

April 25, 2017

Janatha Fish Meal & Oil Products

Summary of rated instruments

Instrument	Amount (Rs. crores ¹)	Rating action
Long-term – fund-based (Cash Credit)	33.25	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Long-term – fund-based (Term Loan)	4.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Short-term – non-fund based	3.00	[ICRA]A3+; Upgraded from [ICRA]A3
Total	40.25	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating from [ICRA]BBB- (pronounced ICRA triple B minus)2 to [ICRA]BBB (pronounced ICRA triple B) for the Rs. 33.25-crore cash-credit and Rs. 4.00-crore term-loan facilities of Janatha Fish Meal & Oil Products (JFM). The outlook on the long-term rating is stable. ICRA has also upgraded the short-term rating from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 3.00-crore short-term non-fund based facilities of the firm.

Rationale

ICRA's ratings upgrade takes into account the significant revenue growth witnessed in FY2017 driven by increase in production and sales volume aided by increased availability of raw fish coupled with increase in sales of traded goods. The ratings upgrade favourably considers the healthy net cash accruals aided by strong margins, support provided by the promoters in the form of equity infusion resulting in improvement in capital structure and favourable debt protection metrics. The ratings continue to factor in the long experience of the promoters in the fish meal and oil products business, the firm's reputed client base and the proximity of the unit to India's west coast thereby facilitating easy and timely procurement of raw materials.

The ratings, however, are constrained by high customer concentration risk with the top-five customers contributing to about 70% of the total revenue during 9MFY2017. The business remains vulnerable to changes in the agro-climatic conditions that may affect the material availability and also to foreign currency fluctuations as it derives about 20-30% of its revenues from exports. However, the firm benefits from natural hedge to the extent of its imports. The firm also hedges its exposure using forward contracts and PCFC facilities to an extent. The firm is also exposed to the inherent risks associated with the partnership nature of business including risk of capital withdrawal and limited ability to raise funds, among others.

¹ 100 lakhs = 1 crore = 10 millions

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- Long experience of the promoters in the fish meal and oil-manufacturing business
- Proximity to west coast ensures adequate fish supply with low delivery time and transportation cost
- Strong growth in revenues witnessed in 9MFY2017
- Reputed clientele consisting of Avanti Feeds Limited, Charoen Pokphand (India) Private Limited and Godrej Agrovet Ltd. among others
- Financial profile characterised by healthy margins, comfortable gearing and coverage indicators; capital structure is supported by continuous infusion of capital by the promoters
- High demand for fish meal and fish oil in the domestic market as well as export markets supports growth prospects in the near to medium term

Credit weaknesses

- Revenues and margins remain vulnerable to changes in the agro-climatic conditions that may affect the material availability and costs
- High competitive intensity with commoditised nature of product
- High customer concentration risk with top-five customers contributing to about ~70% of total revenues in 9M2016-17
- Significant revenue from exports expose the firm to foreign currency fluctuation risk, however, the firm enjoys natural hedge to the extent of imports and the firm also hedges around 60% of its exposure using PCFC and forward contracts
- Inherent risk associated with the partnership nature of business

Description of key rating drivers:

JFM is engaged in manufacturing of fish meal and fish oil and is primarily dependent on the availability of marine fish sea-catches for its production. In FY2017, with increased availability of raw fish and additional import of finished goods the production and sales volumes witnessed strong growth. The operating income witnessed a growth of ~50% from Rs. 216.28 crore in FY2016 to Rs. 325.00 crore in FY2017. The operating margins have improved over the years and the firm reported operating margins of 7.75% and 7.06% in FY2016 and 9MFY2017, respectively. The decline in operating margins in FY2017 was due to increased managerial remuneration; however, the remuneration remains undrawn in the business. The seafood industry is characterised by the presence of a large number of players manufacturing fish meal and fish oil. This makes procurement of the best quality fish difficult for all players and also limits the players' pricing flexibility. However, due to proximity of the firm's manufacturing plant to India's west coast, it benefits from easy and timely procurement of raw materials in addition to lower transportation cost.

The fish meal is used as an ingredient in manufacturing fish and poultry feeds and fish oil finds its application in the pharmaceutical industry. With aqua-culture sector witnessing growth in the recent years, the demand for fish meal has also been on the rise. However, the sea-food business is seasonal in nature and the availability of fish is susceptible to climatic conditions and regulations imposed by the government. The ratings are constrained by the high customer concentration of the firm, with top-five customers contributing to about 75% of the total revenue during 9MFY2017. However, the firm enjoys long relationship with many reputed customers like Avanti Feeds Limited, Charoen Pokphand (India) Private Limited, Godrej Agrovet Ltd, Growel Feeds Pvt. Limited etc, mitigating the risk of order volatility to an extent. The firm derives 20-30% of its revenues from exports. The sizeable amount of exports exposes the firm to foreign currency fluctuation risks. However, the firm benefits from the natural

hedge to the extent of imports, apart from which it hedges its exposure using forward contracts and packing credit in foreign credit (PCFC) facilities.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating –A Note on Methodology](#)

About the company:

Established in 1989, Janatha Fish Meal & Oil Products (JFM), is engaged in manufacturing of fish meal and fish oil – which are primarily used as raw material (along with maize and soya) for aqua-feed manufacturing. The firm's plant is located in Kota, Udupi district of Karnataka, with an installed crushing capacity of 750 tonnes per day. The firm procures its raw material - raw fish - from the local agents and sells fish meal and oil in the domestic as well as international markets.

As per provisional results for 9MFY2017, the firm reported a net profit of Rs. 7.05 crore on an operating income of Rs. 253.91 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				April 2017	April 2016	February 2015	-
1	Cash Credit	Long Term	33.25	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loan	Long Term	4.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
3	Non fund based	Short Term	3.00	[ICRA]A3+	[ICRA]A3	[ICRA]A3	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument details

Name of the instrument	Date of issuance/ sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	33.25	[ICRA]BBB (Stable)
Term Loan	September, 2013	-	September, 2020	4.00	[ICRA]BBB (Stable)
Non fund based	-	-	-	3.00	[ICRA]A3+



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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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