

Rating Rationale

Mangala Sea Foods

26th March 2018

Brickwork Ratings reaffirms BWR BB/ A4 for Mangala Sea Foods' bank loan facilities aggregating Rs. 16.00 Crs

Particulars

| Facility Rated | Amounts (Rs. Crs) | | Tenure | Rating ^ | |
|---|--|---------------------|------------|------------------------------|---|
| | Previous~ | Present# | | Previous 21 February 2017 | Present |
| Fund Based Working Capital Term Loan | 9.00 1.82 | 10.00 --- | Long Term | BWR BB Outlook : Stable | BWR BB (Pronounced BWR Double B) Outlook : Stable Reaffirmed |
| Fund Based FBP/ FBD | 10.00 | 5.00 | Short Term | BWR A4 | BWR A4 (Pronounced BWR A Four) Reaffirmed |
| Non Fund Based Bank Guarantee | --- | 1.00 | | | |
| Total | 16.00 (INR Sixteen Crores Only) | | | | |

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure-I provides details of bank facilities

~Facilities were from State Bank of India, which have been liquidated and taken over by South Indian Bank.

Ratings Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of Mangala Sea Foods ('MSF' or the Firm) upto FY17, provisional financial statements for 10MFY18, projected financial statements upto FY19, publicly available information and information/clarifications provided by the management.

The ratings continue to draw comfort from the experienced management and synergies derived from the Kerala based Mangala Group, partners' experience in the marine product export business and locational advantages. The ratings are, however, constrained by the modest scale of operations, volatile profitability, stressed liquidity, intense competition from more established players, risks arising from foreign exchange fluctuations, dependence on overall export regulations and working capital intensive operations.

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Going forward, the firm's ability to expand its scale of operations thereby improving turnover and profitability, maintain strong supply chain management and quality control, strengthen its credit profile and manage working capital efficiently would be the key rating sensitivities.

Analytical approach

While assigning the ratings, BWR has taken a consolidated view of the business and financial profile of Mangala Marine Exim India Private Limited, Blue Water Foods and Exports Pvt. Ltd. and Mangala Sea Foods collectively referred to as the Mangala Group, because of the commonality in management and operational linkages. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Key Rating drivers

- **Partners' experience**

The partners of Mangala Sea Foods have extensive experience in the processing and export of sea foods (cuttlefish and shrimp).

- **Group Synergy**

Related entities in the Group are engaged in a similar line of activity. MSF derives operational and technical synergies from the larger Group entities. The Mangala Group has an established track record since around two decades in this business.

- **Locational Advantages**

Mangala Sea Foods is based at Kochi, Kerala. The location favors the sea foods export business in terms of sourcing of raw material and easier export and supply chain management via sea.

- **Modest Scale of Operations**

MSF achieved Revenue from Operations of Rs. 62.78 Crs for FY16 and Rs. 56.15 Crs for FY17. Sales were impacted in FY17 due to the effect of additional quality checks imposed on cargo imported by European countries. On a provisional basis, the firm has achieved Revenue from Operations of Rs. 71.55 Crs for 10MFY18.

- **Average financial risk profile**

The firm's liquidity is strained indicated by the current ratio of 0.65 times as on 31/3/2016 and 0.76 times as on 31/3/2017. Debt servicing capacity is moderate reflected by ISCR of 2.44 times and DSCR of 1.30 times in FY17. MSF has a moderate level of gearing- Total Debt/ Partners' Capital was 1.01 times as on 31/3/2017. In FY17, days inventory were 41 days and days receivables were 18 days. Also MSF has volatile net profit margin as a result of demand driven business.

- **Competition from established players**

The marine exports industry is highly competitive and fragmented. The firm faces competition from other established players in the industry.



- **Risks from foreign exchange fluctuations**

The firm is susceptible to risks arising from changes in foreign exchange rates as its finished products are exported to clients based abroad. Foreign exchange fluctuations have a direct bearing on the profitability of the firm.

- **Regulatory intervention**

MSF is competing in an industry which is regulated by import-export policies and allied regulations. Another major risk which the firm faces is the regulations pertaining to quality of the finished products.

Rating Outlook : Stable

BWR believes that Mangala Sea Foods' business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

About the Firm

Mangala Sea Foods is a partnership firm established in 2009 at Kochi, Kerala. The firm is part of the 'Mangala Group' and is engaged in the processing and export of sea foods (shrimp and cuttlefish) to customers based in USA, UK, France and Italy. MSF also supplies to domestic clients. The processing plant is located at Alleppey in Kerala and the marine foods are procured from nearby coastal areas.

The other Group entities - 'Mangala Marine Exim India Private Ltd.' (rated BWR BBB-/ A3 as on 5 February 2018) and 'Blue Water Foods & Exports Pvt. Ltd.' (rated BWR BBB-/ A3 as on 21 November 2017) are also engaged in similar line of activity.

Financial Performance

MSF reported Revenue from Operations of Rs. 56.15 Crs for FY17 as against Revenue from Operations of Rs. 62.78 Crs in FY16. Net profit was Rs. 0.96 Crs for FY17 and Rs. 1.13 Crs for FY16. Partners' Capital, Net profit margin and gearing were Rs. 9.26 Crs, 1.58% and 1.01 times respectively as on March 31 2017. MSF reported Revenue from Operations of Rs. 71.55 Crs as on a provisional basis for 10MFY18.

Key financial indicators are furnished in Annexure II.



Rating History for the last three years:

| Instrument/ Facility | Current Rating (March 2018) | | | Rating History | | |
|--|-----------------------------|---------------------|---|--|---|---|
| | Type | Amount (Rs. Crs) | Rating | 21 February 2017 ^{^^^} | 17 March 2016 ^{^^} | 26 February 2015 [^] |
| Fund Based Working Capital | Long Term | 10.00 | BWR BB (Outlook: Stable) Reaffirmed | BWR BB (Outlook: Stable) Upgraded | BWR BB- (Outlook: Stable) Reaffirmed | BWR BB- (Outlook: Stable) Assigned |
| Fund Based FBP/ FBD | Short Term | 5.00 | BWR A4 Reaffirmed | BWR A4 Assigned | NA | NA |
| Non Fund Based Bank Guarantee | | 1.00 | | | | |
| Total: | | 16.00 | INR Sixteen Crores Only | | | |

[^]Amount rated was Rs. 12.79 Crs

^{^^}Amount rated was Rs. 11.70 Crs

^{^^^}Amount rated was Rs. 20.82 Crs

Hyperlink/Reference to applicable Criteria:

[General Criteria](#)

[Trading Entities](#)

[Group Support](#)

[Short Term Debt](#)

[Approach to Financial Ratios](#)

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Mangala Sea Foods

Annexure I – Details of Rated Facilities

| Bank Facilities* | LT/ ST | Bank | Rated Amount (Rs. Crs) |
|---|---------------|------------------------------------|-----------------------------------|
| <u>Fund based</u> Packing Credit | LT | South Indian Bank, Aroor Branch | 10.00 |
| <u>Fund based</u> Foreign Bills Purchased | ST | | 5.00 |
| <u>Non Fund based</u> Bank Guarantee | | | 1.00 |
| | | | 16.00 |

*Additionally, the firm also has a Forward Contract Limit of Rs. 25 Crs and Foreign Bills Purchased (LC) facility of Rs. 10 Crs sanctioned from SIB (Aroor), which have not been rated by BWR, at the request of the company.

Annexure II - Key Financial Indicators

| Particulars | FY2016 (A) | FY2017 (A) |
|---|-------------------|-------------------|
| Revenue from Operations (Rs. Cr) | 62.78 | 56.15 |
| EBITDA (Rs. Cr) | 4.25 | 3.25 |
| PAT (Rs. Cr) | 1.13 | 0.96 |
| Partners' Capital (Rs. Cr) | 9.14 | 9.26 |
| Total Debt : Partners' Capital (Times) | 1.53 | 1.01 |
| Current Ratio (Times) | 0.65 | 0.76 |



For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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