November 08, 2019

Sagar Grandhi Exports Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan facilities	3.65	3.65	[ICRA]A- (Stable); reaffirmed
Long term fund-based facilities	50.0	50.0	[ICRA]A- (Stable); reaffirmed
Long term non-fund-based facilities	5.0	5.0	[ICRA]A- (Stable); reaffirmed
Short term fund-based facilities	126.0	166.0	[ICRA]A2+; reaffirmed
Short term non-fund-based facilities	3.0	3.0	[ICRA]A2+; reaffirmed
Total	**187.65**	**227.65**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Sagar Grandhi Export Private Limited's (SGEPL) financial profile characterised by healthy profitability and coverage metrics. While the company's revenues fell by 5.7% during FY2019 to Rs. 1,048 crore, scale of operations and accruals continue to be comfortable resulting in healthy coverage metrics with an interest coverage of 9.3 times and DSCR of 4.9 times during FY2019. Although high working capital requirements owing to high inventory levels had peaked debt levels for the company at Rs. 203.7 crore as on September 30, 2019, the same is expected to reduce by end of FY2020 with the company reducing procurements to manage its inventory. Nevertheless, gearing and TD/OPBDITA is adequate for the rated category at 0.8 times and 1.9 times as on September 30, 2019. Demand for Indian shrimps from the USA market, favourable location of the company's processing facilities and significant experience of the promoter in the seafood industry spanning over three decades further underpins the ratings.

The ratings however, remained constrained by SGEPL's high geographic concentration with 76% of the revenues derived from the North American market. Revenues from the largest customer group (Aqua Star group) accounted for 66% of the revenues during FY2019, down from 73% during FY2018. Customer concentration risk is partially neutralized by healthy new customer addition in the recent past where SGEPL had added ~15 customers in the past one year contributing to Rs. 136 crore of revenues. The ratings also remain constrained by the fragmented nature of the industry and vulnerability of shrimp exports to change in climatic conditions and disease outbreaks thereby impacting sales.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that SGEPL will continue to benefit from the extensive experience of its partners and maintain healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Financial profile characterised by healthy profitability and coverage metrics – During FY2019, the company's operating margins had remained stable at 7.9% (7.7% during FY2018). However, the net margins had declined from 5.3%(FY2018) to 4.6% (FY2019) on account of lower foreign exchange gain and ADD refund. However, return on capital employed remains strong for the company at 24.6% for FY2019. Further, the company's scale of operations remain healthy with Rs. 1,048 crore of revenue for FY2019 resulting in stable accruals. Coverage indicators are comfortable, with interest coverage ratio at 9.3 times and DSCR of 4.9 times during FY2019. Although the debt levels had increased from Rs. 125.5 crore as on March 31, 2018 to Rs. 203.7 crore as on September 30, 2019 owing to higher working capital requirements, ICRA expects the same to moderate by end of FY2020.

Healthy demand for Indian shrimp from USA and benefits arising from the favourable location of the company's processing facilities – Although declined realisations from October 2018 onwards owing to subdued demand in the global markets had dampened the domestic market sentiments, realisations had started picking up from May 2019. India is the largest exporter of shrimp to USA contributing to 39% of the total USA imports during 8M CY2019 (increased from 23% during CY2015). Increased acceptance of Indian shrimps in the USA market (where SGEPL derives 75% of the revenues) and favourable location of the company's processing facilities along the coastal belt of Andhra Pradesh results in continuous availability of shrimps.

Significant promoter experience in the seafood export business: The Company was promoted by the Grandhi family patriarch Mr. GV Rao in the early 1980's. Over the years the company had increased its processing capacity to 136 MTPD. The promoter has more than three decades of experience in the seafood business, which has aided in establishing a strong relationship with the customers and buyers. Repeat orders from existing customer contribute to two-thirds of the revenues for the company.

Credit challenges

Elongated working capital cycle owing to high inventory levels – SGEPL's working capital cycle had elongated from 56 days as on March 31, 2018 to 114 days as on September 30, 2019 primarily on account of higher inventory levels. Inventory levels had increased from 31 days as on March 31, 2018 to 68 days as on September 30, 2019 owing higher stocking by the company due to declining realisations of shrimp in the export markets till April 2019.

While this had led to increase in debt levels for the company from Rs. 125.5 crore to Rs 203.7 crore over the same period, the inventory levels are expected to reduce by the end of FY2020 which in turn leads to reduction in debt. Total debt is estimated to be ~Rs. 160 crore by end of March 2020. Inability to correct inventory and borrowings within the next two-three quarters would be a key rating sensitivity.

High geographic and customer concentration: With the company's customer profile concentrated majorly in North America, the revenue contribution from USA and Canada was high at 76% of the revenues during FY2019. Further, the top customer group accounted for 66% of the total revenues (albeit reduced from 73%) during FY2019 indicating high geographic and customer concentration. While SGEPL's high revenue concentration in USA is expected to continue with increasing demand for shrimp exports to USA, customer concentration is expected to reduce going forward aided by healthy new customer addition in the recent past.

Fragmented industry structure with intense competition- The Indian seafood export industry is highly fragmented with 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 global producers of Vannamei shrimp.

Aquaculture production vulnerable to change in climatic conditions and disease outbreaks thereby impacting sales - 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 shrimp farmed. 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.

Liquidity position: Adequate

SGEPL's liquidity has remained adequate with positive fund flow from operations in FY2019. Its average working capital utilization was high at 90% of the sanctioned limits and 74% of the drawing power between October 2018 to September 2019. SGEPL also has Rs.100 crore of foreign bill discounting backed by letter of credit limits of Rs. 100 crore where utilisation had been low. Going forward, SGEPL has minimal repayment obligations of Rs. 3.3 crore in FY2020 and Rs. 0.4 crore in FY2021. Also, the company does not have any concrete capex plans over the medium term. SGEPL has cash and liquid investments of Rs. 12.4 crore as on September 30, 2019. With the capex and repayment obligations likely to be low compared to anticipated accruals, ICRA expects SGEPL's liquidity position to remain adequate over the medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade SGEPL rating with improvement in operating margin beyond 10% while maintaining the debt protection metrics on a sustained basis. Improvement in business risk profile of the company with reduced customer and geographic concentration could also accelerate the transition towards a higher rating.

Negative triggers – Negative pressure on SGEPL's rating could arise with deterioration in SGEPL's profitability and credit metrics. Specific metrics that could lead to a rating downgrade include debt to OPBITDA >2.8x and interest coverage <5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Sagar Grandhi Exports Private Limited (SGEPL) is into processing and exporting of seafood from India. The company was promoted by the Mr. G.Venkateswara Rao in the early 1980's. The business is now managed by two of his sons-Mr. G Balaji, the current Managing Director and Mr. G Chella Rao, Executive Director.

The company has a seafood processing factory with a capacity of ~47 MTPD, in Singarayakonda, in the coastal belt of Andhra Pradesh and a plant with a capacity of ~89 MTPD in Chittedu in Andhra Pradesh, which commenced operations in December 2012. The company sources its raw material from farms in the AP coastal belt, through its purchase centres and agents; procurement is largely from aquaculture farms with Vannamei shrimp accounting for ~100% of revenues.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,111.2	1,048.0
PAT (Rs. crore)	58.4	48.6
OPBDIT/OI (%)	7.7%	7.9%
RoCE (%)	35.0%	24.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	1.5	2.0
Interest Coverage (times)	7.1	9.3
DSCR	4.7	4.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020) Type	Amount Rated	Amount O/s	Rating 08-Nov-19	Rating History for the Past 3 Years FY2019 13-Mar-19	28-Jan-19	03-Dec-18	FY2018 17-Nov-17	FY2017 14-Oct-16
1	Term Loan	Long Term	3.65	2.8	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Packing Credit	Long Term	50.0		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3	Bank Guarantee	Long Term	5.0		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
4	FBD Non-LC	Short Term	140.0		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
5	SLC	Short Term	20.0		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	-
6	Credit Exposure Limit	Short Term	6.0		[ICRA]A2+	[ICRA]A2+	-	-	-	-
7	Letter of Credit	Short Term	3.0		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
8	Unallocated Limits	Short Term	-		-	-	-	-	-	[ICRA]A2
9	Unallocated Limits	Long Term/ Short Term	-		-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 2018		March 2020	3.65	[ICRA]A-(Stable)
NA	Packing Credit	NA	NA	NA	50.0	[ICRA]A- (Stable)
NA	Bank Guarantee	NA	NA	NA	5.0	[ICRA]A- (Stable)
NA	FBD Non-LC	NA	NA	NA	140.0	[ICRA]A2+
NA	SLC	NA	NA	NA	20.0	[ICRA]A2+
NA	Credit Exposure Limit	NA	NA	NA	6.0	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	3.0	[ICRA]A2+

Source: Sagar Grandhi Exports Private Limited

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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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