



Press Release

Nila Sea Foods Exports (NSFE)

October 01st, 2020

| Sl. No. | Instrument/Facility | Amount (INR Crore) | Rating Assigned |
|---------|--|--------------------|--|
| 1. | Long Term Bank Facility – Outstanding Term Loans | 3.88 | IVR BB+/Stable (IVR Double B Plus with Stable Outlook) |
| 2. | Short Term Bank Facility – Packing Credit/Packing Credit in Foreign Currency | 50.00 | IVR A4+ (IVR Single A Four Plus) |
| 3. | Short Term Bank Facility – Foreign Bills Purchased | 43.00 | IVR A4+ (IVR Single A Four Plus) |
| | Total | 96.88 | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from significant partner's experience in the sea-food business, range bound operating margins with comfortable coverage indicators and healthy demand for Indian shrimps in the offshore market. However, the rating strengths are partially offset by highly fragmented industry given low entry barriers which can put pressure on margins, high geographical & customer concentration in revenue, working capital intensive nature of operation and susceptibility to industry attributes such as food safety regulation in export markets.

Key Rating Sensitivities:

- **Upward Factor**
 - Substantial improvement in scale of operations and profitability margins while maintaining the debt protection metrics on a sustained basis.
 - Improvement in business risk profile with reduced customer concentration and geographic concentration
- **Downward Factor**
 - Any decline in the revenue and/or profitability leading to deterioration in debt protection metrics.



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Key Rating Drivers with detailed description

Key Rating Strengths

- ***Significant partner's experience in the sea-food business:***

The Group (Nila Sea Foods Group of Companies) was established in 1992 by the late Mr. D. Chandran and at present it is run under the leadership of his family members; i.e. Mrs. Nilavathi C, Mr. Selwin Prabhu and Mr. Aminath Prabu. The promoter family has more than three decades of experience in the sea-food business, which has aided in understanding the changing dynamics of the industry & establishing a strong relationship with customers and suppliers. The partners have long and satisfactory business relations with key customers, helping the firm in repeated orders. Likewise, it has a base of suppliers with whom they have been dealing since inception. The Firm's operations are well supported by a team of experienced & qualified professionals.

- ***Range bound operating margins and comfortable coverage indicators:***

NSFE's operating margins remained range bound, with an average of 8.17% for the last three years (i.e. FY2018-FY2020). Further the coverage indicators remained comfortable with the interest coverage of 2.38x in FY2020 (P).

- ***Healthy demand for Indian shrimps from the USA:***

India is one of the largest exporter of shrimps to the US as it is the major producer of farmed shrimps in the world and accounts for almost 6% of total fish production. During the initial stages of lockdown, the consumption of sea-food in the retail sector in the US was higher with people stocking more in anticipation of shortage as seen in the first quarter of FY2021. According to the unaudited financials, NSFE reported sales of INR29.15 Crore in Q1FY21 and further demand is expected to remain favourable in the subsequent quarters of FY21 also.

Key Rating Weaknesses

- ***Highly competitive & regulated industry, puts pressure on margins:***

The firm faces stiff competition from other domestic and international players, which can limit its pricing and bargaining power with the customer. In addition to the domestic competition, NSFE faces competition from countries like Ecuador, Indonesia and Vietnam, which are major global producers of Vannamei shrimp. Also, the profitability of shrimp exporters is



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susceptible to volatile shrimp prices and forex rates. It is also exposed to uncertainty related to procurement and prices, as the supply of shrimp from aqua culturists is unpredictable and depends on the demand-supply situation. The availability of shrimps can be impacted by possible outbreak of diseases, which could affect production. Furthermore, industry attributes such as food safety regulation in export markets can also impact the firm's performance.

- ***High Geographical & Customer concentration in revenue:***

NSFE's customer profile is concentrated majorly in North America, as the revenue contribution from USA and Canada stood high. Further, the top 5 customer group accounted for almost 66% in FY2020 (P) as against 62% in FY2019, of which one of its major customer accounted for an average of 44% of the total revenue generated in FY2019 & FY2020 (P), indicating high geographic and customer concentration risk. Any adverse changes in the regulatory requirements from the countries can impact the revenue generation potential.

- ***High working capital intensity impacting the overall gearing levels:***

NSFE's operating cycle has elongated to 161 days in FY2020 (P) when compared to 135 days in FY2019 and 103 days in FY2018 primarily on account of higher inventory levels. Inventory levels had increased to 112 days in FY2020 (P) as against 97 days in FY2019 and 59 days in FY2018. Increase in the inventory days in FY2020 (P) was mainly on account of nationwide lockdown from late March 2020. The debtor days increased to 50 days in FY2020 (P) from the previous 45 days in FY2019 thereby increasing the requirement for working capital limits. NSFE's total debt, which includes the working capital limits and term loan, increased to INR58.93 Crore as on March 31st, 2020 (P) as against of INR37.02 Crore as on March 31st, 2019. Overall gearing stood modest at 2.58x as on March 31st, 2020 (P) when compared to 1.69x as on March 31st, 2019.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)



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Liquidity: Adequate

The liquidity remains adequate marked by moderate gross net cash accruals as against the long term debt repayment obligation. The firm maintains unencumbered cash balances of INR2.83 Crore as on March 31st, 2020 (P). Its average working capital utilization was moderate at almost 84% of the drawing power for the last 12 months ended July 2020. With the capex and repayment obligations likely to be low as against the envisaged cash accruals, the liquidity shall remain adequate in the medium term.

About the Firm

Tamil Nadu based, Nila Sea Foods Exports, is engaged into processing and export of frozen marine products (mainly cultured shrimps). The partnership entity is managed and run by Mrs. Nilavathi C, Mr. Selwin Prabhu C and Mr. Aminath Prabu Emmanuvel. It forms a part of the Nila Group of Companies

Financials:

(INR Crore)

| For the year ended/ As On* | 31-03-2018 (Audited) | 31-03-2019 (Audited) | 31-03-2020 (Provisional) |
|----------------------------|-------------------------|-------------------------|-----------------------------|
| Total Operating Income | 136.07 | 100.00 | 111.31 |
| EBITDA | 9.84 | 9.17 | 9.04 |
| PAT | 2.00 | 1.01 | 1.08 |
| Total Debt | 58.11 | 37.02 | 58.93 |
| Tangible Net-worth | 21.80 | 21.94 | 22.85 |
| EBITDA Margin (%) | 7.23 | 9.17 | 8.12 |
| PAT Margin (%) | 1.47 | 1.01 | 0.97 |
| Overall Gearing Ratio (x) | 2.67 | 1.69 | 2.58 |

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

| Sl. No | Name of Instrument/ Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|--------|--|-------------------------------|--------------------------------|----------------|---|---|---|
| | | Type | Amount outstanding (INR Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Long Term Bank Facility – Outstanding Term Loans | Long Term | 3.88 | IVR BB+/Stable | -- | -- | -- |



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|----|--|------------|-------|---------|----|----|----|
| 2. | Short Term Bank Facility – Packing Credit/Packing Credit in Foreign Currency | Short Term | 50.00 | IVR A4+ | -- | -- | -- |
| 3. | Short Term Bank Facility – Foreign Bills Purchased | Short Term | 43.00 | IVR A4+ | -- | -- | -- |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Team:

Name: Parth Dattani

Tel: (022) 62396023

Email: pdattani@infomerics.com

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuaniania@infomerics.com

About Infomerics:

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Annexure 1: Details of Facilities

| Name of Facility | Size of Facility (INR Crore) | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Rating Assigned/ Outlook |
|------------------|------------------------------|------------------|------------------|---------------|--------------------------|
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|--|-------|----|----|------------|----------------|
| Long Term Bank Facility – Outstanding Term Loans | 3.88 | NA | NA | NA | IVR BB+/Stable |
| Short Term Bank Facility – Packing Credit/Packing Credit in Foreign Currency | 50.00 | NA | NA | NA | IVR A4+ |
| Short Term Bank Facility – Foreign Bills Purchased | 43.00 | NA | NA | March 2023 | IVR A4+ |