

April 07, 2021

Shankha Deep Exports Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Export Packing Credit	25.00	25.00	[ICRA]BB- (Stable); reaffirmed
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating considers the long experience of the promoter of Shankha Deep Exports Pvt. Ltd. (SDEPL) in the seafoods industry. The rating favourably factors in the location-specific advantage of the company as it is located in proximity to the major aquaculture regions of West Bengal, resulting in regular and easy availability of raw materials at a lower landed cost.

The rating is, however, constrained by the highly fragmented and low value additive shrimp processing industry with intense competition from domestic as well as international players, exerting pressure on margins. The rating also considers the inherent risks in the seafoods industry, including susceptibility to disease outbreak and climatic risk, which could impact the demand and supply of the industry. The rating is also impacted by significant risks including timely commissioning and stabilisation of the new plant, as per the expected parameters. The rating further considers SDEPL's exposure to the forex risk in the absence of any formal hedging mechanism.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that SDEPL will continue to benefit from the long experience of the promoter in the seafood industry.

Key rating drivers and their description

Credit strengths

Long experience of the promoter in the seafoods industry – SDEPL's promoter, Mr. Kamdev Jana, has an experience of more than a decade in the seafoods industry. The promoter's long experience mitigates operational risk to an extent. The management of the company is also associated with other Group concerns involved in similar lines of business.

Proximity to major aquaculture region of West Bengal – The company's processing plant is in proximity to the major aquaculture regions of West Bengal, resulting in regular and easy availability of raw materials at a lower transportation cost. Also, the company has its own aquaculture farms, which support around 20% of its raw material requirements.

Credit challenges

Highly fragmented industry exerts pressure on margins – The company faces stiff competition from other organised and unorganised domestic and international players, given the low entry barriers in the business, which limit its pricing flexibility and bargaining power with customers, and put pressure on its revenues and margins.

Risks associated with stabilisation of the new plant as per expected operating parameters, post commissioning – SDEPL has acquired a shrimp processing plant with a capacity of 25 tonnes per day in Madhyamgram, West Bengal. The company also plans to install an Individual Quick Freeze (IQF) machine in the new plant. The major portion of the project cost has already been incurred, and commercial production is expected to commence in FY2022. However, in the interim period, the company

would face significant project related risks, including the risk of stabilising the plant and achieving desired process parameters. Going forward, commencement of commercial operation at its new plant, as planned, would be a key rating sensitivity.

Inherent risks in the seafood industry – The company remains exposed to agro-climatic risks, wherein, natural calamities like flood, cyclone etc during the culture season, can have a serious impact on the prospects of successful aquaculture. Despite technical advancement, shrimps getting affected by virus cannot be ruled out. The operating income of the company is expected to decline in FY2021 compared to the previous fiscal due to the pandemic. Moreover, the industry is impacted by the volatility in international prices of seafood. Any such situation would affect the availability of raw materials.

Foreign exchange rate fluctuation risk – The company generates its entire revenue from export sales. This exposes SDEPL to foreign exchange rate fluctuation risk in the absence of a formal hedging mechanism.

Liquidity position: Stretched

The company's liquidity position continues to be **stretched** because of significant working capital requirements of the business, driven by high inventory holding during the peak season, which is likely to continue in the near term at least. However, ICRA notes the absence of scheduled long-term debt servicing obligations in the near term, which provides some comfort to its cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade SDEPL's rating if the company is able to scale up its operations substantially while improving profitability, coverage indicators and capital structure.

Negative factors – Pressure on SDEPL's rating could arise if there is an increase in the working capital intensity or a decline in margins as well as cash accruals from the business.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements

About the company

Incorporated in 2008, Shankha Deep Exports Pvt. Ltd. (SDEPL) is involved in processing and export of shrimps. The processing unit of the company is in Kolkata with an installed processing capacity of 24 tonnes per day and a storage capacity of 150 tonnes. SDEPL has recently acquired a shrimp processing plant at Madhyamgram, West Bengal with a capacity of 25 tonnes per day. The company has also constructed a hotel in Kanthi, West Bengal.

Key financial indicators (audited)

SDEPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	169.89	170.39
PAT (Rs. crore)	1.71	2.58
OPBDIT/OI (%)	2.23%	1.39%
PAT/OI (%)	1.00%	1.51%
Total Outside Liabilities/Tangible Net Worth (times)	2.58	0.44
Total Debt/OPBDIT (times)	5.26	1.03
Interest Coverage (times)	3.06	2.90

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

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
CRISIL	Rating Suspended	December 24, 2015
CARE	CARE BB-; Stable; ISSUER NOT COOPERATING	April 2, 2020

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current rating Apr 7, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Export Packing Credit	Long Term	25.00	-	[ICRA]BB- (Stable)	-	Feb 11, 2020	-
							[ICRA]BB- (Stable)	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export Packing credit	-	-	-	25.00	[ICRA]BB- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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