Milesh Marine Exports Private Limited

February 20, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	3.03 # (Reduced from Rs.4.10 crore)	IVR BBB-; Negative (IVR Triple B Minus with Negative outlook)	Reaffirmed with revision in outlook from Stable to Negative	Simple
Long Term Bank Facilities – Term Loan	26.00 ^	IVR BBB-; Negative (IVR Triple B Minus with Negative outlook)	Assigned	Simple
Long Term Bank Facilities – Packing Credit	48.00	IVR BBB-; Negative (IVR Triple B Minus with Negative outlook)	Reaffirmed with revision in outlook from Stable to Negative	Simple
Long Term Bank Facilities – Standby Line of Credit	7.60	IVR BBB-; Negative (IVR Triple B Minus with Negative outlook)	Reaffirmed with revision in outlook from Stable to Negative	Simple
Short Term Bank Facilities – Bill discounting	23.00	IVR A3 (IVR A Three)	Reaffirmed	Simple
Short Term Bank Facilities – Letter of Credit	1.00	IVR A3 (IVR A Three)	Reaffirmed	
Total	**108.63 (Rupees One hundred and eight crore and sixty-three lakhs only)**			

#Outstanding as on December 31, 2023
^Rs.4.59 crore disbursed till December 31, 2023

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Milesh Marine Exports Private Limited (MMEPL) continues to derive strength its experienced promoters, benefits emanating from favourable location of its plant and accredited manufacturing facilities. Also, the ratings consider its stable business performance; albeit moderation in top line in FY2023. However, these rating strengths remain constrained by its leveraged capital structure with moderate debt coverage indicators in FY2023 coupled with exposure to project execution risk with respect to the ongoing capex, elongated working capital cycle and susceptibility of profitability to volatile raw material prices. The ratings also note its exposure to foreign currency fluctuation risk and intense competition. The outlook has been revised from stable to negative due to expected moderation in liquidity position attributable to ongoing capex with respect to sizeable debt funded capacity expansion plan.

Key Rating Sensitivities:

Upward factors

- Significant improvement in top line and overall profitability resulting in improvement in debt coverage indicators with interest coverage ratio stood above 3x on a sustained basis.
- Improvement in capital structure with reduction in overall gearing to below 1.50 times.
- Improvement in working capital cycle leading to improvement in liquidity position.
- Timely completion of ongoing capex without any cost/time overrun along with ramping up of operations from the new enhanced capacities.

Downward Factors

- Moderation in the scale of operation and/or drop in operating margin to below 6% on a sustain basis leading to moderation in debt protection metrics marked by drop in interest coverage to below 1.5x
- Withdrawal of unsecured loans from promoters/directors aggregating to Rs.15.25 crore impacting the capital structure with deterioration in overall gearing to above 2.50x
- Any further stretch in the operating cycle impacting the liquidity position of the company.
- Any major cost/time overrun in the ongoing project.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

MMEPL is promoted by Mr Baalaje Rau Pattapu who has been associated with the company since its inception and has an experience of over two decades in the aquaculture industry. The vast experience of the promoter in this line of activity has helped the company to gain and maintain long-standing relations with its customers and suppliers. Mr. Baalaje Rau Pattapu looks after the day-to-day operations of the company and is assisted by the other directors - Mr. Milesh Kumar Pattapu (son of Mr. Baalaje Rau Pattapu) and Ms. Narmmada Pattapu (wife of Mr. Baalaje Rau Pattapu) along with a team of experienced professionals down the line.

Favourable location of the processing unit

MMEPL's processing plant is in the prime aquaculture zone by the coastal line of Andhra Pradesh, which enables the company to procure raw materials and process them immediately after harvest. This results in better quality product as well as lower transportation cost. MMEPL procures raw materials from local farmers from across the country majorly from Andhra Pradesh.

Accredited manufacturing facilities

MMEPL's processing unit has certifications from Global Aquaculture Alliance Best Aquaculture Practices (BAP), US Food and Drug Administration (USFDA) and HACCP (Hazard Analysis and Critical Control Points) Standards approvals. This minimises the probability of export rejections for the company.

Stable business performance; albeit moderation in top line in FY2023, however expected to improve going forward

Total operating income (TOI) witnessed a y-o-y decrease from Rs.187.35 crore in FY2022 to Rs.141.12 crore in FY2023 due to decrease in both sales volume and realisations in view of stiff competition from the international market. Notwithstanding the moderation in topline, EBITDA margin increased from 6.77% in FY2022 to 8.09% in FY2023. From FY2023, MMEPL started doing job work for other companies where margins are relatively higher. MMEPL generated a revenue of Rs.4.14 crore in FY2023 through job work. However, due to decrease in absolute EBITDA from Rs.12.68 crore in FY2022 to Rs.11.41 crore in FY2023 and deferred tax adjustments, PAT margin moderated from 1.45% in FY2022 to 1.06% in FY2023. Gross cash accruals also moderated marginally from Rs.5.93 crore in FY2022 to Rs.5.22 crore in FY2023.

MMEPL reported a revenue of Rs.128.83 crore during 9MFY2024 as against a revenue of Rs.99.81 crore during 9MFY2023 driven by increase in both sales volume as well as realisations in the current fiscal year. As a result, operating margin also increased from 7.88% during 9MFY2023 to 8.21% during 9MFY2024. The company's ability to increase its scale of operations while maintaining the margins will be critical from credit perspective.

Key Rating Weaknesses:

Leveraged capital structure with moderate debt coverage indicators in FY2023

The capital structure of the company remained leveraged as on the past three account closing dates marked by its higher dependence on working capital borrowings attributable to its working capital-intensive nature of operations. The overall gearing stood high at 2.25x as on

March 31, 2023, (considering subordinated unsecured loans from promoters and relatives to the tune of Rs.15.25 crore outstanding as on March 31, 2023, as quasi equity) mainly due to higher utilisation of working capital limits. Total indebtedness as reflected by TOL/TNW also remained high at 3.09x as on March 31, 2023. The debt protection metrics of the company remained moderate over the past three fiscals. With decrease in operating profit, the debt coverage indicators also moderated in FY2023 with ICR of 1.94x (1.99x in FY2022), Total debt/EBITDA of 7.50x (5.06x in FY2022) and total debt to GCA of 16.41x (10.82x in FY2022).

Elongated working capital cycle

The company operates in a working capital-intensive industry marked by elongated operating cycle which resulted in higher utilisation in its bank borrowing limits. The company's entire revenue is through exports with USA and China being its prime export destinations. This involves high turnaround time resulting in stretched working capital cycle. The working capital cycle further increased from 144 days in FY2022 to 234 days in FY2023 majorly due to increase in debtors and inventory period. The average utilisation of working capital borrowings also remained high at ~90% during the last twelve months ended December 2023.

Project execution risk with respect to the ongoing capex

MMEPL is in the process of enhancing its existing capacities in view of receipt of orders from new customers. The company is setting up a new unit for manufacture of frozen shrimps with an installed processing capacity of 12,848 MTPA and freezing capacity of 1,500 MT. The estimated cost of the project is Rs.34.85 crore which will be funded through promoter's contribution of Rs.8.85 crore, grant from Ministry of Food Processing Industries (MoFPI) of Rs.10.00 crore and term loan of Rs.16.00 crore. The approval letter for the grant has already been received and the company expects to receive the grant in a phased manner by July 2024. MMEPL has incurred Rs.8.11 crore towards the project till December 14, 2023, which was funded through term loan of Rs.3.80 crore and the balance through promoters' contribution in the form of share application money and unsecured loans. Around 25% of the total project work has been completed till date and the operations are expected to commence from September 2024 onwards. In view of the initial stage of capex execution, there exists project execution risk. Timely completion of project without cost/time overrun along with ramping up of operations from the new enhanced capacities will remain a key rating monitorable going forward.

Susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuations

The profitability of shrimp exporters is susceptible to volatile shrimp prices. It is also exposed to uncertainty related to procurement and prices, as the supply of shrimp from aqua culturists is unpredictable and depends on the demand-supply situation. The availability of shrimps can be impacted by possible outbreak of diseases, which could affect production. Further, since the company's revenue is derived from exports, the profitability of the company is also susceptible to volatility in the foreign exchange fluctuations to the tune of any unhedged forex exposure.

Intense competition in shrimp export business

The shrimp processing and export business in India is highly fragmented with existence of several large and small players. Competition from neighboring countries, such as Thailand, China, and Vietnam, also persists.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy of default recognition

Criteria – Complexity Level of Rated Instruments/Facilities

Liquidity: Adequate

The liquidity of the Company is expected to remain adequate, marked by its sufficient cash accruals as against the long-term debt repayment obligations of Rs.3.06 crore in FY2024, Rs. 1.45 crore in FY2025 and Rs.2.83 crore in FY2026. However, the average fund based working capital utilization for the last 12 months ended December 2023 remained high at ~90%. Furthermore, the ongoing capex is also expected to affect the liquidity position of the company in the near term. Timely infusion of equity by the promoters, disbursement of term loan and receipt of grant from the Ministry for the ongoing capex coupled with completion and commencement of operations of the ongoing project within the scheduled timelines without any cost/time overrun will be critical from credit perspective. Besides, the company also has free cash and cash equivalents of Rs.5.55 crore as on November 30, 2023, which is likely to support the liquidity profile of the company in the near term.

About the Company

Incorporated in December 2012, Milesh Marine Exports Private Limited (MMEPL) is engaged in processing and export of shrimps. The shrimp processing plant of the company is in Krishna district, Andhra Pradesh and has an installed capacity of 12,848 MTPA (capacity of 35.2 MT per day) and freezing capacity of 1,500 MT. MMEPL is a 100% export-oriented unit. The company exports shrimps primarily to USA and China.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	187.35	141.12
Total Income	187.46	141.34
EBITDA	12.68	11.41
PAT	2.71	1.51
Total Debt	64.14	85.61
Tangible Net worth (including quasi equity)	30.05	38.03
EBITDA Margin (%)	6.77	8.09
PAT Margin (%)	1.45	1.06
Overall Gearing Ratio (x)	2.13	2.25

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Term Loan	Long Term	3.03 # (Reduced from Rs.4.10 crore)	IVR BBB-/Negative	IVR BBB-/Stable (December 26, 2022)	-	-
2	Term Loan	Long Term	26.00 ^	IVR BBB-/Negative	-	-	-
3	Packing Credit	Long Term	48.00	IVR BBB-/Negative	IVR BBB-/Stable (December 26, 2022)	-	-
4	Standby Line of Credit	Long Term	7.60	IVR BBB-/Negative	IVR BBB-/Stable (December 26, 2022)	-	-
5	Bill discounting	Short Term	23.00	IVR A3	IVR A3 (December 26, 2022)	-	-

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
6	Letter of Credit	Short Term	1.00	IVR A3	IVR A3 (December 26, 2022)	-	-

#Outstanding as on December 31, 2023
^Rs.4.59 crore disbursed till December 31, 2023

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	June 16, 2028	3.03 # (Reduced from Rs.4.10 crore)	IVR BBB- /Negative
Term Loan	-	-	March 30, 2032	26.00 ^	IVR BBB- /Negative
Packing Credit	-	-	-	48.00	IVR BBB- /Negative
Standby Line of Credit	-	-	-	7.60	IVR BBB- /Negative
Bill discounting	-	-	-	23.00	IVR A3
Letter of Credit	-	-	-	1.00	IVR A3

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Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Milesh-Marine-feb24.pdf

Annexure 3: List of companies/Entities considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.