Bebo International

September 06,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	34.50 (Reduced from 37.50)	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	10.00 (Enhanced from 7.00)	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in ratings assigned to the bank facilities of Bebo International (BI) are constrained by moderation in operational and financial performance in FY24 [Provisional; FY refers to period starting from April to March], thin profitability margins, deterioration in capital structure on account of working capital-intensive nature of operations, withdrawal of capital in FY24. The ratings also factor in constitution as a partnership firm, commodity price risk, forex fluctuations and counterparty risk, susceptibility of profit margins to volatility in cost of raw materials induced by climatic and environmental factors, high exposure to government regulations and presence in highly competitive industry.

However, the weaknesses are partially offset by comfort from experienced and resourceful promoters, improved scale of operation in 5MFY25 (Prov.), favourable location of operations, established relationship with customers and suppliers and presence across geographies, satisfactory operating cycle, adequate liquidity position, and stable industry outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the firm to continue to improve its total operating income (TOI) and strengthen its operating profitability margin to above 4%, on a sustained basis.
- Overall gearing improving to below 0.50x, going forward

Negative factors

- Moderating profitability margin marked by PBILDT margin of less than 2.25% on a sustained basis.
- Overall gearing deteriorating beyond 1.25x, going forward and TOL/TNW beyond 2.50x

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on the ratings of BI reflects CARE's expectation to sustain its stable financial risk profile and no significant working capital limits proposed in medium term.

Detailed description of the key rating drivers:

Key weaknesses

Moderate scale of operations coupled with thin profitability margins: The total operating income of BI has been on an increasing trend for last three years ended FY23, however, the same declined in FY24 by ~31% to Rs. 409.43 crore as compared to Rs. 592.89 crore in FY23. This decline was mainly on account of decline in sales consequent to ban on export of broken rice and broken raw rice along with imposition of 20% duty on export of Parboiled rice. During FY24, the firm has reported PBILDT margin and PAT margin of 3.44% and 2.95% respectively against 2.89% and 2.63% respectively during FY23. Though the margins witnessed improvement on the back of commensurate decrease in raw material (RM) prices, they remained thin given BI's trading nature of operations.

Deterioration in capital structure and debt coverage indicators: The total debt of BI majorly comprises of working capital borrowings and small portion of term loans availed towards capacity expansion in past. The capital structure deteriorated with overall gearing declining to 1.23x as on March 31, 2024 (PYE: 0.84x) on account of increase in working capital requirements. Given the imposition of custom duty on exports in FY24, the firm's reliance on working capital borrowings increased leading to higher debt outstanding as of year-end.

Akin to capital structure, with increase in debt levels the debt coverage indicators marked by PBILDT interest coverage ratio, TD GCA also deteriorated to 9.38x and 2.65x respectively in FY24 from 15.25x and 1.11x respectively in FY23.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Presence in a highly fragmented and competitive agro-commodity industry: BI operates in a competitive and highly fragmented agro-commodity industry which has a presence of large number of small and medium scale players. Further, the overall value addition in the trading industry is very low (grading, sorting, and packing activities) which translates into thin profitability. For its exports, BI also faces intense competition from large established players in the industry (which contributes majority of its turnover), who have global sourcing and customer base.

Exposed to vagaries of nature and raw material availability susceptible to change in government policies: The major raw material of the company is paddy, rice wheat and edible oils among other prices of which vary based on the monsoons and production in the crop seasons. As cost of the raw material accounts for 80% of the overall cost, variation in rates may impact operating profitability. Inability to pass on hike in raw material prices to customers may lead to volatility in the operating margin. The central Government of India (GOI), every year decides a minimum support price of paddy which limits the bargaining power of rice millers over the farmers thereby affecting revenues.

Low entry barrier along with stiff competition in trading business: The rice trading industry is highly competitive and fragmented in nature owing to low entry barriers due to minimal capital required and easy access to clients and suppliers resulting in presence of large number of unorganized players in the market. Also, the presence of big-sized players with established marketing & distribution network results into intense competition in the industry. The industry is cyclical with prices of the commodities driven by demand and supply conditions in the market with strong linkage to the global market. Due to high competition profitability margins tend to remain thin in the industry.

Client concentration risk: The firm trades in variety of rice products and further is involved in job work for some of the trading companies around Kakinada. The majority of sales of the firm comes from export to African countries. BI supplies the material to grain houses such as Olam International and Swiss Singapore Overseas Enterprises Pvt Ltd (an Aditya Birla Group enterprise) which in turn sell the rice in African markets thru their distribution channels and warehouses. The firm also sells good ~40% of volume of rice to domestic buyers for favourable rates. The firm have established relationship with clients which resulted in repeat orders from them. The revenue profile of the firm, however, is highly concentrated with two clients from same group i.e., Olam group which contributed about ~40% of total sales in FY24 (Prov.). The firm is highly focused on Olam group for selling their products in African countries.

Commodity price risk, forex fluctuations, and counterparty risk inherent to export: In view of the volatility in the commodity prices owing to the variability in agricultural output as well as the global demand-supply scenario, BI books order backed sales. It procures commodity after booking confirmed order from buyer against 20%-30% cash advance. BI being a net exporter of rice, procures rice from the domestic market in INR and exports the same to various countries; the revenues are thus largely dollar (USD) and Euros denominated. BI books forward contracts on exports to hedge currency fluctuations. Its forex risk is mitigated as all transactions are fully hedged at origination. Nevertheless, the counterparty that BI sells its products to are well known and established entities in the destination countries.

Constitution of the entity as a partnership firm: The firm was constituted as a partnership firm with inherent risks associated with limited financial flexibility, withdrawal of the partners' capital and the firm being dissolved upon the retirement/insolvency/passing of the partner due to the nature of constitution. There has been the withdrawal of capital by partners from the firm which has impacted the overall partners' capital deployed in the business. It is observed that, the partners are withdrawing the capital over last 3 years ended FY24. During FY24, Partners withdrew capital amounting to Rs. 6.05 crore against Rs. 10.52 crores in FY23 and Rs. 4.60 crores in FY22.

Key Strengths

Experienced management with long track record in the trading of agri-commodities: BI was incorporated in December 2011. Mr. Ritesh Agarwal, a Chartered Accountant and having more than two decades of experience in rice field w.r.t to procurements, processing and supply destinations as the Managing Partner. He overlooks the day-to-day operations and is supported by his wife Ms. Kavitha Agarwal (B. Com graduate) who is the other Partner in the firm. The firm has established track record of operations in rice trading business for more than a decade. By virtue of being in the trading nature of operations for considerable period of about two decades, the partners of the firm have developed strong business relation with suppliers and buyers.

Improved scale of operations in 5MFY25: BI reported revenue of about Rs. 419.55 crore during 5MFY25, which is more than the total revenue of FY24. The increase is majorly on the back of onboarding two new clients by the firm Viz., Adani Wilmar Rice trading PTE Ltd and Louis Dreyfus Company Asia Pte Ltd both located in Singapore. With existing established client base and addition of new clients with higher sales volume, the realisations for FY25 are expected to be on the higher side as compared to the review period.

Satisfactory working capital cycle: Working capital management is efficient as reflected in gross current assets estimated at 28 days as on March 31, 2023 (49 days a year earlier) despite stocking-up of rice during the peak season of procurement, which begins in the third quarter of every fiscal. Usually, BI has inventory of 1-2 months which is lower compared to other large players in the industry because BI offers quick payment to suppliers and thus procure sizeable quantities during the start of the season. Accordingly, BI's creditor levels have always been low at 21 days and 12 days as on March 31, 2022, and 2023 respectively. For its exports order, BI has payment terms of 15% to 20% cash advance at the time of order confirmation, and the balance before the physical delivery of goods.

Favourable location of operations: The firm has locational advantage with the manufacturing facilities located at Kakinada, biggest port and one of the prominent paddy growing belts in Andhra Pradesh. BI deals with rice millers across Chhattisgarh, Andhra Pradesh, Telangana, Gujarat, Bihar etc. The firm has the advantage of location as they procure majority of the raw material requirement from paddy growing areas of Andhra Pradesh. Andhra Pradesh, situated in South India, forms a part of South coast of India and connected with Orissa and Chhattisgarh states.

Established relationship with customers and suppliers and presence across geographies: BI exports rice to African countries via Singapore based Olam Group. The managing partner Mr. Ritesh Agarwal has been in this business for more than 3 decades and had developed longstanding and established relations with its suppliers in the domestic market as well as customers across geographies.

Stable Industry Outlook: The ban on non-basmati white rice has also resulted in a drop in export volumes. Between August-November 2023, non-basmati white rice exports totaled about 154,000 MT, a 93% decline. Parboiled rice exports, unaffected by the July measures, jumped 39% in August as exporters switched products to make up for their losses. India's 20% supplemental duty on parboiled exports came that same month in response. In September, parboiled rice exports dropped by 69%. For August-November 2023, Indian rice exports totaled 3.7 million MT, a decline of 46% from the previous year. Only basmati rice exports increased, up 12% during August-November 2023 compared to 2022. Thus, India rice exports have declined across most of its major markets.

Despite the production and consumption gains in many of the same countries, global rice trade is only expected to increase slightly to 53.8 million tonnes, which is still lower than the levels seen before India first imposed restrictions on rice exports in 2022. Overall, India will remain a significant force in the global rice market, even with the ongoing export restrictions, and that the world rice outlook is generally positive for the 2024-25 period.

Liquidity: Adequate

BI has adequate liquidity position with healthy cash accruals as against negligible term debt repayment. The current ratio and quick ratio of the company stood at 1.40x and 0.67x as on March 31, 2024 (Prov.). The interest coverage indicator of the company also stood satisfactory at 9.38 times during FY24 (Prov.). Considering the cash accrual which the company generated in FY24, expected generation of cash accruals during FY25 and low repayment obligations, the cash accruals are adequate.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

Bebo International (BI) was established as a partnership concern by Mr. Padala Ramareddy and Mrs. Kavita Agarwal in the year 2011. Later in 2014, one more partner, Mr. Mutyala Krishnamurthy joined the firm. Currently, Mr. Ritesh Agarwal and Mrs. Kavita Agarwal are partners of BI with share of 25% and 75% respectively. BI started the business as a brokerage commission i.e., acting as an agent between the exporters and importers of rice. In June 2015 it started its own rice processing unit in Kakinada with a capacity of 100 Metric Tonnes per day (MTPD) which was enhanced to 300 MTPD in 2017.

Currently the firm exports processed rice and carries 'job-work' of rice processing for other exporters in its plant. The manufacturing facility of the firm is "ISOQAR" Certified – approval necessary for Export to USA; and the facility is also approved by the PPQ Dept (Directorate of Plant Protection Quarantine, India) for export to China. The manufacturing facility is also ISO certified and National Plant Protection Organization (NPPO) approved. The firm is also a Two-Star Trading House certified by Directorate General of Foreign Trade (DGFT), India which helps in export of self-sealed containerised cargo.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	5MFY25 (UA)
Total operating income	592.89	409.43	419.55
PBILDT	17.10	14.09	NA
PAT	15.50	12.07	NA
Overall gearing (times)	0.84	1.23	NA
Interest coverage (times)	15.25	9.38	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	3.00	CARE BB+; Stable
Fund-based - LT-EPC/PSC		-	-	-	30.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	January 2027	1.50	CARE BB+; Stable
Fund-based - ST-FBN / FBP		-	-	-	8.00	CARE A4+
Fund-based - ST-Forward Contract		-	-	-	2.00	CARE A4+

CareEdge RATINGS

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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE B-; Stable; ISSUER NOT COOPERATING* (07-Jul-22) 2)Withdrawn (07-Jul-22)	1)CARE B-; Stable; ISSUER NOT COOPERATING* (24-Sep-21)
2	Fund-based - ST-EPC/PSC	ST	-	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (07-Jul-22) 2)Withdrawn (07-Jul-22)	1)CARE A4; ISSUER NOT COOPERATING* (24-Sep-21)
3	Fund-based - LT-EPC/PSC	LT	30.00	CARE BB+; Stable	-	1)CARE BB+; Stable (25-Sep-23)	-	-
4	Fund-based - ST-Forward Contract	ST	2.00	CARE A4+	-	1)CARE A4+ (25-Sep-23)	-	-
5	Fund-based - ST-FBN / FBP	ST	8.00	CARE A4+	-	1)CARE A4+ (25-Sep-23)	-	-
6	Fund-based - LT-Term Loan	LT	1.50	CARE BB+; Stable	-	1)CARE BB+; Stable (25-Sep-23)	-	-
7	Fund-based - LT-Cash Credit	LT	3.00	CARE BB+; Stable	-	1)CARE BB+; Stable (25-Sep-23)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-EPC/PSC	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-FBN / FBP	Simple
5	Fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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 for any clarifications.

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