

Blue Ocean Biotech Private Limited

August 30, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	0.50	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Facilities	20.50 (₹ Twenty Crore and Fifty Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Blue Ocean Biotech Private Limited (BOBPL) is on account of significant improvement in total operating income (TOI) and profitability during FY22 (FY refers to period between April 01 to March 31). The rating continues to remain constrained by leveraged capital structure and moderate coverage indicators, ongoing project completion risk, seasonality associated with agri based products and competitive industry. However, the above rating weaknesses are partially offset by experienced promoters, diversified revenue product portfolio, locational advantage of the plant with ample availability of raw materials, satisfactory debt coverage indicators and comfortable operating cycle.

Rating Sensitivities

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

- ✓ Ability of the company to increase its TOI to ₹ 200 crore or more along with PBILDT margin improving to above 8%.
- ✓ Overall gearing ratio improving below 1.5x and TDGCA improving to below 5x on a sustained basis.
- ✓ Successful completion of the on-going project within the envisaged cost and time

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

- ✗ Elongation in operating cycle to more than 100 days.
- ✗ Decline in TOI by 30% or more in future.
- ✗ Any further deterioration in capital structure.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure and moderate coverage indicators albeit improved in FY22

The capital structure of the company marked by overall gearing though improved as on March 31, 2022 continues to remain leveraged. Overall gearing stands at 2.91x as on March 31 2022 as compared to 3.07x as on March 31, 2021, due to increase in net worth on account of retention of profit to reserve despite increase in debt levels. The debt profile of the company comprises term loan, inter corporate loan (mainly from group company), and working capital loan. The total debt has increased to ₹ 80.50 crore as on March 31, 2022 from ₹ 65.08 crore as on March 31, 2021, on account of infusion of USL from its group concern. The debt coverage indicators remained at moderate levels, interest coverage stood at 2.30x in FY22 (PY: 1.70x in FY21) and total Debt/GCA stood at 8.68x in FY22 as against 19.92x in FY21 on account of higher profits during FY22.

Seasonality associated with agri based products, volatile raw material prices and competitive industry

The prices of agriculture commodities are highly volatile and depend on production yield, demand of the commodities and vagaries of weather. Hence, profitability is exposed to vulnerability in prices of agriculture commodities. However, the company is able to pass on the increase in prices of maize to its customer although with a time lag of 2-3 months. Furthermore, the industry is highly fragmented and competitive in nature as evident by the presence of numerous unorganized and few organized players. The entry barriers in this industry are low on account of low capital investment and technological requirement. Due to this, the players in the industry do not have any pricing power. Further, the industry is characterized by high degree of government control both in procurement and sales for agriculture commodities.

Ongoing capex for manufacturing new product

The company is planning to set up a project for manufacturing precipitated silica, which is majorly used in the Tyre and Rubber industry. The company would be manufacturing this product with an advanced technology which will be made by using Rice husk ash (RHA), and considering Andhra Pradesh is one of the highest rice producing state, the availability of rice husk (major

¹Complete definitions of the ratings assigned are available at HYPERLINK "<http://www.careedge.in>" www.careedge.in and in other CARE Ratings Ltd.'s publications.

RM) would be ample. The project cost is estimated at ₹ 29 crore funded through internal accruals and unsecured loans from promoters. The project is expected to be completed by December 2022. The company has incurred ₹ 14.79 crore (51% of the total project cost) as on August 15, 2022 which was funded from the internal accruals of ₹ 4.5 crore and promoters fund (USL) of ₹ 10.29 crore. Ability of the company to complete the said capex without any time or cost overrun and generate revenues and profits as envisaged, remains critical from credit and rating perspective.

Key Rating Strengths

Experienced Promoters:

Blue Ocean Biotech Private Limited is promoted by Mr. C V Subba Rao (Chairman), having more than two decades of experience in various industries such as real estate, power generation, manufacturing of eco-friendly sand, etc. He is well supported by Mr. Ravikanth (Managing Director), having experience of more than two decade in manufacturing of maize starch, power generation, edible oils etc. The promoters of the company are resourceful and have been infusing funds as and when required to support business operations. During FY22, the directors and group companies have infused ₹ 8.92 crore in the form of unsecured loans to support the planned capex.

Growing trend of total operating income (TOI) along with improvement in profit margins in FY22

The TOI of BOBPL has shown a growing trend over the past years. In FY22, the TOI has grown by 28% y-o-y to ₹ 166.03 crore. Starch (Maize/Corn) is the major revenue contributor of the company with 45% of the total gross sales in FY22, which has improved from the previous year. The major revenue is generated from Paper and FMCG industry. The company has witnessed a higher demand for starch and its by-products in FY22 from the domestic market, sales quantity of its products increased to 40,576 MTPA in FY22 from 37,330 MTPA in FY21.

The profit margins of BOBPL have improved during FY22 and stood satisfactory on account of better sales realization. The company was able to fetch higher margins for its main products as well as for other by products. The company reported a PBILDT level and margin of ₹ 14.14 crore and 8.52% during FY22 as against ₹ 7.90 crore and 6.09% during FY21. Furthermore, the PAT margin has also improved due to increase in PBILDT levels, the PAT levels and margin stood at ₹ 6.48 crore and 3.91% during FY22 as against ₹ 0.59 crore and 0.45% during FY21.

Improved and comfortable operating cycle in FY22

Although the company operates in a working capital-intensive industry, the operating cycle improved and stands comfortable at 53 days in FY22 from 66 days in FY21, due to better inventory management, evident by improvement in the inventory days from 57 days in FY21 to 42 days in FY22. The basic raw material required for the company is maize, which is a seasonal crop, and it has to be procured adequately until next season, therefore, inventory management is a vital factor for efficient working capital management. In FY22, BOBPL has bagged consistent orders throughout the year, and the sales realization had been faster as reflected from the collection days at 22 days in FY22 (PY: 32 days). BOBPL enjoys upto 10-15 days credit period from the maize traders which further helps in managing its operating cycle. The average working capital utilization was low at 33% and maximum utilization stood at 62% during the last 12 months ended July 2022.

Diversified product portfolio and Locational advantage

Maize Starch, an excellent source of carbohydrate, is a highly versatile industrial raw material is manufactured and marketed to the traders and manufacturers of cotton, papers, food industries. Liquid Glucose is mainly used in confectionaries and bakeries. Demand for starch is driven by various industries and the outlook of the company is dependent on demand of these end sectors. Maize starches by products also have various applications in industries such as food processing, papermaking, corrugated box adhesive, clothing starch in textile industry and pharmaceutical.

BOBPL's major raw material is maize which the company procures from Andhra Pradesh and adjoining states and processes in its strategically located plant. BOBPL procures most of its raw material from local traders located in East Godavari, West Godavari, Vijayanagaram and Srikakulam districts of Andhra Pradesh. The company also procures from Khammam, Bihar and Orissa to increase its spread with respect to availability.

Stable industry outlook

India corn starch market is expected to reach a volume of 8.5 Million Tons by 2026 and is estimated to grow at a CAGR of 4% during 2020-2025. India Corn Starch market growth can be attributed to the easy availability of corn and its wide range of applications in various industries such as food and beverage, pharmaceutical, animal feed, textile industry, paper industry, and others. The Food and Beverage industry dominated the application segment of India Corn Starch Market. The rapid growth of population, as well as rapid industrialization, has propelled the growth of India corn starch market.

Food and Beverages industry dominate India Corn Starch market in the application segment, which accounted for the largest share. Food and Beverage application is estimated to grow at a CAGR of 4.5% during the forecast year. The growing uses of corn starch as an artificial sweetener and as a thickening agent used in gluten-free food has resulted in the growth of the India corn starch market. The wide application of corn starch in a variety of industries can propel the growth of the India corn starch market during the forecast period 2020-2025.

Liquidity analysis: Adequate

The liquidity position of the company is adequate, marked by adequate accruals vis-à-vis the debt repayment obligation for FY23 and FY24. The company avails adhoc WC limit from its bank to manage operations during the peak season (Rabi and Khariff crop), and in the off season it manages with the existing WC limit ₹ 20 crore. The overall utilization for the past 12

months stood around 33%. Also, the promoters are resourceful and has been infusing funds as and when required to supports operational and capex needs.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

Blue Ocean Biotech Private Limited (BOBPL) was incorporated on January 20, 2011 by Mr. Chundurur Venkata Subba Rao, Mr. Mallina Ravikanth and Sri Kongara Nagarjuna Prasad and started commercial operations in 2012. The company is engaged in processing of maize with final products liquid glucose, maize starch, Malto dextrin and other by- products which are being sold under the brand name of 'Vensa'. The company belongs to the "Gowthami" group whose flagship company is, Gowthami Solvent Oils Limited (rated CARE BBB-; Stable / CARE A3), other group entities include Gowthami Spintex Limited (rated CARE BBB-; stable) and Gowthami Bio Energies Limited. Blue Ocean operates grain-based starch plant with installed capacity of 225 TPD in Peddapuram (Andhra Pradesh) with stable capacity utilization along with 4-MW biomass-based Captive Power Plant (CPP) at East Godavari, Andhra Pradesh.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (Prov.)	Q1FY23 (Prov.)
Total operating income	129.80	166.03	65.00
PBILDT	7.90	14.14	NA
PAT	0.59	6.48	NA
Overall gearing (times)	3.07	2.91	NA
Interest coverage (times)	1.70	2.30	NA

A: Audited, Prov: Provisional, NA: Not available

Status of non-cooperation with previous CRA: Ratings of BOBPL continue to remain under "Issuer Non-Co-operation" (INC) by CRISIL vide its PR dated Aug 19, 2022 due to lack of adequate information.

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 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 - LT-Cash Credit		-	-	-	20.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A4+

Annexure-2: Rating History of 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 - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (01-Sep-20)	1)CARE BB; Stable (30-Sep-19)
2	Fund-based - LT-Cash Credit	LT	20.00	CARE BB+; Stable	-	1)CARE BB; Stable (02-Sep-21)	1)CARE BB; Stable (01-Sep-20)	1)CARE BB; Stable (30-Sep-19)
3	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A4+	-	1)CARE A4 (02-Sep-21)	1)CARE A4 (01-Sep-20)	1)CARE A4 (30-Sep-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this companyTo 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 for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Nivedita Anirudh Ghayal
Contact no.: 9908090944
Email ID: nivedita.ghayal@careedge.in

Relationship Contact

Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**