Mukka Proteins Limited

January 15, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	360.00 (Enhanced from 100.00)	CARE BBB+; Stable / CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Mukka Proteins Limited (MPL) reflect the company's established track record and the extensive experience of its promoters in the fish meal and fish oil industry and CARE Ratings Limited's (CARE Ratings') expectations that the company will maintain adequate performance over the medium term supported by its established relationship with reputed clientele and suppliers and vintage in the industry.

The company reported a substantial improvement in its scale of operation in the last five years to ~₹1,389 crore in FY24, indicating a compounded annual growth rate (CAGR) of 28% between FY19 and FY24, driven by rising sales volume and a significant increase in average realisation between H2 FY23 and H1 FY24 owing to global supply shortages. MPL's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin also improved to 8.26% in FY24 against 4.96% in FY20 due to benefits from economies of scale and favourable product mix translating into healthy gross cash accruals (GCA). However, MPL's performance moderated in H1 FY25 owing to normalisation of global fish meal prices translating into ~46% YoY decline in operating income to ₹327.7 crore. While the company maintained a healthy PBILDT margin of 9.45% in H1 FY25, a sizeable increase in inventory, partly funded by bank borrowings, translated into deterioration in debt coverage metrics with PBILDT interest cover of 1.84x in H1 FY25. Nevertheless, MPL is expected to report better financial performance in the seasonally strong Q3 and Q4 and normalisation of inventory levels. CARE Ratings expects MPL's revenue to decline by ~25% YoY to ~₹1,050 crore in FY25 with PBILDT margin sustaining ~8.5% which remains a key monitorable. Additionally, CARE Ratings notes that MPL is in the process of making a preferential allotment of equity shares with a planned fund raise of ₹98.0 crore towards strategic acquisitions leading to business expansion.

Ratings derive comfort from MPL's healthy market position in the fish meal industry with an established customer base and track record of repeat orders from major customers providing some revenue visibility. Ratings also consider its geographically diversified production facilities and healthy proportion of exports in revenue mix reducing exposure to single location. MPL's satisfactory financial risk profile marked by overall gearing below unity with adequate debt coverage metrics also supports ratings.

However, ratings are constrained by MPL's working capital intensive operations driven by elongation in operating cycle in FY24 and further build-up of inventory in the current year. The company also remains exposed to volatility in raw fish and fish meal prices and forex exchange rates. Moreover, ratings also consider the inherent seasonality of business and exposure to regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial increase in scale of operation and PBILDT margin leading to better cash accruals.
- Improvement in total outside liabilities to tangible net worth (TOL/TNW) below 1.00x.
- Reduction in inventory days below 120 days on a sustained basis.

Negative factors

- Significant decline in scale of operation or PBILDT margin leading to decline in cash accruals.
- Higher-than-anticipated capex and/or investment in group entities resulting in deterioration in adjusted overall gearing above 1.3x on a sustained basis.
- Increase in inventory holding above 170 days on a sustained basis.

Analytical approach: Consolidated

Consolidated financials have been considered due to presence of common management, brand name, and operational linkages with subsidiaries/associates/joint ventures (JV). List of entities considered for consolidation mentioned in Annexure-6.

Outlook: Stable

The Stable outlook on the long-term rating reflects CARE Ratings' expectations that MPL will maintain adequate debt coverage metrics and liquidity in the near term driven by expected improvement in financial performance in H2 FY25 backed by established customer base and experience of promoters.

Detailed description of key rating drivers:

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Key strengths

Established presence in the fish meal industry

MPL is a dominant player in the fish meal and fish oil industry and has a long track record of over five decades in the business. The experience of its promoters has helped the company in developing established relationships with its customers, ensuring repeat orders. Moreover, location of its manufacturing plants across multiple coastlines secures timely availability of raw fish in sufficient quantity and ensures better product quality due to lower transportation time. Long relationships with suppliers also ensure availability of raw fish with no major interruptions.

Geographically diversified and strategically located facilities

MPL has four strategically located manufacturing facilities within India and two manufacturing facilities in Oman, which is in proximity to the landing sites and fish catchments. It also has four other manufacturing plants in partnership firms (group entities), providing sizeable processing capacity to meet peak requirements. As a result, it has 10 manufacturing facilities under its network. MPL also has three blending facilities and five storage facilities along the western coastline of India. MPL has also entered contractual arrangement with third-party manufacturing units increasing presence across the western coastline of India, for supply of fish meal and fish oil.

Satisfactory financial risk profile

MPL raised funds through an initial public offering (IPO) via fresh issue of ₹224 crore in March 2024 which was largely utilised towards funding the company's working capital. This has led to an improvement in net worth to ₹408 crore as on March 31, 2024, and thus capital structure of the company stood comfortable marked by overall gearing stood below unity at 0.89x (PY: 1.68x) and TOL/TNW at 1.30x (PY: 2.67x) as on March 31, 2024. In FY24, debt coverage metrics stood adequate marked by PBILDT interest coverage at 4.57x (PY: 5.24x) and TD/GCA at 4.29x (PY: 4.36x). However, overall gearing weakened to 1.03x and PBILDT interest coverage moderated sharply to 1.84x in H1 FY25 owing to subdued performance in the light of industry-wide headwinds of moderating prices and weak demand.

Sustained growth in scale of operation and profitability, although current year remained subdued

MPL reported sustained increase in its revenue marked by compounded annual growth rate (CAGR) of 28% in the last five years to ~₹1,389 crore in FY24, driven by favourable global demand conditions owing to shortage in production of Peru region (being largest producer) in the last two years. It reported a y-o-y growth of 18% in revenue in FY24, primarily considering improvement in realisation. MPL's export revenue grew by ~4.7x in the last two years to ₹923 crore in FY24 compared to ₹197 crore in FY22, and it exports to over 10 countries. PBILDT margin marginally improved by 92 bps YoY to 8.26% in FY24 considering favourable realisation. However, in H1FY25, MPL's TOI declined by 46% YoY to ~₹328 crore with PBILDT margin at 9.45% and profit after tax (PAT) margin at 2.23% compared to H1FY24, TOI of ~₹606 crore with PBILDT margin at 10.13% and PAT margin at 5.44%. The decline in sales is primarily considering normalisation of selling price. There was significant increase in selling prices in last two years (FY23 and FY24) considering sudden increase in fish landings (due to change in climatic and natural conditions) and shortage in production of Peru region (being largest producer). However, considering the seasonality of the business, majority of the revenues are generated in H2 of the year.

Key weaknesses

Working capital intensive nature of operation

MPL's business operations are working capital intensive given sizeable inventory holding requirements due to seasonal availability of raw materials (fish) and short processing period due to perishable nature of raw materials. The company also offers a sizeable credit period to its dealers. Its operating cycle elongated to 99 days in FY24 compared to 58 days in FY23. Net cash flow from operations (CFO) stood negative in the last three years considering changes in working capital, in FY24 net CFO stood at negative ₹147 crore (PY: negative ₹54 crore). MPL's working capital intensity has further increased in the current year as the company has built up sizeable inventory in anticipation of fetching better prices in coming quarters. While the long shelf-life of finished products limits inventory write-off risks to an extent, the company's ability to normalise its working capital cycle without material impact on margins translating into healthy cash flows remains a key monitorable.

Margins exposed to raw material and fish meal prices, seasonal in nature

The key raw material used for manufacturing operations is pelagic fish (raw fish), which is sourced from vendor, agents, and local fish catchers and the raw material suppliers are primarily located in India. Raw material cost constitutes over 80% of the sales and its profitability margin remains 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, as the production in a period majorly depends on the fish landings (fish availability) and the raw fish prices vary in tandem with catch in each market. MPL does not have formal long-term arrangements with the suppliers of key raw material. Fish meal prices also remain volatile depending on the demand-supply dynamics, significant variation in the supply may adversely affect the operations and profitability of the company.

Exposure to changes in Government regulations and foreign currency fluctuation risk

MPL derived a sizeable portion of its sales from the export markets and thus its profitability is supported to an extent by the export incentives received from the Government of India (GoI). Any adverse change in the rates of export incentives can hamper the business profiles of all entities in the fish meal/fish oil business, including MPL. Moreover, ban or restriction on fishing can also affect the raw material availability. MPL remains exposed to forex fluctuation risk, however, the same is mitigated to an extent as it hedges ~50% of its forex exposure through forward contracts. In FY24, net forex gain stood at ~₹9 crore (PY: net loss ~₹5 crore).

Liquidity: Adequate
The liquidity position remained adequate marked by sufficient projected cash accruals in the range of ₹50-70 crore p.a. against scheduled repayment obligations of ₹2-5 crore p.a. in next three years. The free cash and bank balance stood at ₹5.20 crore as on September 30, 2024. Average working capital utilisation in the last 12 months ending September 2024 stood at ~74%. As on March 31, 2024, the current ratio stood comfortable at 1.51x (PY: 1.14x) and quick ratio stood at 0.69x (PY: 0.57x).

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Food products	Animal feed

MPL is engaged in the production of fish meal, fish oil, and fish soluble paste from raw fish. It operates 10 manufacturing facilities, three blending facilities, and five storage facilities in Karnataka, Gujarat, and Oman. The company was originally established as a partnership firm in 2003 and was subsequently converted to a private limited company in 2010 and was listed on NSE and BSE in March 2024.

Consolidated – Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1 FY25 (UA)
Total operating income	1,177.08	1,389.08	327.68
PBILDT	86.39	114.72	30.97
PAT	47.52	74.31	7.30
Overall gearing (times)	1.68	0.89	1.03
Interest coverage (times)	5.24	4.57	1.84

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: India Ratings has conducted the review on the basis of best available information on account of inadequate information and has classified MPL as "Not cooperating" vide its press release dated September 12, 2024

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	360.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	360.00	CARE BBB+; Stable / CARE A2	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-CC/Packing Credit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ocean Aquatic Proteins LLC	Full	Operational and managerial linkages
2	Atlantic Marine Products Private Limited	Full	
3	Haris Marine Products Private Limited (HMPPL)	Full	
4	MSFI (Bangladesh) Ltd.	Proportionate[1]	
5	Ocean Proteins Private Limited	Proportionate	
6	Ento Proteins Private Limited (EPPL)	Proportionate[2]	
7	Progress Frozen and Fish Sterilizetion	Proportionate	
8	Pacific Marine Products	Proportionate	
9	Ullal Fish Meal and Oil Company	Proportionate	
10	Mangalore Fish Meal and Oil Company	Proportionate	

Above table is as on Mar 31, 2024.

[1] MPL has sold its entire stake in MSFI (Bangladesh) Limited and consequent to the said disinvestment, MSFI (Bangladesh) Limited ceased to be an associate company of MPL w.e.f. Dec 17, 2024.

[2] During the quarter ending Sept 2024, MPL has acquired additional equity shares of EPPL resulting in increase in its shareholding in EPPL from 50% to 74%, making it a Subsidiary of the Company w.e.f. Sep 27, 2024

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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