

Press Release

Rafiq Naik Exports Private Limited (RNEPL)

24 November, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.52.59 Cr.
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

*Refer annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as SMERA double B minus) and short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 52.59 crore bank facilities of Rafiq Naik Exports Private Limited (RNEPL). The outlook is '**Stable**'.

RNEPL incorporated in 2014 is a Maharashtra-based company promoted by Mr.Rafiq Naik, Mr.Husain Kazi and Mr.Raja Sivagnanam. The company, part of the Rafiq group, is engaged in the processing and export of seafood and has installed capacity of 100 MT/day. The manufacturing facilities are located at Taloja and Ratnagiri, Maharashtra. The company exports sea food to Europe, Russia, Middle East and South East Asian countries.

List of key rating drivers and their detailed description:

Strengths

Experienced management: The Rafiq group has been in the seafood business for around 40 years. The promoters, Mr. Rafiq Naik, Mr. Husain Kazi and Mr. Raja Sivagnanam (Directors), possess over four decades of experience in the business.

Healthy revenue growth: The operating income rose to Rs.289.29 crore in FY2017 (Provisional) from Rs.93.96 crore in FY2016 on account of increase in order book value. The company, began catering to Russia and South East Asia countries as well as the Indian market (Andhra Pradesh) in 2017 leading to increase in operating income.

Moderate working capital operations: The working capital operations are comfortable with Gross Current Assets (GCAs) of 45 days in FY2017 (52 days in FY2016). This is on account of low debtor days of 21 in FY2017 and 48 in FY2016. However, the working capital limits have been fully utilised in the last six months ended June 2017.

Weaknesses

Uneven operating margins: The operating margins of RNEPL have shown uneven trends for the period FY2015 to FY2017 on account of fluctuations in input cost mainly raw fish, shrimps etc as a percentage of sales. The EBIDTA margins stood at 1.82 percent in FY2017 (Provisional) as compared to 3.53 percent in FY2016 and 2.91 percent in FY2015.

Moderate financial risk profile: The financial risk profile is moderate marked by net worth of Rs.17.99 crore as on 31 March 2017 (Provisional) supported by unsecured loans from director of Rs.15.00 crore, which are subordinated to bank debt. The gearing (debt to equity ratio) stood at 1.69 times as on 31 March, 2017 (Provisional) as against 3.52 times as on 31 March, 2016. The interest coverage ratio (ICR) stood low at 1.29 times for FY2017 (Provisional) and 2.12 times for FY2016. Going ahead, the repayment of term loan obligations might put a downward pressure on coverage indicators in the medium term.

Ongoing capital expenditure plan: RNEPL has set up a processing plant of 100MT/day capacity at Taloja, Maharashtra at a total cost of ~Rs.18.00 crore to be funded by term loan of Rs.12.00 and the rest through promoter's contribution. The commercial operations are expected to start in FY2017-18. Thus, timely execution, commencement and stabilisation of the project apart from sustainable growth in revenues while improving profitability margins and the financial risk profile will remain key rating sensitivities.

Intense competition, risk of changes in environment and climatic conditions: RNEPL operates in an intensely competitive and fragmented seafood industry. The company is also exposed to risks inherent in the industry like susceptibility to diseases, changes in climatic conditions and government policies.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of RNEPL to arrive at the rating.

Applicable Criteria

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

Outlook: Stable

SMERA believes that RNEPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company sustains healthy growth in revenue while registering improvement in operating margins, financial risk profile and working capital management. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue, profit margins, or deterioration in the financial risk profile and liquidity position owing to higher than expected debt funded capex or working capital borrowings.

About the Rated Entity: Key financials

For FY2016-17 (Provisional), the company registered profit after tax (PAT) of Rs.0.90 crore on operating income of Rs.289.29 crore as against net profit after tax of Rs.1.06 crore on operating income of Rs.93.96 crore in the previous year. The net worth stood at Rs.17.99 crore as on 31 March, 2017 (Provisional) compared to Rs.7.02 crore in the previous year.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for the last three years: None

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	N.A	N.A	N.A	12.19	SMERA BB-/Stable (Assigned)
Packing Credit	N.A	N.A	N.A	20.00	SMERA A4 (Assigned)
Foreign Discounting Bill Purchase	N.A	N.A	N.A	20.00	SMERA A4 (Assigned)
Proposed Fund Based	N.A	N.A	N.A	0.40	SMERA A4 (Assigned)

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ABOUT SMERA

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