

Press Release
Goan Fresh Marine Exports Private Limited

June 18, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.37.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and a short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.37.50 crore bank facilities of Goan Fresh Marine Exports Private Limited (GFMEPL). The outlook remains '**Stable**'.

Karnataka based Goan Fresh Marine Exports Private Limited (GFMEPL) was incorporated in the year 2009 by Mr. Haneef Thota and started the commercial operations from August 2011. The company is primarily involved in the business of processing and export of frozen marine products like crabs, shrimps, squids, octopus, cattlefish and surumi to most South East Asian countries like Thailand, Malaysia along with China, Japan and Korea. The company has its own processing & cooling plant with a daily cooling capacity of 100 MT/day and a Surumi processing plant located in Kota (Udupi), Karnataka.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the GFMEPL to arrive at this rating.

Key Rating Drivers

Strengths

• Extensive experience of the management in the sea food export industry

The promoters of GFMEPL have more than two decades of experience in the sea food export industry. The promoters also own two other companies namely, Akash Fishmeal and Fishtail Private Limited and Ocean Pearl Fisheries which are also engaged in the business of processing and manufacturing of various marine products. The extensive experience of the promoters in the sea food industry has helped the company to establish long term relationship with its customers and suppliers.

Acuité believes that GFMEPL will continue to benefit from the promoter's established presence in the sea food industry and its improving business risk profile over the medium term.

• Moderate financial risk profile

Financial risk profile of the company is moderate marked by high gearing, total outside liabilities to total net worth (TOL/TNW) as well as moderate debt protection metrics. The gearing and TOL/TNW are moderate at 1.92 and 2.38 times as on 31 March, 2019 as against 0.43 and 1.19 times respectively as on 31 March, 2018. Net worth is modest at Rs.17.56 crore as on 31 March, 2019 as against Rs.13.65 crore as on 31 March, 2018. The total debt of the company includes Rs.4.58 crore of long-term debt, Rs.4.33 crore of unsecured loans and Rs.22.73 crore of short-term debt as on 31 March, 2019. The company has undergone a capital expenditure in settling up a new surumi processing plant with a total project cost of Rs.11.98 crore which was funded by Rs.7.5 crore of term loans and remaining by internal accruals and unsecured loans from promoters. Debt-protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 6.86 times and 0.18 times respectively in FY2019. The firm reported cash accruals of Rs.5.96 crore in FY2019 against nil repayment obligations of Rs.2.11 crore during the same year. Further, repayment obligations are expected to be in the range of Rs.2.10 crore to Rs.1.85 crore in the medium term against annual cash accruals of about Rs.6.13 crore to Rs.8.50 crore.

Acuité believes that financial risk profile of the company is expected to remain moderate in the absence of major debt funded capital expenditure plans.

- **Global customer base with diversified product portfolio**

The company's major export destinations are China, Taiwan and Thailand. The diversification across different countries has helped the company to mitigate volatilities in revenues to an extent which arises from different demand scenarios across countries, volatility in prices, availability of required materials and fluctuation in exchange rates. Well diversified product portfolio and recently added surumi products in the portfolio of GFMEPL has also provided an advantage towards increase in operations of the company.

Acuité believes that the global customer base along with diversified product portfolio will help the company to improve its business operations in the medium term.

Weaknesses

- **Decline in performance of operations in FY2020**

Revenue from sales of the company have witnessed decline in FY2020 (till Feb, 2020) to Rs.135.51 crores compared to Rs.185.59 crores in FY2019. The decline was majorly on account of sales from frozen fish products due to unavailability of raw materials. Despite the decline in revenues, the company is likely to improve its operating margin in FY2020 on account of high realization from the surumi products. Further, the fishing activities around the country had been stopped for two months in 2020 on account of covid-19 disruptions which impacted the revenue generation from the company in the month of April 2020 which stood at Rs.4.03 crores compared to Rs.14.73 crore same month last year due to decline in shrimp business. However, the availability of fish is expected to remain high during the peak season of fishing activities in FY2021 on account of increase in fish breeding and is likely to increase the sales of the company in H2FY2021.

Acuité believes that the ability of the company to increase the scale of operations would be the key rating sensitivity factor over the medium term.

- **Working capital intensive operations**

Sea food industry being seasonal in nature has high working capital requirements during peak season which is from August to December. The companies have high working capital requirements during the peak season to procure their primary raw material. GFMEPL's operations are working capital intensive marked by gross current assets (GCA) days at 62 days as on 31 March, FY2019 as against 41 days as on 31 Mar, FY2018. The deterioration in GCA days are majorly driven by increase in inventory period of 34 days in FY2019 compared to 20 days in FY2018. Further, the debtor days stood at 17 days in FY2019 as against 18 days in FY2018 and the company avails a credit period of 15-30 days from its suppliers. The working capital intensive operations of the company has been reflected by high bank limits utilization limits of 90 percent in last eight months.

- **Highly competitive industry and profitability susceptible to fluctuations in input cost and foreign currencies**

The company operates in a highly competitive and fragmented sea food industry characterised by large number of unorganised players. The seasonal variation in the supply of raw materials leads to fluctuation in raw material prices affecting the profitability margins of the company. The risk becomes more pronounced as the company derives almost 95 percent of their revenues from export sales which expose it to foreign currency fluctuation risk. However, the company hedges around 90 percent of their receivables by taking forward cover and PC facility mitigating the foreign currency fluctuation risk to some extent.

Acuité believes that the highly fragmented and competitive industry along with seasonality of the fishing activities will remain a key concern for the company going ahead.

- **Inherent risks in the sea food industry impacting material availability**

The company is exposed to risks inherent in the sea food industry such as vulnerability to diseases, climatic changes apart from changes in government policies. Also, fisheries business being seasonal in nature, the availability of the raw materials along with two months banned in fisheries activities by government every year disrupts the operations of the company. However, presence of shrimps in the product portfolio of the company reduces the dependence on sea catches to some extent and mitigate the risk inherent with material availability.

Liquidity position: Adequate

GFMEPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.96 crores in FY2019 against maturing debt obligations of Rs.2.11 crores during the same period. The cash accruals of the company are estimated to remain around Rs.6.15 to 8.54 crore during 2020-22, while its repayment obligations are estimated to be in the range of Rs.2.10 to 1.85 crores over the medium term. The GFMEPL's operations are relatively moderate working capital intensive as marked by Gross Current Assets (GCA) of 62 days in FY 2019. This has led to high reliance on working capital borrowings, the fund based limit utilized at 90% percent during the last 6-month period ended February 2020. The current ratio of the GFMEPL stood at 1.24 times as on March 31, 2019 improved from 1.23 times same period last year.

Rating Sensitivities

- Modest scale of operations with improvement in revenue growth and profitability margins
- Deterioration in working capital management leading to stretched liquidity

Outlook: Stable

Acuité believes that GFMEPL will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience in the sea food industry and established relations with clientele. The outlook may be revised to 'Positive' if the net cash accruals increase substantially with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and liquidity or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded expansion and working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	196.22	140.83
PAT	Rs. Cr.	3.91	0.09
PAT Margin	(%)	1.99	0.06
Total Debt/Tangible Net Worth	Times	1.92	0.43
PBDIT/Interest	Times	6.86	5.15

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
Term Loan	Dec, 2018	Not Applicable	Nov, 2025	7.50	ACUITE BB+/Stable
PC/PCFC/BRD	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+

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About Acuité Ratings & Research:

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