

October 05, 2021

Mukka Proteins Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	10.00	8.35	[ICRA]BBB- (Stable); reaffirmed
Long-term/ Short-term – Fund Based – PCFC/PC-INR	105.00	130.00	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Short-term – Non-fund-based – SBLC	-	9.94	[ICRA]A3; reaffirmed
Total	115.00	148.29	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Mukka Proteins Limited (MPL), Haris Marine Products Pvt Ltd (HMPPL), Ocean Aquatic LLC, Atlantic Marine Products Pvt. Ltd., Ento Proteins Private Limited, Progress Frozen and Fish Sterilization, KGN Marine Products, Ullal Fish Meal and Oil Company and Mangalore Fish Meal and Oil Company for arriving at the ratings due to same management control and operational and financial linkages among them.

The ratings factor in the company's established presence in the fish meal processing industry and its healthy scale of operations, which grew by around 10% in FY2021 owing to a healthy demand from international markets despite supply constraints because of various pandemic-related restrictions. The ratings also consider the company's established relationship with reputed customers including Avanti Feeds Limited and G. C. Lukmate Trading Limited, which ensures repeat orders and reflects its acceptable product quality. The company also has a diversified geographical presence as it exports to various countries such as Vietnam, Taiwan, Bangladesh, China etc. It derives around 35% of revenues from domestic sales.

The ratings are, however, constrained by MPL's leveraged capital structure and moderate coverage indicators, which deteriorated in FY2021 due to a decline in profit and an increase in the overall debt level. The ROCE also moderated to around 11% in FY2021 from 16.38% in FY2020. The ratings also consider the vulnerability of its margins to fluctuations in raw material prices, which is dependent on availability. The fragmented industry structure along with volatile realisations also keep the margins under check. Besides, the company remains vulnerable to any adverse changes in Government regulations in India and foreign trade policies of importing nations. The company remains exposed to forex risk as around 65% of the revenue is generated from export. Nevertheless, the same is mitigated largely by hedging through forward contracts and import done by the company, which acts as a natural hedge. The ratings are also constrained by the company's stretched liquidity position with limited buffer in working capital limits. ICRA expects the liquidity profile of the entity to improve if it can raise the planned Rs. 150 crore in a timely manner. The same would be a key rating sensitivity.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company is expected to maintain its business positioning/ revenue growth, while improving its profitability levels.

Key rating drivers and their description

Credit strengths

Established presence in the fish meal industry – The company, a dominant player in the fish meal/ oil industry, has been involved in this line of business for around six decades and the promoters have an extensive experience in this industry. This helped them in developing established relationships with their customers, ensuring repeat orders. Moreover, location of the plants across multiple coastlines secures timely availability of fresh raw fish in sufficient quantity and ensures better product

quality due to lower transportation time. Relationship built over time with various suppliers also ensures availability of raw fish with no major interruptions.

Healthy scale-up of operations during past two years – The company's operating income increased significantly by ~35% in FY2020 to ~Rs. 555 crore and grew by ~10% in FY2021 to Rs. ~611 crore primarily due to healthy demand from international customers despite supply constraints arising from various pandemic-related restrictions. Although the export is likely to be impacted in the current fiscal due to a shortage in container availability and a significant increase in freight cost, ICRA does not expect any significant moderation in the top line as domestic demand remains buoyant.

High geographical diversification – The company supplies to various parts of the world, ensuring high geographical diversification. In FY2021, the company derived around 65% of its revenue (~61% in FY2020) from the overseas markets such as Vietnam, Bangladesh, Taiwan, China etc. In India, the company sells in various states including Telangana, Karnataka, Maharashtra, Kerala etc. Presence across various geographies in the domestic as well as international markets mitigates revenue risks arising from competition/ slowdown in a particular region and lends stability to revenues.

Established relationship with key customers ensures repeat orders – Established relationship with reputed customers, including G. C. Lukmate Trading Limited, Avanti Feeds Limited etc., leads to regular and repeat orders and provides revenue visibility. Repeat orders from the existing reputed clientele (domestic/ export) reflects its acceptable product quality. The recent increase in soya prices has also benefitted the company as there is a significant demand of fishmeal from poultry integrators and poultry feed manufacturers. Although this has positively impacted the current realisations and consequently the margins, this may not be sustainable once the new crop (soya) arrives in October-November.

Credit challenges

Margins exposed to raw material and fish meal prices – The company's operating margins are vulnerable to fluctuating raw material prices, which cannot be passed on to the customers immediately/ completely. The availability of raw materials is seasonal in nature, and the prices of raw fish varies in tandem with catch in each market. Fishmeal prices also remain volatile depending on the demand-supply dynamics and have a bearing on the company's margins.

Highly fragmented industry due to low entry barriers – The fishmeal industry is highly fragmented and the company faces competition from other organised and unorganised players due to relatively low entry barriers in the fish meal industry. This limits its pricing flexibility and bargaining power with customers, putting pressure on the margins.

In January 2020, taking note of the incessant juvenile fishing in some coastal states to meet the requirements for fishmeal and fish oil production, which resulted in depletion of food fish resources, the Marine Products Exports Development Authority (MPEDA) imposed a moratorium on the registration of new fish meal/ oil units and the expansion of production capacity of the existing units. This positively impacted the business profiles of the existing players in the fish meal/ oil industry, including MPL.

Moderate financial risk profile – The company's operating margin declined to 4.75% in FY2021 from 5.38% in FY2020 primarily due to a decline in the export incentive, and an increase in the selling expense and employee cost. The ROCE also moderated to ~11% in FY2021 from 16.4% in FY2020. The company's gearing stood high at 2.28 times as on March 31, 2021 owing to the working capital intensive nature of operations. Reduced margin and high gearing impacted the coverage indicators as reflected in an interest coverage of 3.61 times (4.14 times in FY2020) and TD/ OPBDITA of 5.49 times (4.74 times in FY2020) as on March 31, 2021. The company's liquidity profile also remained stretched with limited buffer in working capital limits. ICRA expects the liquidity profile of the entity to improve, going forward, if it can raise the planned Rs. 150 crore in a timely manner, which would be a key rating sensitivity.

Exposure to Government regulations and foreign currency fluctuation risk – The company derives the major portion of its revenue (~65% in FY2021) from the export market and thus receives export incentives from the Government of India (GoI), which support its operating profitability. Discontinuation of incentives under the Merchandise Exports from India Scheme (MEIS) from January 2021 and recent introduction of Remission of Duties and Taxes on Export Products (RoDTEP) at a lower rate are likely to have a bearing on the company's profitability. Hence, the company will remain exposed to regulations framed by the GoI from time to time. Additionally, any adverse changes in the foreign trade policies of the importing nations may negatively impact the company's business profile. Also, the company is exposed to fluctuations in foreign exchange rates as

the major portion of the revenue is derived from exports. However, the risk is mitigated as the receivables are hedged through forward contracts and imports act as a natural hedge.

Liquidity position: Stretched

The company's liquidity remains stretched. Increasing working capital requirement to fund the revenue growth led to a negative cash flow from operations over the past few years. Cash outlay for the capex of around Rs. 11 crore in FY2021 impacted the cash flows further, resulting in a negative free cash flow of around Rs. 5 crore. The annual long-term debt repayment obligation stands at Rs. 4.14 crore, Rs. 4.56 crore and Rs. 1.28 crore in FY2022, FY2023 and FY2024, respectively. The liquidity is expected to improve going forward due to the likely improvement in profitability and/ or the fund-raising program of Rs. 150 crore planned by MPL.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings of the company if there is an increase in the margin, leading to an improved capital structure and coverage metrics along with an improvement in the liquidity profile with adequate buffer in the working capital limits. Specific credit metrics that could lead to an upgrade of ratings is Total Debt/OPBDITA of less than 2.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if the margins are significantly impacted, resulting in a stretch in liquidity and coverage indicators. Any significant additional investments in Group entities and/ or an elongated working capital cycle could also impact the ratings. Specific credit metrics that could lead to ratings downgrade include OPBIDTA/Interest of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

Mukka Proteins Limited (MPL) (erstwhile Mukka Sea Food Industries Ltd.) was originally established in 1960 in Mangalore as a proprietorship concern and was converted into a private limited company in 2010. The processing unit is located in Mukka, Surathkal. The company is involved in the production of fish meal, fish oil and fish soluble paste. The company exports to countries like Taiwan, Vietnam, Bangladesh etc.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	555.3	610.9
PAT (Rs. crore)	13.6	11.0
OPBDIT/OI (%)	5.4%	4.7%
PAT/OI (%)	2.4%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	4.1	4.1
Total Debt/OPBDIT (times)	4.7	5.5
Interest Coverage (times)	4.1	3.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

Name of the CRA	Date of Press Release	Rating Action
India Ratings	October 05, 2018	IND BB (ISSUER NOT COOPERATING); IND A4+ ISSUER NOT COOPERATING;

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 05, 2021			
1	Term Loans	Long-term	8.35	8.35	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)		
2	Fund based bank – PCFC/PC-INR	Long-term and short term	130.00	--	[ICRA]BBB- (Stable)/[ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3		
3	Non fund based – SBLC	Short-term	9.94	--	[ICRA]A3	--		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term/ Short-term – Fund Based – PCFC/PC-INR	Simple
Short Term – Non Fund Based SBLC	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Jan 2020	NA	Jan 2023	8.35	[ICRA]BBB- (Stable)
NA	PCFC/PC-INR	NA	NA	NA	130.00	[ICRA]BBB- (Stable)/[ICRA]A3
NA	SBLC	NA	NA	NA	9.94	[ICRA]A3

Source: Mukka Proteins Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	MPL Ownership	Consolidation Approach
Haris Marine Products Private Limited	98%	Full Consolidation
Ocean Aquatic LLC, Oman	63%	Full Consolidation
Atlantic Marine Products Private Limited	51%	Full Consolidation
Ento Proteins Private Limited	100%	Full Consolidation
Progress Frozen and Fish Sterilisation	51%	Equity Method
Ullal Fish Meal and Oil Company	98%	Equity Method
KGN Marine Products	20%	Equity Method
Mangalore Fish Meal and Oil Company	-	Equity Method

Source: Mukka Proteins Limited and Haris Marine Products Private Limited

Note: ICRA has taken a consolidated view of the parent (MPL), its subsidiaries and associates while assigning the rating.

ANALYST CONTACTS

Mr. Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Ms. Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Jaswanth Ayyappan
+91 99 6251 3222
jaswanth.ayyappan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.