Rating Rationale **07 September 2020**

Reddy and Reddy Imports and Exports

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 15.00 Crores of Reddy and Reddy Imports and Exports. (hereafter referred to as 'RRIE' or 'the firm')

Particulars:

Facility**	Amount (Rs. Crs)		Tenure	Rating#	
	Previous	Present		Previous^ (July 2020)	Present
Fund based					
Cash Credit	10.00	10.00	Long Term	BWR B+ ISSUER NOT COOPERATING* /Stable	BWR B+/Stable Reaffirmed and removed from ISSUER NOT COOPERATING* category
Non Fund Based					
Bank Guarantee	5.00	5.00	Short Term	BWR A4 ISSUER NOT COOPERATING*	BWR A4 Reaffirmed and removed from ISSUER NOT COOPERATING* category
Total	15.00	15.00	Rupees Fifteen Crores Only		

**Issuer did not cooperate;based on best available information; ^Advisory issued on 19 May 2020 due to delay in rating review.*
#Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; ** Details of Bank facilities are provided in Annexure I.

Rating Action/Outlook

The ratings reaffirmation continues to factor the extensive experience of the management in the trading business, long standing relationships with suppliers and customers and established track record of operations. However the ratings remain constrained by subdued financial profile, the exposure to intense price competition in the aqua feed business, susceptibility of risks inherent to the end user industry, changes in government regulations and the working capital intensive operations. BWR believes that the firm is likely to face demand side headwinds in the short term on account of COVID-19 and is indirectly exposed to risks faced by aquaculture farmers who are primarily exporters with majority exports to the US and European countries.

BWR expects **Reddy and Reddy Imports and Exports'** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations and higher than envisaged improvement in profitability results in an improved financial risk profile. The outlook may be revised to negative in case of decline in sales and profitability on a sustained basis, deterioration in the capital structure due to debt-financed capital expenditure, stretch in conversion cycle and adverse impact on the operations due to COVID19 disruptions, thus weakening the financial risk profile of the firm.

Key Rating Drivers

Credit Strengths:

Experience of the management:
The firm is a part of Reddy and Reddy Group, which is an established business group in the West Godavari district of Andhra Pradesh and the partners have extensive experience in aqua feed and automobile dealership business.They are also associated with several other entities which are engaged in shrimp processing and fish and prawns feed manufacturing/trading business.

Established operational track record:
RRIE has an operational track record of more than two decades in trading of aqua feeds. BWR believes that the firm benefits from the promoters' understanding of the dynamics of the business and established relationships with customers and suppliers.

Locational Advantage:
The firm is located in West Godavari district which is in a major aqua-culture belt of Andhra Pradesh and enables the firm regular and easy access to the customers and also lowering its transportation costs.

Credit Challenges:

Subdued financial profile:
Revenue has improved marginally to Rs. 57.65 Crs in FY19 from Rs. 56.26 Crs in FY18. Profit after Tax remained flat at Rs. 0.01 Crs in FY19 and FY18. Partners Capital was Rs. 3.75 Crs as on Mar 31 2019 (PY : Rs. 3.74 Crs). Gearing was high at 2.72 times as on Mar 31 2019 and deteriorated from PY (2.68 times). Debt metrics have deteriorated in FY19 with DSCR at 0.94 times (FY18 - 1.01 times) and ISCR at 0.73 times(FY18 - 0.74 times). On a provisional basis, for FY20, revenue has remained at similar levels at Rs. 58.51 Crs and net profit remained at Rs. 0.01 Crs on account of thin profitability margins.

Exposure to intense competition:
Entry barriers in aqua feed trading business are low and the trading business is characterised by thin margins and weak bargaining position. RRIE faces stiff competition in the region from aqua feed traders of the same brand as well as other competing brands and the pricing power of traders is limited. Furthermore, operations are concentrated in West Godavari, Andhra Pradesh.

Susceptibility to risks inherent in the seafood industry and changes in government regulations:
The seafood industry is affected by demand-supply imbalance as seafood is a depleting commodity; tightened regulations on fishing have made supply conditions more irregular. Volatility in feed prices, diseases, climatic vagaries, lack of quality seeds and feed affect supply of seafood and hence, prices. Indian seafood exporters also face intense competition from cheaper varieties sourced from countries such as Bangladesh, Thailand, Indonesia, etc. Moreover, any change in Government policies would adversely impact the players' revenues and margins

Withdrawal of Capital:
Being a partnership entity, the firm is exposed to the inherent risk of withdrawal of capital.

Impact of COVID-19:
The Covid-19 pandemic has resulted in an unparalleled global disruption with drastic containment measures being implemented worldwide. Even though the aquafeed sector is not directly affected, the effect of the pandemic on the export of aquaculture products has affected the aquafeed manufacturers and traders. Exports of frozen fish and shrimp have witnessed a significant drop, on account of the lockdowns by the countries and order inflow is likely to be subdued in the short term. A long term adverse impact on profitability and liquidity cannot be

ruled out if the pandemic prolongs on account of delays in debtor realisations/ dues etc. The above reasons indirectly affect the aquaculture feed sector in the form of subdued product demand and orders. The ability of the firm to manage regular order inflows and its operations would be a key rating sensitivity.

Analytical Approach and Applicable Rating Criteria
BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities
The firm's ability to achieve its targeted performance despite the Covid impact, improve profitability, further strengthen its credit profile and efficiently manage its working capital will be the key rating sensitivities.

Positive:

- Given the ongoing weakness in the macro-economic environment and the impact on the sector, a rating upgrade in the near term appears unlikely.

Negative:

- Prolonged impact of Covid on the revenues and cash flows leading to a further material deterioration in its financial risk profile and liquidity.
- Specific credit metrics which may result in a rating downgrade include further deterioration in gearing to >3 times, Current ratio below unity and DSCR and ISCR below 1.00 times on a sustained basis.

Liquidity Position: Adequate
Liquidity is adequate as reflected by ~85% utilisation of fund based working capital facilities. Current ratio was moderate at 1.28 times as on 31 Mar 2019 and Net cash accruals were low at Rs. 0.01 Crs in FY19 and Rs. 0.02 Crs in FY20 (provisional). Cash and cash equivalents were low and declined to Rs. 0.09 Crs as on 31 Mar 2019 as against Rs. 0.11 Crs as on 31 March 2018. (Rs. 0.07 Crs as on 31 Mar 2020(P)). The firm has no long term debt repayments (Term Loans) in FY21. Reddy and Reddy Imports and Exports has been provided the reliefs in interest payment under the COVID-19 moratorium package for cash credit facility for the period March 2020 till August 2020, which is expected to ease liquidity to some extent. Post moratorium, 6-months' CC interest of ~Rs. 0.60 Cr are to be paid in September 2020, as per the scheme.
P→ Provisional

About the firm

Reddy & Reddy Imports & Exports ['RRIE' or 'the firm'], a partnership firm, was established in February 1997, at Bhimavaram, West Godavari, Andhra Pradesh. RRIE is part of Andhra Pradesh based Reddy & Reddy Group. The firm is primarily engaged in trading of prawn feed in and around West Godavari district, Andhra Pradesh. Mr. G Ramakrishna Reddy is the Managing Partner and Mr. G Venkata Reddy, Mr. G Sri ram Reddy, Mrs. G Radha, Mrs. G lakshmi Parvathi, and Mrs G Satya Prabha are the other Partners

The other main operating entities of Andhra Pradesh based "Reddy and Reddy Group" are Nexus Feeds Limited [engaged in the manufacturing of aqua feed], Nexus Well-Hope Agritech International Limited [engaged in the manufacturing of poultry feed], Reddy and Reddy Motors [Authorised dealer of Maruti Suzuki India Limited's passenger vehicles in West Godavari, Andhra Pradesh], Reddy and Reddy Automobiles [Authorised dealer of Hero MotoCorp Limited's two-wheeler vehicles in West Godavari, Andhra Pradesh] and Novelty Reddy and Reddy Motors Private Limited [Authorised dealer of Maruti Suzuki India Limited's passenger vehicles in West Godavari, Andhra Pradesh].

Key Financial Indicators

Key Parameters	Units	2018	2019
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Cr	56.26	57.65
EBITDA	Rs. Cr	0.95	0.94
PAT	Rs. Cr	0.01	0.01
Partners Capital	Rs. Cr	3.74	3.75
Total Debt/Partners Capital	Times	2.68	2.72
Current Ratio	Times	1.32	1.28

On a provisional basis, the firm has reported operating revenue of around Rs. 58 Crs for FY20.

Key Covenants of the facility rated:

The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA: CARE, vide its press release dated 17 July 2020, has continued its ratings in the 'Issuer Not Cooperating' category as the firm has not provided the requisite information to monitor the ratings.

Rating History For The Previous Three Years [including withdrawal and suspended]

Facility	Current Rating (September 2020)			Rating History			
	Type	Amount (Rs. Crs)	Rating	20 Jul 2020	10 May 2019	27 Mar 2018	2017
Fund Based							
Cash Credit	Long Term	15.00	**BWR B+/Stable**	BWR B+ ISSUER NOT COOPERATING* /Stable	BWR BB-/Stable	BWR BB-/Stable	Not Rated
Non Fund Based							
Bank Guarantee	Short Term	5.00	**BWR A4**	BWR A4 ISSUER NOT COOPERATING*	BWR A4	BWR A4	Not Rated
Total		**15.00**	**Rupees Fifteen Crores Only**				

**Issuer did not cooperate;based on best available information*

Note: An initial rating of BWR BB- (Stable)/A4 was assigned to the bank loan facilities of the firm on 27 Mar 2018. The ratings were migrated to the "Ratings Not Reviewed" category on 11 May 2020. An advisory was issued on 19 May 2020 and the ratings were migrated to "ISSUER NOT COOPERATING" category on 20 Jul 2020.

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Trading Entities**

- **Short Term Debt**

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Reddy and Reddy Imports and Exports
Annexure I
Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	**Union Bank of India**	Open Cash Credit	10.00	-	10.00
		Bank Guarantee	-	5.00	5.00
TOTAL - Rupees Fifteen Crores Only					**15.00**

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Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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