

February 15, 2021 ^{Revised}

Aquatica Frozen Foods Global Private Limited: Long-term rating upgraded to [ICRA]A-, short-term rating reaffirmed, outlook revised to 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Interchangeable – Sublimit	(80.00)	(80.00)	[ICRA]A- (Stable); upgraded from [ICRA]BBB+, outlook revised to Stable from Positive
ST Fund based facilities	88.00	88.00	[ICRA]A2+; reaffirmed
Total	88.00	88.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings follows sharp improvement in the financial performance of Aquatica Frozen Foods Global Private Limited (Aquatica Foods) in H1 FY2021. The company now accounts for a third of the Sandhya Marines Limited (consolidated)'s revenues and ~36% of consolidated OPBDITA for H1 FY2021. The company has strong financial profile characterised by healthy margins (OPM of 21.6% for H1 FY2021 as per provisional financials), low gearing and comfortable coverage indicators (gearing of 0.5x and TD/OPBITDA of 0.8x as on September 30, 2020). Increase in export volumes and higher realisations owing to rising share of value-added shrimp products (ready-to-eat, i.e. cooked products from ~1% in H1 FY2020 to ~26% in H1 FY2021) in its portfolio, led to ~22% increase in revenues in H1 FY2021 for Aquatica Foods. Higher realisations and lower cost of procurement (owing to crash in farm gate prices in Q1 FY2021 amid subdued demand during the lockdown and shift in procurement pattern to lower priced smaller and medium shrimps) has led to significant expansion in operating margins in H1 FY2021 for Aquatica Foods.

The ratings also factor in the strong parentage of Sandhya Marines Limited (which holds 59.9% stake in the Aquatica Foods), which has established market position in the Indian seafood industry, backed by the promoter's extensive experience, and long-standing relationships with its reputed client base. Sandhya Marines consolidated (SML and its 59.9% subsidiary Aquatica Foods) reported ~23% increase in revenues to Rs. 673.4 crore in H1 FY2021, aided by ramp up in feed business (which contributed to Rs. 158.0 crore, ~23% of the total OI). SML consolidated had healthy operating margins of 19.6% in H1 FY2021 and comfortable debt protection metrics, with gearing of 0.4x and TD/OPBITDA of 0.7x as on September 30, 2020. The ratings also consider the healthy cash and liquid investment balances of Rs. 51.0 crore as on September 30, 2020, which support the company's liquidity position.

The ratings take cognisance of the high revenue concentration on USA at ~88% in H1 FY2021, which exposes the company to any unfavourable regulatory changes in the region. However, the long-standing relationship with the customers provides comfort against the same. The ratings also consider the fragmented industry structure with intense competition from existing players. It also takes into account the vulnerability of shrimp exports to changes in climatic conditions and disease outbreaks, and regulatory risks pertaining to government policies like the recent reduction of MEIS incentives for exporters (to 5% from 7% since January 2020), and capping of the MEIS at Rs.2.0 crore per exporter for the period September – December 2020. The company is also exposed to changes in Anti-dumping duties (ADD) on exports to USA.

Key rating drivers and their description

Credit strengths

Strong parentage - Incorporated in 2014 by Mr. Hitesh Chenchu Ram, Aquatica Foods is a 59.9% subsidiary of SML. Mr. Hitesh is the brother-in-law of the promoter, Mr. Arun Kumar, who in turn is the son of the founding promoter of SML, Mr. K.V. Prasad. The company is primarily engaged in the processing and exports of shrimps. Aquatica benefits from the longstanding experience of SML, spanning over four decades in the seafood industry, which has aided in establishing a strong relationship with the customers and buyers, resulting in repeat orders and ensuring stable volumes for the company. Sandhya Marines Limited and Aquatica put together have over 136 MTPD shrimp processing capacity, including value-added capacities for processing cooked shrimp, garnished/butterfly shrimp etc., which have higher margins compared to the non-value-added products.

Healthy financial profile characterised by healthy margins, comfortable debt protection metrics and strong liquidity: Despite the impact of the pandemic, the demand from USA has been favorable, due to shift in the consumption pattern from restaurants/dining out to purchasing of ready-to-eat, ready-to-cook products from retailers, which shielded the company from any adverse impact in export volumes in H1 FY2021 (the company reported ~6% increase in volumes on a y-o-y basis in H1 FY2021). Increase in volumes and higher realisations owing to rising share of value-added products in its portfolio, led to ~22% increase in revenues in H1 FY2021 for Aquatica Foods. Aided by change in product mix and lower cost of procurement, the company's operating margins witnessed healthy improvement to 21.6% in H1FY2021 (PY: 8.1%). With relatively low debt, the company has low gearing of 0.5x as on September 30, 2020 and comfortable coverage indicators with TD/OPBITDA of 0.8x and interest coverage of 56.8 times for H1 FY2021. Further, the company has liquidity buffer from cash and liquid investments of Rs. 51.0 crore as on September 30, 2020. Sandhya Marines consolidated reported ~23% increase in revenues to Rs. 673.4 crore in H1 FY2021, aided by ramp up in feed business. SML consolidated's operating margins expanded to 19.6% in H1 FY2021 (PY: 10.8%) and had comfortable debt protection metrics, with gearing of 0.4x and TD/OPBITDA of 0.7x as on September 30, 2020.

Credit challenge

High geographical concentration: With Aquatica Foods' customer profile concentrated majorly in USA and with its top customer and top three customers contributing to ~61% and ~72% respectively in H1 FY2021, the revenue contribution from USA was high at 88% in H1 FY2021. The high geographical concentration exposes the company to the risks of unfavourable regulatory changes in the particular geography. The orders between SML and Aquatica gets decided based on the customer group traditionally catered to and the approvals already available. For some customers, SML is an approved supplier and continues to supply to them. However, slowly more customers are also being catered to by Aquatica also and the overlap between the customer groups catered by SML and Aquatica is also increasing.

Fragmented industry structure and inherent risks in sea food industry: 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 Vannamee shrimp.

The risk of extreme climatic conditions and disease outbreaks are inherent in shrimp farming and consequently impact processors. Extreme climatic condition would result in adverse farming conditions which in turn could affect mortality rates and the quality of shrimp farmed and the sourcing cost for processors. 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. Further, the company remains vulnerable to changes in government policies pertaining to duty structures and export incentives. Starting from CY2020, there has been a reduction in MEIS incentive rates for the company from 7% to 5%. Further,

the government had capped the export incentives per exporter at Rs. 2.0 crore for all exports made between September – December 2020.

Liquidity position: Strong

The company's liquidity position is strong with positive free cash flow from operations in FY2020 and H1 FY2021. The average working capital utilization on sanctioned limits and drawing power for the twelve months ended December 2020 stood at ~67% and ~85% respectively. The company has undrawn lines of credit of ~Rs. 21.7 crore and cash and liquid investments of Rs. 51.0 crore as on September 30, 2020. Against these sources of cash, the company has minimal debt repayments and capex commitments of ~Rs. 2-3.0 crore in FY2021. ICRA expects the company's liquidity profile to remain strong going forward.

Rating sensitivities

Positive triggers – Sharp improvement in the standalone credit profile could accelerate the transition towards a higher rating for Aquatica Foods.

Negative triggers – Negative pressure on rating could arise if there is deterioration in credit profile of its parent, SML and/or weakening in the linkages with SML. Deterioration in the standalone credit profile of Aquatica Foods, any large debt-funded capital expenditure or elongation in working capital cycle, resulting in stretched liquidity position could also lead to a downward revision in credit rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent: Sandhya Marines Limited (SML rated [ICRA]A (Stable)/[ICRA]A) Implicit support from the parent
Consolidation/Standalone	Standalone Aquatica and Consolidated SML. Aquatica is a 59.9% subsidiary of SML

About the company

Aquatica Frozen Foods Global Private Limited (Aquatica) was incorporated in 2014 by Mr. Hitesh Chenchu Ram. The company is engaged in the processing and exports of Vannamei variety of shrimp, through its shrimp processing plant (installed capacity of 26 MTPD) at Prakasam district (near Chirala), Andhra Pradesh. The company commenced operation from February 20, 2016. Aquatica exports (including deemed exports) shrimps mainly to U.S.A, U.A.E, European Countries, Vietnam, Canada, Bahrain, etc. Aquatica is a subsidiary of SML which holds 59.9% equity stake in the company and is engaged in the business of processing and exporting of Vannamei variety of shrimps. The promoters of Aquatica have around three decades of experience in the seafood business.

SML holds 59.9% stake in Aquatica Foods. In FY2020, SML reported a consolidated net profit of Rs. 89.4 crore on an operating income of Rs. 1,147.1 crore as compared to a net profit of Rs. 88.5 crore on an operating income of Rs. 883.1 crore in the previous year.

Key financial indicators (audited)

SML Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	883.1	1,147.1
PAT (Rs. crore)	88.5	89.4
OPBDIT/OI (%)	14.6%	11.1%
RoCE (%)	31.3%	24.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDIT (times)	1.2	1.4
Interest Coverage (times)	15.9	13.5
DSCR (times)	8.7	9.3

Source: Company, ICRA Research; Note: Amount in Rs. Crore; Aquatica Foods is a 59.9% subsidiary of SML

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Key financial indicators (audited)

Aquatica Foods-Standalone	FY2019	FY2020
Operating Income (Rs. crore)	319.5	341.1
PAT (Rs. crore)	25.2	20.9
OPBDIT/OI (%)	12.0%	8.3%
RoCE (%)	23.8%	16.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.8
Total Debt/OPBDIT (times)	1.4	2.3
Interest Coverage (times)	12.3	10.9
DSCR (times)	5.2	4.7

Source: Company, ICRA Research; Note: Amount in Rs. crore

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 15, 2021			
1	Term loan	Long-term	00.00	-	-	-	[ICRA]BBB+ (Stable)	-
2	Non-fund based	Long-term	00.00	-	-	-	-	[ICRA]BBB (Stable)
3	Interchangeable	Long-term	(80.00)	NA	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-
4	Fund based	Short-term	88.00	71.30	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+

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 [click here](#)

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	LT-Interchangeable	NA	NA	NA	(80.00)	[ICRA]A- (Stable)
NA	PCFC/ FDBP	NA	3-month LIBOR + 110 bps	NA	88.00	[ICRA]A2+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: NA

Corrigendum

Document dated February 15, 2021 has been corrected with the revision as detailed below:

The rating methodology under “Rating Approach - Implicit Support from Parent or Group”, in the table on Analytical Approach in page 3 has been revised to the methodology, dated March 2020 from an earlier version of March 2016.

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