

Press Release

Malpefresh Marine Export Private Limited

February 21, 2022



Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|-------------------------------------------|------------------|----------------------------------|-------------------|
| Bank Loan Ratings | 30.00 | ACUITE BB+ Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 30.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB+**' (**read as ACUITE double B Plus**) to the Rs.30.00 Cr bank facilities of Malpefresh Marine Export Private Limited (MMPL). The outlook is '**Stable**'.

The rating reaffirmation factors in the extensive experience of the promoters in the seafood industry and the proximity of MMPL's processing facilities to major aquaculture belts, which reduces the risk of raw material availability. The rating also continues to draw comfort from the company's geographically diversified clientele, with the growing demand for Indian seafood in the overseas markets, especially Europe. The rating, however, remains constrained by MMPL's working capital intensive nature of the business, intense competition in the highly fragmented seafood industry, inherent risks associated with the seafood industry, susceptibility of earnings to the volatilities in raw material prices and exchange rates. Going forward, MMPL's ability to generate healthy accruals and improve its overall credit profile will be the key monitorable.

About the Company

Udupi (Karnataka) -based, MMPL was incorporated in 2014 and commenced its operations in August, 2017. The company is engaged in procurement, processing, freezing and final packing, storing, exporting of fish and fishery products. The company is promoted by Mr. Moulana Ibrahim, Mr. Sidga Mohammed Ibrahim, Mr. Antonio Luis Felix Rodrigues, Mr. Suresh P. Shetty, Mr. Sathish Shetty and Mr. Krishna Prasad. MMPL has a processing plant in Udupi with an installed capacity of 83 MT per day.

Analytical Approach

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

Key Rating Drivers

Strengths

Extensive experience of promoter in seafood industry

The promoters, Mr. Moulana Ibrahim, Mr. Sidga Mohammed Ibrahim, Mr. Antonio Luis Felix Rodrigues, Mr. Suresh P. Shetty, Mr. Sathish Shetty and Mr. Krishna Prasad, have over two decades of experience in the seafood industry. The extensive experience has enabled the company to forge MMPL to build a strong base of customers, ensuring repeat orders. MMPL's processing facilities are located in proximity to the major aquaculture belt of udupi (Karnataka), ensuring continuous availability of raw materials at low transportation costs. MMPL's major exports to South East Asian countries like China, Myanmar, Philippines, Vietnam, Malaysia, Thailand, etc., Middle-East countries like Dubai and countries in the European Union such as Spain, Italy, Portugal, etc. Acuité believes that the promoters 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.

Above-Average financial risk profile

MMPL's financial risk profile is above-average marked by high gearing (debt to equity ratio), high total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing stood at 2.34 times as on 31st March, 2021 against 1.80 times as on 31st March, 2020. Total outside liabilities to total net worth (TOL/TNW) stood at 2.76 times as on 31st March, 2021 against 2.35 times as on 31st March, 2020. Tangible networth of the company stood modest at Rs.11.68 Cr as on 31st March, 2021 against Rs.11.41 Cr as on 31st March, 2020. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood comfortable at 2.12 times and 0.06 times respectively in FY2021 vis à vis 3.22 times and 0.13 times in FY 2020. Acuité expects the financial risk profile to remain moderate over the medium to long term period on account of moderate capital structure and stable operations of MMPL.

Weaknesses

Working capital intensive operations

MMPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 181 days as on 31st March, 2021 against 132 days as on 31st March, 2020 owing to high inventory days. The inventory days were recorded at 130 days as on 31st March, 2021 against 102 days 31st March, 2020. The debtors' days were recorded at 38 days in as on 31st March, 2021 against 19 days in as on 31st March, 2020. However, working capital bank lines remain utilized at ~89 percent for the last six months ended December, 2021. Acuité 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.

Fragmented nature of the industry and inherent risks in the sea food industry

Owing to low entry barriers, MMPL faces stiff competition from the organised and unorganised domestic players. Further, Indian shrimp exporters face competition from countries such as Indonesia, Ecuador, Vietnam etc, which are the major producers of shrimp. These factors limit MMPL's bargaining power and pricing flexibility, which put pressure on the margins. MMPL's revenues and profit margins are susceptible to volatility in shrimp realisations and raw shrimp prices, which in turn are driven by demand-supply scenario. Adverse agro-climatic condition and natural calamities during the aquaculture season may have a serious impact on the production of shrimps. Despite technical advancement, virus contamination in shrimps remains a risk. MMPL also remains exposed to forex fluctuation risks. However, the same is mitigated to an extent as the company hedges over 50% of its receivables through forward contracts. Additionally, adverse changes in trade policies of the importing nations can affect the business risk profile of all the domestic players in the industry, including MMPL.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely
- Further stretch in the working capital cycle

Material covenants

None

Liquidity: Adequate

MMPL's liquidity position remains adequate as reflected in its adequate net cash accruals to its maturing debt obligations; albeit constrained by high utilisation of working capital limits. MMPL has reported cash accruals of Rs.1.36 Cr to 3.76 Cr during last 3 years ended through FY2021 as against repayment obligations of about Rs.0.25 Cr to 1.32 Cr during the same period. Its cash accruals are expected in the range of Rs.2-3 Cr over the medium term against repayment obligations of about Rs.1-1.50 Cr during the same period. Liquidity is constrained by its highly utilized working capital limits at about 90 per cent for the last six months through December 2021. The current ratio stood at 1.25 times as on March 31, 2021. Acuité believes that though cash accruals are adequate, howbeit, managing the working capital intensive operations will remain a key rating sensitivity factor.

Outlook: Stable

Acuité believes that MMPL rating will maintain a 'Stable' outlook over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if MMPL registers sustainable improvement in sales volumes and realization per unit of the products offered leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case MMPL registers lower-than expected revenues and profitability or any significant stretch in its working capital management or larger thanexpected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 62.01 | 65.86 |
| PAT | Rs. Cr. | 0.26 | 1.14 |
| PAT Margin | (%) | 0.42 | 1.74 |
| Total Debt/Tangible Net Worth | Times | 2.34 | 1.80 |
| PBDIT/Interest | Times | 2.12 | 3.22 |

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

Not Applicable

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 |
|-------------|--------------------------------|-----------|-----------------|--------------------------------------------------------|
| 03 Dec 2020 | Proposed Bank Facility | Long Term | 3.80 | ACUITE BB+ Stable (Assigned) |
| | Packing Credit | Long Term | 7.00 | ACUITE BB+ Stable (Upgraded from ACUITE BB Stable) |
| | Working Capital Demand Loan | Long Term | 2.00 | ACUITE BB+ Stable (Assigned) |
| | Letter of Credit | Long Term | 13.00 | ACUITE BB+ Stable (Upgraded from ACUITE BB Stable) |
| | Term Loan | Long Term | 10.00 | ACUITE BB+ (Withdrawn) |
| | Working Capital Demand Loan | Long Term | 4.20 | ACUITE BB+ Stable (Assigned) |
| 06 Sep 2019 | Term Loan | Long Term | 10.00 | ACUITE BB Stable (Upgraded from ACUITE BB- Stable) |
| | Bills Discounting | Long Term | 20.00 | ACUITE BB Stable (Upgraded from ACUITE BB- Stable) |
| 30 Aug 2018 | Term Loan | Long Term | 10.00 | ACUITE BB- Stable (Assigned) |
| | Bills Discounting | Long Term | 9.00 | ACUITE BB- Stable (Assigned) |
| | Proposed Bills Discounting | Long Term | 11.00 | 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 | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 24.00 | ACUITE BB+ Stable Reaffirmed |
| Canara Bank | Not Applicable | Working Capital Demand Loan (WCDL) | 10-06-2020 | 7.65 | 31-07-2022 | 1.80 | ACUITE BB+ Stable Reaffirmed |
| Canara Bank | Not Applicable | Working Capital Term Loan | 04-07-2020 | 7.50 | 31-07-2024 | 4.20 | ACUITE BB+ Stable Reaffirmed |

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About Acuité Ratings & Research

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