

## Baby Marine Eastern Exports

July 19, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.06 (Reduced from 3.31)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	90.00	CARE A4+ (A Four Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>93.06</b> <b>(₹ Ninety-Three Crore and Six Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Baby marine eastern exports (BMEE) is constrained by the modest scale of operations with low margins susceptible to volatility in raw material prices and forex risk, leveraged capital structure and high regulatory risk in the sea food industry. The ratings, however, derives strength from experienced promoters and long track record in seafood industry, established relationship with customers and locational advantage of being present in aquaculture zone.

#### Rating sensitivities

##### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Consistent improvement in scale of operations above Rs.300 crore with stable PBILDT margins above 6%.
- Consistent improvement in capital structure below 1.8x
- Decrease in working capital utilisation level below 90%

##### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Consistent decline in operating margins below 3%.
- Elongation in operating cycle or deterioration of liquidity indicators
- Any major capex plan or withdrawal of capital leading to consistent deterioration in capital structure with gearing above 4x

### Detailed description of the key rating drivers

#### Key Rating Weakness

##### Thin profit margins exposed to volatility in raw material prices and forex risk

The PBILDT margin of the firm have been highly volatile primarily due to the fluctuating seafood prices. The shrimp prices are exposed to international markets demand and supply dynamics, that keep fluctuating due to which the firm has limited ability to pass on any increase in raw material prices to its customers. The firm exports its entire products and hence it is susceptible to the fluctuations in foreign exchange fluctuation. For large orders, the firm is in the practice of taking forward contracts for hedging the foreign exchange exposure.

#### Leveraged Capital Structure

The capital structure of the firm marked by overall gearing stood improved marginally, however, continued to remain leveraged at 2.25x as on March 31, 2022 (PY: 2.93x). The partners have infused capital of Rs.4 crore during FY22. The debt coverage indicators stood weak with interest coverage of 2.06x and Total Debt/GCA of 8.56x as on March 31, 2022.

#### Presence in highly regulated industry

The shrimp market is characterized by uncertainty, which is more pronounced in supply side than from demand side. Seafood is a depleting commodity and increased severity of regulations on excessive fishing has rendered supply more irregular. Thus, the governments around the world regularly put-up new regulations regarding international trade of seafood. The frozen sea food exporters have little control over the procurement price of the marine catches. However, BMEE is procuring shrimp from both shrimp farms and boat owners in Andhra Pradesh which help it to overcome the supply irregularities. The price demanded by the fishermen varies depending on the availability and quantum of marine catches leading to higher procurement price affecting the profitability.

#### Key Rating Strengths

##### Extensive experience of promoters in the seafood industry

The promoters, Mr. K.C. Thomas and Mrs. Nancy Babu have been involved in the seafood business for almost five decades. They have been able to leverage their wide experience and contacts in the industry to establish a wide range of clientele. The ability of the promoters to identify industry trends and customer preferences have helped the group to sustain amidst the volatility associated with the seafood business. The firm's presence in the seafood business for more than three decades has also strengthened its reputation. The day-to-day operations of the group is presently being managed by Mr Jacob Babu, who is the CEO of Baby Marine Eastern Exports.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Established relationship with customers

The firm normally procures shrimps from farms and agents and has a cold storage warehouse in Tuticorin, Tamil Nadu. Due to increased demand for shrimps during Aug-Dec, purchase orders are received before 3 months for which shrimps are procured and stored starting from June-July. The group normally exports to clients in Europe (mainly France), Japan, China & Middle East and has a relationship of more than a decade with most of the clients in Europe.

### Locational advantage of the firm's plant

The freezing unit of the firm is located at Tuticorin, Tamil Nadu. The freezing unit has adequate cold-storage capacity to manage stock levels. The cold storage is very critical in the fact that the procurement of shrimps from the sea happens only between April to November in a year (however farms supply throughout the year), whereas the supplies must be made throughout the year. The firm has increased the capacity of the freezing unit at Tuticorin, Tamil Nadu from 40 tonnes to 80 tonnes in the last year to a total of 2000 pallets. The presence of the plant in a coastal region which has proximity to raw material location enables the firm to procure its raw materials and freeze them immediately after the harvest season. The plant is about 12 Km from V O Chidambaranar Port from where most of the exports are made.

### Liquidity: Stretched

Liquidity is stretched marked by moderately matched accruals to repayment obligations of Rs.0.90 crore, highly utilized bank limits and modest cash balance of Rs.0.84 crore as on March 31, 2022. The firm has a working capital cycle of 121 days during FY22. The firm normally receives payments from its customers in 30 days and pays its suppliers in 30 days. The inventory days stood high at 103 days during FY22. The firm's working capital utilization remained high with almost full utilization at 97% for twelve months ended June 2022.

### Analytical approach: Standalone

#### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Nonfinancial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

#### About the company

Baby Marine Eastern Exports is engaged in processing and export of shrimps with its corporate base located in Kochi, Kerala. The firm is promoted by Mr. K.C. Thomas who is the founder and managing trustee of the firm. He is in the field of seafood exporting from the year 1967. Baby Marine Eastern Exports was established in the year 1967 as a proprietorship firm and became a partnership firm in the year 1985. The firm is engaged in processing and exporting of shrimps which are procured from farms and seashores in Tamil Nadu and Andhra Pradesh. It has a plant at Tuticorin, Tamil Nadu to deep-freeze and pack the seafood. The firm normally exports more than 90% of produce to the major markets of Europe, China, Middle East and Japan. The total installed capacity is 9000 MT per annum. The other promoter of the firm is Mrs. Nancy Babu, who is the sister-in-law of Mr. K.C. Thomas. The day-to-day activities of the firm are managed by Mr. Jacob Babu, CEO and son of Mrs. Nancy Babu

Brief Financials (₹ crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (P)	Q1FY23 (UA)
Total operating income	272.07	125.85	256.82	65.00
PBILDIT	8.21	8.03	14.71	NA
PAT	1.80	0.14	5.06	NA
Overall gearing (times)	6.44	2.93	2.25	NA
Interest coverage (times)	2.81	1.96	2.06	NA

A: Audited P: Provisional; NA: Not Available; UA: Unaudited

#### Status of non-cooperation with previous CRA: Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-FBN / FBP		-	-	-	32.00	CARE A4+
Fund-based - ST-Packing Credit in Indian rupee		-	-	-	58.00	CARE A4+
Fund-based - LT-Term Loan		-	-	October 2027	3.06	CARE BB+; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - ST-FBN / FBP	ST	32.00	CARE A4+	-	1)CARE A4+ (01-Nov-21) 2)CARE A4+ (13-Apr-21)	1)CARE A4+ (03-Dec-20)	1)CARE A4+ (20-Dec-19)
2	Fund-based - ST-Packing Credit in Indian rupee	ST	58.00	CARE A4+	-	1)CARE A4+ (01-Nov-21) 2)CARE A4+ (13-Apr-21)	1)CARE A4+ (03-Dec-20)	1)CARE A4+ (20-Dec-19)
3	Fund-based - LT-Term Loan	LT	3.06	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Nov-21) 2)CARE BB+; Stable (13-Apr-21)	1)CARE BB+; Stable (03-Dec-20)	1)CARE BB+; Stable (20-Dec-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities Not Applicable****Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-FBN / FBP	Simple
3	Fund-based - ST-Packing Credit in Indian rupee	Simple

**Annexure-5: Bank lender details for this company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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