

July 31, 2020

Kader Exports Private Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loan facilities	3.42	3.42	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Long-term - Fund based facilities	45.00	45.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Short-term - Fund based facilities	70.00	70.00	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term - Fund based facilities (sub-limit)	(13.50)	(13.50)	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term - Non-fund based facilities	8.79	13.65	[ICRA]A3+; Upgraded from [ICRA]A3
Total	127.21	132.07	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of the six entities (Devi Marine Food Exports Private Limited or DMFEPL, Universal Cold Storage Private Limited or UCSPL, Liberty Frozen Foods Private Limited or LFFPL, Kader Exports Private Limited or KEPL, Kader Investment and Trading Company Private Limited or KITCPL, and Premier Marine Products Private Limited or PMPPL), referred to as the Liberty Group. For arriving at its consolidated ratings, ICRA has noted the common management, and close financial and operational linkages between these entities, who are primarily seafood exporters. ICRA has noted the Group's ongoing merger process (which is at an advanced stage) involving its five companies (DMFEPL, UCSPL, LFFPL, KITCPL and PMPPL) and another group company, Liberty Cold Storage Private Limited (LCSPL), into KEPL. The merger, which will be effective from April 01, 2019, is expected to improve the Group's operational efficiencies as it will eliminate duplication of regulatory and administrative costs. Though the merger is unlikely to have a significant bearing on the Group's business risk profile, ICRA will monitor the financials of the merged entity for any material deviation from ICRA's expectations.

The upgrade in ratings favourably factors in the large scale of operations and improvement in financial risk profile of the Liberty Group during the past fiscals. The improvement in financial risk profile is reflected in an increase in operating margin and return on capital employed (RoCE) indicators led by shift in product mix towards high-margin, value-added shrimp products. Further, the Group's debt protection metrics as reflected in Total debt/OPBIDTA has improved to 2.6 times during FY2020 (as per provisional numbers) from 4.7 times during FY2018. While the Covid-19 pandemic is expected to result in downward pressure on revenues during FY2021, ICRA expects the Group to sustain its financial risk profile. The ratings continue to derive comfort from the extensive experience of the promoters and professional management of nearly four decades in the seafood industry. ICRA also notes the established customer and supplier base of the Group.

The ratings are, however, constrained by the highly fragmented nature of the shrimp industry, characterised by intense competition leading to limited pricing power, supply fluctuations, vulnerability to agro-climatic conditions and disease outbreaks. The rating also considers the vulnerability of profit margins to volatility in shrimp realisations. ICRA also notes the significant amount of export incentives from the Government of India enjoyed by the Group; sustenance of the same will remain crucial.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoter - The seafood division of the Liberty Group was established in 1979 and currently operates with a processing capacity of 255 MTPD. The promoter's experience and a strong management team with nearly four decades of experience have aided the Group in establishing a strong customer base for exports.

Large scale of operations - The Group is one of the largest shrimp exporters from India with a consolidated revenue of ~Rs. 1,744.3 crore in FY2020 as per the provisional financials, and YoY growth of ~15.7%. It derives ~95% (FY2020) of its revenues from shrimp exports, while the rest comes from the export of sea-caught seafood like squids and cuttlefish, among others.

Improvement in financial risk profile reflected in higher profitability, improved capital structure and debt protection metrics; profitability improvement supported by better product mix – The profitability of the Group has improved in the last two fiscals supported by better product mix in favour of high-margin, value-added shrimp products. Value-added shrimps constituted about ~68% of the total shrimp exports in FY2020 compared to ~30% of total shrimp exports till FY2018. The RoCE improved to 17.2% in FY2020 compared to 13.0% in FY2018. The improvement in the operating profitability has led to improvement of the financial risk profile of the Group as reflected by the capital structure of 1.0x as on March 31, 2020, Total Debt/ OPBDITA of 2.6x and adjusted interest coverage of 5.5x in FY2020 compared to capital structure of 1.7x as on March 31, 2018, Total Debt/ OPBDITA of 4.7x and adjusted interest coverage of 3.5x in FY2018.

Credit challenges

Moderate operating margins – Although there has been an improvement in operating margins of the Group in the last two fiscals, it still remains moderate due to low value addition in the nature of the business. Further change in the Group's product mix further towards value-added products would be key for enhancing its profitability.

Volatility in shrimp realisations could impact profit margins – Liberty Group's profit margins are susceptible to the volatility in shrimp realisations, which are in turn driven by the global demand-supply scenario. The Covid-19 pandemic has not caused a major disruption to the Group's operations so far and demand levels have remained high due to the shift in consumption pattern from eating out in restaurants to stocking up for home consumption in the US (which drives ~74% of the Group's export revenues). However, with rising cases of Covid-19, there would be uncertainty over availability of manpower as well as raw material. Thus, there is likely to be considerable uncertainty in the demand-supply situation and shrimp prices in the upcoming months.

Fragmented industry structure with intense competition - The Indian seafood export industry is highly fragmented with a few large players and several small processors. In addition to the intense domestic competition, Indian exporters face

competition from countries like Ecuador, Indonesia and Vietnam, which are major producers of the Vannamei shrimp species.

Inherent risks in the seafood industry – The risk of extreme climatic conditions and disease outbreaks are inherent in shrimp farming. Extreme climatic condition would result in adverse farming conditions, which in turn could affect mortality rates and the quality of farmed shrimp. However, better farm management practices such as lower number of production cycles with sufficient time gap and low stocking density have aided in limiting production loss in the domestic market in recent years.

Liquidity position: Adequate

The Group's Liquidity is **Adequate** with cash and liquid investment of Rs. 32.7 crore as on March 31, 2020. The Group had external term debt outstanding of Rs. 14.2 crore as on March 31, 2020 with a scheduled repayment of Rs. 5.5 crore in FY2021. The Group has an average limit utilisation of 66% (of the total sanctioned limit of Rs. 351 crore) for the 12-month period ending with March 2020, providing it adequate cushion. The Group's balance sheet is also supported by unsecured loan from promoters worth Rs. 17.6 crore as on March 31, 2020 with no fixed repayment schedule.

Rating sensitivities

Positive triggers – ICRA could upgrade the Group's rating if the Group demonstrates a sustained improvement in its operational metrics leading to improvement in debt coverage indicators on a sustained basis.

Negative triggers – Negative pressure on the Group's rating would arise if there is a significant decline in operational performance of the Group and/or increase in debt-funded capex resulting in weakening of its liquidity and debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on a consolidated view of the Liberty Group, comprising six companies—i.e., Devi Marine Food Exports Private Limited, Universal Cold Storage Private Limited, Liberty Frozen Foods Private Limited, Kader Exports Private Limited, Kader Investment and Trading Company Private Limited and Premier Marine Products Private Limited—given the common management and close financial and operational linkages between them.

About the company

KEPL is primarily engaged in the processing and export of seafood (largely shrimps). The company's seafood processing plant is located at Bhimawaram (Andhra Pradesh).

The company forms part of the Liberty Group (owned by the Kader family). The Group entered into the seafood business in 1982, and at present, has three seafood processing plants in Andhra Pradesh (two at Bhimavaram and one at Visakhapatnam) and two in Tamil Nadu (one each at Mandapam and Tuticorin). The Group largely exports seafood to the US, Europe, China and Japan.

Key financial indicators

	Standalone		Consolidated	
	FY2019 (Audited)	FY2020 (Provisional)	FY2019 ¹	FY2020 (Provisional)
Operating Income (Rs. crore)	526.0	711.5	1,507.4	1,744.3
PAT (Rs. crore)	18.9	19.7	45.1	49.7
OPBDIT/OI (%)	6.7%	4.9%	5.9%	5.3%
PAT/OI (%)	3.6%	2.8%	3.0%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	3.0	1.5	1.9	1.4
Total Debt/OPBDIT (times)	3.2	2.6	2.5	2.6
Interest Coverage (times)	11.8	12.2	6.7	9.5 ²

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ ICRA has consolidated the audited financials of the six companies (i.e. DMFEPL, UCSPL, LFFPL, KITCPL, PMPPL and KEPL) for arriving at the consolidated numbers.

² The total interest cost net of interest subvention income was considered for arriving at the interest coverage for FY2020. The adjusted interest coverage for FY2020 would be 5.5 times on a consolidated basis.

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018	
					31-Jul-20	30-Apr-19	-	6-Oct-17	28-Aug-17
1	Term Loan	Long term	3.42	1.95	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Fund based - Packing credit	Long term	45.00	-	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Fund based - FOBN	Short term	70.00	-	[ICRA]A3+	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
4	Fund based facilities (sub-limit)	Short term	(13.50)	-	[ICRA]A3+	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
5	Non Fund based limit	Short term	13.65	-	[ICRA]A3+	[ICRA]A3	-	[ICRA]A3	[ICRA]A3

Amount in Rs. crore

*Amount outstanding as on March 31, 2020

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	Oct-18	11.1%	Oct-22	3.42	[ICRA]BBB (Stable)
-	Fund based - Packing credit	-	-		45.00	[ICRA]BBB (Stable)
-	Fund based - FOBN	-	-		70.00	[ICRA]A3+
-	Fund based facilities (sub-limit)	-	-		(13.50)	[ICRA]A3+
-	Non Fund based limit	-	-		13.65	[ICRA]A3+

Source: Kader Exports Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Devi Marine Food Exports Private Limited	Group company	ICRA has taken a consolidated view of six companies of the Liberty group
Universal Cold Storage Private Limited	Group company	
Liberty Frozen Foods Private Limited	Group company	
Kader Exports Private Limited	Group company	
Kader Investment and Trading Company Private Limited	Group company	
Premier Marine Products Private Limited.	Group company	

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