

Press Release

STERLING FOODS

February 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A3** (read as SMERA A three) on the Rs. 30.00 crore bank facilities of STERLING FOODS. The outlook is '**Stable**'.

The Mangalore-based Sterling Foods was established in 1970 by the late Mr. Stanley David. The firm is engaged in the export of frozen marine fish products. Currently, the firm is run by two brothers, Mr. Vinil David and Mr. Sundeep David. Mr. Vinil David manages sales and finance while Mr. Sundeep David leads procurement and raw material sourcing. The firm exports its products (Shrimp, Cuttlefish, Indian Mackerel and Ribbon Fish) under the 'Yacht' brand name to Thailand, China, Vietnam and U.S.A. The installed capacity stands at 14,800,000 kgs per annum.

Key Rating Drivers

Strengths

- Experienced management, established track record of operations**

Sterling Foods was established by the late Mr. Stanley David in 1970. The partners, Mr. Vinil David and Mr. Sundeep David have experience of over three decades in the frozen seafood export industry. The extensive experience has helped the firm establish long term relations with customers and suppliers. The partners are ably assisted by a second line of management with experience of more than 25 years in the industry.

- Healthy financial risk profile**

The financial risk profile is healthy marked by tangible net worth of Rs. 29.97 crore as on 31 March, 2017 compared to net worth of Rs. 28.23 crore as on 31 March, 2016. The gearing (debt-equity) stood at a comfortable 0.32 times as on 31 March, 2017 compared to 0.10 times as on 31 March, 2016. The gearing increased due to increase in the utilisation of packing credit facility from Rs. 2.37 crore in FY2016 to Rs 9.37 crore. The Interest Coverage Ratio stood at 5.16 times as on 31 March, 2017 as against 8.92 times as on 31 March, 2016. The Debt Service Coverage Ratio stood at 3.79 times as on 31 March, 2017 compared to 6.43 times as on 31 March, 2016. The Total outside Liabilities/Tangible net worth (TOL to TNW) stood at 0.74 times as on 31 March, 2017 as against 0.31 times as on 31 March, 2016.

- Comfortable working capital cycle**

The firm has a comfortable working capital cycle marked by Gross Current Asset (GCA) days of 81 as on 31 March, 2017 as against 72 as on 31 March, 2016. The GCA days are mainly dominated by inventory days of 38 in FY2017 compared to 11 in FY2016. The increase in inventory days is due to purchase of Fish Meals by the firm that comprised ~55 percent of the total stock as on 31/03/2017. Further the average bank utilisation limit stood at 91.32 percent as on 31/12/2018. SMERA believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

- Fluctuations in raw material prices, susceptibility to forex fluctuation risk**

The raw material cost constitutes ~89 per cent of the total cost of sales. The group is exposed to fluctuations in raw material prices. Over 80 percent of revenue is generated from export to US, Vietnam, China, and Thailand exposing itself to fluctuations in forex rates in the absence of adequate hedging mechanism

• Vulnerability to risks, highly fragmented industry

The firm is exposed to risks inherent in the sea food industry such as vulnerability to diseases, climatic changes apart from changes in government policies. Further, the firm is also exposed to intense competition in the industry from several small and large players which affect margins.

• Fluctuating revenue profile, reduction in operating margins

The firm registered fluctuating revenues during the period under study. Revenue stood at Rs.128.00 crore in FY2017 as against Rs 73.60 crore in FY2016 and Rs.164.88 in FY2015. The firm registered revenue of Rs. 160.00 crore from April 2017 to January 2018. Further, Sterling Foods started purchasing shrimp from aquaculture for the first time in FY2017 and was unable to pass on the increase in raw material prices to its customers leading to a reduction in operating margins from 5.09 percent in FY2016 to 4.34 percent in FY2017.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Sterling Foods to arrive at the rating.

Outlook: Stable

SMERA believes that Sterling Foods will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' owing to the healthy growth in revenues and sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration of the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	128.00	73.60	164.88
EBITDA	Rs. Cr.	5.55	3.75	8.33
PAT	Rs. Cr.	2.55	2.13	4.87
EBITDA Margin	(%)	4.34	5.09	5.05
PAT Margin	(%)	1.99	2.89	2.95
ROCE	(%)	14.60	12.59	55.29
Total Debt/Tangible Net Worth	Times	0.32	0.10	0.13
PBDIT/Interest	Times	5.16	8.92	10.19
Total Debt/PBDIT	Times	1.66	0.61	0.38
Gross Current Assets (Days)	Days	81	72	28

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A3

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Amogh Kharkar Analyst - Rating Operations Tel: 022-67141315 Amogh.Kharkar@smera.in	

ABOUT SMERA

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