

Uniroyal Marine Exports Limited

September 28, 2018

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Short-term Bank Facilities	30.75	CARE A4 (A Four)	Assigned
Total Facilities	30.75 (Rupees Thirty Crore Seventy-Five Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Uniroyal Marine Exports Limited (UMEL) are tempered by modest scale of operations for the period under review, thin PAT margins during review, profitability margins are susceptible to raw material and foreign exchange price fluctuation, financial risk profile is marked by leveraged capital structure and weak debt services indicators, elongated operating cycle, lack of price control on both supply and demand side and highly fragmented and competitive industry.

However, the ratings derive comfort from long track record and experience management in sea food industry, location advantage, stable demand for sea food industry.

Going forward, ability of the company to improve the scale of operations, capital structure and debt coverage indicators and to improve its profit margins are the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations for the period under review

Being in business for more than two decades, the scale of operation declined marginally and stood modest with total operating income of Rs. 43.73 crore in FY18 as compared to Rs. 44.30 crore in FY17 due to decline in global price of the products. Furthermore, the tangible net worth of UMEL though increasing for the period under review from Rs. 3.35 crore as on March 31, 2016 to Rs. 3.65 crore as on March 31, 2018 on the account of retention of profits into business, but remained low.

Thin profitability margins and susceptible to raw material and foreign exchange price fluctuation

The PBILDT margin of the company declined and stood at 4.87% in FY18 as compared to 5.58% in FY17 mainly on account of increase in selling expenses and employee cost. However, the PAT margins are improved and stood thin at 0.56% in FY18 as compared to 0.13% in FY17 due to decrease in absolute amount of finance charges during FY18

The raw materials form the major cost component in the total cost of sales, accounting to 70-80%. Any change in the demand and supply of fish due to climatic change or other external factors, will have impact on the profitability of the company.

UMEL profitability and cash flow may susceptible to foreign currency fluctuation risk as the company derives its income majorly from exports (92% in FY18) and does not follow any hedging practices on a regular basis. However, working capital bank facilities availed in foreign currency offers natural hedge to an extent.

Financial risk profile is marked by leveraged capital structure and weak debt services indicators

The capital structure of the company has improved but remained leveraged with overall gearing ratio of 4.17x as on March 31, 2018 as compared to 4.32x as on March 31, 2017 due increase in tangible net worth on the account of retention of profits into business. UMEL has working capital borrowing from banks to manage daily operations and interest free unsecured loan from related parties.

The debt coverage indicators of the company have been weak during period under review although improving y-o-y marked by TD/GCA of 19.29x in FY18 as compared to 26.31x in FY16 due to increase in GCA with increase in absolute amount of profits. The interest coverage has improved from 1.34x in FY17 to 1.53x in FY18 due to decline in the absolute amount of interest expenses during FY18.

Elongated operating cycle

UMEL has elongated operating cycle for the period under review. The operating cycle the firm improved marginally and stood at 115 days in FY18 as compared to 119 days in FY17 on the account of high average inventory holding period of

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

161 days due to seasonal availability, the company holds inventory to meet the customer demand on time. The average utilization of packing credit stands at 98% for 12 months ending as on June 30, 2018.

Lack of price control on both supply and demand side

The sea food exporters have no control over the procurement price of the marine catches. The price demanded by the fishermen varies depending on the availability and quantum of marine catches. With sea food exporters, having scaled up their processing capacity over the years anticipating higher demand in the export market, demand for the scarcely available marine catches usually remains high.

The processed fish price in the international market depends on numerous factors like seasonality in demand and marine supplies from various countries. The fierce competition from numerous sea food exporters from various countries competing for these orders results in lack of pricing power for these exporters.

Highly fragmented and competitive industry

The company faces tough competition from processors in various maritime states of India with better fishery resources particularly from Vizag, Kochi and Pipavav. There is also competition from other exporting countries such as the US, China, Thailand, Vietnam etc. Moreover, there has been increasing scarcity of marine supplies on account of overfishing coupled with the adverse changes in climatic conditions leading to poor fish breed which can result in loss of competitive edge.

Key Rating Strengths

Long track record and experience management in sea food industry

UMEL was incorporated in 1992 by Mr. Anush K Thomas, Mr. Iype Mathew, Mr. Nath Ram, Mr. Mohanlal, Mr. KC Thomas and Ms. Nithya Alex. The promoters have been in the business of sea food over two decades. Mr. Anush K Thomas, the Managing director, has experience of more than a decade in administrative affairs and sea food industry.

Location advantage

The processing plant is located near to Calicut, Kerala which is on the emerald coast of Malabar where two of the largest fishing harbors from where over 1000 fishing trawlers operate daily are situated nearby which enables the company to procure good quality fish which can be processed immediately. The proximity of the processing plant to the fishing belt also helps to lower transportation costs on account of proximity to harbor.

Stable demand for sea food industry

During FY17, the Indian seafood export registered an all-time-high volume with a y-o-y growth of around 20%. The Industry recovered in FY17 after witnessing a setback in FY16 wherein exports declined by about 10% in volume terms. Overall, the industry is poised to grow favorably given the liberalized FDI policy, favorable growth environment and increasing export demand. Provisional export figures during April-November 2017 (FY18) have shown an increase of 18.72% and 15.16%, respectively in volume and value (in US dollar) of seafood exports.

Analytical approach: [Standalone](#)

Applicable criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios: Non-Financial sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

About the Company

Calicut based Uniroyal Marine Exports Limited (UMEL) was incorporated on August 21, 1992 as Public Limited Company and listed in BSE. The company is engaged in processing and trading of sea food (Shrimps and Squids) with the installed capacity of 17, 100 Ton per annum. UMEL has maintaining quality standards conforming to US FDA and ECC standards. UMEL has employed 85 employees at their plant in Calicut and Mr. Anush K Thomas manages the day-to-day operations of the company. The company procures its raw materials like shrimps, shuffle, other marine products of from Kerala, Tamil Nadu and Andhra Pradesh. UME predominantly exports its products to US, European and Arab countries.

Brief Financials (Rs crore)	FY17 (A)	FY18 (A)
Total operating income	44.30	43.73
PBILDT	2.47	2.12
PAT	0.06	0.24
Overall gearing (times)	4.32	4.17
Interest coverage (times)	1.34	1.53

A-Audited

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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Disclaimer

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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
Non-fund-based - ST-EPC/PCFC	-	-	-	15.00	CARE A4
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	15.75	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-EPC/PCFC	ST	15.00	CARE A4	1)CARE A4 (16-Aug-18)	-	-	-
2.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	15.75	CARE A4	-	-	-	-

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