

September 01, 2017

Apex Frozen Foods Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs crore)	Rating Action
Fund-based – Term Loan	5.59	[ICRA]BBB-(Stable) ISSUER NOT COOPERATING*; Rating moved to the ‘Issuer not cooperating’ category
Fund-based – Cash Credit	45.00	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING*; Rating moved to the ‘Issuer not cooperating’ category
Fund Based – Short Term	45.00	[ICRA]A3 ISSUER NOT COOPERATING*; Rating moved to the ‘Issuer not cooperating’ category
Non Fund based – Short term	8.00	[ICRA]A3 ISSUER NOT COOPERATING*; Rating moved to the ‘Issuer not cooperating’ category
Unallocated – Long term/Short term	3.37	[ICRA]BBB-(Stable)/[ICRA]A3 ISSUER NOT COOPERATING*; Rating moved to the ‘Issuer not cooperating’ category
Total	106.96	

*Issuer did not co-operate; Based on best available information.

^Instrument Details captured under Annexure-1

Rating action

ICRA has moved the ratings for the Rs. 106.96 crore bank facilities of Apex Frozen Foods Limited (AFFL) to the ‘Issuer Not Cooperating’ category. The rating is now denoted as: “[ICRA]BBB-(Stable)/[ICRA]A3; ISSUER NOT COOPERATING”.

Rationale

The rating is based on limited or no updated information on the entity’s performance since the time it was last rated in October, 2016. The lenders, investors and other market participants are thus advised to exercise appropriate caution while using this rating as the rating does not adequately reflect the credit risk profile of the entity. The entity’s credit profile may have changed since the time it was last reviewed by ICRA; however, in the absence of requisite information, ICRA is unable to take a definitive rating action.

As part of its process and in accordance with its rating agreement with AFFL, ICRA has been trying to seek information from the entity so as to monitor its performance, but despite repeated requests by ICRA, the entity’s management has remained non-cooperative. In the absence of requisite information, and in line with SEBI’s Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 01, 2016, ICRA’s Rating Committee has taken a rating view based on the best available information.

Key rating drivers

Credit strengths

- **Significant experience of promoters in the seafood export business** – The promoters of the company Mr. K. Satyanarayana Murthy and Mr. K.S. Choudhary have started processing and exporting of sea foods in 1997 as a partnership firm in the name of Apex Exports. The promoters have more than 20 years of experience in shrimp export business. The company exports cultured and sea caught shrimps of Vannamei variety.

- **Benefits arising from the favourable location of the company's processing facilities and its proximity to the major aquaculture belt of Andhra Pradesh** – AFFL processes and exports cultured and sea-caught shrimps of both Vannamei and Black Tiger varieties primarily to the US and European markets. The processing plant is located at Kakinada, which is in a major aqua-culture belt of Andhra Pradesh. AFFL procures most of its shrimps directly from farmers, as well as through its own farming. It has partially backward integrated into shrimp farming (both in owned and leased lands), which ensures better yield due to better farming practices, resulting in reduced dependence on farmers for shrimp procurement.
- **Established relationship with procurement agents and customers resulting in repeat orders** - The Company has established relationship with its key clients and receives repeat orders from them. The client profile of AFFL mainly includes established traders and retail outlets in USA. The client concentration risk has been high with top 10 clients contributing ~85% of the total sales in FY2016. The major clients in FY 2016 include Ocean World Ventures LLC, Chicken of the Sea Frozen Foods, Pacific Sea Food Group based out of USA. Further, majority of the finished products are sold under the brands owned by the customer.
- **Improved coverage indicators with interest coverage ratio of 3.90 times, NCA/Debt at 31% and Total debt/OPBDIT at 1.95 times in FY2016** - The total debt level decreased from Rs. 90.37 crore as on March 31, 2015 to Rs. 79.22 crore as on March 31, 2016 due to decrease in working capital borrowings while the net worth of the company increased from Rs. 54.48 crore as on March 31, 2015 to Rs. 73.43 crore as on March 31, 2016 due to healthy accretion to reserves. The interest coverage ratio increased from 3.61 times in FY2015 to 3.90 times in FY2016 owing to improved operating margins. Further, NCA/Debt increased to 31% in FY2016 from 21% in FY2015 due to decreased debt levels.

Credit weaknesses

- **Downward pressure in the shrimp prices globally in FY2016 owing to increased competitive pressures with excess supply from other countries such as Indonesia, Thailand and Vietnam** - Owing to supply and demand constraints, the shrimp's prices increased during FY2013 and FY2014 as the shrimp production of other exporting countries such as Vietnam, Thailand and Indonesia was affected by shrimp diseases and demand from the US and EU was fulfilled primarily from India. From FY2015, shrimp production of other shrimp-exporting countries has improved and therefore shrimp prices are moderating. In FY2016, processed shrimp prices noted a steep downtrend trend due to excess supply of shrimps from various countries in an already saturated market and increased competition from other shrimp-exporting countries.
- **High geographic concentration risk with the US market accounting for about 86% of sales in FY2016; however, the demand outlook remains favourable from the USA** - The US has been one of the major export markets of AFFL, contributing 85-90% to total revenues over the last three years. Increase in demand, coupled with depreciation of the rupee against the dollar, proved beneficial for AFFL in the last few years in terms of profitability. In addition to the US, AFFL also exports to European markets. The contribution of sales to the UK remains at ~6% for the last two years.
- **Highly fragmented industry structure with intense competition from domestic players and shrimp-exporting nations, due to low-entry barriers, and from cheaper varieties of sea food, limiting margin expansion** - The Indian seafood export industry is highly fragmented with a large number of players. This is mainly a consequence of low capital and technology intensity of operations, resulting in low-entry barriers. In addition to the intense domestic competition, Indian exporters also face competition from overseas markets such as Vietnam, Indonesia and Thailand, which are the major producers of the Vannamei shrimp variety. Brazil, Mexico and Ecuador are also contenders in this regard. The competition is further accentuated as the end product has low-value addition and there is no product differentiation between players. Besides, shrimps face competition from alternative seafood as well. These factors have resulted in an intensely competitive industry.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:

Corporate Credit Ratings: A Note on Methodology

About the company:

Apex Frozen Foods Limited (AFFL) is promoted by Mr. K.S. Choudhary and Mr. K. Satyanarayana Murthy and is into processing and exporting seafood from 1997. It was founded as a partnership firm under the name of Apex Exports in 1997, which was later converted into a private limited company in March 2012 and public limited company in November 2016. The promoters have more than 20 years experience in processing and exporting of shrimps. AFFL has a processing plant at Panasapadu, Kakinada, Andhra Pradesh, with an installed raw material processing facility of 9,240 Metric Tons Per Annum (MTPA). The company also operates through leased facility of 3,000 MTPA.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	603.53	699.12
PAT (Rs. crore)	18.95	24.40
OPBDIT/ OI (%)	6.72%	6.48%
RoCE (%)	27.29%	27.99%
Total Debt/ TNW (times)	1.08	1.16
Total Debt/ OPBDIT (times)	1.95	2.43
Interest coverage (times)	3.90	4.04
NWC/ OI (%)	15%	17%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: CRISIL had suspended its ratings on the bank facilities of Apex Frozen Foods Ltd as per Press Release dated December 4, 2015 on account of non-cooperation by AFFL with CRISIL's efforts to undertake a review of the ratings outstanding.

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016
				Sept 2017	Oct 2016	Dec 2015	Jun 2015
1	Term Loan	Long Term	5.59	[ICRA]BBB-(Stable) ISSUER NOT COOPERATING*	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Cash Credit	Long Term	45.00				
3	Fund Based	Short Term	45.00	[ICRA]A3 ISSUER NOT COOPERATING*	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Non Fund based	Short Term	8.00				
5	Unallocated	Long term/ Short term	3.37	[ICRA]BBB-(Stable)/[ICRA]A3 ISSUER NOT COOPERATING*	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3

*Issuer did not cooperate; based on best available information

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan	-	-	Dec-2019	5.59	[ICRA]BBB-(Stable)/ ISSUER NOT COOPERATING*
Cash Credit	-	-	-	45.00	
Fund Based	-	-	-	45.00	[ICRA]A3 ISSUER NOT COOPERATING*
Non Fund based	-	-	-	8.00	
Unallocated				3.37	[ICRA]BBB-(Stable)/[ICRA]A3 ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information

Source: the company

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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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