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Indian Seafood Industry Update

Indian shrimp exports' growth to slow down to 7-10% during CY2018 and CY2019, amidst heightening global competition



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Executive Summary



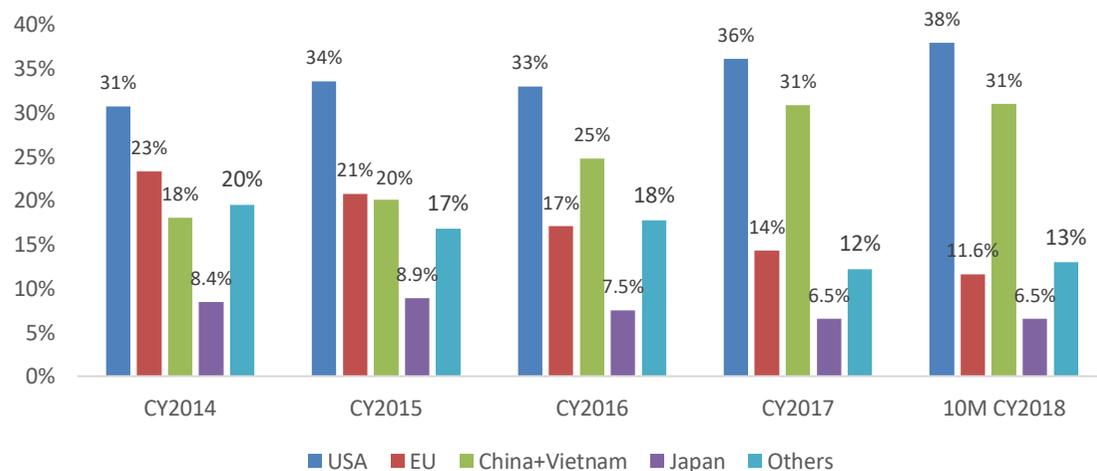
HIGHLIGHTS

- ICRA research expects modest volume growth in Indian shrimp exports by 7-10% during CY2018-2019. This growth comes on the back of healthy CAGR of ~17% during the last four fiscals (CY2014-17) supported by robust exports from India to USA, EU, Vietnam, China and Japan, among others.
- Indian shrimp exports to USA witnessed a robust CAGR of 25.2% (CY2014-17), outpacing USA's shrimp demand growth of 7.1% (CAGR CY2014-17).
- India's shrimp exports to Vietnam and China clocked a CAGR of ~40% (CY2013-17) owing to the weak production dynamics in the respective countries coupled with growing domestic shrimp consumption.
- EU's and Japan's shrimp demand remained muted for the period CY2013-17 with EU's shrimp imports growing at a CAGR of 3.3%, and Japan's shrimp imports declining by 4.6%. Indian shrimp exports to EU witnessed a CAGR of 5.2% for the period CY2013-17
- Strong uptick in major shrimp production since CY2017 has intensified competition amongst leading global shrimp exporting nations. This could result in a demand-supply mismatch and induce volatility in shrimp prices going forward.

OVERVIEW

Indian shrimp exports (volumes) have registered a healthy CAGR of ~17% during the last four fiscals (CY2014-17) driven by strong uptick in demand for Indian shrimp coupled with weak production dynamics in other major shrimp producing nations such as Thailand and Vietnam. India derived ~87% of its shrimp export demand from its top four destinations USA, EU, China and Vietnam, and Japan.

Exhibit 1: Geographic distribution of Indian shrimp exports



Source: commerce.nic.in

Over the last four fiscals, USA has accounted for majority of India’s shrimp exports (volumes)—38% of the total Indian shrimp exported during 10M CY2018 (up from 31% during CY2014). Steady increase in USA’s demand for Indian shrimp was due to the lower production in white spot syndrome virus (WSSV) hit Thailand.

This was followed by strong growth in Indian shrimp exports to Vietnam and China, which overtook EU in CY2016 to become the second largest destination for Indian shrimp exports (at 31% of total Indian shrimp exports). The same was due to healthy demand for shrimp in China and weak domestic production.

Other major destinations for Indian shrimp exports include EU and Japan, which contributed to 11.6% and 6.5% of total exports (during 10M FY2018) respectively.

Indian shrimp exporters face stiff competition from Ecuador, Indonesia and Vietnam. This note analyses the demand trends and competitive strengths across all the major shrimp exporting destinations, to arrive at India’s shrimp export outlook, in light of growing global demand.



OUTLOOK

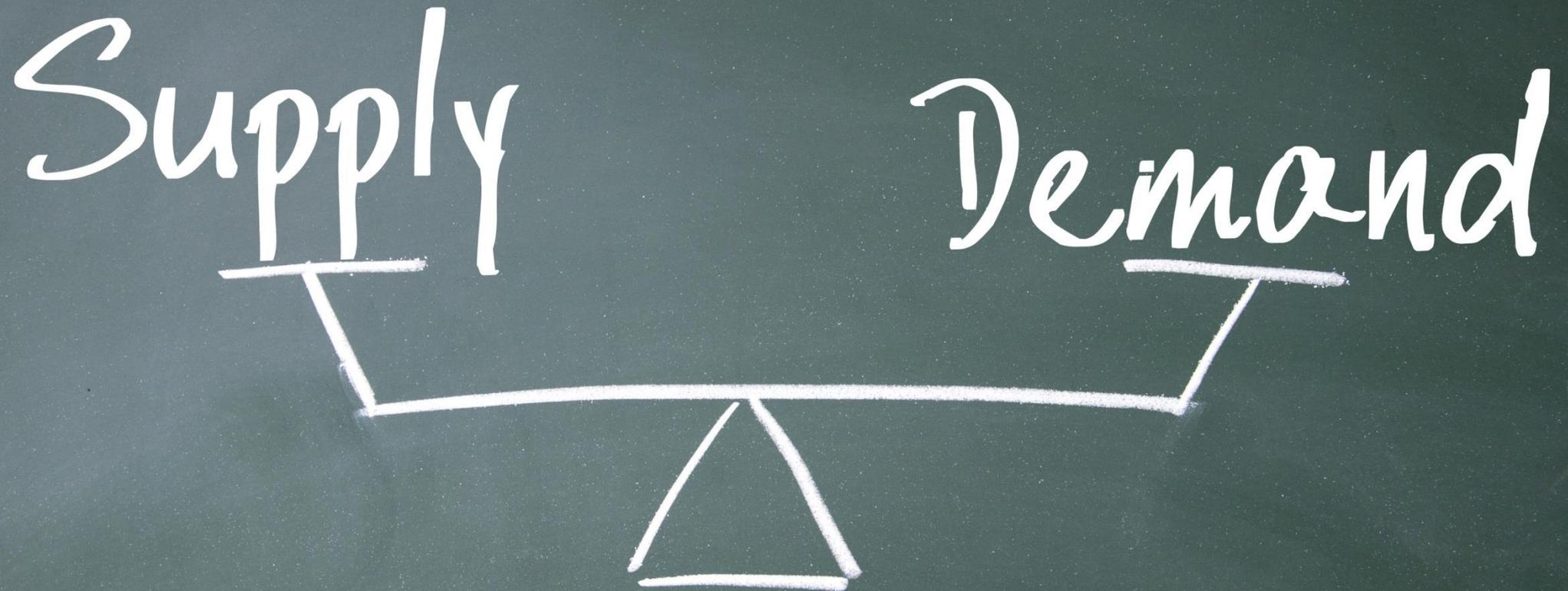
ICRA research expects Indian shrimp export volume growth to slow down to 7-10% (CAGR during CY2018-CY2019) post a period of robust growth of 17% (CY2013-17); demand from China and USA is expected to grow, even as the European and Japanese markets remain weak. Shrimp demand from China is expected to grow due to low domestic production coupled with growing domestic shrimp consumption. This coupled with any potential trade agreements (under negotiation) between India and China is expected to augur well for Indian shrimp exports.

That said, the effects of implementation of Seafood Import Monitoring Programme (SIMP) for shrimp exports into USA is a key monitorable. SIMP mandates stringent data requirements to trace the entire supply chain of seafood from the point-of-harvest to the point-of-entry into the US.

Exhibit 2: Shrimp: Destination wise outlook for India

Destination	Qty imported during CY2017 (MT)	Qty imported during 10M CY2018 (MT)	ICRA' growth expectations for imports by the respective countries during CY2019	India's exports to the destination to grow by
USA	6.6	4.3	4-5%	~7-10%
EU*	5.7	-	1%	1%
Vietnam + China**	4.0	4.0	10-15%	10%
Japan	2.3	1.7	Nil	Nil

Source: ICRA Research; *-EU data available only up to CY2017; **- data is summation of imports from Indian and Ecuador



Demand & Supply Dynamics

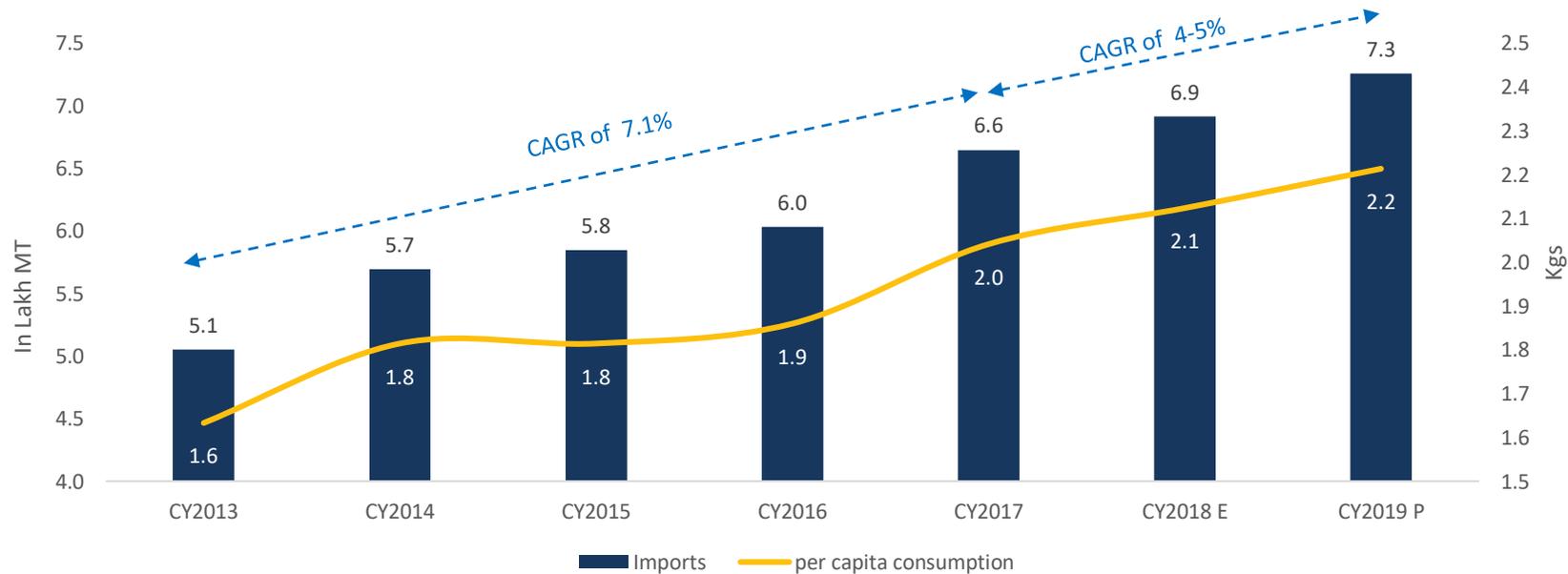


United States of America

USA’s shrimp imports to register modest growth during CY2019

ICRA research expects shrimp imports by USA to witness 4-5% growth per annum over the next two years on the back of growing per capita shrimp consumption; per capita shrimp consumption grew from 3.6 pounds in CY2013 to 4.4 pounds in CY2017. Shrimp consumption in the USA is the highest amongst seafood, which includes tuna, salmon, shellfish etc. due to the availability of healthy source of proteins at affordable prices. USA shrimp imports witnessed a compounded annual growth rate (CAGR) of 7.1% during the period CY2013 to CY2017. However, the strong growth of 10.2% during CY2017, was followed by a muted 4.8% growth (y-o-y) in US shrimp imports in 10M CY2018 owing to high stock level held towards the end of 2017, and delayed winter impacting demand in Q2 CY2018.

Exhibit 3: US shrimp imports and per capita consumption



Source: USDA and ICRA research; E: Estimates; P: Projected

Growth in shrimp imports from India outpaces growth in USA’s total shrimp imports; India continues to be the largest supplier of shrimps amidst intensifying competition

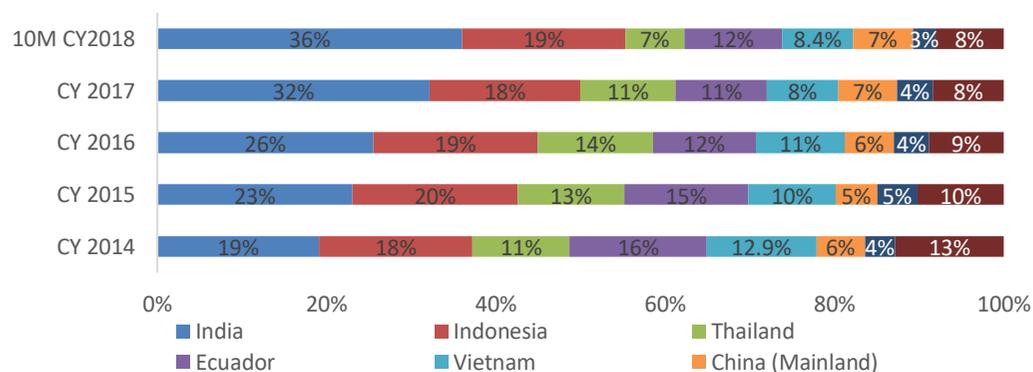
Exhibit 4: Growth trend in USA’s shrimp imports from major importers vs. total imports by USA

Growth in %	Total imports by USA	Imports from India	Imports from Indonesia	Imports from Thailand	Imports from Ecuador
CY2013	-5.3%	37.8%	9.5%	-38.2%	-8.2%
CY2014	12.7%	19.6%	27.3%	-22.4%	24.0%
CY2015	2.7%	23.7%	10.8%	12.5%	-7.3%
CY2016	3.2%	14.4%	2.3%	12.0%	-14.6%
CY2017	10.2%	39.0%	0.8%	-8.8%	-1.9%
10M CY2018	4.0%	16.9%	14.9%	-35.9%	3.3%

Source: USDA and ICRA research

Over the last four fiscals, growth in USA’s shrimp imports from India has consistently outpaced the growth in USA’s overall imports and imports from Indonesia, Thailand and Ecuador. The same is visible in the increase in India’s contribution in USA’s shrimp imports from 19% in CY2014 to 36% in 10M CY2018, substituting Thailand, whose contribution declined from 11% in CY2014 to 7% in 10M CY2018, and Vietnam (13% (CY2014) to 8% (10M CY2018)).

Exhibit 5: Source market wise USA’s shrimp imports



Source: USDA and ICRA research

Despite the robust growth in shrimp imports from India, India faces stiff competition from Indonesia and Ecuador whose export contribution during 10M FY2018 has increased, supported by the increasing shrimp production in the respective countries. Going forward, India is expected to benefit from the sanction imposed by USA on China coupled with increasing import of value-added shrimp by USA leading to a growth of ~7-10% pa. in CY2019. The effect of implementation of SIMP for shrimp exports to USA from January 1, 2019 will be a key monitorable.

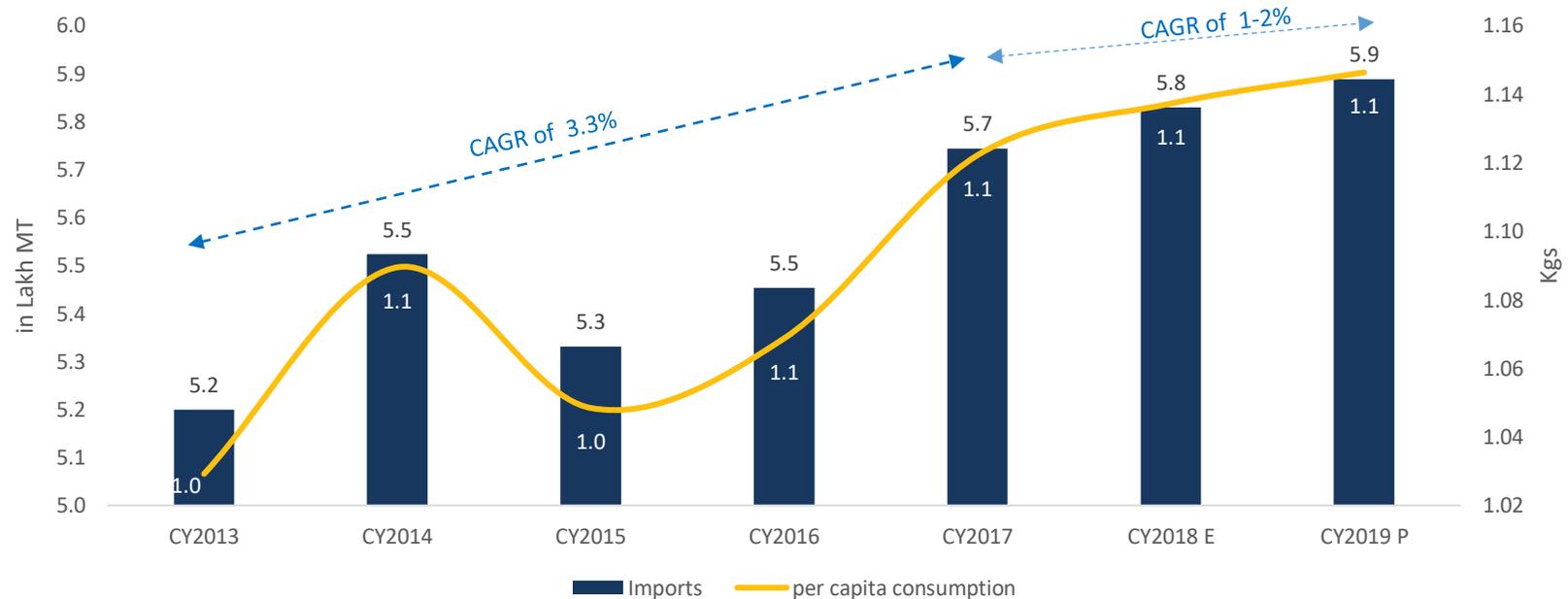


European Union (EU)

Growth in EU shrimp imports to remain muted

EU shrimp imports are expected to grow at 1-2% per annum during CY2018 and CY2019 as growth in per capita consumption continues to remain muted for the region. EU shrimp imports grew at a CAGR of 3.3% during the period CY2013 to CY2017, of which, ~76% was farmed shrimp imports, while 24% was wild-caught. Historically, the per capita shrimp consumption in EU has been low at ~1.0-1.1 kg compared to the 1.6-2.0 Kg per capita consumption of USA. Spain is the largest importer of shrimp in EU accounting for ~30% of EU's shrimp imports over the past two years, followed by France, which accounted for ~18% of EU's shrimp imports and Italy at ~12% of EU's shrimp imports.

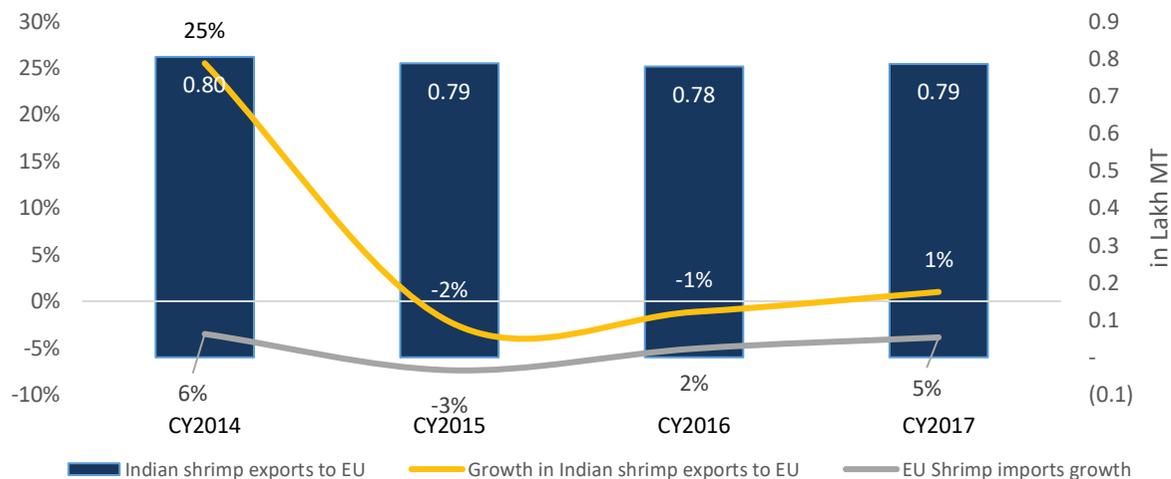
Exhibit 6: EU shrimp imports and per capita consumption



Source: European Commission and ICRA research; E: Estimates; P: Projected

Shrimp imports from India to EU to witness de-growth in CY2018 and CY2019 owing to competition from Vietnam and Ecuador

Exhibit 7: Growth trend in EU's shrimp imports from India vs. total imports by EU



Source: European Commission and ICRA research;

The growth in Indian shrimp exports to EU is expected to remain muted in CY2018 and CY2019 given the intensifying competition from Vietnam and Ecuador. After a healthy growth of 25% during CY2014, EU shrimp imports from India has been largely flat. During 8M CY2018, while EU shrimp imports witnessed a growth of ~1%, EU's shrimp imports from India declined by over 5%.

Exhibit 8: Source market wise EU's shrimp imports



Source: European Commission and ICRA research; Others in the graph includes countries like Bangladesh, China, Venezuela, Indonesia amongst others; Argentina exports a niche product, red shrimp, to EU.

Ecuador is the largest exporter of shrimp to EU and has accounted for 16-18% of EU shrimp imports over the past five years. India is the second largest *vannamei* shrimp exporter to EU; however, the proportion of Indian shrimp imports to EU's total imports has declined marginally over the past two years, primarily because of competition from Vietnam. Further, Vietnam would start enjoying preferential export duties with EU once the Vietnam-EU Free Trade Agreement comes into effect (likely by H2 CY2019; currently under Generalised Scheme of Preferences). This will lead to further polarisation of EU's shrimp imports towards Vietnam.



Japan

Japan’s shrimp import is expected to witness muted growth in CY2019, after an estimated 4-6% de-growth in CY2018

Japan’s shrimp import is estimated to witness 4-6% de-growth in CY2018 and muted growth in CY2019 owing to subdued domestic demand. Japan’s shrimp imports declined by over 18% to 2.1 lakh MT in CY2015 from 2.6 lakh MT in CY2013 on account of declining demand for shrimps, economic slowdown, and a devalued Japanese Yen making imports expensive. Subsequently, Japanese shrimp imports revived in CY2016 and CY2017 registering a growth of 4.5% and 4.7%, respectively. Notwithstanding the same, Japan’s total shrimp imports again declined by 6.8% in 10M CY2018. Indian shrimp exports to Japan was flat during 10M CY2018 despite the de-growth in overall Japanese shrimp imports by ~6.8%. Nevertheless, growth in Indian shrimp exports to Japan is expected to be muted, given the weak primary demand there.

Exhibit 9: Japan’s shrimp imports



Source: UN COMTRADE and ICRA research; E: Estimates; P: Projected

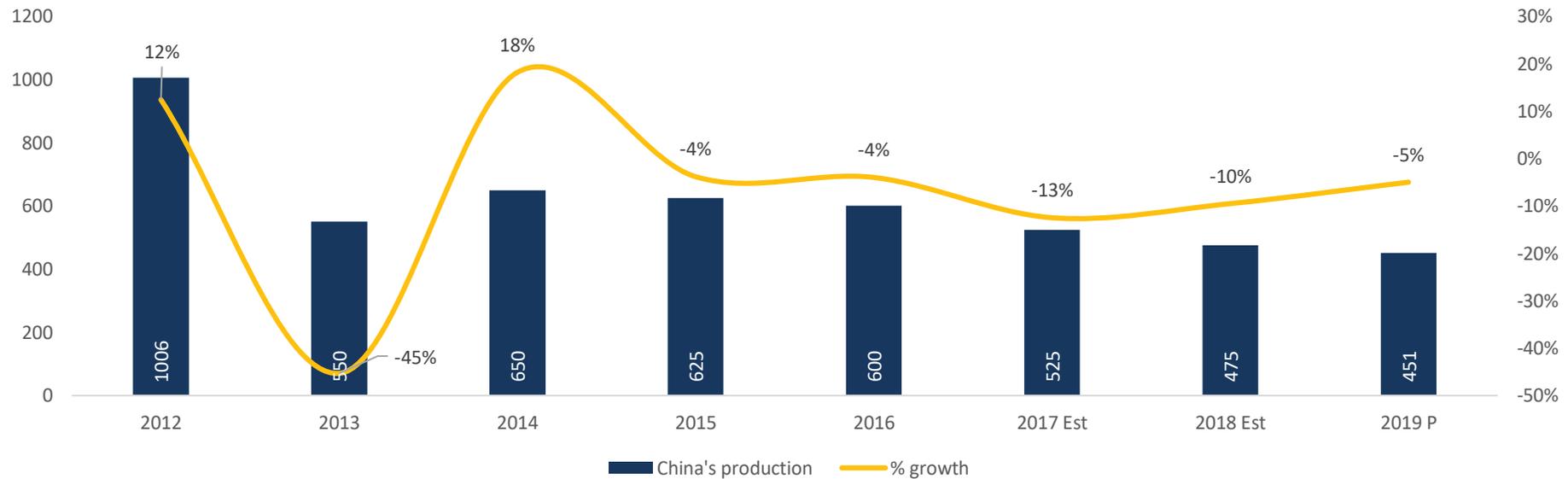


China and Vietnam

Weak shrimp production in China to continue driving demand for Indian shrimp imports during CY2019

China is the largest global producer and consumer of shrimp accounting for over 40% of global shrimp consumption. Despite which, China continues to be a net importer of shrimp owing to high demand for shrimp in the country. China’s vannamei shrimp production nosedived by 45% in CY2013 because of a widespread white spot epidemic which wiped out shrimp production in many parts of China. Since then, Chinese shrimp production has remained stagnant and the shortfall has been catered to by shrimp imports from India and Ecuador, partly via. Vietnam. Bulk of the shrimp exports to Vietnam from India and Ecuador are further re-exported to China. However, with the cracking down of illegal imports via. Vietnam, direct export of shrimp to China from India and Ecuador increased sharply during 10M CY2018. Further, the enforcement of tighter environmental norms by the Chinese government resulted in closing of 40,000 ponds in the Jiangsu province (east China) during October 2018 to prevent pollution of the Yangtze river delta. This coupled with the emergence of a new disease, shrimp hemocyte iridescent virus (SHIV), is expected to cap the production levels in China at ~4.75 lakh MT during CY2018. Production is expected to dip by ~5-6% during CY2019 on the expectation of further tightening of environmental norms. Going forward, this decrease in local production is expected to drive the increase in Chinese shrimp imports from India, Ecuador and Vietnam.

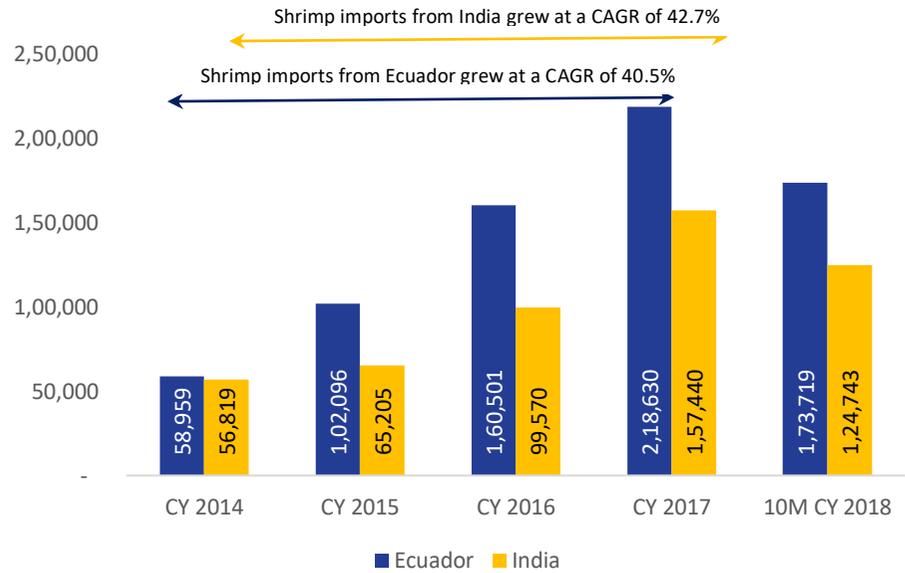
Exhibit 10: China’s shrimp imports ('000 MT)



Source: ICRA research

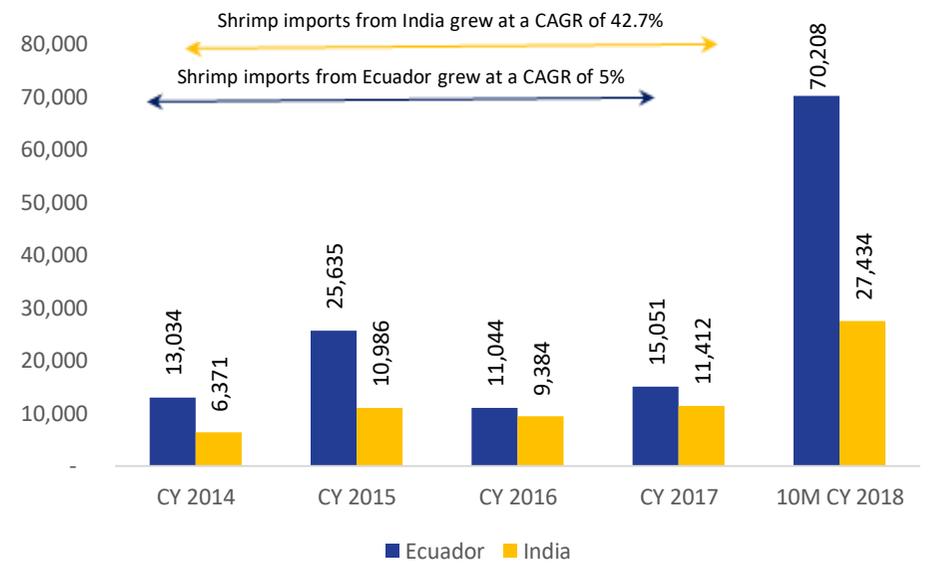
India faces stiff competition from Ecuador and Vietnam in the Chinese shrimp market

Exhibit 11: Shrimp exports from India and Ecuador to Vietnam (in MT)



Source: ICRA research

Exhibit 12: Shrimp exports from India and Ecuador to China (in MT)



Source: ICRA research

Ecuador is currently the largest exporter of shrimp to China and Vietnam, exporting 2.4 lakh MT as against India's exports of 1.5 lakh MT during 10M FY2018. Going forward, Indian shrimp exports are likely to benefit from the potential trade deal between India and China which could result in Nil duty for import of shrimp from India. Currently, frozen shrimp imports from India faces a 6% customs duty at Chinese ports, while shrimp from countries like Malaysia, Indonesia, and Vietnam enjoys tariff-free access.

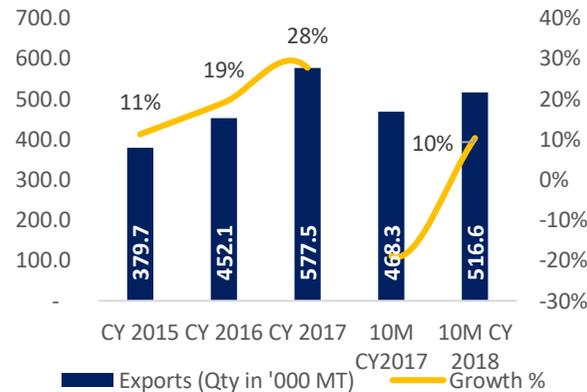


Competition

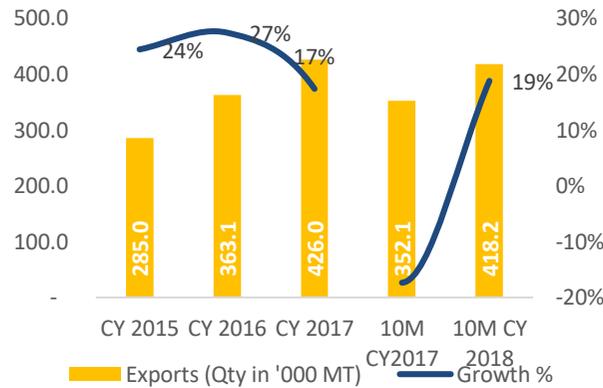
Intense competition amongst major shrimp producing nations

Exhibit 13: India's competitive position

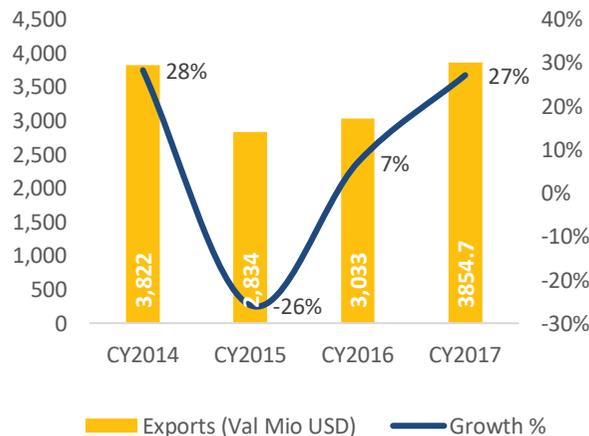
Trend in Indian export of shrimp



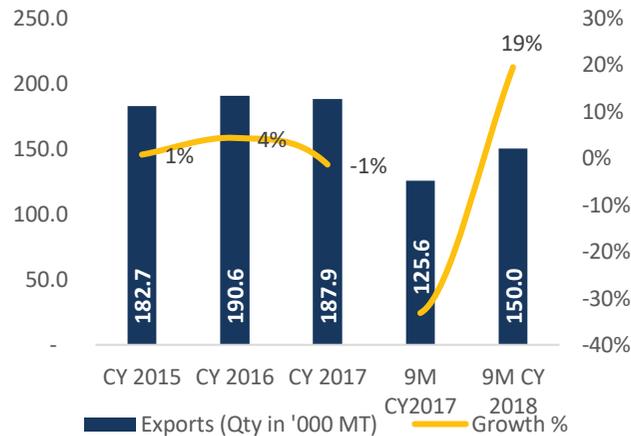
Trend in Ecuador's export of shrimp



Trend in Vietnam's export of shrimp *



Trend in Indonesia's export of shrimp **



Source: ICRA Research; *Volume data for Vietnam not available **Indonesian 10M CY2018 is estimated based on the proportion of exports to EU, USA and Japan to total Indonesia

The uptick in shrimp production from the top shrimp exporting nations since CY2017 had intensified competition in the global shrimp industry.

Since CY2016, Indian and Ecuadorean shrimp exports have consistently recorded a double-digit growth, supported by healthy domestic shrimp production. The uptick in shrimp production was driven by steady addition to area under culture and adoption of efficient farming practices which minimized the impact of diseases. Vietnam and Indonesia have slowly recovered from the early setback of White spot epidemic (CY2013) which wiped out more than half of the shrimp production in the respective countries.

Vietnam's shrimp exports grew by 27% during CY2017; however, the growth was also because of the re-exports of shrimp imported from India and Ecuador. Further, the Indonesian shrimp production recovered during CY2018 which translated into growth in exports by 19% y-o-y 9M CY2018.

Increasing shrimp production amongst the top shrimp producing nations could cause a temporary demand supply mismatch resulting in volatile realizations.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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