue of the company improved to Rs. 80.87 Cr in FY2022 (provisional) against Rs. 41.49 Cr in the previous year. The revenue increase is majorly attributable increase in sales quantity. The company sold 8,271 MT in FY2022 (provisional) up by 76 percent compared to the previous year. Further, the operating margins of the company improved to 6.62 percent in FY2022 (provisional) against 5.87 percent in the previous year. However, the operating margins are lower than pre-covid levels of 7-8 percent due to increased raw material cost. Further, the net profit margins remain modest at 1.08 percent due to high interest cost with cost of debt at 10-12 percent.

Acuité believes, high leverage will adversely impact the profitability resulting into low reserve accretion over the medium term.

Weaknesses

- **Below average financial risk profile:**

The financial risk profile of the company is below average marked by modest net worth and high leverage. The net worth as on March 31, 2022 (provisional) stood Rs. 3.91 Cr against Rs. 3.04 Cr in the previous year. The low accretion to reserves is attributable to high interest cost of Rs. 2.53 Cr in FY2022 against earnings before tax of Rs. 3.31 Cr.

The company follows an aggressive leverage policy marked by debt to equity of 6.37 times as on March 31, 2022 (provisional). The peak leverage stood at 8.00 times as on March 31, 2021 through FY2020-22. The aggregate debt stood at Rs. 24.91 Cr as on March 31, 2022 (provisional).

However, debt service coverage ratio (DSCR) and interest coverage ratio (ICR) stood at 1.29 times and 2.15 times as on March 31, 2022 (provisional). Notwithstanding in FY2021 the company availed GECL facilities of Rs. 5.67 Cr to meet repayment obligations considering DSCR and ICR of 0.42 times and 0.94 times in FY2021.

- **Highly fragmented industry and susceptibility of margins to fluctuating raw material prices:**

The margins are highly susceptible to fluctuating raw material prices since, raw material accounts for 78-80 percent of the aggregate revenue. Further, the availability of raw material is seasonal in nature and the prices vary in tandem with the catch in each market.

In addition, fishmeal industry is highly fragmented; the company faces competition from organised and unorganised players thereby limiting its pricing flexibility and bargaining power with customers.

Rating Sensitivities

- Substantial improvement in revenue and profit margins.
- Improvement in the capital structure marked by gearing (debt to equity) below 2.
- Stretch in the working capital cycle days marked by gross current asset days above 80-90.

Material covenants

None.

Liquidity: Stretched

The net cash accruals cash accruals in FY2022 (provisional) stood at Rs. 2.92 Cr against Rs.1.60 Cr of repayment obligations. The working capital cycle days stood 28 in FY2022 (provisional), despite low working capital cycle days the bank limit utilization stood at 90 percent for the 6 months ended Aug 2022 due to improved scale of operations. Further, the unencumbered cash and bank balance and current ratio stood at Rs. 0.03 Cr and current ratio 0.68 times as on March 31, 2022 (provisional).

Outlook: Stable

Acuité believes that AFPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels along with improving its 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 its working capital management leading to deterioration in its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	80.87	41.49
PAT	Rs. Cr.	0.87	(3.51)
PAT Margin	(%)	1.08	(8.46)
Total Debt/Tangible Net Worth	Times	6.37	8.00
PBDIT/Interest	Times	2.15	0.94

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

CareEdge Ratings vide its press release dated August 11, 2022 has classified AFPL as 'Issuer not co-operating' and rated 'CARE B-/Stable/A4'.

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>
- 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
05 Jan 2022	Cash Credit	Long Term	20.00	ACUITE B Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	9.50	ACUITE B Stable (Reaffirmed)
09 Oct 2020	Cash Credit	Long Term	20.00	ACUITE B Stable (Downgraded from ACUITE BB- Stable)
	Term Loan	Long Term	4.26	ACUITE B Stable (Downgraded from ACUITE BB- Stable)
	Proposed Bank Facility	Long Term	5.24	ACUITE B Stable (Downgraded from ACUITE BB- Stable)
23 Jul 2019	Term Loan	Long Term	5.95	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.55	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE B+ Stable Upgraded (from ACUITE B)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE B+ Stable Upgraded (from ACUITE B)

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About Acuité Ratings & Research

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