

March 26, 2024

## Jayalakshmi Sea Foods Pvt. Ltd.: Ratings reaffirmed and assigned for enhanced amount ; outlook revised to Negative from Stable

### 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 Negative from Stable
Long-term Export Packing Credit	158.00	210.00	[ICRA]BBB reaffirmed/ assigned for enhanced amount; outlook revised to Negative from Stable
Short-term Non-fund-based Limits	17.00	17.00	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>215.00</b>	<b>267.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the outlook on the long-term rating to Negative from Stable takes into consideration the muted demand environment, leading to an expected weak performance in FY2024 and a deterioration in the financial profile of Jayalakshmi Sea Foods Pvt. Ltd (JSFPL) due to significant cost overrun and delay in commencement of commercial operations in its processing unit at Movva, Andhra Pradesh. While trial runs have been completed at the Movva unit, ICRA notes that certain approvals are awaited for starting commercial operations.

The ratings reaffirmation favourably 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 aqua culture belt of Andhra Pradesh, supporting its cost competitiveness.

The ratings, however, remain constrained by JSFPL's exposure to geographical concentration risk as the US accounted for ~87% of its export sales in 9M FY2024 (~83% in FY2023). It also remains exposed to the customer concentration risk as its top-five customers contributed ~70% to its export sales in 9M FY2024 (~59% in FY2023). The operating income of the entity is expected to moderate by ~10% in FY2024 owing to muted offtake from the US region, decline in realisation and intense competition from Ecuador.

The company also remains vulnerable to any adverse change in the export incentives in India and the foreign trade policies of importing nations. 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 factors, which may impact raw material availability and sales.

The Negative outlook on JSFPL's long-term rating reflects the subdued demand outlook, pressure on realisations and high working capital borrowings, which will keep the coverage indicators under pressure.

## 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 risk as it derives 100% of its revenues from Vannamei 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

**Exposed to high geographical and customer concentration risks** – The company registered sales of ~Rs. 330 crore in 9M FY2024, with the US contributing 87% 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 70% of the export sales in 9M FY2024. Nonetheless, established relationships with the customers mitigate this risk to an extent.

**Exposed to 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 risk of extreme climatic conditions and disease outbreaks are inherent in shrimp farming. Extreme climatic condition would result in adverse farming conditions, which in turn affect the 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 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 moderate 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. 60 crore buffer in its working capital limits as on January 30, 2024. 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. 19 crore and ~Rs. 20 crore, in FY2024 and FY2025, respectively.

### Rating sensitivities

**Positive factors** – The outlook on the long-term rating can be revised to Stable if the entity is able to significantly improve its revenues, while improving its profitability level and coverage metrics after commencement of commercial operations at its Movva unit.

**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. 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	<a href="#">Corporate Credit Rating Methodology</a>
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 MT per day (increased from ~40 MT per day after addition of the Movva unit). The unit at Movva was commissioned in July 2023 and regulatory approvals to start commercial operations are awaited.

## Key financial indicators

Standalone	FY2022 (Audited)	FY2023 (Audited)
Operating income (Rs. crore)	490.1	507.6
PAT (Rs. crore)	18.2	18.7
OPBDIT/OI	5.9%	5.4%
PAT/OI	3.7%	3.7%
Total outside liabilities/Tangible net worth (times)	1.9	2.0
Total debt/OPBDIT (times)	4.6	5.9
Interest coverage (times)	7.3	5.1

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 (FY2024)		Chronology of Rating History for the past 3 years								
		Amount rated (Rs. crore)	Amount outstanding as of Jan 30, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021	
				March 26, 2024	Nov 06, 2023	Mar 31, 2023	Dec 06, 2022	Nov 24, 2022	Nov 18, 2021	Apr 06, 2021	--	
1	Terms Loans	Long-term	40.00	29.93	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	--
2	Export Packing Credit	Long-term	210.00	--	[ICRA]BBB (Negative)	[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+	[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 (Negative)
--	Export Packing Credit	NA	NA	NA	210.00	[ICRA]BBB (Negative)
--	Non-fund-based Limits	NA	NA	NA	17.00	[ICRA]A3+

*Source: Company*

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

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