

Magnum Sea Foods Limited

June 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	3.40	CARE BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BBB-; ISSUER NOT COOPERATING (Triple B Minus; ISSUER NOT COOPERATING) on the basis of best available information
Short term Bank Facilities	60.30	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE A3; ISSUER NOT COOPERATING (A Three; ISSUER NOT COOPERATING) on the basis of best available information
Total Facilities	63.70 (Rs. Sixty Three Crore and Seventy Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated January 3, 2018, placed the ratings of Magnum Sea Foods Limited (MSFL) under the 'issuer non-cooperating' category as MSFL had failed to provide information for monitoring of the rating and had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. MSFL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated April 25, 2019. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The ratings have been revised on account of lack of substantial information, i.e. operational and financial performance and future growth strategy leading to inability to assess the credit risk profile of the company.

The ratings are constrained by the highly fragmented nature of the industry with low entry barriers, intense competition in the export market, dependence on government support in the form of export incentives, seasonal nature of the industry, geographical concentration risk and inherent risk associated with seafood industry.

The ratings also factor in the experience of the promoters in the sea food industry, established client base and procurement network with proximity to raw material sources and approved processing facility. The ratings also take into account the moderate profitability and capital structure.

Detailed description of the key rating drivers

The ratings have been revised on account of lack of substantial information, i.e. operational and financial performance and future growth strategy leading to inability to assess the credit risk profile of the company.

At the time of last rating on January 3, 2018, the following were the rating strengths and weaknesses (Updated for the information available from Registrar of Companies):

Key Rating Weaknesses

Highly fragmented industry with low entry barriers as well as competition in the export market: The group faces stiff competition from other unorganized players in the domestic market. The industry is fragmented with low entry barriers. Apart from India, the group also faces competition internationally; keeping the profit margins under check.

Dependence on government support in the form of export incentives: The government provides various benefits to the entities operating in the export of marine seafood. The profitability is sensitive to the various fiscal incentives provided to promote exports.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Inherent risk associated with the seafood industry: The seafood market is characterized by uncertainty, which is more pronounced in supply side than from demand side. Various regulations posed threat to the Indian Sea Food industry previously. Further, the industry is seasonal in nature.

Geographical concentration risk: The top five countries of export had accounted for more than 80% of the total sales in FY16 (refers to the period April 1 to March 31), exposing the group's revenue to geographical concentration risks.

Key Rating Strengths

Experienced promoters in the sea food industry: Mr. Ramesh Mahapatra, Chairman of MSFL and its group company Magnum Estates Pvt Ltd (MEPL), has experience of more than two decades in the sea food industry.

Long standing relationship with clients: The group exports shrimps and cooked prawn to various countries including Canada, U.S.A, Belgium, Japan and Vietnam. It had established relationship with its clients.

Established procurement network with proximity to raw material sources and approved processing facility: MSFL's plant, which also does processing for MEPL, is located around 150 km distance from the raw material (shrimp) procurement area which gives it a locational advantage in terms of easy and cost effective procurement. The processing and storage facilities of MSFL are approved by The Marine Products Export Development Authority (MPEDA). The processing facility of the company is also approved by Hazard Analysis Critical Control point (HACCP) regulated by USFDA, European Union and Canadian Fish Inspection Agency (CFIA).

Moderate profitability margins and capital structure: The PBILDT margin is moderate due to lower margins products mixed and intense competition from international players. Combined overall gearing of MSFL and MEPL deteriorated to 0.57x as on March 31, 2018 as compared to 0.16x as on March 31, 2017.

Analytical approach: Combined

CARE has taken a combined view of MEPL and MSFL for arriving at the ratings due to operational linkages, common management and similar line of business of the companies.

Applicable Criteria

Policy in respect of Non-cooperation by issuer

CARE's Policy on Default Recognition

CARE's methodology for manufacturing companies

Financial ratios – Non-Financial Sector

Criteria for Short Term Instruments

Rating Methodology: Factoring Linkages in Ratings

About the Company

MSFL was promoted by Mr. Ramesh Mahapatra in the year 2002. The company is engaged in processing and export of sea food, primarily Vannami and black tiger prawns. MSFL has its own sea food processing plant at Botanda, Jankia, Orissa, with a processing capacity of 64 Metric Tonne Per Day (MTPD) and a cold storage capacity of 3,628 metric tonne. MEPL is also engaged in processing and export of sea food. MEPL has two aqua farms with 45 ponds, spread over an area of around 150 acres, for culturing of prawns. The company also has its own pre-processing plant, including an ice-making plant at Naupalgadi, Balasore.

Brief Financials-MSFL (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	242.08	233.53
PBILDT	11.39	14.47
PAT	4.44	6.86
Overall gearing (times)	0.19	0.61
Interest coverage (times)	3.81	6.09

A: Audited

Status of non-cooperation with previous CRA: ICRA has suspended its ratings vide press release dated June 2014 on account of inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2020	3.40	CARE BB+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB-; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - ST-PC/Bill Discounting	-	-	-	50.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-BG/LC	-	-	-	10.30	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3; ISSUER NOT COOPERATING* on the basis of best available information

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	3.40	CARE BB+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB-; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE BBB-; ISSUER NOT COOPERATING* (03-Jan-18)	1)CARE BBB- (13-Sep-16)
2.	Fund-based - ST-PC/Bill Discounting	ST	50.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE A3; ISSUER NOT COOPERATING* (03-Jan-18)	1)CARE A3 (13-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	10.30	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE A3; ISSUER NOT COOPERATING* (03-Jan-18)	1)CARE A3 (13-Sep-16)

*Issuer did not cooperate; Based on best available information

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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