

Press Release

25 July, 2017

Karavali Ocean Products Private Limited

Rating Reaffirmed



| | |
|--------------------------------------|-----------------------------|
| Total Bank Facilities Rated * | Rs. 14.00 crore |
| Long Term Rating | SMERA BB- / Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 14.00 crore bank facilities of Karavali Ocean Products Private Limited (KOPPL). The outlook is '**Stable**'.

Incorporated in 2011, KOPPL, part of the Karnataka-based Karavali Group is engaged in the processing and export of seafood to US, Canada, China, Thailand, Middle East, South East and Asian countries. The company's storage capacity is 1080 MT while the freezing capacity stands at 73 metric tons per day.

Key Rating Drivers

Strengths

- **Experienced promoters**

The promoter, Mr. Lohith Kumar and Mr. Udaya Shetty possess over a decade of experience in the sea food industry.

- **Comfortable profitability**

The group has reported decline in operating margin (EBITDA) of 3.82 percent for FY2015-16 from 4.19 percent in FY2014-15 on account of increase in employee cost. However, in FY2017 (Provisional), the operating margin improved to ~6.51 per cent on account of automisation and economies of scale.

- **Moderate financial risk profile**

The financial risk profile is moderate with relatively high gearing (debt-equity ratio) of 2.77 times as on 31 March, 2016 as against 2.18 times in the previous year. However, the gearing improved to 2.11 times (Provisional) on account of decline in long term loans in FY2017. Further, the gearing is expected to remain high at ~2.50 due to debt funded capex of ~Rs. 6.50 crore. The group is in the process of increasing storage capacity from 72 metric ton per day to 102 metric ton per day at a total cost of around Rs. 6.50 crore to be funded through a term loan of Rs. 6.50

The interest coverage ratio (ICR) stood at 2.89 times in FY2016-17 (Provisional) as against 2.64 times for FY2015-16 and 3.78 times in FY2014-15. Further, the debt service coverage ratio (DSCR) stood at 2.69 times for FY2016-17 (Provisional) as against 2.56 times for FY2015-16 and 3.33 times in FY2014-15.

Weaknesses

• Working capital intensive nature of operations

The group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 153 days for FY2015-16 as against 105 days in the previous year. This is on account of stretched inventory of 73 days and debtors of 79 days in FY2016. However, for FY2016-17 (Provisional) the Gross Current Asset (GCA) days improved to 110 days mainly on account of decline in debtor days which stand at 22 as against 79 days in the previous year. This was on account of earlier realisation of payment from debtors. The working capital limit has been fully utilised during the last six months ended June, 2017.

• Fluctuations in raw material prices and forex rates

The raw material cost constitutes ~84 per cent of the total cost of sales. The group is exposed to fluctuations in the raw material prices. Over 95 percent revenue is generated from export to US, Canada, China, Thailand, Africa, Middle East and other countries exposing itself to fluctuations in forex rates in the absence of adequate hedging mechanism.

• Vulnerability to risks inherent in the seafood industry

The group is exposed to risks inherent in the sea food industry such as susceptibility to diseases, climatic changes apart from changes in government policies.

• Exposure to intense competition

The group operates in a highly fragmented industry and is exposed to intense competition from domestic and overseas players.

Analytical Approach

To arrive at the ratings, SMERA has consolidated the business and financial risk profiles of Karavali Freezers & Exporters (KFE) and Karavali Ocean Products Private Limited (KOPPL), together referred to as the Karavali Group. The consolidation is owing to similarities in the lines of business, common management apart from operational and financial synergies within the group.

Outlook: Stable

SMERA believes that the Karavali Group will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of sustained growth in revenues, profitability and effective working capital management. Conversely, the outlook maybe revised to 'Negative' in case of significant decline in revenues or profit margins. Any deterioration in its capital structure, liquidity position owing to higher than envisaged debt funded capex or working capital requirements may also entail a 'Negative' outlook.

About the Group

The Karavali Group constitutes Karavali Freezers & Exporters (established in 2010) and Karavali Ocean Products Private Limited (incorporated in 2011). The group was promoted by Mr. Muniyalu Udaya Shetty, Ms. Namitha Shetty and Mr. Lohith Kumar who possess around three decades of experience in the processing of seafood. The processing unit is located at Udupi. The total storage capacity of the group is 2080 MT with freezing capacity of 145 metric tons per day.

About the Rated Entity - Key Financials

For FY2015-16, KOCPL reported profit after tax (PAT) of Rs. 0.26 crore on operating income of Rs. 34.62 crore against PAT of Rs.0.68 crore on operating income of Rs. 38.49 crore in FY2014-15. The networth stood at Rs. 5.21 crore as on 31 March, 2016 as compared to Rs. 5.20 crore as on 31 March, 2015. Further, for

FY2016-17 (Provisional), the company reported profit after tax (PAT) of Rs. 1.82 crore on operating income of Rs. 53.51 crore with a networth of Rs. 7.02 crore as on 31 March, 2017.

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore.) | Ratings/Outlook |
|----------------|---------------------------------|------------|---------------------|-------------------------------|
| March 09, 2016 | Term Loan | Long Term | INR 4.10 | SMERA BB- / Stable (Assigned) |
| | Proposed Fund Based Facilities | Long Term | INR 0.90 | SMERA BB- / Stable (Assigned) |
| | Packing Credit | Short Term | INR 9.00* | SMERA A4+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------|
| PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 13.93* | SMERA A4+ |
| Term loans | Not Applicable | Not Applicable | Dec 2017 | 0.07 | SMERA BB- / Stable |

*Includes sublimit of Bill discounting to the extent of Rs. 2.00 crore.

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ABOUT SMERA

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