

Ulka Sea Foods Private Limited

March 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short-term Bank Facilities	50	CARE A3 (A Three)	Reaffirmed
Term Loan	-	-	Withdrawn
Total Facilities	50 (Rupees Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The rating assigned to the bank facilities of Ulka Sea Foods Private Limited (USL) continues to derive strength from its established track record of operations for more than a decade, experience of the promoters in the seafood processing industry, continuous financial support extended by the promoters in the past and strategic tie-up with suppliers and approved processing facilities located in proximity to the fish procurement area.

The rating, however, continues to be constrained by competitive nature of the industry coupled with foreign exchange fluctuation risk. The rating also factors in the low profit margins as well as moderate capital structure and debt coverage indicators.

USL's ability to increase its scale of operations along with improvement in profitability and capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' significant experience coupled with financial support: Mr Gorakh Rohakale, Mr Jalindar Rohakale and Mr Raju Rohakale are directors of USL. Mr Gorakh Rohakale has around 28 years of experience in the fishing business. Mr Jalindar Rohakale and Mr Raju Rohakale have more than 8 years of experience in the seafood industry and looks after marketing functions and day-to-day operations. The promoters had infused Rs.8 crore in FY13 and again Rs.6.13 crore in FY16 (refers to the period April 1 to March 31), to support the company's capital requirements.

Strategic tie-up with suppliers: The company has strategic tie-up with promoters' firms for supply of raw materials, which accounts for more than 35% its total purchases, thereby securing the raw material availability to that extent. During FY16, purchases from the promoters stood at Rs.99.82 crore as against total raw material purchases of Rs.265.79 crore.

Moderate capital structure and coverage indicators: The capital structure remained moderate with overall gearing at 1.44x as on March 31, 2016. The increase in overall gearing is primarily on account of the promoters infusing Rs.6.13 crore by way of unsecured loans to support the working capital requirements. Total debt to GCA remained stable at 6.26x whereas Interest coverage improved to 4.60x as against 2.58x in FY15 on the back of lower interest outgo.

Furthermore, out of the total outstanding debt as on March 31, 2016, 26.6% was in the form of unsecured loan from the promoters.

Stable operating cycle: The working capital cycle has marginally stretched to 33 days during FY16 from 27 days in FY15 on the back of higher credit period offered to customer due to competitive business environment.

Key Rating Weaknesses

Volatility in input prices & foreign exchange fluctuation risk: Sea food processing is a raw material intensive business as it accounts for more than 85% of the total costs, thereby rendering price of the final product vulnerable to volatility in raw material prices.

USL receives its revenues from exporting products to more than 25 countries. Exports to Asian and European countries together accounted for more than 85% of the total revenues. Despite exporting to various countries, 97% of the billing is

done in USD. USL hedges 50% of its receivables thereby keeping the company exposed to the foreign currency fluctuation risk for the balance.

Industry Risk: The seafood market is characterized by uncertainty, which is more pronounced in supply than in demand. The increased severity of regulations on excessive fishing has rendered supply more irregular. Furthermore, the processing of marine food is a low value added activity resulting in low entry barriers. As a result, the company has to compete with many small players in the region, restricting growth in its operating margin. In the export markets, Indian seafood manufacturers face stiff competition from China and many South-East Asian nations.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Policy on Withdrawal of ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial Ratios-Non Financial Sectors](#)

About the Company

Incorporated in 2003, Ulka Sea Foods Private Limited (USL) was promoted by Rohkale family. USL is engaged in surimi fish production & processing of the seafood (primarily fish). USL primarily exports to Russia, Europe and other south-east ASIAN countries. The company procures fish from fishermen operating in western coastline of India. The procurement and selling of USL are aided by the rich experience of promoters in the sea foods industry. USL has three manufacturing facilities (all in Mumbai) which are approved by Hazard Analysis Critical Control Point (HACCP) and are also certified by European Union (EU). USL has a plant located at Taloja, MIDC with installed capacity of 700 Metric Tonnes Per Day (MTPD).

For FY16, USL reported PAT of Rs.3.54 crore on total income of Rs.321.87 crore as compared to PAT of Rs.1.94 crore on total income of Rs.292.20 crore in FY15. For 8MFY17 (refers to the period April 01 to November 30), USL reported a PAT of Rs.3.48 crore on total income of Rs.247.05 crore.

Status of non-cooperation with previous CRA: Not Applicable

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

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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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	-	-	-	0.00	Withdrawn
Fund-based - ST-EPC/PSC	-	-	-	50.00	CARE A3

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB- (13-Apr-16)	1)CARE BBB- (13-Apr-15)	1)CARE BBB- (10-Apr-14)	1)CARE BBB- (09-Apr-13)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	1)Withdrawn (13-Apr-16)	1)CARE A3 (13-Apr-15)	1)CARE A3 (10-Apr-14)	1)CARE A3 (09-Apr-13)
3.	Fund-based - ST-EPC/PSC	ST	50.00	CARE A3	1)CARE A3 (13-Apr-16)	1)CARE A3 (13-Apr-15)	1)CARE A3 (10-Apr-14)	1)CARE A3 (09-Apr-13)

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