

Press Release

Megaa Moda Private Limited

April 29, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.79.89Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB' (read as ACUITE triple B)** and the short term rating of '**ACUITE A3+' (read as ACUITE A three plus)** to the Rs.79.89 Cr bank facilities of Megaa Moda Private Limited (MMPL). The outlook remains '**Stable**'.

The rating upgrade is driven by an improvement in the overall business risk profile of the company marked by higher profitability and cash accruals arising from improved realizations characterised by penetration into new geographies. The rating upgrade also factors in the gradual improvement in their gearing levels though it is still on the higher side. These strengths are partly offset by the working capital intensity in MMPL's operations and the exposure to regulatory changes and competition.

About the company

Incorporated in 2009, Megaa Moda Private Limited (MMPL) is a Kolkata based company, currently headed by Mr. Yogesh Gupta, Mrs. Sonali Gupta, Mr. Shankar Ramalingam and Mr. Amit Paul. The company is engaged in processing, packaging and exporting of shrimps and prawns. MMPL has an established name in the overseas market by its brand name of "MEGAA" and "MEGAA DELIGHT" (a Registered Brand). The company is recognized as two star export house under Ministry of Commerce and Industry, Govt. of India. The company has its facility located in West Bengal with an installed capacity of 6000 MTPA and 1000 MT cold storage unit.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

MMPL has a long operational track record of more than a decade in the sea food industry. The key promoters, Mr. Shankar Ramalingam and Mr. Yogesh Gupta have significant experience in the trading and exporting of shrimp. Over the years, the company has been able to establish comfortable relationships with reputed customers in more than 12 countries. Acuite believes that the promoters' extensive understanding and expertise in marine food products will support the company's growth plans going forward.

- **Strong business risk profile**

MMPL has achieved revenues of Rs.197.37 Cr in FY2020 as compared to revenues of Rs.58.05 Cr in FY2017, thereby registering a 3 year CAGR of 50.32 per cent. The company has achieved revenues of around Rs.151.44 Cr till December 2020 (Provisional). The growth in revenue is primarily on account of improvement in orders for individual quick freezing (IQF) shrimps which are better in quality. The operating margin of the company increased to 8.50 per cent in FY2020 as compared to 7.98 per cent in the previous year. The PAT margins stood at 3.74 per cent in FY2020 as against 2.46 per cent as on FY2019. The ROCE levels stood at a comfortable level of about 14.68 per cent in FY2020 as against 12.86 per cent in FY2019. The improvement in margin is due to increase in sale of IQF frozen shrimps which fetched better realization as compared to block frozen shrimps during the same period. The IQF frozen shrimps are mostly sold to US & European countries, whereas the block frozen shrimps are sold primarily to countries like China, Vietnam and Japan.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by modest networth, moderate gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.29.11 Cr as on March 31, 2020 from Rs.22.56 Cr as on March 31, 2019 due to accretion of profits. Gearing of the company stood moderate as Debt to Equity ratio stood at 2.12 as on March 31, 2020. The debt of Rs.61.71 Cr mainly consists of long term debt of Rs.16.43 Cr, working capital borrowing of Rs.43.56 Cr and current maturity of term loan of Rs.1.72 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 2.35 times as on March 31, 2020 as against 3.12 times as on March 31, 2019. The strong debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 3.77 times as on March 31, 2020 and Debt Service Coverage Ratio (DSCR) at 2.67 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.19 times as on March 31, 2020. Acuite believes that the financial risk profile of the company will remain comfortable backed by steady accruals and no major debt funded capex plans the near to medium term.

Weakness

- **Working capital intensive nature of operations**

The moderate working capital management of the company is marked by moderate Gross Current Assets (GCA) of 117 days as on March 31, 2020 similar as previous year. The moderate GCA days are on account of moderate inventory holding level which stood at 89 days as on March 31, 2020 as compared to 82 days as on 31st March 2019. However, the debtor period is comfortable at 27 days as on March 31, 2020 as compared to 36 days as on March 31, 2019. Going forward, Acuite believes that the operations would remain moderately working capital intensive mainly due to high inventory level.

- **Exposure to regulatory changes and competition**

The shrimp processing and export business is highly fragmented with presence of several small players and dependence on shrimp farms for raw material which limits bargaining power. Additionally, the procurement price of shrimp depends on catch and availability during a particular period, which exposes the company to volatility in product prices. Furthermore, as entire revenue is generated from exports, credit risk profile remains susceptible to volatility in forex rates. Further, the company is also exposed to risk arising from regulatory changes and demand pattern in client countries and changes such as levy of anti-dumping duties by importing countries.

Rating Sensitivity

- Sustainable revenue growth along with steady operating margins
- Elongation in working capital cycle

Material Covenant

None

Liquidity Profile: Strong

The company's liquidity is adequate marked by net cash accruals of Rs.11.72 Cr as on March 31, 2020 as against long term debt repayment of Rs. 1.57 Cr over the same period. The current ratio stood moderate at 1.30 times as on March 31, 2020. The cash and bank balances of the company stood at Rs.0.62 Cr as on March 31, 2020 as compared to Rs.0.52 Cr as on March 31, 2019. The company has availed loan moratorium but not applied for any additional covid loan. The fund based limit remains utilised at 85 per cent over the nine months ended December 2020. The moderate working capital management of the company is marked by moderate Gross Current Assets (GCA) of 117 days as on March 31, 2020 similar to previous year. Acuite believes that the company will maintain comfortable liquidity position backed by increasing net cash accruals in the near to medium term.

Outlook: Stable

Acuite believes that the outlook on MMPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and strong business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	197.37	174.37
PAT	Rs. Cr.	7.39	4.29
PAT Margin	(%)	3.74	2.46
Total Debt/Tangible Net Worth	Times	2.12	2.66
PBDIT/Interest	Times	3.77	3.26

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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	Ratings/Outlook
			(Rs. Crore)	
07-Apr-2021	Term Loan	Long term	9.68	ACUITE BBB/ Stable (Upgraded)
	PC/PCFC	Short Term	25.00	ACUITE A3+ (Upgraded)
	FBN/FBP/FBD/ PSFC/ FBE	Short Term	38.00	ACUITE A3+ (Upgraded)
	Proposed Fund based facilities	Long term	1.35	ACUITE BBB/ Stable (Upgraded)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Upgraded)
	Letter of Credit	Short Term	1.20	ACUITE A3+ (Upgraded)
04-Jun-2020	Term Loan	Long term	10.74	ACUITE BBB-/Stable (Reaffirmed)
	PC/PCFC	Short Term	25.00	ACUITE A3 (Reaffirmed)
	FBN/FBP/FBD/ PSFC/ FBE	Short Term	30.75	ACUITE A3 (Reaffirmed)
	Proposed Fund based facilities	Long term	2.25	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.76	ACUITE A3 (Reaffirmed)

	Letter of Credit	Short Term	0.70	ACUITE A3 (Reaffirmed)
09-Apr-2019	Term Loan	Long term	13.00	ACUITE BBB-/Stable (Assigned)
	PC/PCFC	Short Term	25.00	ACUITE A3 (Assigned)
	FBN/FBP/FBD/ PSFC/ FBE	Short Term	30.75	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	0.70	ACUITE A3 (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
Term Loan	20-04-2016	9.5%	20-04-2024	9.68	ACUITE BBB/ Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Reaffirmed)
FBN/FBP/FBD/ PSFC/ FBE	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3+ (Reaffirmed)
Proposed Fund based facilities	Not Applicable	Not Applicable	Not Applicable	5.01	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research

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