

May 24, 2024

Aquatica Frozen Foods Global Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Packing Credit/ Foreign Bill Discounting	180.00	160.00	[ICRA]A (Stable); reaffirmed
Short-term – Bank Guarantee	2.00	2.00	[ICRA]A1; reaffirmed
Short-term – Forward Contact Limits	5.00	5.00	[ICRA]A1; reaffirmed
Total	187.00	167.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation for Aquatica Frozen Foods Global Private Limited (AFFGPL) considers the expected improvement of the company's performance in FY2025 despite a moderation witnessed in FY2024 due to a decline in volumes of processed shrimp exported to the US market. The company's revenues declined by ~10.7% (on a YoY basis) in FY2024 (provisional) on the back of dip in volumes and realisation. In FY2023, the company made a one-time bad debt write-off worth ~Rs. 13.9 crore, which was not present in FY2024. Consequently, the operating margins remained flat at 11.9% in FY2024. However, imposition of CVD (Countervailing duty) of 4.3% on shrimp exported to the US market from FY2025 could put pressure on the margins over a medium term. The ratings also derive comfort from the strong financial risk profile of the company, as reflected by a conservative capital structure, strong coverage indicators and a healthy RoCE. The ratings continue to consider the benefits arising from the proximity of the company's facilities to the major aquaculture belt of Andhra Pradesh, which meets ~98% of its raw material requirements. The ratings continue to consider the long experience of the promoters in the shrimp processing business, established relationship with its clientele and the strong parentage of Sandhya Marines Limited (SML, which holds a 59.92% stake in AFFGPL), a prominent player in the sea food industry.

The ratings, however, are constrained by AFFGPL's exposure to significant geographical and client concentration risks. In 9M FY2024, AFFGPL generated ~98% of its sales from the US market, with its top-3 customers contributing ~71% to its revenues. The ratings are also impacted by AFFGPL's exposure to forex risks although it is mitigated to an extent as the company hedges around 40% of its exposure through forward covers. ICRA notes that AFFGPL remains susceptible to adverse changes in government policies pertaining to export incentives. The fragmented nature of the domestic industry and stiff competition from international players limit AFFGPL's pricing power and puts the margins under check. All domestic players, including AFFGPL, remain vulnerable to inherent industry risks such as climate change and disease outbreak, which can impact sales. Further, the business profile of Indian sea-food players may be impacted in case of adverse changes in trade policies of importing nations.

The Stable outlook on the long-term rating reflects ICRA's expectation that AFFGPL is likely to sustain an improvement in revenues and operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Strong parentage – Incorporated in 2014, AFFGPL is a 59.92% subsidiary of SML and continues to benefit from the parent's established market position. Set up in 1987, SML has been involved in the sea food business for more than three decades. The promoters have extensive experience in the industry, which helped SML build long relationship with customers, resulting in repeat orders.

Healthy financial risk profile – AFFGPL's operating income (OI) fell by ~10.7% in FY2024 to Rs. 404.8 crore, owing to a decline in volumes exported to the US market. ICRA expects only a muted recovery in FY2025 over the levels witnessed in FY2024 on account of a weak operating environment. AFFGPL's capital structure remains conservative, as reflected by a gearing of 0.3 times as on March 31, 2023, supported by cash and liquid investments of ~Rs. 123.2 crore as on March 31, 2023, and a strong net worth base. AFFGPL's debt coverage metrics remained strong, as reflected by an interest coverage of 12.8 times in FY2023. The RoCE also stood at a comfortable level of 19.7% in FY2023. ICRA expects the capitalisation metrics, debt coverage metrics and liquidity profile of AFFGPL to remain strong over the medium term.

Location-specific advantages – AFFGPL enjoys location-specific advantages as its processing facility is in proximity to Andhra Pradesh's major aquaculture belt, ensuring continuous availability of raw materials at low landed costs. Andhra Pradesh contributes 98% to the raw material requirements of AFFGPL.

Credit challenges

High geographical and customer concentration risks – AFFGPL remains exposed to high geographical concentration risk as it derived 98% of its sales from the US in 9M FY2024. Such high geographical concentration exposes the company to adverse regulatory changes in the region. Besides, the top three customers contributed ~71% to the overall revenues in 9M FY2024, indicating high customer concentration. However, the counterparty credit risk for the entity remains low owing to its reputed client base.

Vulnerable to adverse changes in export incentives, international trade policies and forex risks – AFFGPL derived almost 100% of its sales in FY2023 and FY2024 from export markets. Therefore, its operating profitability is supported by export incentives received from the Government of India (GoI). Any significant reduction in incentive by the GoI or adverse changes in the foreign trade policies of the importing nations may affect JSFPL's business profile. AFFGPL also remains exposed to forex risks, however, the same is mitigated to an extent as the company hedges around 40% of its receivables through forward contracts.

Fragmented nature of the industry and exposure to inherent industry risks – Indian shrimp exporters face stiff competition from countries such as Ecuador, Indonesia, and Vietnam in the export markets. Further, low entry barriers expose them to competition from other organised and unorganised players in the domestic market. Such high competition limits AFFGPL's bargaining power and pricing flexibility, exerting pressure on its margins. Moreover, AFFGPL's revenues and profit margins are also susceptible to volatility in shrimp realisations and raw shrimp prices, which in turn are driven by the demand-supply scenario. Any adverse agro-climatic condition and natural calamities during the aquaculture season may have a serious impact on the production of shrimps. Despite technical advancement, virus contamination in shrimps remains a risk.

Liquidity position: Strong

AFFGPL's liquidity is to remain strong in the medium term with expected healthy cash flow from operations, supported by a cash buffer of ~Rs. 123.2 crore as on March 31, 2023, and undrawn working capital limits of ~Rs. 104.5 crore as of December 2023. Against these sources of cash, AFFGPL has incurred a capex of Rs. 7.5 crore in FY2024, being funded by internal accruals. The retained cash flows are expected to stay healthy, going forward, with no major debt-funded capex plans and nominal

repayment obligation, lending support to the company's liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings if there is a sustained improvement in the scale of business while maintaining its profitability, coverage metrics and liquidity position.

Negative factors – Pressure on the ratings could arise if there is a deterioration in the credit profile of its parent, SML, and/or weakening of linkages with the same. A significant deterioration in earnings and liquidity profile could also affect the ratings. Specific credit metrics that could lead to ratings downgrade include total Debt/OPBDITA of more than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Implicit support from parent, Sandhya Marines Limited ([ICRA]A+ (Stable)/ [ICRA]A1)
Consolidation/Standalone	Ratings are based on the standalone financials of the company

About the company

Incorporated in 2014, AFFGPL is involved in processing and exporting of shrimps. The company's product profile primarily comprises individual quick-frozen shrimps. Its facilities are located in the aquaculture belt of Andhra Pradesh. AFFGPL derived ~100% of its revenues from export markets. SML is the parent company of AFFGPL, with a 59.92% stake.

Key financial indicators (Audited)

	FY2023	FY2024*
Operating income (Rs. crore)	453.3	404.8
PAT (Rs. crore)	41.4	-
OPBDIT/OI	11.7%	11.9%
PAT/OI	9.1%	-
Total outside liabilities/Tangible net worth (times)	0.4	-
Total debt/OPBDIT (times)	1.1	1.6
Interest coverage (times)	12.8	11.5

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 24, 2024	-	-	Mar 30, 2023	Feb 07, 2022
1 Packing Credit/Foreign Bill Discounting	Long-term	160.00	-	[ICRA]A (Stable)		-	[ICRA]A(Stable)	-
2 Foreign Bill Discounting	Long-term	-	-	-	-	-	[ICRA]A-(Stable)	
3 Packing Credit	Long-term	-	-	-	-	-	[ICRA]A-(Stable)	
4 Interchangeable Limits	Long-term/ Short-term	-	-	-	-	-	[ICRA]A-(Stable) / [ICRA]A2+	
5 Bank Guarantee	Short-term	2.00	-	[ICRA]A1		-	[ICRA]A1	-
6 Forward Contract Limit	Short-term	5.00	-	[ICRA]A1		-	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Packing Credit/Foreign Bill Discounting	Simple
Bank Guarantee	Very Simple
Forward Contract Limit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
--	Packing Credit/Foreign Bill Discounting	-	-	-	160.00	[ICRA]A (Stable)
--	Bank Guarantee	-	-	-	2.00	[ICRA]A1
--	Forward Contract Limit	-	-	-	5.00	[ICRA]A1

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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