August 19, 2024

Sagar Grandhi Exports Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – term loans	5.60	4.60	[ICRA]BBB+ (Stable); reaffirmed
Short-term – export packing credit	110.00	160.00	[ICRA]A2; reaffirmed
Short-term – foreign bill discounting	260.00	220.00	[ICRA]A2; reaffirmed
Short-term – letter of credit	10.00	-	-
Short-term – interchangeable letter of credit	-	(10.0)	[ICRA]A2; reaffirmed
Short-term – loan equivalent risk	8.00	9.00	[ICRA]A2; reaffirmed
Short-term – unallocated limits	4.89	4.89	[ICRA]A2; reaffirmed
Total	**398.49**	**398.49**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation for Sagar Grandhi Exports Private Limited (SGEPL) considers the expected improvement in operational and financial performances in FY2025 after witnessing a moderate recovery in FY2024 compared to the levels witnessed in FY2023. The decline in shrimp realisation was offset by a 26% YoY increase in export volumes, leading to an 11% increase in the operating income to Rs. 1,148.7 crore in FY2024 (provisional). The operating margins moderated to 4.7% in FY2024 due to higher raw material prices. The ratings also factor in the long experience of the promoters in the seafood industry spanning more than two decades and the long relationships with its clientele, resulting in repeat orders. The ratings also consider the location-specific advantage enjoyed by SGEPL as its processing units are in proximity to the major aquaculture belt of Andhra Pradesh, resulting in regular and easy availability of raw materials at a low landed cost. The ratings also derive comfort from the financial risk profile of SGEPL, which is characterised by comfortable gearing and interest coverage.

The ratings, however, remain constrained by the high working capital intensity of operations, caused by a high inventory holding period and a stretched receivable cycle. Despite reduction in the working capital intensity to 39% in FY2024 from 48% in FY2023, it remains high. The ratings are also impacted by SGEPL's exposure to high geographical concentration risk as the US contributed ~72% to its revenues in FY2024. The company is also vulnerable to high customer concentration risk as the top five customers accounted for ~91% of its export revenues in FY2024. SGEPL's exposure to forex fluctuation risks persists because 96% of its sales comes from export markets. Nonetheless, the impact is mitigated to an extent as it hedges around 40% of its export receivables through forward cover. The company also remains susceptible to any significant reduction in incentives 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 SGEPL. The ratings are also impacted by the fragmented nature of the industry, which limits SGEPL's pricing flexibility, exerting pressure on its margins. Further, the company is susceptible to inherent industry 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 SGEPL 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

Long experience of promoters in the seafood industry – Established in 1996, SGEPL has been involved in processing and exporting of seafood, the company is promoted by the Grandhi family. SGEPL is run by Mr. Grandhi Balaji, Mr. Grandhi Srinivas, and Mr. Grandhi Chella Rao, who have long experience in the seafood industry. The extensive experience of the promoters has helped SGEPL in developing established relationships with customers and ensuring repeat orders.

Benefits arising from location-specific advantages of the processing units – SGEPL's processing facilities are in proximity to the major aquaculture belt of Andhra Pradesh, ensuring continuous availability of raw materials at a low transportation cost. ICRA notes that around 95% of SGEPL's raw material requirement is met from Andhra Pradesh.

Financial risk profile characterised by comfortable capital structure and interest coverage – SGEPL's total debt, primarily comprising working capital borrowings, has reduced to Rs. 169.5 crore as on March 31, 2024 (provisional) from Rs. 230.3 crore as on March 31, 2023. Reduction in the working capital intensity to 39% in FY2024 from 48% in FY2023 was due to a fall in the receivable and inventory holdings, which supported the reduction in working capital borrowings. Total debt / TNW improved to 0.5 times as on March 31, 2024, from 0.7 times as on March 31, 2023. A moderation in the operating margin to 4.7% in FY2024 from 5.3% in FY2024 resulted in a reduction in the interest coverage to 3.2 times in FY2024 from 3.4 times in FY2023. However, coverage indicators remained comfortable, and the reduction in the working capital borrowings led to an improvement in total debt/OPBDITA to 3.3 times in FY2024 from 4.3 times in FY2023.

Sizeable scale of operations – SGEPL's operating income improved by ~11% in FY2024 to ~Rs. 1,148.7 crore (provisional) on a YoY basis, on the back of improvement in sales volumes exported to key markets, however, there was a dip in realisation owing to intense competition from Ecuador, which enjoys the advantage of being geographically proximate to the US and other western markets. Nevertheless, the scale of operations continues to remain at a sizeable level. SGEPL is expected to post a marginal revenue growth in FY2025 with an improvement in demand in key export markets.

Credit challenges

Liquidity impacted by high working capital intensity – Despite a reduction in the working capital intensity to 39% in FY2024 from 48% in FY2023, it remains elevated. Reduction in the receivable days to 54 in FY2024 from 74 in FY2023 and dip in the year-end inventory holding to 88 days in FY2024 from 104 days in FY2023, supported the drop in working capital borrowings.

High geographical and customer concentration risks – SGEPL remains exposed to significant geographical concentration risk as it derived around 79% of its export sales in FY2024 from the US (70% in FY2023). Further, export sales derived from the top five customers stood at 91% in FY2024 (91% in FY2023), indicating high customer concentration risk. However, long relationships with the clientele mitigate delinquency risks to an extent.

Fragmented nature of the industry and inherent industry risks – Indian shrimp exporters face stiff competition from countries such as Indonesia, Ecuador 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 intense competition limits SGEPL's bargaining power and pricing flexibility, exerting pressure on its margins. Moreover, SGEPL's revenue 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 conditions 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.

Vulnerability to adverse changes in export incentives, international trade policies and forex risk – SGEPL, being an export-oriented entity, derived ~96% of its revenues in FY2024 from the export markets. Therefore, the company's 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 (including imposition of additional duties like countervailing duty) may affect the business profiles of all domestic shrimp processors, including SGEPL. The company also remains exposed to forex fluctuation risk although the same is mitigated to an extent as it hedges around 40% of its exposure through forward cover.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate over the medium term with adequate cash flow from operations, supported by a cash buffer of ~Rs. 8.1 crore as on March 31, 2024, and undrawn working capital limits of ~Rs. 210 crore as on March 31, 2024. The entity has no major capital expenditure plans, and its repayment obligations remain nominal at Rs. 3.4 crore and Rs. 2.2 crore in FY2025 and FY2026, respectively.

Rating sensitivities

Positive factors – ICRA may upgrade SGEPL's ratings if there is a significant decline in the working capital intensity, leading to an improvement in the overall liquidity position.

Negative factors – Pressure on SGEPL's ratings may arise if the working capital intensity of operations worsens, affecting the liquidity position of the company. Specific metrics that could lead to ratings downgrade include an interest coverage of less than 3 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 standalone financials of the company.

About the company

Established in 1996, Sagar Grandhi Exports Private Limited (SGEPL) is involved in processing and exporting of seafood from India. The company was promoted by Late G. Venkateswara Rao. The business is now managed by his sons, Mr. G. Balaji, Mr. G. Chella Rao, and Mr. G Srinivas. The company has two processing facilities in Andhra Pradesh with an overall capacity of 144 MTPD. The company sources a major part of its raw materials from Andhra Pradesh. The US remains the major export destination for SGEPL.

Key financial indicators

Standalone	FY2023 (Audited)	FY2024 (Provisional)
Operating income (Rs. crore)	1,032.2	1,148.7
PAT (Rs. crore)	29.8	30.6
OPBDIT/OI	5.3%	4.7%
PAT/OI	2.9%	2.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.5
Total debt/OPBDIT (times)	4.3	3.3
Interest coverage (times)	3.4	3.2

Source: Company, ICRA Research; 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	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long-term	4.60	19-Aug-2024	[ICRA]BBB+ (Stable)	03-Jul-2023	[ICRA]BBB+ (Stable)	09-Jun-2022	[ICRA]BBB+ (Stable)	27-Dec-2021	[ICRA]A- (Negative)
Export Packaging Credit	Short-term	160.00	19-Aug-2024	[ICRA]A2	03-Jul-2023	[ICRA]A2	09-Jun-2022	[ICRA]A2	27-Dec-2021	[ICRA]A2+
Foreign Bill Discounting	Short-term	220.00	19-Aug-2024	[ICRA]A2	03-Jul-2023	[ICRA]A2	09-Jun-2022	[ICRA]A2	27-Dec-2021	[ICRA]A2+
Letter of Credit	Short-term	0.00	19-Aug-2024	-	03-Jul-2023	[ICRA]A2	09-Jun-2022	[ICRA]A2	27-Dec-2021	[ICRA]A2+
Loan Equivalent Risk	Short-term	9.00	19-Aug-2024	[ICRA]A2	03-Jul-2023	[ICRA]A2	09-Jun-2022	[ICRA]A2	27-Dec-2021	[ICRA]A2+
Interchangeable Letter of Credit	Short-term	(10.0)	19-Aug-2024	[ICRA]A2	-	-	-	-	-	-
Unallocated Limits	Short-term	4.89	19-Aug-2024	[ICRA]A2	03-Jul-2023	[ICRA]A2	09-Jun-2022	[ICRA]A2	27-Dec-2021	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Packing Credit	Simple
Foreign Bill Discounting	Simple
Letter of Credit	Very Simple
Loan Equivalent Risk	Very Simple
Unallocated Limits	NA

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
--	**Term Loan 1**	October 2021	--	October 2025	0.97	[ICRA]BBB+ (Stable)
--	**Term Loan 2**	February 2022	--	February 2028	3.63	[ICRA]BBB+ (Stable)
--	**Export Packaging Credit**	--	--	--	160.00	[ICRA]A2
--	**Foreign Bill Discounting**	--	--	--	220.00	[ICRA]A2
--	**Interchangeable Letter of Credit**	--	--	--	(10.0)	[ICRA]A2
--	**Loan Equivalent Risk**	--	--	--	9.00	[ICRA]A2
--	**Unallocated Limits**	--	--	--	4.89	[ICRA]A2

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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