

May 24, 2024

Sandhya Marines Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash Credit	50.00	35.00	[ICRA]A+ (Stable); reaffirmed
Long-Term- Term Loan	-	25.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Packing Credit/ Foreign Bill Discounting	200.00	192.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Standby Line of Credit	40.00	38.00	[ICRA]A+ (Stable); reaffirmed
Short-Term – Bank Guarantee	15.50	15.50	[ICRA]A1; reaffirmed
Short-term – Forward Contact Limit	10.00	10.00	[ICRA]A1; reaffirmed
Total	315.50	315.50	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation for Sandhya Marines Limited (SML) considers the expected improvement in the company's performance in FY2025 after the same moderated in FY2024 due to a decline in processed shrimp volumes exported to the US market. Notwithstanding the volume drop in the shrimp processing division, improvement in performance in the shrimp feed division offset the impact to an extent. The consolidated revenues declined by ~9.3% on a YoY basis and stood at Rs. 1,981.4 crore in FY2024 (provisional). Its operating margins rose by ~100 bps in FY2024 on a YoY basis owing to various cost saving measures undertaken by the entity. However, imposition of 4.3% CVD (Countervailing duty) on shrimp exported to the US market from FY2025 could put pressure on the margins over a medium term. The ratings also consider the company's established track record in shrimp processing and shrimp feed businesses, and long relationship with its clientele, resulting in repeat orders. SML has a robust financial risk profile, characterised by a conservative capital structure, strong coverage indicators, healthy RoCE and a strong liquidity position. ICRA also notes the location specific advantage enjoyed by SML as its processing facilities are in proximity to the major aquaculture belt of Andhra Pradesh, which meets 98% of its raw material requirements, ensuring regular availability of raw materials at a low landed cost.

The ratings, however, remain constrained by SML's exposure to high geographical and customer concentration risks. SML derives ~43% of its income from shrimp processing, while the balance comes from the shrimp feed segment. Within the shrimp processing segment, in FY2024, SML derived ~90% of its income from the US, with the top three customers contributing ~63% to its shrimp processing sales. The shrimp feed is entirely sold in the domestic market. As ~55% of the consolidated sales comes from the export market, SML remains exposed to forex risks, although the same is mitigated to an extent because the company hedges around 40% of its receivables through forward contracts. Any significant reduction in incentive by the Government of India (GoI) or adverse changes in the foreign trade policies of the importing nations may affect the business profiles of all domestic players in the shrimp processing industry, including SML. The ratings are also affected by the fragmented nature of the industry and the inherent risks such as disease outbreaks and climate changes, which affect the quality of shrimps farmed.

The Stable outlook on the long-term rating reflects ICRA's expectation that an improvement in revenues and operating metrics of SML is likely to sustain. 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

Established track record of business – Established in 1987, SML has been involved in sea-foods business for more than three decades. Over the years, the company has expanded its product portfolio by venturing into value-added shrimp, which yields higher margins. It has also diversified into production of shrimp feed. The promoters and directors have extensive experience in the industry, which enabled SML to build a strong customer base. Repeat orders from the clients reflect acceptable product quality.

Strong financial risk profile – SML's consolidated revenues declined by ~9.3% in FY2024 to Rs. 1,981.4 crore on a YoY basis, owing to a decline in shrimp processing volumes exported to the US market. Despite volume dips in the shrimp processing division, improvement in performance in the shrimp feed division offset the impact to an extent. Its standalone operating margins rose by ~100 bps in FY2024 on a YoY basis owing to various cost saving measures undertaken by the entity. SML's capital structure, on a consolidated basis, remained conservative over the years due to steady accretion to reserves, as reflected by TOL/TNW of 0.2 times as on March 31, 2023, supported by cash and liquid investments worth ~Rs. 528.8 crore. A conservative capital structure and healthy profits at an absolute level kept SML's debt coverage metrics strong, as reflected by an interest coverage of 30.0 times in FY2023. The RoCE also stood at a comfortable level of 29.3% in FY2023. SML's liquidity position remains strong, supported by cash and liquid investments.

Location-specific advantages – SML's processing facilities are located in proximity to the major aquaculture belt of Andhra Pradesh, ensuring continuous availability of raw materials at low transportation costs. Andhra Pradesh contributes 98% to the raw material requirements of SML.

Credit challenges

High geographical and customer concentration risks – SML remains exposed to high geographical concentration risk as it derived around 90% of its processing segment revenues from the US, while the entire feed segment revenue was derived from India in 9M FY2024, on a standalone basis. Further, the top three customers contributed 63% to its standalone sales in the processing segment in 9M FY2024, indicating high customer concentration. Nevertheless, ICRA notes that the top three customers contributed only 16% to the feed segment's standalone sales in 9M FY2024.

Vulnerable to adverse changes in export incentives, international trade policies and forex risk – SML derived around 55% of its sales in FY2024 from export markets on a consolidated basis. Therefore, its operating profitability is supported by export incentives received from the GoI. Any significant reduction in incentive by the GoI or adverse changes in the foreign trade policies of the importing nations may affect SML's business profile. SML remains exposed to forex risks, although 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 SML's bargaining power and pricing flexibility, exerting pressure on its margins. Moreover, SML's revenues and profit margins are 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

The liquidity of the company is expected to remain strong over a medium term with expected healthy cash flow from operations, supported by a cash buffer of Rs. 528.8 crore as on March 31, 2023 (on a consolidated basis) and undrawn working capital limits of ~Rs. 177.0 crore as on December 31, 2023. Against these sources of cash, SML has incurred capex worth ~Rs. 97.3 crore in FY2024, funded by term loan of Rs. 20.2 crore and the balance through internal accruals. The retained cash flows are expected to stay healthy going forward, with strong cash buffer, undrawn working capital limits and nominal repayment obligation, despite capex plan of Rs.70 crore in FY2025.

Rating sensitivities

Positive factors – ICRA may upgrade the company’s ratings if there is a sustained improvement in the scale of business, supported by client and geographical diversification, while maintaining its profitability and coverage metrics.

Negative factors – Pressure on the company’s ratings may arise if there is a deterioration in profitability and credit metrics. Any large debt-funded capital expenditure or an elongation in the working capital cycle, resulting in a stretched liquidity position may also lead to a downward revision of ratings. Specific credit metrics that may trigger ratings downgrade include Total Debt/OPBDITA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Sandhya Marines Limited and its subsidiary, Aquatica Frozen Foods Global Private Limited, as mentioned in Annexure II.

About the company

Incorporated in 1987, Sandhya Marines Limited’s (SML) facilities are located in the major aqua-culture belt of Andhra Pradesh. It is involved in processing of shrimps and manufacturing of shrimp feed. In FY2024, processed shrimps and shrimp feed segments contributed 55% and 45% to the consolidated sales, respectively. While the processed shrimps are mainly exported to the US, the entire shrimp feed manufactured by the company is sold in the domestic market. SML holds a 59.9% stake in Aquatica Frozen Foods Global Private Limited, which is involved in shrimp processing.

Key financial indicators (Audited)

	Standalone		Consolidated	
	FY2023	FY2024 *	FY2023	FY2024 *
Operating income (Rs. crore)	1731.5	1578.3	2184.9	1981.4
PAT (Rs. crore)	199.5	-	233.4	-
OPBDIT/OI	15.6%	16.4%	15.0%	-
PAT/OI	11.5%	-	10.7%	-
Total outside liabilities/Tangible net worth (times)	0.2	-	0.2	-
Total debt/OPBDIT (times)	0.4	0.6	0.5	-
Interest coverage (times)	42.4	31.2	30.0	-

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA’s calculations

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	Amount outstanding as on March 31, 2024	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
		(Rs. crore)	(Rs. crore)	May 24, 2024	-	Mar 30, 2023	Jan 06, 2022
1 Cash Credit	Long-term	35.00	--	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Packing Credit/ Foreign Bill Discounting	Long-term	192.00	--	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Standby Line of Credit	Long-term	38.00	--	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4 Term Loan	Long-term	25.00	20.2	[ICRA]A+ (Stable)	-	-	-
5 Bank Guarantee	Short-term	15.50	--	[ICRA]A1	-	[ICRA]A1	[ICRA]A1
6 Inland Letter of Credit	Short-term	--	--	--	-	-	[ICRA]A1
7 Forward Contract Limit	Short-term	10.00	--	[ICRA]A1	-	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Packing Credit/Foreign Bill Discounting	Simple
Standby Line of Credit	Simple
Term Loan	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
--	Cash Credit	-	-	-	35.00	[ICRA]A+ (Stable)
--	Packing Credit/Foreign Bill Discounting	-	-	-	192.00	[ICRA]A+ (Stable)
--	Standby Line of Credit	-	-	-	38.00	[ICRA]A+ (Stable)
--	Term Loan	FY 2024	-	FY 2029	25.00	[ICRA]A+ (Stable)
--	Bank Guarantee	-	-	-	15.50	[ICRA]A1
--	Forward Contract Limit	-	-	-	10.00	[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:

Company Name	Ownership	Consolidation Approach
Aquatica Frozen Foods Global Private Limited	59.92%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

G S Ramakrishnan
+91 44 4596 4300
g.ramakrishnan@icraindia.com

Trusha Mahendra Patil
+91 9423503574
trusha.patil@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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