

Mindhola Foods LLP

December 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	28.94 (Reduced from 34.27)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	34.00 (Enhanced from 24.00)	CARE B+; Stable / CARE A4 (Single B Plus ; Outlook: Stable/ A Four)	Reaffirmed
Short Term Bank Facilities	0.10	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	63.04 (₹ Sixty-Three Crore and Four Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings to the bank facilities of Mindhola Foods LLP (MFLP) continue to be constrained on account of MFLP's presence in a fragmented and seasonal sea food processing industry, with associated regulatory risks, susceptibility to foreign exchange rate fluctuations, fluctuating scale of operations and declining profitability, moderate capital structure and debt coverage indicators and stretched liquidity

The ratings, however, favourably consider partners' experience and presence of group entities in the seafood processing business, locational advantages and certification for export of marine products.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Growth in scale with TOI of above Rs.300 crore on sustained basis combined with healthy PBILDT margin
- Improvement in overall gearing to less than 2 times on sustained basis
- Improvement in liquidity resulting in reduction on reliance on external debt for working capital requirements

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in total operating income by more than 20% from present levels.
- PBILDT Margin falling below 8% on sustained basis.
- Withdrawal of funds infused by group entities adversely impacting liquidity.

Detailed description of the key rating drivers

Key rating weaknesses

Presence in a fragmented and seasonal sea food processing industry with associated regulatory risks

The seafood market is characterized by high level of fragmentation, along with seasonality and regulatory risks. Apart from severity of regulations, adverse seasonal conditions, lack of quality input and feed and diseases continue to pose risk to the seafood industry. Further, due to less technological intensity of the industry, the entry barriers are also low resulting in higher number of players. In the export markets, Indian seafood manufacturers face stiff competition from China and many South-East Asian nations. However, MFLP benefits to some extent owing to presence in hatcheries in group entities which ensures regular and good quality supply of raw material and firm also has an in-house laboratory assuring usage of healthy shrimps.

Declining profitability along with susceptibility to foreign exchange fluctuation risk

In FY22, profitability of the MFLP declined significantly marked by PBILDT margins of 5.87% (PY: 11.98%) driven by surge in the freight cost for the exports which the firm was not able to pass on timely basis to the customers. As a result, PAT margin also declined to 0.88% (P.Y: 3.59%). The gross cash accruals moderated to Rs.8.43 crores in FY22 as against Rs.13.47 crore in FY21. MFLP's derives majority of its total operating income is by way of exports and this exposes its operating profitability to adverse movement in forex rates. Further, MFLP does not hedge any of its foreign currency exposure.

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

Fluctuating scale of operations

During FY22, Total Operating Income (TOI) of the firm rose by 38.87% y-o-y basis to Rs. 214.90 crore in FY22 as against Rs.154.80 crore in FY21, mainly on account of demand pickup to the pre-covid in international market. The majority of total operating income (TOI) was from exports sales of which ~Rs.202 crore was from sales of prawns and ~Rs.5 crore from license sales. The improvement in top line gets off set by dip in the profitability due to surge in shipping costs.

Moderate capital structure and debt coverage indicators

MFLP's capital structure stood moderate with an overall gearing of 3.44 times as on March 31, 2022 as against 4.28 times as on March 31, 2021. The firm has availed unsecured loans from group entities of Rs.26.86 crore as on March 31, 2022 to fund the operational and financial requirements. Debt coverage indicators demerited with total debt to GCA of 9.88 times as on March 31, 2022 (6.29 times as on March 31, 2021) due to significant decline in the GCA level vis-a-vis total debt. Further, its PBILDT interest coverage moderated at 2.95 times in FY22 as against 3.61 times in FY21.

Key rating strengths**Experience of its promoters and presence of group entities in the seafood processing business**

Mr. Hetal Patel, partner at MFLP has a master degree in Aquatic Biology (M.Sc) and has an experience of around two decade in seafood processing business through other group entities engaged in similar field of business. Mrs. Shoryata Patel, another partner also looks after the admin function of firm. Further, the promoters group entities, engaged in similar line of business, have demonstrated their support towards MFLP by way of infusion of unsecured loans (USL) for operational and financial requirement of the firm. As on March 31, 2022, the outstanding USL stood at Rs.26.86 crore.

Proximity to marine products procurement area

MFLP processing plant is located at on the bank of river Mindhola, near Palsana in Gujarat where the shrimp nurseries are located close to the Arabian Sea where the natural availability of nutrient rich water provides for unique flavours of the shrimps produced. MFLP purchases shrimps from nearby farmers cultivating shrimps and other seafood products and processes the same in its factory premises with different shapes and flavours for exports.

Certified for export of marine products

MFLP processing unit is certified by United States Food and Drug Administration (USFDA), Food Safety System Certification (FSSC), its products hold a British Retail Consortium (BRC) certification. BRC certification allows MFLP to sell its ready-to-eat products directly in the European supermarkets and malls. MFLP sells its products under the brand name Oceanus.

Liquidity: Stretched

The liquidity of the firm stands stretched marked by high working capital utilization (including requirement for availment of temporary overdraft with high requirements during peak seasons), though gross cash accruals remain adequate vis-à-vis debt repayment obligations. Firm has repayment obligations in the range of Rs.4-5 crore for FY23-FY25 which are expected to be met out of its cash accruals and group entity support whenever needed. Operating cycle of the firm remained moderate at 94 days with inventory days remaining higher at 112 days.

Analytical approach: Standalone**Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company

Incorporated in October 2017, Mindhola Foods LLP (MFLP) is a limited liability partnership firm (LLP) which commenced operations in May 2019. MFLP is engaged in processing of sea foods and exports frozen marine products primarily to China, Japan, UAE, New Zealand and some Middle East countries. MFLP has a processing cum storage facility located at Palsana (Gujarat) with total installed capacity of 75 metric tonne per day (MTPD) for processing and freezing of shrimps. MFPL sells its products under the brand name Oceanus.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (P)
Total operating income	154.76	214.92	80.64
PBILDT	18.54	12.61	NA
PAT	5.55	1.89	NA
Overall gearing (times)	4.28	3.44	NA
Interest coverage (times)	3.61	2.95	NA

A: Audited; P: Provisional; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	31-12-2026	18.94	CARE B+; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	34.00	CARE B+; Stable / CARE A4
Non-fund-based - ST-Credit Exposure Limit		-	-	-	0.10	CARE A4

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	34.00	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (04-Jan-22)	1)CARE B-; Stable / CARE A4 (20-Jan-21)	-
2	Fund-based - LT-Term Loan	LT	18.94	CARE B+; Stable	-	1)CARE B+; Stable (04-Jan-22)	1)CARE B-; Stable (20-Jan-21)	-
3	Non-fund-based - ST-Credit Exposure Limit	ST	0.10	CARE A4	-	1)CARE A4 (04-Jan-22)	1)CARE A4 (20-Jan-21)	-
4	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable	-	1)CARE B+; Stable (04-Jan-22)	1)CARE B-; Stable (20-Jan-21)	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-CC/Packing Credit	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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