

## Sandhya Aqua Exports Pvt. Limited

September 11, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based facilities	120.00	[ICRA]BBB-(Stable); assigned
<b>Total</b>	<b>120.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of Sandhya Aqua Exports Pvt. Limited (SAEPL) at [ICRA]BBB- (pronounced ICRA triple B minus) <sup>1</sup> for Rs.120.00 crore fund-based facilities. The outlook on the long-term rating is stable.

### Rationale

The assigned rating factors in the promoters' long-standing experience and the company's robust revenue growth of 32% (FY2018) supported by the strong uptick in global demand for Indian shrimp coupled with healthy order book sourced through its marketing group company (AZ Gems Inc). The rating also favourably factors in the healthy operating margins of 8.4% (7.9% in FY2017) recorded during FY2018 supported by the ability of the company to pass on price fluctuations to the shrimp farmers.

The company faces high revenue concentration with top five customers accounting for 85% of the revenues during FY2018. The rating also factors the working capital-intensive nature of the business with an extended operating cycle and high dependence on bank borrowings resulting in moderately high gearing levels of 2.7 times (March'2018). Despite which the coverage indicators remain comfortable; interest coverage of 3.3 times and DSCR of 2.6 times during FY2018. Further, the company is in the midst of a large capital expenditure program of Rs. 91 crore (over the next two years) to triple its processing capacity from 42MTPD (March 18) to 126 MTPD (March 2020). The same is expected to be funded through Rs. 51 crore of bank borrowings and balance through internal accruals and capital subsidies.

Going forward, SAEPL's ability to generate healthy accruals given the sizeable debt funded capital expenditure and improve the overall credit profile will be key monitorable.

### Outlook: Stable

ICRA believes SAEPL will continue to benefit from the extensive experience of its partners. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, cost overrun due to delay in completion of planned capex or stretch in the working capital cycle, weakens liquidity.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Long standing experience of the promoter-** Mr. K. Veerabhadra Rao, has over three decades of experience and expertise in the seafood exporting industry. The company has been benefitting from his expertise coupled with his long-standing relationship with customers.

**Robust Indian shrimp exports during FY2018 driving revenues** - SAEPL witnessed a 32% growth in revenues from Rs.308 crore (FY2017) to Rs.407 crore (FY2018) aided by ~50% increase in its procurement from its top customer coupled with the strong uptick in global demand for Indian shrimp. Continuing the 20% volume growth of Indian shrimp exports recorded during FY2017, Indian shrimp exports grew by 30% during FY2018. This was aided by weak production in other global shrimp producing regions like Vietnam and Thailand.

**Healthy operating margins support debt coverage metrics** - SAEPL's operating margins increased from 7.9% (FY2017) to 8.4% (FY2018) aided by the in-house shrimp farming capabilities (contributes to ~12-15% of the raw material requirement) coupled with the ability of the company to insulate from fluctuation shrimp realization by passing the same to the shrimp farmers. This in turn supported the coverage indicators with interest coverage ratio improving from 2.6x (FY2017) to 3.3x (FY2018) and NCA/TD improving from 11.3% (FY2017) to 14.8% (FY2018).

### Credit challenges

**High working capital intensity resulting from high debtor levels which impacts liquidity** – SAEPL's working capital intensity remained high at 32% owing to high debtor days of 102 days as on FY2018. This was because of the flexible credit period of 90-120 days extended to its top customer as against a normal credit of 60-90 days for other customers. Going forward, the working capital intensity is expected to moderate over the next three years supported by standardizing of credit period to all customers.

**Leveraged capital structure-** The high dependence on bank borrowings to fund working capital requirements resulted in high debt levels and a leveraged capital structure. During FY2018, SAEPL reported gearing of 2.7 times (March 31,2018) and TD/OPBDITA of 3.7 times (March 31,2018). The company has a large capex plan over the next two years to increase capacities from 42 MTPD to 126 MTPD at a cost of Rs. 91 Crore. Nevertheless, over the next two years, despite the high debt funded capital structure in the pipeline, SAEPL's gearing is expected to moderate marginally supported by healthy accruals.

**High geographic and customer concentration:** The favourable demand for India shrimp in USA resulted in 30% y-o-y increase in exports to USA during FY2018. With SGEPL's customer profile concentrated majorly in USA, the revenue contribution from USA was high at 72% and the top five customers accounted for 85% of the total revenues in FY2018. Going forward, the concentration risk is expected to continue on account of the increasing demand for shrimp exports to USA.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Sandhya Aqua Exports Pvt. Limited (SAEPL) was incorporated on August 23, 2005 by Mr. KunamVeerabhadra Rao. The company is engaged in processing and export of shrimps at its processing facilities situated at Vishakhapatnam, Andhra Pradesh with a processing capacity of 42 MTPD. Further, the company also has owned/leased farming land of 400 acres which caters to 12-15% of its raw shrimp requirements.

In FY2018, SAEPL reported a net profit of Rs. 16.2 crore on an operating income of Rs. 407.0 crore, as compared to a net profit of Rs. 10.9 crore on an operating income of Rs. 308.0 crore in FY2017.

## Key financial indicators

	FY2017(A)	FY2018 (Prov.)
Operating Income (Rs. crore)	308.0	407.1
PAT (Rs. crore)	10.9	16.2
OPBDIT/OI (%)	7.9%	8.4%
RoCE (%)	3.5%	4.0%
Total Debt/TNW (times)	3.5	2.7
Total Debt/OPBDIT (times)	4.9	3.7
Interest coverage (times)	2.6	3.3

## Status of non-cooperation with previous CRA: Not Applicable

## Any other information: None

## Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 PC/PCFC	Long Term	120.0	-	[ICRA]BBB- (stable)	-	-	-

## 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Packing Credit	NA	NA	NA	120.00	[ICRA]BBB-(Stable)

Source: SAEPL

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