

Bebo International

May 03, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	3.00	CARE B+; Stable (Single B Plus; Outlook Stable)	Revised from CARE B (Single B)
Short-term Bank Facilities	3.50	CARE A4	Reaffirmed
Total Facilities	6.50 (Rupees Six 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 long-term bank facilities of Bebo International (BI), takes into account substantial growth in total operating income and comfortable working capital cycle in FY16 (refers to period April 01 to March 31). The ratings continue to derive strengths from experience of managing partner, presence in a major paddy cultivation area facilitating easy procurement of raw material and stable outlook of rice industry. The ratings are, however, continue to remain constrained by limited track record of the firm, moderate scale of operation, moderately leveraged capital structure and weak debt coverage indicators, declining profitability margins with susceptibility of profitability margins to vagaries in the climatic conditions in India, intense competition in the rice industry and constitution of the entity as a partnership concern.

Ability of the firm to improve the scale of operation, increase its profitability margins and combat the fierce competition from other players are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating Weaknesses

Susceptibility of profit margins to climatic conditions in India

The firm procures rice from local markets, processes it and exports the processed rice to other countries. The profitability margins depend upon the purchase price of rice in the domestic market, which in turn depend upon local monsoon conditions. As the international prices of rice depend upon global production, bargaining power of the firm remains on weaker side. Therefore, any adverse weather conditions in India might affect availability of rice and result in fluctuation of prices resulting in the firm's profitability margins.

Intense competition in the rice industry

The rice processing industry is characterized by low entry barriers due to minimal capital required and easy availability of technology which has resulted in proliferation of large number of small players spread across the country. High competition has resulted in very thin profit margins for the companies operating in the industry.

Constitution of the entity as a partnership concern

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency which can affect its capital structure. This was reflected in the balance sheet as on March 31, 2014, when the capital to the tune of Rs.0.03 crore was withdrawn to meet personal contingency.

Furthermore, partnership concern has restricted access to external borrowing which limits their growth opportunities to some extent.

Moderately leveraged capital structure and weak debt coverage indicators

The firm till FY14 managed the business operation through internal accruals as the business model of the firm comprised coordinating between the exporters and importers. However, during FY15, given the change in nature of operation, the firm undertook working capital borrowings resulting in leveraging of capital structure. Furthermore, the capital structure remained moderately leveraged marked by overall gearing at 1.86x as on March 31, 2016 on account of enhancement of working capital limits from Andhra Bank at the back of increase in scale of operations. The other debt coverage indicators viz. the interest coverage ratio and total debt to GCA were also weak at 2.45x and 13.58x respectively in FY16.

Key rating Strengths

Substantial growth in total operating income during FY16

The total operating income increased significantly from Rs.2.86 crore during FY15 to Rs.45.41 crore during FY16 on account of increase in sales at the back of increase in utilized capacity. The firm was previously a commission agent for rice and was acting as an intermediary between exporter and importer of rice by helping them to find each other. Apart, the firm was also engaged in trading of rice. Later in June 2015, BI has set up its own rice processing unit with the installed capacity of 36,000 metric tonnes per annum (MTPA). Furthermore, the capacity was increased to 72,000 MTPA in June, 2016. The firm has achieved total operating income of Rs.81 crore in 11MFY17 (Provisional) with PAT of Rs.0.20 crore.

Comfortable working capital cycle

The working capital cycle remained comfortable at 32 days in FY16 due to comfortable collection period of 4 days at the back of timely collection of payments from the debtors.

Experienced partners Limited track record of the firm and moderate scale of operations

BI was established in December 2011, the firm has limited track record of about five years. The firm has achieved healthy growth in total operating income during FY16, though remained moderate. It also has low net worth base of Rs.4.51 crore as on March 31, 2016, which restricts the firm's financial flexibility in times of distress.

Presence in major paddy cultivation area facilitating easy procurement of raw material

The rice processing unit of BI is located in East Godavari District, Andhra Pradesh which is one of the major paddy cultivation areas in India. The processing unit is located near to a rice producing region and a port city, Kakinada, which ensures easy raw material access, smooth supply of raw materials at competitive prices and at lower logistic expenditure.

Stable outlook of rice industry

Rice is consumed in large quantity in India which provides favourable opportunity for the rice millers and thus the demand is expected to remain healthy over medium to long-term. Initiatives taken by government to increase paddy acreage and better monsoon conditions will be the key factors which will boost the supply of rice to the rice processing units. Rice being the staple food for almost 65% of the population in India has a stable domestic demand outlook.

Analytical Approach: Standalone**Applicable Criteria**[Criteria on assigning Outlook to Credit ratings](#)[CARE's Policy on Default Recognition](#)[Criteria for Short Term Instruments](#)[CARE's methodology for Manufacturing sector companies](#)[Financial ratios – Non-Financial Sector](#)**About the Company**

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.

Initially BI was earning revenue through brokerage commission by acting as an agent between the exporters and importers of rice. The firm in June 2015, has started its own rice processing unit with total capacity of 72,000 MTPA. The firm is exporting rice which constitutes 60% of its total sales in FY16 to OLAM international Limited, a Singapore based company.

During FY16, the company reported PBILDT of Rs.1.04 crore (FY15 - Rs.0.17 crore) and net profit of Rs.0.23 crore (FY15 - net profit of Rs.0.15 crore) on a total operating income of Rs.45.41 crore (FY15 -Rs.2.86 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for Last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE B+; Stable
Non-fund-based - ST-EPC/PSC	-	-	-	3.50	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
2.	Fund-based - LT-Cash Credit	LT	3.00	CARE B+; Stable	-	-	1)CARE B (12-Nov-15)	-
3.	Non-fund-based - ST-EPC/PSC	ST	3.50	CARE A4	-	-	1)CARE A4 (12-Nov-15)	-

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