Press Release

Mangala Marine Exim India Private Limited

D-U-N-S® Number: 91-853-6728

July 24, 2020

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.133.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed & Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.85.00 Cr. bank facilities and assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.48.00 Cr. bank facilities of Mangala Marine Exim India Private Limited (MMEIPL). The outlook is **'Stable'**.

About the group

Mangala Group, promoted by Mr. Premchand Bhat, Mr. Sreenivasa Bhat, Mr. Ashok Bhat and Mr. Suresh Bhat. The group comprises of Mangala Sea Foods, which is engaged in processing and exporting of shrimps and cuttlefish and Mangala Marine Exim India Private Limited, which is engaged in the processing and export of seafood products, i.e. shrimps, cuttlefish, squid, octopus, to name a few.

About the company

Kochi based, MMEIPL was incorporated in 2002 by Mr. Premchand Bhat, Mr. Sreenivasa Bhat, Mr. Ashok Bhat and Mr. Suresh Bhat. The company is a part of the Mangala Group, which is engaged in the seafood industry. The company is engaged in the processing and export of seafood products, i.e. shrimps, cuttlefish, squid, octopus, to name a few to the US, Canada, Europe, Japan and China. The company procures the catch from the southern coastal districts of Kerala, Andhra Pradesh and Tamil Nadu. The company has 3 processing units with 1 tunnel freezer, 1 horizontal block processor. It also has its own warehouse with a capacity to hold 3000 Metric Tons.

Analytical Approach

Acuité has considered the consolidated financial and business risk profile of Mangala Sea Foods and Mangala Marine Exim India Private Limited to arrive at the rating. The consolidation is in view of similarity in line of business, common management and financial linkages between both the entities and corporate guarantee given by Mangala Marine Exim India Private Limited to Mangala Sea Foods. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced Management

The day-to-day operations of the Mangala Group are handled by the Bhat family who has been associated with the seafood processing and exports for over two decades, through multiple entities such as Mangala Marine Exim India Private Limited and Mangala Sea Foods. The promoters have gained good insight, knowledge and association with various stakeholders through their own and family's extensive experience in the industry. This has led the group to build healthy and long term relations with their suppliers, thereby assuring a steady base of supply.

Acuité believed that the group would continue to benefit from promoter's experience in the industry and its established market presence over the medium term.

- **Moderate Financial Risk Profile**

The group has a moderate financial risk profile marked by improvement in its net worth, debt protection metrics and gearing. The net worth of the group has improved to Rs.54.71 crore as on March 31, 2019 (including quasi capital of Rs.2.75 crore) as compared to Rs.48.36 crore as on March 31, 2018 (including quasi capital of Rs.2.75 crore). Gearing of the group improved to 1.67 times as on March 31, 2019 from 1.95 times as on March 31, 2018. The ICR improved to 2.67 times in FY2019 from 2.09 times in FY2018. The same has been observed with DSCR, which has improved to 1.50 times in FY2019 from 1.31 times in FY2018. The TOL/TNW has improved to 3.35 times as on March 31, 2019 from 3.64 times as on March 31, 2018. The NCA/TD has also improved to 0.13 times as on March 31, 2019 from 0.09 times as on March 31, 2018.

The group has been able to mitigate the impact of Covid-19 since sales for the month of May, 2020 and June, 2020 is better than that of May 2019, and June, 2019.

Acuité believes that the financial risk profile of the group will continue to remain moderate over the near term in the absence of any major debt-funded capex.

Weaknesses

- **Working capital intensive nature of operations**

Mangala Group's operations are working capital in nature as reflected by its GCA days of around 120 days as on March 31, 2019 which has improved from 143 days as on March 31, 2018. The group maintains its inventory of around 89 days as on March 31, 2019 compared to 103 days as on March 31, 2018. This is due to the monsoon season, which succeeds in the beginning of the next financial year, resulting in high inventory in the books at the end of the financial year. The group also has a higher reliance on working capital borrowings, the cash credit limit in the group remains utilized at ~95 percent during the last 12 months period ended May, 2020.

- **Exposure to regulatory changes**

The seafood export segment is marked by stringent regulations and quality requirements. Regulatory changes such as the levy of anti-dumping duties by importing countries can have an adverse impact on the profitability of the entire industry. Apart from several small domestic players, Indian seafood exporters have to face intense competition from exporters in countries such as Bangladesh, Thailand and Indonesia. Acuité believes that the group will always be exposed to the risk associated with the global industry.

- **Competitive and fragmented nature of seafood industry**

Low entry barriers, intensifies competition from unorganized players, catering to regional demand. Operating margins are vulnerable to volatility in feed prices, while diseases and climatic vagaries such as the tsunami and cyclones could affect the supply of seafood and hence, prices.

- **Concentration Risk**

The group earns more than 50 percent of its revenues from the U.S.A, any change in the policy by them could have a major adverse impact on the revenues. Acuité believes that improvement in geographic diversification of the revenues is key in maintaining the growth.

Liquidity position: Adequate

Mangala Group has an adequate liquidity position marked by net cash accruals of Rs.11.81 crore for FY2019 and Rs.8.62 crore for FY2018 as against their debt obligations which stood at Rs.4.35 crore as on March 31, 2019 and Rs.4.55 crore as on March 31, 2018. The cash accruals are expected to be in the range of Rs.12-14 crore during FY2020-22, while repayment obligations are expected to be around Rs.3.00- 5.50 crore annually during the same period. The groups operations are working capital intensive, marked by GCA Days of 120 days in FY2019. This has led to higher reliance on working capital borrowings, the cash credit limit in the group remains utilized at ~95 percent during the last 12 months period ended May, 2020. The company has availed Covid-19 loan offered by the banks and it had also availed moratorium scheme during the first 3 months introduced by the banks

The group had cash and bank balances of Rs.1.60 crore and liquid investments of ~Rs.13.50 crore as on March 31, 2019. The current ratio stood at 0.94 times as on March 31, 2019 from 0.93 times as on March 31, 2018.

Acuité believes that the liquidity of the group can improve if the traction in the revenue is maintained to negate the impact of a decrease in realization faced by the industry.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Regulatory challenges faced from the importing countries.

Material Covenants

None

Outlook: Stable

Acuité believes that Mangala Group will continue to benefit over the medium term due to its established track record, relations with its customers and suppliers, moderate financial risk profile and export incentives offered by the GOI. The outlook may be revised to 'Positive', if the group demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to 'Negative', if the group generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, larger-than-expected debt-funded capex or any significant withdrawal of capital thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	446.18	358.25
PAT	Rs. Cr.	8.30	5.30
PAT Margin	(%)	1.86	1.48
Total Debt/Tangible Net Worth	Times	1.67	1.95
PBDIT/Interest	Times	2.67	2.09

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
- 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 (Rs. Cr)	Ratings/Outlook
02-July-2020	PC/PCFC - I	Short term	28.00	ACUITE A3 (Reaffirmed)
	PC/PCFC - II	Short term	8.00	ACUITE A3 (Assigned)
	FBN/FBP/FBD/PSFC/FBE – I (NLC)	Short term	22.00	ACUITE A3 (Reaffirmed)
	FBN/FBP/FBD/PSFC/FBE – II (NLC)	Short term	20.00	ACUITE A3 (Assigned)
	Bank guarantee/Letter of Guarantee	Short term	2.50	ACUITE A3 (Reaffirmed)
	Standby Line of Credit	Short term	10.00	ACUITE A3 (Withdrawn)

	Term Loan	Long Term	3.86	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.64	ACUITE BBB- / Stable (Reaffirmed)
22-Apr-2019	PC/PCFC	Short term	23.00	ACUITE A3 (Assigned)
	FBN/FBP/FBD/PSFC/FBE (NLC)	Short term	37.00	ACUITE A3 (Assigned)
	Bank guarantee/Letter of Guarantee	Short term	2.50	ACUITE A3 (Assigned)
	Standby Line of Credit	Short term	10.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	5.02	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	2.48	ACUITE BBB- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
PC/PCFC - I	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A3 (Reaffirmed)
PC/PCFC - II	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE – I (NLC)	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3 (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE – II (NLC)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE – III (LC)	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 (Assigned)
FBN/FBP/FBD/PSFC/FBE – IV (LC)	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Reaffirmed)
Working Capital Term Loan	April, 2020	7.40%	April, 2023	5.00	ACUITE BBB- / Stable (Assigned)
Term Loan	November, 2014	14.10%	March, 2022	3.86	ACUITE BBB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.64 (Enhanced from 0.64)	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Aditya Sahu Analyst - Rating Operations Tel: 022-49294055 aditya.sahu@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,200 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.