

November 06, 2023

Jayalakshmi Sea Foods Pvt. Ltd.: Ratings reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	40.00	40.00	[ICRA]BBB, reaffirmed; outlook revised to Stable from Positive
Long-term Export Packing Credit	158.00	158.00	[ICRA]BBB, reaffirmed; outlook revised to Stable from Positive
Short-term Non-fund-based Limits	17.00	17.00	[ICRA]A3+; reaffirmed
Total	215.00	215.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook on the long-term rating to Stable from Positive considers the muted demand environment and deterioration in the financial profile of Jayalakshmi Sea Foods Pvt. Ltd. (JSFPL) due to significant cost overrun in the greenfield Movva project (involving setting up of a new processing unit at Movva, Andhra Pradesh). The Movva project was initially budgeted at ~Rs.70 crore, however, delays in completion of the project due to Covid-19 pandemic and subsequent price hikes undertaken by contractors led to an escalation in the overall project cost to Rs. 105 crore. While trial runs have been completed at the Movva unit, ICRA notes that certain approvals are awaited towards commencing commercial operations.

Meanwhile, the reaffirmation of JSFPL's ratings factors in the established track record of the company in the shrimp export business and long relationships with its clientele, ensuring repeat orders. The ratings also consider the benefits arising from the favourable location of the company's processing facilities (including the recently commissioned Movva unit), which are in proximity to the major aquaculture belt of Andhra Pradesh, supporting its cost competitiveness. The company reported a moderate revenue growth of 3.5% in FY2023 owing to muted offtake from the US region (JSFPL's key market) and intense competition from Ecuador. The operating profit margin (OPM) declined to 5.3% in FY2023¹ from 5.9% in FY2022 primarily due to lower realisations.

The ratings, however, remain constrained by JSFPL's exposure to geographical concentration risk as the US accounted for ~83% of its export sales in FY2023 (~92% in FY2022). It also remains exposed to customer concentration risk as its top-five customers contributed ~59% to its export sales in FY2023 (~78% in FY2022). The company also remains vulnerable to any adverse change in the export incentives in India and the foreign trade policies of importing nations. Any significant reduction in incentive by the Government or adverse changes in the foreign trade policies of the importing nations may affect JSFPL's business profile. ICRA notes that the company remains exposed to forex fluctuation risks although the same is mitigated to an extent as it hedges around 50% of its forex exposure through forward covers. The company also remains susceptible to the inherent risks in the seafood industry, such as disease outbreaks and agro-climatic risks, which may impact raw material availability and sales.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that JSFPL will be able to grow on a sustained basis, while maintaining its profitability level.

¹ FY2023 represents provisional number

Key rating drivers and their description

Credit strengths

Established track record in shrimp exports business – JSFPL, incorporated in 1995, started as a merchant exporter of seafood and commenced processing and exporting of shrimp in 2001. The company is exposed to significant product concentration risks as it derives 100% of its revenues from vanammei shrimps. However, JSFPL's established track record in the business, vast experience of its promoters and its established customer base mitigate the risk to a large extent.

Favourable location of processing unit – The company's processing plant is at Seesali village near Bhimavaram, which is a part of the aqua-culture belt in Andhra Pradesh. This ensures easy raw material availability. The company's new plant (at Movva), which was commissioned recently, is around 90 km away from the existing facilities.

Credit challenges

High geographical and customer concentration risks – The company registered sales of ~Rs. 507.2 crore in FY2023, with the US contributing 83% to the same. This exposes JSFPL to any unfavourable regulatory change in the region, especially its trade policies. Further, the company's top-five customers accounted for 59% of the export sales in FY2023. Nonetheless, established relationships with the customers mitigate this risk to an extent.

Given the delays in ramping up of operations in the Movva unit amid muted demand conditions, the payback period is expected to be longer than initially anticipated. JSFPL is expected to post a moderate revenue growth in the current fiscal. The interest coverage remained comfortable at 5 times in FY2023 owing to capitalisation of the term loan interest costs taken towards the project till commissioning. However, the same is expected to deteriorate to below 3.5 times in the current fiscal owing to delays in commencement of commercial operations at the Movva unit.

Inherent risks in sea food industry like vulnerability of demand, susceptibility to diseases, climate change and Government policies – JSFPL's revenues and profit margins are susceptible to the volatility in shrimp realisations, which in turn are driven by global demand-supply scenario. The risks of extreme climatic conditions and disease outbreaks are inherent in shrimp farming. Extreme climate would result in adverse farming conditions, which in turn affect mortality rates and the quality of shrimp farmed. Further, being an export-oriented unit, JSFPL's operating profitability is supported by the export incentives received from the Government of India (GoI). Any significant reduction in the incentive by the GoI or adverse changes in the foreign trade policies of the importing nations may affect JSFPL's business profile.

Liquidity position: Adequate

JSFPL's liquidity position is likely to remain adequate to meet its funding requirements, supported by expected steady earnings and adequate unutilised lines of credit. The free cash and bank balances stood at ~Rs. 10 crore as on March 31, 2023. It had ~Rs. 20 crore buffer in its working capital limits as on July 31, 2023. The company has debt repayment obligations of Rs. 8.9 crore, and Rs. 8.6 crore in FY2024 and FY2025, respectively. Nonetheless, cash accruals generated from the business are expected to stand at ~Rs. 16 crore and ~Rs. 21 crore, in FY2024 and FY2025, respectively.

Rating sensitivities

Positive factors – ICRA may upgrade JSFPL's ratings if a sustained growth in revenue and profitability strengthens its financial risk profile. Specific credit metrics that could lead to an upgrade of JSFPL's ratings include TOL/TNW <1.5 times on a sustained basis.

Negative factors – Pressure on JSFPL's ratings could arise if its cash accrual declines substantially from the current level, or if a stretch in the working capital cycle weakens its liquidity. The ratings may also be downgraded if there is a delay in ramping up of operations in the new processing facility, which was commissioned recently. Specific credit metrics that could lead to a downgrade of JSFPL's ratings include an interest cover of less than 3.5 times on a sustained basis.

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 standalone financials of JSFPL

About the company

JSFPL was incorporated in 1995 as a merchant exporter of shrimps, and it started processing and exporting shrimps from 2001. It has two processing units located at Bhimavaram, Andhra Pradesh and Movva, Krishna district, Andhra Pradesh with a cumulative installed processing capacity of ~80 MTPD (increased from ~40 MTPD with addition of the Movaa unit). The unit at Movva was commissioned in July 2023, and awaits regulatory approvals.

Key financial indicators

Standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income (Rs. crore)	490.1	507.2
PAT (Rs. crore)	18.2	18.7
OPBDIT/OI	5.9%	5.3%
PAT/OI	3.7%	3.7%
Total outside liabilities/Tangible net worth (times)	1.9	2.0
Total debt/OPBDIT (times)	4.6	6.0
Interest coverage (times)	7.3	5.0

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		Current rating (FY2024)				Chronology of Rating History for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021
						Nov 06, 2023	Mar 31, 2023	Dec 06, 2022	Nov 24, 2022	Nov 18, 2021	
1	Terms Loans	Long-term	40.00	35.93	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	--
2	Export Packing Credit	Long-term	158.00	--	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	--	--
3	Non-fund-based Limits	Short-term	17.00	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	--
4	Cash Credit	Long-term	--	--	--	--	--	--	--	[ICRA]BBB (Stable)	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Terms Loans	Simple
Export Packing Credit	Simple
Non-fund-based Limits	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
--	Terms Loans	Sep 2020	NA	Sep 2027	40.00	[ICRA]BBB (Stable)
--	Export Packing Credit	NA	NA	NA	158.00	[ICRA]BBB (Stable)
--	Non-fund-based Limits	NA	NA	NA	17.00	[ICRA]A3+

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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