

Press Release

Yashaswi Fish Meal And Oil Company

July 17, 2020



Rating Downgraded

Total Bank Facilities Rated*	Rs. 110.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Downgraded from ACUITE BBB /Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.110.00 crore bank facilities of Yashaswi Fish Meal And Oil Company (YFOC). The outlook is '**Stable**'.

The rating revision is on account of deterioration observed in business risk profile marked by a decline in profitability and volatile revenues. The decline is majorly attributed to non-availability of major raw material, i.e. sardines in the market. The firm's profitability has dropped significantly from 12.59 percent in FY2018 to 9.60 percent in FY2019 and 8.49 percent (Provisional) in FY2020, although expected to improve in FY2021. Also, the revenues are volatile as reflected by a drop in operating income from Rs.384.87 crore in FY2018 to Rs.268.28 crore in FY2019 and Rs.293.68 crore (Provisional) in FY2020.

Established in 2007 as a partnership firm, YFOC is promoted by eleven partners at Pithrody Village, Udupi (Karnataka). The firm is engaged in the manufacturing and export of fishmeal and fish oil, sardines being its major raw material. YFOC has two manufacturing units in Pithrody and Manipal having a total installed capacity to produce 150 and 30 tons per day of fishmeal and fish oil, respectively. Further, the firm has set up an SEZ unit in Mangalore for export of frozen Surimi.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and established market position

YFOC has been engaged in the manufacturing of fishmeal and fish oil for more than a decade. Its partners have gained extensive experience in the industry and have expertise in different areas. They have established long track record with reputed customers including Avanti Feeds Limited, CPF India and Devi Sea Foods, to name a few. Further, with new manufacturing facility set up, the firm will be able to improve its revenue and profitability.

Acuité believes that the firm will be able to sustain its existing business risk profile on the back of extensive experience of the partners and its established market position.

• Healthy financial risk profile

The financial risk profile of the firm is marked by high tangible net worth, high debt protection measures and low gearing. The net worth of the firm stood at Rs.105.41 crore (Provisional) as on March 31, 2020 as against Rs.106.14 crore as on March 31, 2019. The firm has followed a conservative financial policy as reflected by peak gearing of 0.80 times over the last three years through 2018-20. The gearing of the firm stood comfortable at 0.80 times (Provisional) as on March 31, 2020. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.96 times (Provisional) as on 31 March, 2020. The firm's debt protection metrics stood moderate as reflected by Interest Coverage Ratio (ICR) at 3.07 times (Provisional) in FY2020 against 4.13 times in FY2019. The deterioration in ICR is on account of decline in PAT due to high-interest cost served on new external borrowings. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times (Provisional) as on March 31, 2020. Debt Service Coverage Ratio (DSCR) stood at 2.39 times (Provisional) in FY2020.

Acuité believes that the financial risk profile of YFOC will continue to remain healthy over the medium term on account of its high net worth and conservative financial policy.

Weaknesses

- **Deterioration in revenue and profitability**

The firm has set up an SEZ unit in Mangalore to export frozen Surimi. The manufacturing facility commenced in August, 2019 contributing Rs.39.61 crore (Provisional) to revenue for FY2020. The firm booked revenue of Rs.293.68 crore (Provisional) in FY2020 as against Rs.268.28 crore in FY2019 and Rs.384.87 crore in FY2018. The decline in revenue for FY2019 was on account of non-availability of major raw material i.e. sardine in the market. However, with the new manufacturing facility being commenced, the firm is expected to book healthy revenue in future.

The firm's operating margin stood at 8.49 percent (Provisional) in FY2020 as against 9.60 percent in FY2019 and 12.59 percent in FY2018. The decline in profitability in FY2019 was on account fluctuations in raw material prices for which the company faced difficulty in passing the extra cost to the customers. Further, the decline in PAT in FY2020 was on account of high-interest cost on new external borrowings and depreciation charged on the capital expenditure.

Going forward, the firm is expected to improve its revenue and profitability with no additional debt requirement, favourable demand and availability of customer base.

- **Susceptibility of margins to fluctuations in raw material prices, forex risks and intense competition**

The firm procures its major raw material, i.e. sardines, from local markets. Due to climatic changes, availability of sardines is a major challenge that could severely impact revenues from fishmeal segment. The firm sells 80 per cent in the domestic market and exports the remaining to Saudi Arabia, Vietnam, and Canada, among others. The prices of sardines and fishmeal are market-determined and fluctuating in nature that affects the margins of the firm. Further, the firm's margins are also susceptible to currency fluctuations. The seafood industry is highly competitive and fragmented marked by the presence of several organised and unorganised players, thereby putting pressure on the profitability margins. However, in the SEZ unit, the raw material required are Lizard and Pink perch which is in abundant supply. This will help the firm improve its margins.

- **Capital withdrawal risk**

YFOC is exposed to the risk of capital withdrawal considering its partnership constitution. Acuité has observed capital withdrawal of Rs.0.73 core in FY2020. The net worth of the firm stood at Rs.105.41 crore (Provisional) as on March 31, 2020 as against Rs.106.14 crore as on March 31, 2019.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) days.
- Significant improvement in scale of operation while maintaining profitability margin leading to an overall improvement in financial risk profile.

Material Covenants

None

Liquidity position: Healthy

YFOC has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.16.81 to Rs.45.02 crore during the last three years through 2018- 20 Provisional, while its maturing debt obligations were in the range of Rs.1.55–3.20 crore over the same period. The cash accruals of the company are estimated to remain around Rs.21.6-32.4 crore during 2021-23 while its repayment obligations are expected to be in the range of Rs.3.50 – 4.80 crore over the same period. The working capital limits of YFOC remains fully utilized during peak season, i.e. September to April. The firm maintains unencumbered cash and bank balances of Rs.2.73 crore (Provisional) as on March 31, 2020. The current ratio of the company stood moderate at 1.21 times (Provisional) as on March 31, 2020. Acuité believes that the liquidity of the company is likely to remain healthy over the medium term.

Outlook: Stable

Acuité believes that YFOC will maintain a 'Stable' outlook and benefit over the medium term from its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than

the envisaged working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	293.68	268.28
PAT	Rs. Cr.	2.02	15.98
PAT Margin	(%)	0.69	5.96
Total Debt/Tangible Net Worth	Times	0.80	0.71
PBDIT/Interest	Times	3.07	4.13

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>
- 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
08-May-2019	Secured Overdraft	Long Term	50.00	ACUITE BBB /Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB /Stable (Assigned)
	Term Loan	Long Term	2.66	ACUITE BBB /Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB /Stable (Assigned)
	Proposed Cash Credit	Long Term	20.00	ACUITE BBB /Stable (Assigned)
	Proposed Bank Facility	Long Term	2.34	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. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB- /Stable (Downgraded from ACUITE BBB /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE BBB- /Stable (Downgraded from ACUITE BBB /Stable)
Term Loan	July, 2014	Not Applicable	Jan, 2023	2.60	ACUITE BBB- /Stable (Downgraded from ACUITE BBB /Stable)
Term Loan	Jul, 2018	Not Applicable	May, 2025	23.00	ACUITE BBB- /Stable (Downgraded from ACUITE BBB /Stable)

Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.56	ACUITE BBB- /Stable (Downgraded from ACUITE BBB /Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.34	ACUITE BBB- /Stable (Downgraded from ACUITE BBB /Stable)

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