

Rating Rationale

30 October 2020

Growel Feeds Private Limited

Brickwork Ratings reaffirms/assigns ratings with a revision in Outlook for the Bank Loan Facilities of Rs. 159.29 Crores of Growel Feeds Private Limited

Particulars:

Facility**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (October 2019)	Present
Fund Based					
Cash Credit	121.00	121.00	Long Term	BWR A-/Stable	BWR A-/Negative Reaffirmed with revision in Outlook
Term Loans	16.52	9.02			
FITL (Covid Loan)	-	4.52	Short Term	-	BWR A2+ Assigned
Non Fund Based					
Bank Guarantee	3.75	3.75	Short Term	BWR A2+	BWR A2+ Reaffirmed
Letter of Credit	21.00	21.00			
Total	162.27	159.29	Rupees One Hundred and Fifty Nine Crores and Twenty Nine Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank loan facilities are provided in Annexure-I

Note: The company has forward contract of Rs. 85.00 Crs. as a consortium limit, not being rated by BWR.

Rating Action/Outlook

The rating reaffirmation of the bank loan facilities of Growel Feeds Private Limited (GFPL or the company) reflects the steady domestic sales and capacity utilisation in FY20, sustained moderate credit risk profile, established operational track record of the company, industry experience of the promoters and signs of revival in business activity after facing the impact of the Covid-19-induced lockdown. The ratings also draw comfort from the locational advantages, accredited manufacturing and R&D facilities and adequate liquidity. However, the ratings are constrained by volatility in the prices of raw materials, which affects profitability; working-capital-intensive operations; intensely competitive aquafeed market; geographical and customer concentration risk; vulnerability of revenues to risks arising from disease outbreaks and the impact of Covid-19 on the industry.

Brickwork Ratings (BWR) notes that GFPL had availed relief under the Covid moratorium package for March-May 2020 with Indian Bank and March-August 2020 with Indian Overseas Bank, and deferred

scheduled payments for the period in line with the RBI guidelines. The company has been regular in debt obligation payments in the post-moratorium period, as confirmed by its bankers. The company has not opted for loan restructuring under the RBI Resolution Framework for Covid-19-related stress.

The Negative outlook takes into account the company's lower-than-expected performance in FY20 as a result of decline in export sales and profitability, mainly due to the Covid-19 impact and as a fall-out of overseas customer concentration. The outlook also reflects BWR's expectation that the company will register degrowth in FY21 due to the continuing industry-wide impact of the Covid-19 pandemic. The outlook may be revised to Stable if there is an improvement in sales and profitability without any deterioration in the gearing and debt coverage metrics, thus improving the company's credit risk profile. The company's ability to diversify its domestic and export market will remain a key monitorable.

Key Rating Drivers

Credit Strengths:

- **Established operational track record and experienced promoters:** The promoters have over two decades of experience in the aquaculture industry. The company is engaged in the manufacturing and sale of shrimp feed and fish feed. It had an installed capacity of 270,000 tonnes per annum (TPA) of fish feed and 93,000 TPA of shrimp feed as on 30 September 2020. It has two state-of-the-art manufacturing units in Krishna district of Andhra Pradesh. Unit 1 was set-up in 2010 and Unit 2 in 2013. Currently, Mr. M.V.N. Sesha Chary and Mr. Srinivasa Narendra Potluri are the company's Executive Directors. The established presence in the market over a long period and promoters' understanding of the industry dynamics are beneficial for the company's business.
- **Locational advantage:** The company's manufacturing units are situated in the West Godavari region of Andhra Pradesh, which is known for significant aquaculture-related activities. This helps the company in both accessing raw material at competitive costs from in and around Andhra Pradesh and selling its products to the various fish and shrimp farms located in the Krishna-Godavari belt.
- **Accredited manufacturing facilities:** The company's manufacturing facilities have certifications from Global Aquaculture Alliance Best Aquaculture Practices (BAP), Halal India and Export Inspection Agency, Chennai (HACCP). Growel Innovation Centre (GIC), an in-house R&D unit, along with a pilot plant and a test pond was recognised by the Department of Scientific and Industrial Research, Ministry of Science & Technology, New Delhi, w.e.f. 19 June 2020. These certifications and accreditations ensure that the company adheres to the international standards of hygiene and food safety at its manufacturing units. It also helps the company access both, international and domestic markets for its products.
- **Operational performance:** The company's overall capacity utilisation increased from ~37% in FY16 to ~54% in FY20. The capacity utilisation for shrimp feed and fish feed in FY20 was ~58% and ~53%, respectively. In volume terms, shrimp feed production declined from 79,578 MT in FY19 to 53,838 MT in FY20, while for fish feed, it increased from 111,438 MT to 142,779 MT over the same period. This decline in shrimp feed capacity utilisation in FY20 was as a result of decline in export sale in FY20. Aquafeed demand in general and shrimp feed demand in particular is not steady and

uniform throughout the year. It fluctuates based on the stage of the crop. As such any aquafeed manufacturing facility has to keep sufficient spare capacity to cater to the peak demand. The feed cannot be manufactured and stocked for a future sale since the farmers do prefer only the latest manufactured stock in spite of the shelf life of the feed being 6 months. For this reason optimum annual capacity utilisation cannot exceed 50-60%.

- Financial performance:** Operating income in FY20 declined by ~8% compared to FY19. The company's domestic sales increased from Rs. 720.48 Crs. in FY19 to Rs. 797.10 Crs. in FY20. However, the export sales declined from Rs. 206.79 Crs. in FY19 to Rs. 58.67 Crs. in FY20. The restricted growth in the domestic market, particularly in case of fish feed was due to a cautious approach adopted by the company, in extending credit. The company's efforts to geographically diversify its domestic sales outside Andhra Pradesh also slowed down the sales growth initially. There was a decline in EBITDA and PAT in FY20 primarily due to an increase in the prices of raw materials. The total debt remained at almost the same level as on 31 March 2020 despite a term loan repayment as a result of higher working capital borrowings outstanding as on date. The TNW was at a comfortable level of Rs. 149.31 Crs. as on 31 March 2020. There was a marginal improvement in gearing due to an increase in the TNW. However, due to decline in the EBITDA and PAT in FY20, debt coverage metrics declined to 2.74 times (ISCR) and 1.63 times (DSCR) as on 31 March 2020. However, these improved to 3.90 times and 2.16 times, respectively, as on 30 September 2020 provisionally. The Current Ratio also improved from 1.22 times as on 31 March 2020 to 1.32 times as on 30 September 2020 provisionally. Although the cash conversion cycle stretched from 55 days as on 31 March 2019 to 64 days as on 31 March 2020, it is still at a comfortable level, despite working capital intensive operations and intense competition. The company has an operating income of ~Rs. 353 Crs. for H1FY21.
- Favourable demand prospects:** Given the increasing urbanisation in developing countries in general and in India in particular, demand for animal protein in the diet would grow, and inland aquaculture products along with poultry products, would share the supply side. In the next 4-5 years, more than 50% of the global fish supply is expected to be sourced from fish farms. Demand for inland shrimp is also growing rapidly. Demand for aquafeed is directly proportional to demand for inland aquaculture products such as shrimp and fish. Thus, demand prospects for the industry as a whole are good, and the company could be expected to acquire a significant market share based on the strong brand, quality-assured manufacturing and economies of scale. The impact of Covid-19 is expected to be temporary in the long term demand prospects for the sector. Pradhan Mantri Matsya Sampada Yojana has been launched by the Government of India to establish a comprehensive framework and reduce infrastructural gaps in the fisheries sector. State Fisheries department of Andhra Pradesh government has approached all the aquafeed mills including GFPL for supply of fish feed through Raithu Barosa Kendras. The Indian Council of Agricultural Research is working through its Directorate of Coldwater Fisheries Research on development of trout culture in uplands and has partnered with GFPL in this respect.

Credit Challenges:

- Impact of Covid-19:** The onset of the Covid-19 pandemic impacted global consumption and trade in aquaculture-based products due to decline in travel, tourism and hospitality sectors, uncertainties regarding hygiene and the safety of aquafoods and logistical constraints. This had a natural impact on demand for aquafeed products. Indian aquafood and aquafeed market suffered in Q1FY21 due to decline in both, domestic and export demand. The unavailability of manpower and closure of domestic fish markets due to lockdown restrictions compelled fish farmers to keep stocks in ponds and feed them for further growth. This kept demand for fish feed steady in H1FY21. However, in the case of shrimps, the non-availability of broodstock and larval feed due to the stoppage of international transport during the first two months of the world-wide lockdown, consequent shortage of seed, lack of manpower due to lockdown restrictions leading to delay in stocking, increased cost of seed due to increased transport cost and initial panic harvesting by shrimp farmers led to decline in demand for shrimp feed in H1FY21. However, the company focused on fish feed in general and outside the AP market in particular and almost doubled its volumes outside AP in H1FY21 compared to FY0. This helped the company broaden its customer base in the domestic fish feed market. After a hiatus in export-related activities, the company received enquiries from entities based in Indonesia, Philippines and Kenya for shrimp feed export. The company has completed the registration of its products in Indonesia. The company produces functional feeds, which contain both nutrients and disease-resistant elements. The functional feed provides leverage to the company in those countries. The company is also in talks with ABM Corporation of Bangladesh for the export of shrimp feed and has completed a trial order.
- Volatile raw material prices:** The raw materials used for manufacturing aquafeed are soya, mustard, maize, broken rice, fish meal and de-oiled rice bran. As they are agro-based products, their price varies due to factors such as rainfall, the government's minimum support price, logistics and transportation. In FY18, the general price level of these raw materials was relatively low, which helped the aquaculture industry, as well as the company, improve profitability margins. However, the upward pressure on the prices of the raw materials in FY19 and FY20 led to relatively subdued margins for the company. The company has no long-term contracts with either buyers or sellers. Thus, it may have to procure the raw material from dealers at prevailing market prices only.
- Thin profitability and working-capital-intensive operations:** The company's net and operating profit margins for FY20 declined to 0.92% and 4.56%, respectively, compared with 3.73% and 8.23% in FY19, respectively, primarily due to an increase in raw material prices. The company's operations are working-capital-intensive, leading to working capital borrowing from banks with associated interest and finance costs. However, its dependence on external funding for working capital is moderate as the sanctioned limit was only ~14% of the operating income for FY20. Besides, as the company currently has no ongoing debt-financed capex project; low term loan repayments and adequate net cash accruals could help the company partly finance its working capital needs with internal accruals, helping to consolidate the gearing and debt service metrics in the medium term. However, any debt-financed capex project to be undertaken in the near future may place a strain on

the gearing, debt coverage metrics and liquidity unless the operating income and profitability increase considerably.

- **Intense competition in industry:** The Indian aquafeed industry is fragmented, marked by the presence of a large number of unorganised players and a few big players with partially or fully integrated operations. The entry barriers are low, and the threat of substitutes is high. Margin-based competition by small players places pressure on the overall margins of the industry and the pricing power of even strong brands. On the exports front, the Free Trade Agreement (FTA) of the EU with Vietnam in July 2019 has made the Vietnamese aquafeed product accessible to the EU market duty-free. As Vietnam is one of India's main competitors in the aquafeed market along with Thailand, Indonesia and Malaysia, the Indian aquafeed market in general, and the company in particular, may face stiff competition in the EU export market.
- **Concentration risk:** The company's domestic business operations are primarily concentrated in Andhra Pradesh. All the top five domestic customers for fish feed in FY20 were from Andhra Pradesh. Similarly, four out of the top five domestic customers of the shrimp feed were from Andhra Pradesh. In FY20, ~70% of fish feed sales and ~65% of shrimp feed sales came from Andhra Pradesh. Besides, Saudi Arabia accounted for ~11% of total shrimp feed sales in FY20. Additionally, the top five domestic customers accounted for ~62% of domestic fish feed sales and ~41% of domestic shrimp sales in FY20. The top five overseas customers accounted for ~100% of overseas fish feed and 100% of overseas shrimp feed sales in FY20. Thus, the company has significant geographical and customer concentration risk.
- **Vulnerability to disease outbreaks:** Demand for the company's products comes primarily from fish and shrimp farms, which are vulnerable to various water-borne diseases. Many times, the outbreak of such diseases at one place leads to their spread through various vector media to similar other aquatic ecosystems. To prevent the spread, the regulatory authorities order mass-culling of fish and shrimp in the ponds. Therefore, such events can potentially affect demand for the company's products. Besides these, the company needs to keep a constant check on the hygiene of the raw material used for manufacturing aquafeeds. For this, it needs consistent adherence to various regulatory and certification authorities' norms.

Analytical Approach And Applicable Rating Criteria

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The company does not have any subsidiary.

Rating Sensitivities

The company's ability to improve the capacity utilisation, revenue and profitability on a sustained basis, manage working capital requirements prudently and diversify the customer base both domestic and overseas, thus strengthening its overall business and credit profile, would be the key rating sensitivities.

Positive:

- Increase in capacity utilisation, scale of operations and profitability on a sustained basis
- Prudent working capital management

Negative:

- Deterioration in the scale of operations and/or EBITDA margins due to industry- or company-specific factors, leading to a significant deterioration in the credit metrics and liquidity, all on a sustained basis
- Sustained deterioration in the net profit margin below 3.00%, operating profit margin below 7.00%, gearing above 1.25 times and TOL/TNW above 2.00 times

Liquidity Position: Adequate

The operating profit and net cash accruals of FY20 were sufficient to cover the debt service obligations for FY20. The position is expected to remain the same in FY21 and FY22. The company's debt coverage ratios were adequate as on 31 March 2020 even as they declined due to a lower EBITDA and PAT in FY20. These witnessed recovery in H1FY21 provisionally and are expected to continue the trend in H2FY21. The average working capital bank facilities' utilisation for the past 6 months was ~86%, indicating, among other things, the sustained level of business operations even during the peak of the Covid-19 pandemic. The company had modest cash and cash equivalents of Rs. 2.13 Crs. as on 31 March 2020 due to decline in net cash flow from operating activities in FY20. The company's cash conversion cycle elongated as on 31 March 2020 due to the stretching of days receivables, but remained at a comfortable level. Due to a high level of short-term borrowings and trade payables, the Current Ratio was modest, at 1.22 times, as on 31 March 2020. However, due to subsequent decline in those levels, the current ratio improved to a level of 1.32 times as on 30 September 2020 provisionally. Based on adequate operating income and net cash accruals in comparison to debt payment obligations, adequate debt coverage metrics and Current Ratio and comfortable cash conversion cycle, the company's liquidity is adequate.

About the Company

Growel Feeds Private Limited is part of the Growel Group, Hyderabad, and was incorporated on 07 January 2008 in Hyderabad. GFPL is engaged in the manufacturing and sale of shrimp feed and fish feed. GFPL has the technology and capacity to produce pelleted aqua feeds, extruded sinking feeds, extruded floating and slow sinking feeds in large quantities. The company has two manufacturing units located at Chevuru Village, Sriharipuram Panchayat, Singarayapalem Pot, Mudinepally Mandal, Krishna District, AP. The current installed capacity of fish feed production is 2,70,000 MT, i.e., 1,30,000 MT in Unit 1 and 1,40,000 MT in Unit 2. The current installed capacity of shrimp feed production is 93,000 MT. Shrimp feed is manufactured only in Unit 2. The company has laboratories in six locations in India under the aegis of Growel Aqua Labs: Singarayapalem, Amalapuram, Kaikaluru, Srikakulam, Surat and Balasore. The products are sold under the brand names of Growfin, Carpmix, Nutrila, Nutrish, Carpmix Polyculture, Rainbow (all fish feed brands); and Nutriva F15, Nutriva, Marigold, Tigeron, Sprint-LS (all shrimp feed brands). GFPL's manufacturing facilities have certifications from Global Aquaculture Alliance Best Aquaculture Practices (BAP), Halal India and Export Inspection Agency, Chennai (HACCP).

The company has plans to install a new manufacturing unit in Orissa to better cover the northern Indian domestic market and some nearby export markets. The unit is expected to have an installed capacity to produce 76,000 MT of fish feed and 37,000 MT of shrimp feed per annum. The expected project cost is Rs. 50-60 Crs., to be funded in a debt:equity ratio of 60:40. The project is in the planning stage, and no cost has been incurred till date.

The other group companies of the Growel Group are Growel Processors Pvt. Ltd. (BWR BBB+/Stable/A2) and Growel Formulations Pvt. Ltd. The former is engaged in the processing and export of frozen shrimp and the latter in the manufacturing of aquaculture healthcare products.

Mr. M.V.N. Sesha Chary and Mr. Srinivasa Narendra Potluri are the Executive Directors. Other Directors are Mr. Chintapalli Sudheer, Mr. Janardhan Polavarapu, Mr. Srinivas Potluri, Mr. Ravella Sateesh and Mr. Arul Victor Suresh.

Key Financial Indicators

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Operating Income	Rs. Crs.	933.10	857.69
EBITDA	Rs. Crs.	76.84	39.12
Profit After Tax	Rs. Crs.	34.84	7.89
Tangible Net Worth	Rs. Crs.	142.55	149.31
Total Debt : Tangible Net Worth	Times	0.82	0.79
Current Ratio	Times	1.22	1.22

The company reported operating income of ~Rs. 353 Crs. in H1FY21 provisionally.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - On 18 January 2019, Care Ratings migrated its outstanding ratings of the company's bank loans to the ISSUER NOT COOPERATING category due to the company's non-cooperation in providing requisite information for the monitoring of ratings. The ratings are still in the ISSUER NOT COOPERATING category with the CRA.

Rating History For The Previous Three Years [including withdrawal and suspended]

Facilities	Current Rating			Rating History		
	Tenure	Amount (Rs. Crs.)	Rating	31Oct2019	2018	2017
Fund Based						
Cash Credit	Long Term	121.00	BWR A-/Negative	BWR A-/Stable	Not Rated	
Term Loans		9.02				
FITL (Covid Loan)	Short Term	4.52	BWR A2+	Not Rated		
Non Fund Based						
Bank Guarantee	Short Term	3.75	BWR A2+	BWR A2+	Not Rated	
Letter of Credit		21.00				
Total		159.29	Rupees One Hundred and Fifty Nine Crores and Twenty Nine Lakhs Only			

Note: The bank loan facilities of Rs. 162.27 Crs. of the company were assigned ratings of BWR A-/Stable/A2+ on 31Oct2019.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

• General Criteria	• Manufacturing Companies
• Approach to Financial Ratios	• Short Term Debt

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Growel Feeds Private Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Cr)	Short Term (Rs Cr)	Total (Rs Cr)
1	Indian Bank	Cash Credit	85.00	-	85.00
2		Term Loan I	2.60	-	2.60
3		Term Loan II	2.34	-	2.34
4		FITL (Covid Loan)	-	4.52	4.52
5		Bank Guarantee	-	3.75	3.75
6	Indian Overseas Bank	Cash Credit	36.00	-	36.00
7		Term Loan I	1.58	-	1.58
8		Term Loan II	2.50	-	2.50
9		Letter of Credit	-	21.00	21.00
TOTAL - Rupees One Hundred and Fifty Nine Crores and Twenty Nine Lakhs Only					159.29

Note: The company has forward contract of Rs. 85.00 Crs. as a consortium limit, not being rated by BWR.

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