March 30, 2023

Sandhya Marines Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash Credit	45.00	50.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Packing Credit/ Foreign Bill Discounting	170.00	200.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Standby Line of Credit	30.00	40.00	[ICRA]A+ (Stable); reaffirmed
Short-Term – Bank Guarantee	15.50	15.50	[ICRA]A1; reaffirmed
Short-term – Inland Letter of Credit	5.00	-	-
Short-term – Forward Contact Limit	10.00	10.00	[ICRA]A1; reaffirmed
Total	**275.50**	**315.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation of Sandhya Marines Limited (SML) factors in the established track record of the company in the shrimp processing and shrimp feed business, long relationship with its clientele resulting in repeat orders and a significant top line growth witnessed in FY2022. SML's consolidated revenue grew by ~60% on a YoY basis, aided by a strong volume growth in both the shrimp processing and feed segment. However, the company is likely to post a moderate revenue decline in the current fiscal owing to subdued demand conditions. The consolidated revenues excluding export incentives stood at ~Rs. 1,937 crore in 11M FY2023, reflecting a ~1% growth on a YoY basis. The OPM improved to ~14.4% in FY2022 from 13.4% in FY2021, aided by improved realisation in the processing segment although the feed segment's profitability was under pressure due to higher input cost. The ratings continue to consider SML's 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 fulfils 98% of its raw material requirements, leading to regular availability of raw materials at low landed costs.

The ratings, however, remain constrained by SML's exposure to high geographical and customer concentration risks. In FY2022, SML derived ~91% of its standalone shrimp processing sales from the US with the top 3 customers contributing ~70% to the sales. The shrimp feed is entirely sold in the domestic market. With ~65% of the consolidated sales generated from the export market, SML remains exposed to forex risks although the same is mitigated to an extent as the company hedges around 50% of its receivables through forward contracts. 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 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 the shrimps farmed.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that SML is expected to maintain its business position while sustaining the profitability levels.

Key rating drivers and their description

Credit strengths

Established track record of business – Founded 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 shrimps, which yield higher margins than the non-value-added products, as well as shrimp feed. The promoters and directors have long experience in the industry, which enabled SML to build a strong customer base, ensuring repeat orders and reflecting acceptable product quality.

Strong financial risk profile – SML's consolidated revenues grew significantly by ~60% in FY2022 to ~Rs. 2,250 crore, aided by a ~96% and ~42% growth in the shrimp feed and processing segment, respectively. The growth in the feed segment was aided by excess production capacity available in FY2022 over FY2021, leading to higher production and sales volumes. On the other hand, the sales volumes in the processing segment were boosted by favourable demand conditions in the US, which is the major export destination for Indian shrimp exporters. SML's capital structure remained conservative over the years due to steady accretion to reserves, as reflected by a gearing and TOL/TNW of 0.6 times and 0.7 times, respectively, as on March 31, 2022. The net gearing stood at 0.2 times as on March 31, 2022, supported by cash and liquid investments of ~Rs. 241 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 38.8 times (39.4 times in FY2021) and NCA/TD of 63.1% (55.8% in FY2021) in FY2022. The RoCE also stood at a comfortable level of 35.5% in FY2022. SML's liquidity position remains strong, supported by cash and liquid investments of Rs. 241.3 crore as on March 31, 2022. The cash and liquid investments are expected to increase further in the current fiscal.

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 91% of its processing segment revenue from the US and the entire feed segment revenue from India in FY2022, on a standalone basis. Further, the top three customers contributed 70% to its standalone sales in the processing segment in FY2022, indicating high customer concentration. Nevertheless, ICRA notes that the top three customers contributed only 16% to the feed segment's standalone sales in FY2022.

Vulnerable to adverse changes in export incentives, international trade policies and forex risk – SML derived around 65% of its sales in FY2022 from export markets. Therefore, its operating 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 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 50% 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 Indonesia, Ecuador and Vietnam in the export market. 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 likely to remain strong. SML's fund flow from operations increased to Rs. 241.5 crore in FY2022 from Rs. 141.5 crore in FY2021 driven by a significant increase in the scale of operations. However, its cash flow from operations declined 62% to Rs. 20.4 crore in FY2022 owing to increased working capital requirements due to a significant increase in revenues. The company's free cash balance stood at around Rs. 241 crore as on March 31, 2022. The average working capital limits utilisation stood at 76% and 18% in the processing and feed segment, respectively, in the 14 months ended in February 2023, leaving the company with sizeable undrawn limits. Moreover, the company's repayment obligations also remain nominal. These factors are expected to keep SML's liquidity position strong despite the sizeable capex plans worth ~Rs. 80 crore lined up in the near term.

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 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 in the 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 Rating Approach – Consolidation
Parent/Group support	NA
Consolidation/Standalone	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 FY2022, processed shrimps and shrimp feed contributed 65% and 35% 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	
	FY2021	FY2022	FY2021	FY2022
Operating income (Rs. crore)	992.3	1,662.5	1,401.6	2,249.6
PAT (Rs. crore)	99.0	174.2	129.6	235.0
OPBDIT/OI	13.5%	14.1%	13.4%	14.4%
PAT/OI	10.0%	10.5%	9.2%	10.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.6	0.6	0.7
Total debt/OPBDIT (times)	1.1	1.2	1.3	1.2
Interest coverage (times)	41.1	51.0	39.4	38.8

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Mar 30, 2023	Jan 06, 2022	Feb 15, 2021	Jan 13, 2020	Dec 30, 2019
1	Cash Credit	Long-term	50.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	--	[ICRA]A (Stable)	-
2	Packing Credit/Foreign Bill Discounting	Long-term	200.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	--	-	-
3	Standby Line of Credit	Long-term	40.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	--	-	-
4	Bank Guarantee	Short-term	15.50	--	[ICRA]A1	[ICRA]A1	--	-	-
5	Inland Letter of Credit	Short-term	-	--	--	[ICRA]A1	--	-	-
6	Forward Contract Limit	Short-term	10.00	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
7	Fund-based	Short-term	--	--	--	--	[ICRA]A1	[ICRA]A1	[ICRA]A1
8	Non-fund-based	Short-term	--	--	--	--	--	[ICRA]A1	[ICRA]A1
9	Unallocated	Long-term	--	--	--	--	--	[ICRA]A (Stable)	-
10	Interchangeable	Long-term	--	--	--	--	--	-	[ICRA]A (Stable)
11	Cash Credit	Short-term	--	--	--	--	--	-	[ICRA]A1
12	Sub-limits	Long-term	--	--	--	--	--	-	[ICRA]A (Stable)
13	Letter of Credit	Short-term	--	--	--	--	--	-	[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
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	-	-	-	50.00	[ICRA]A+ (Stable)
--	Packing Credit/Foreign Bill Discounting	-	-	-	200.00	[ICRA]A+ (Stable)
--	Standby Line of Credit	-	-	-	40.00	[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

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About ICRA Limited:

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