

Press Release

Charly Fisheries

July 11, 2018

Rating Assigned



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 9.00 Cr. |
| Long Term Rating | ACUITE BB / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE BB**) on the Rs. 9.00 crore bank facilities of CHARLY FISHERIES. The outlook is '**Stable**'.

Established in 2007, Charly Fisheries a Kollam, Kerala based partnership firm is engaged in the business of processing and export of frozen marine products. Firm was promoted by Mrs. Jessy Joseph and Mr. Charly Joseph. Currently the firm has one processing unit in Kollam with a processing capacity of 50 metric tonnes per day (tpd).

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Established in 2007, Charly fisheries has a long operational track record of more than one decade in the seafood processing and export business. The firm has reputed customer base in China, Vietnam and Malaysia. About 90 per cent of its revenues are derived from customers in China and remaining 10 per cent from other countries. Further, the management of Charly Fisheries over the years has also built a healthy relationship with suppliers for procurement of raw materials (marine fish). Acuite believes that firm will continue to benefit from its experienced management and established relation with its customers and suppliers.

- **Comfortable financial risk profile**

The financial risk profile is comfortable marked by healthy gearing (debt-to-equity) and debt protection metrics though underpinned by modest networth. The gearing is healthy at 0.67 times as on 31 March, 2017, and its total outside liabilities to total networth (TOLTNW) is at 0.74 times; healthy attributed to low reliance on working capital borrowing and efficient working capital management. Its net worth is modest at Rs.4.13 crores as on March 31, 2017 an improvement from Rs.3.09 crores in the previous period. The total debt of Rs. 2.77 crore, consists of working capital borrowings of Rs. 1.66 crore, term loan of Rs. 0.20 crore and unsecured borrowing of Rs. 0.91 crore as on 31 March, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt are healthy at 3.01 times and 0.56 times in FY2017 (refers to financial year, April 1st to March 31st). Acuite believes that the financial risk profile is expected to be at similar levels over the medium term as the firm is not planning any significant debt-funded capital expenditure programme over the medium term besides healthy cash accruals to total debt.

- **Efficient working capital management**

Charly Fisheries working capital operations are healthy as evident from gross current assets (GCA) days of 13 as on March 31, 2017 as against 29 days as on March 31, 2016. Healthy GCA is attributed to modest inventory at around 15-25 days, and well receivable management system over the past three years through FY2018. Its cash accruals are moderate at about Rs.2.1 crores in FY2018 (provisional) with no repayment obligations; similar levels are expected to be maintained over the medium term takes care of the incremental working capital requirements.

Weaknesses

- **Fluctuating revenue**

The firm has recorded fluctuating revenue and profits under the period of study; the revenue has

declined and stood at Rs.32.32 crore in FY2016 against Rs.41.85 crores in FY2015, on account of sluggish demand from its major customers in Europe and Japan due to economic slowdown; and resorted to cheaper purchases from alternative markets of Indonesia, Thailand, and Philippines etc. However, to mitigate the concentration in market risk, the firm diversified to other markets of China, Vietnam, Malaysia; despite the move, still the revenues are skewed towards China with 90 per cent of its total revenues exposing to geography or revenue concentration risk. .

• **Susceptibility to risks inherent in the seafood industry and competition from the other Asian Countries**

Firm remains vulnerable to the inherent risks in the seafood industry such as susceptibility to diseases, climate changes, adverse change in domestic and foreign Government policies, which include modifications in export incentives offered to the industry and application of stringent quality requirements. Also, there is huge competition from other neighboring countries of Thailand, Philippines in supply of marine food impacting the revenues as well as the realisations in the overseas markets.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Charly Fisheries

Outlook: Stable

Acuite believes the outlook on Charly Fisheries will remain 'Stable' over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining its profitability and diversifying the geography concentration. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in revenues owing to geography or client concentration leading to deterioration of its financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 61.26 | 32.32 | 41.85 |
| EBITDA | Rs. Cr. | 2.62 | 1.59 | 1.94 |
| PAT | Rs. Cr. | 1.09 | 0.36 | 0.73 |
| EBITDA Margin | (%) | 4.28 | 4.93 | 4.64 |
| PAT Margin | (%) | 1.78 | 1.11 | 1.74 |
| ROCE | (%) | 33.07 | 18.45 | 48.11 |
| Total Debt/Tangible Net Worth | Times | 0.67 | 1.05 | 1.20 |
| PBDIT/Interest | Times | 3.01 | 3.30 | 3.20 |
| Total Debt/PBDIT | Times | 1.05 | 1.99 | 1.70 |
| Gross Current Assets (Days) | Days | 13 | 29 | 17 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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 | 6.00 | ACUITE BB / Stable |
| FBN/FBP/FBD/PSFC/FBE | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE BB / Stable |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE BB / Stable |

Contacts

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About Acuité Ratings & Research:

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