July 03, 2023

# 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** | 9.20 | 5.60 | [ICRA]BBB+ (Stable); reaffirmed |
| **Short-term – Export Packaging Credit** | 110.00 | 110.00 | [ICRA]A2; reaffirmed |
| **Short-term – Foreign Bill Discounting** | 260.00 | 260.00 | [ICRA]A2; reaffirmed |
| **Short-term – Letter of Credit** | 10.00 | 10.00 | [ICRA]A2; reaffirmed |
| **Short-term – Loan Equivalent Risk** | 8.00 | 8.00 | [ICRA]A2; reaffirmed |
| **Short-term – Unallocated Limits** | 1.29 | 4.89 | [ICRA]A2; reaffirmed |
| **Total** | **398.49** | **398.49** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of Sagar Grandhi Exports Private Limited's (SGEPL) ratings factors 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 as its processing units are in proximity to the major aquaculture regions 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 a comfortable gearing and interest coverage. Although the operating income (OI) declined ~15% to ~Rs. 1,032 crore in FY2023 (provisional), the scale of operations still remains at a sizeable level.

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. The ratings are also impacted by SGEPL's exposure to high geographical concentration risk as the US contributed ~70% to its sales in FY2023. The company is also vulnerable to high customer concentration risk as the top five customers accounted for ~91% of its sales in FY2023. SGEPL is exposed to forex fluctuation risks as 95% of its sales is generated from export markets. Nonetheless, the same is mitigated to an extent as it hedges around 50% of its export receivables through forward covers. The company also remains susceptible 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 of India 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 business, including SGEPL. The ratings are also impacted by the fragmented nature of the industry, which limits SGEPL's pricing flexibility, thereby 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 [ICRA]BBB+ rating reflects ICRA's opinion that SGEPL will continue to maintain its business position and profitability.

## Key rating drivers and their description

### Credit strengths

**Long experience of promoters in the seafood industry –** Established in 1996, Sagar Grandhi Exports Private Limited was promoted by the Grandhi family. The firm is run by Mr. Grandhi Balaji, Mr. Grandhi Srinivas and Mr. Grandhi Chellarao, who have long experience in the sea-food industry. Long experience of the promoters has helped SGEPL in developing established relationships with customers, ensuring repeat orders.

**Benefits arising from location-specific advantages of the processing units –** SGEPL's processing facilities are in proximity to the major aquaculture regions 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, reduced to Rs. 237.4 crore as on March 31, 2023 (provisional) from Rs. 368.5 crore as on March 31, 2022, due to a decline in the top line. Thus, the gearing improved to 0.7 times as on March 31, 2023 from 1.2 times as on March 31, 2022. Although the OI declined by ~15%, the OPBDITA margin improved by 190 bps due to a significant moderation in the freight costs, leading to an increase in absolute profits. Consequently, the interest coverage remained comfortable at 3.5 times in FY2023 while total debt/OPBDITA improved to 4.1 times in FY2023 from 8.3 times in FY2022.

**Sizeable scale of operations –** The company's operating income declined by ~15% to ~Rs. 1,032 crore in FY2023 on the back of a 18.5% fall in sales volumes while the realisations increased by 2.2%. The volume decline was driven by a poor demand scenario for Indian shrimps in the US (SGEPL's key market) amid intense competition from Ecuador. Nonetheless, the scale of operations continues to remain at a sizeable level. SGEPL is expected to post a marginal revenue growth in FY2024.

### Credit challenges

**Liquidity impacted by high working capital intensity of operations –** SGEPL's working capital intensity of operations continues to remain at an elevated level, characterised by a net working capital/OI of ~48% in FY2023 (49% in FY2022). This is due to a high inventory holding as well as a stretched receivable cycle. The high working capital intensity of operations has impacted the company's liquidity.

**High geographical and customer concentration risks –** SGEPL remains exposed to significant geographical concentration risk as it derived around 70% of its export sales in FY2023 from the US (79% in FY2022). Further, sales derived from the top five customers stood at 91% in FY2023 (89.3% in FY2022), indicating high customer concentration risk. However, long relationships with 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 and Ecuador in the export markets. Further, low entry barriers expose them to competition from players in the domestic market. Such intense competition limits SGEPL's bargaining power and pricing flexibility, exerting pressure on its margins. SGEPL's revenue and profit margins are also susceptible to volatility in shrimp realisations and raw shrimp prices, which are driven by the demand-supply scenario. Moreover, 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.

**Vulnerability to adverse changes in export incentives, international trade policies and forex risk –** SGEPL's profitability is supported by export incentives received from the Government of India (GoI) as it is an export-oriented entity. Any significant reduction in incentive by the GoI or adverse changes in the foreign trade policies of the importing nations 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 50% of its exposure through forward cover.

## Liquidity position: Adequate

The company's liquidity position is expected to remain adequate. The company generated cash flow from operations of Rs. 92.7 crore in FY2023. The average working capital limits utilisation stood at ~78% in the twelve months ended May 2023, leaving the company with a moderate buffer. As on May 31, 2023, the buffer on working capital limits stood at around Rs. 137 crore. The repayment obligation stands nominal at Rs. 3.1 crore, Rs. 3.1 crore and Rs. 0.9 crore in FY2024, FY2025 and FY2026, respectively. Moreover, the liquidity is supported by the absence of major capex plans.

## 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 a rating 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 Mr. G. Venkateswara Rao. The business is now managed by his sons, Mr. G. Balaji, Mr. G. Chella Rao, and Mr. Grandhi Srinivas. The company has two processing facilities in Andhra Pradesh with an overall capacity of 142 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 | FY2022 (Audited) | FY2023 (Provisional) |
|---|---|---|
| **Operating income (Rs. crore)** | 1,216.5 | 1,032.2 |
| **PAT (Rs. crore)** | 34.5 | 31.5 |
| **OPBDIT/OI** | 3.7% | 5.6% |
| **PAT/OI** | 2.8% | 3.1% |
| **Total outside liabilities/Tangible net worth (times)** | 1.3 | 0.7 |
| **Total debt/OPBDIT (times)** | 8.3 | 4.1 |
| **Interest coverage (times)** | 3.5 | 3.5 |

*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 |
| | | | | | Jul 03, 2023 | Jun 09, 2022 | Dec 27, 2021 | Nov 26, 2020 |
| **1** | Term Loans | Long-term | 5.60 | 5.60 | **[ICRA]BBB+ (Stable)** | **[ICRA]BBB+ (Stable)** | **[ICRA]A- (Negative)** | **[ICRA]A- (Stable)** |
| **2** | Export Packaging Credit | Short-term | 110.00 | -- | **[ICRA]A2** | **[ICRA]A2** | **[ICRA]A2+** | **[ICRA]A2+** |
| **3** | Foreign Bill Discounting | Short-term | 260.00 | -- | **[ICRA]A2** | **[ICRA]A2** | **[ICRA]A2+** | **[ICRA]A2+** |
| **4** | Letter of Credit | Short-term | 10.00 | -- | **[ICRA]A2** | **[ICRA]A2** | **[ICRA]A2+** | **--** |
| **5** | Loan Equivalent Risk | Short-term | 8.00 | -- | **[ICRA]A2** | **[ICRA]A2** | **[ICRA]A2+** | **--** |
| **6** | Unallocated Limits | Short-term | 4.89 | -- | **[ICRA]A2** | **[ICRA]A2** | **--** | **--** |
| **7** | Bank Guarantee | Long-term | -- | -- | **--** | **--** | **--** | **[ICRA]A- (Stable)** |

## 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 | 1.88 | [ICRA]BBB+ (Stable) |
| -- | Term Loan 2 | February 2022 | -- | March 2025 | 3.72 | [ICRA]BBB+ (Stable) |
| -- | Export Packaging Credit | -- | -- | -- | 110.00 | [ICRA]A2 |
| -- | Foreign Bill Discounting | -- | -- | -- | 260.00 | [ICRA]A2 |
| -- | Letter of Credit | -- | -- | -- | 10.00 | [ICRA]A2 |
| -- | Loan Equivalent Risk | -- | -- | -- | 8.00 | [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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