



Press Release

Nila Sea Foods Exports January 31, 2024

Ratings

Instrument / Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Short Term Bank Facilities	93.00	IVR A4 (IVR A Four)	Downgraded from IVR A4+ (IVR A Four Plus)	Simple
Total	93.00 (Rupees Ninety-three crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has downgraded the rating assigned to the bank facilities of Nila Sea Foods Exports on account of moderation in revenue and profitability in 9MFY24 (Unaudited). The rating is also constrained by moderate capital structure and debt protection metrics, geographical concentration risk, working capital intensive nature of operations, presence in a highly competitive industry which puts pressure on its margins and susceptibility of profitability to volatility in shrimp prices and foreign exchange rates. The rating continues to factor in the experience of the partners in the seafood business, reputed clientele and suppliers with long-standing relationship and healthy demand for Indian shrimps in the offshore market.

Key Rating Sensitivities:

Upward Factors

- Substantial growth in revenue around 15% on a sustained basis, resulting in higher-than-expected cash accruals.
- Improvement in EBITDA margin to more than 8% on a sustained basis.
- Improvement in overall gearing ratio below unity on a sustained basis.
- Prudent working capital management to improve liquidity profile and debt coverage metrics on a sustained basis.

Downward Factors

- Deterioration in revenue and profitability resulting in lower-than-expected cash accruals.
- Stretch in working capital cycle leading to deterioration of liquidity position.



Press Release

- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the firm.

List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Experienced partners in the seafood business

The Nila group comprises NSFE, Amulya Sea Foods (rated IVR BB+/ Stable/ IVR A4+) and Nila Sea Foods Private Limited (rated IVR BB+/Stable / IVR A4+). The group was established in the year 1992 by the late Mr. D. Chandran. 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 seafood business, which has aided in understanding the changing dynamics of the industry and establishing a strong relationship with customers and suppliers. NSFE has set up a full-fledged procurement team headed by the partners themselves and supported by a team with more than 25 years of experience in the field.

Reputed clientele and suppliers with long standing relationship

The firm has long standing relationships with key customers Mega Harvest Corporation, Best Food Services, Kitajima Suisan Company Ltd. etc who have been associated with it since establishment. The firm has also a diversified base of suppliers with whom it is dealing since inception.

Healthy demand for Indian shrimps in the offshore market

Frozen shrimp remained the major export item in terms of quantity and value both while USA and China turned out to be the major importers of India's seafood. With the rise in demand for disease-free and healthy shrimps, India is one of the largest shrimp exporters to the US and the European Union.

B. Key Rating Weaknesses

Moderation in revenue and profitability

The total operating income of the company moderated slightly to Rs. 161.47 crore in FY23 from Rs. 167.10 crore in FY22. The absolute EBITDA and PAT also decreased to Rs. 6.97 crore (FY22: Rs. 7.74 crore) and Rs. 0.88 crore (FY22: Rs. 1.37 crore) in FY23 respectively.



Press Release

FY24 revenues of the firm has been impacted due to increased supply of cultural shrimps from Ecuador to USA. Hence the total operating income was lower at Rs. 64.83 crore in 9MFY24, vis-à-vis Rs. 120.55 crore in 9MFY23 (Unaudited). Hence the firm expects to achieve revenue of ~Rs. 106.68 crores in FY24.

NSFE's EBITDA margins have been declining from 8.22% to 4.63% over FY20-22 and accordingly PAT margins from 1.14% to 0.82% over FY20-22. In FY23 EBITDA and PAT margins have been maintained at 4.32% and 0.54% respectively. In line with this, the GCA moderated from Rs. 3.74 crore in FY22 to Rs. 2.89 crore in FY23. Further, in H1FY24 (Unaudited) the EBITDA margin was at 3.72%.

Moderate capital structure and debt protection metrics

The financial risk profile of the group is marked by moderate capital structure and moderate debt protection metrics. The overall gearing ratio and TOL/TNW were at 1.91x and 2.22x respectively as on March 31, 2023, as against 1.34x and 1.51x respectively as on March 31, 2022, primarily due to increase in the total debt. Total debt of Rs. 53.46 crore as on March 31, 2023, includes bank borrowings of Rs. 31.80 crore and bill discounted of Rs. 21.66 crore. Further, the interest coverage ratio moderated to 1.97x in FY23 as against 2.34x in FY22. Total debt to GCA ratio deteriorated and was high at 18.51x in FY23 against 9.69x in FY22.

Geographical concentration risk

NSFE's customer profile is highly concentrated to North America. The revenue contribution from USA and Canada accounted for almost 57.38% in FY23 as against 77.99% in FY22. The firm has increased its exports to Japan which constituted around 23.56% of revenues in FY23 (PY: 13.11%). In FY23 and FY24 the firm's revenues from USA has been impacted due to increased availability from Ecuador leading to stiff competition and impact on profitability. Further, any adverse changes in the regulatory requirements in these countries can impact NSFE's revenue generation potential. However, the company is exploring other countries and is also exporting to other countries like Belgium, Germany etc.

Working capital intensive nature of operations

NSFE operates in working capital intensive nature of business and has to maintain high inventory levels. On an average the firm maintains inventory of 80 days. It has a policy of extending credit of up to 90 days to its customers and gets up to 30 days credit from its suppliers. Accordingly, its average inventory period was 83 days, average collection period was 41 days while average creditor period was 6 days in FY23 as against inventory period of



Press Release

53 days, average collection period of 40 days and average creditor period of 2 days in FY22. The elongated operating cycle is normally funded through its working capital limits. The average working capital utilization of the fund-based limits was 83% during the 12 months ended September 2023.

Presence in a highly competitive industry which puts pressure on its margins

NSFE faces stiff competition from other domestic and international players, which can limit bargaining power with the customers. In addition to the domestic competition, NSFE faces competition from countries like Ecuador, Indonesia, and Vietnam, which are major global producers of Vanna Mei shrimp. Moreover, many export markets implement regulations from time to time (including anti-dumping duty, food safety regulations and quality requirements).

Susceptibility of profitability to volatility in shrimp prices and foreign exchange rates

Operating profitability of shrimp exporters is susceptible to volatile shrimp prices and forex rates. The company 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, market price, and monsoon conditions. The availability of shrimps is also impacted by possible outbreak of diseases, which could affect production.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on default recognition](#)

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Adequate

The liquidity remains adequate marked by gross cash accruals of Rs. 2.89 crore in FY23. Further, the average working capital utilization of company was 87.21% during the 12 months ended September 2023 indicating limited liquidity buffer. NSFE does not have any long-term debt as on January 1, 2024. It does not have any capex planned during FY24-26. The current ratio stood at 1.24x as on March 31, 2023, as against 1.31x as on March 31, 2022. The company has a cash & bank balance of Rs. 2.31 crore as on March 31, 2023.



Press Release

About the Firm

Tamil-Nadu based, NSFE is a part of the Nila group founded by Late Mr. D. Chandran and his family. It was established in 2010 as a partnership firm and is currently managed by Mrs. Nilavathi C, Mr. Selwin Prabhu C and Mr. Aminath Prabu Emmanuvel. NSFE is engaged in processing and exporting of cultured shrimps to various countries in the world like U.S.A., Japan, Canada, China, UAE, UK, Vietnam, Belgium etc. It has an integrated plant with facilities for Block and IQF freezing. The factory is situated at Thoothukudi, Tuticorin, Tamil Nadu with a capacity to process 12 metric tonne per day of shrimps. The average capacity utilization is around 66% in FY23.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	167.10	161.47
EBITDA	7.74	6.97
PAT	1.37	0.88
Total Debt	36.30	53.46
Tangible Net worth	27.17	27.92
Ratios		
EBITDA Margin (%)	4.63	4.32
PAT Margin (%)	0.82	0.54
Overall Gearing Ratio (x)	1.34	1.91

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil



Press Release

Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (December 22, 2022)	Date(s) & Rating(s) assigned in 2021-22 (December 31, 2021)	Date(s) & Rating(s) assigned in 2020-21 (October 1, 2020)
1.	Packing Credit / Packing Credit in Foreign Currency	Short Term	50.00	IVR A4	IVR A4+	IVR A4+	IVR A4+
2.	Foreign Bill Purchased	Short Term	43.00	IVR A4	IVR A4+	IVR A4+	IVR A4+
3.	Term Loan	Long Term	-	-	Withdrawn	IVR BB+ / Stable	IVR BB+ / Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Press Release

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Packing Credit / Packing Credit in Foreign Currency	-	-	-	50.00	IVR A4
Foreign Bill Purchased	-	-	-	43.00	IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-NilaSeaFoods-jan24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.