Rating Rationale

Kalyan Aqua & Marine Exports India Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs 73.50 Crs of Kalyan Aqua & Marine Exports India Pvt Ltd (‘KAMEIPL’ or ‘the company’)

Particulars:

<table>
<thead>
<tr>
<th>Facilities**</th>
<th>Amount (Rs. Crs.)</th>
<th>Tenure</th>
<th>Rating*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Previous</td>
<td>Present</td>
<td></td>
</tr>
<tr>
<td>Fund Based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term Loan</td>
<td>-</td>
<td>6.00</td>
<td>Long Term</td>
</tr>
<tr>
<td>Proposed Term Loan</td>
<td>22.00</td>
<td>-</td>
<td></td>
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<tr>
<td>Packing Credit</td>
<td>20.00</td>
<td>20.00</td>
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<tr>
<td>FDBP/FUDBP</td>
<td>40.00</td>
<td>40.00</td>
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</tr>
<tr>
<td>Non-fund Based</td>
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<td></td>
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</tr>
<tr>
<td>Inland LC</td>
<td>2.50</td>
<td>2.50</td>
<td>Short Term</td>
</tr>
<tr>
<td>Standby LC</td>
<td>4.50</td>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>Inland BG</td>
<td>0.50</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>99.50</td>
<td>73.50</td>
<td>Rs Seventy Three Crores and Fifty Lakhs Only</td>
</tr>
</tbody>
</table>

*Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the ratings

** Details of Bank Loan facilities are provided in Annexure-I ;

Rating Action/Outlook

The reaffirmation of ratings continue to factor the established track record, experienced management, established relationships with clientele, locational advantages and moderate financial risk profile. However, the ratings remain constrained by the stringent regulatory requirements and the red tag by USFDA for the major part of FY20 (since removed wef January 2020), susceptibility of profitability to raw material prices, exposure to forex risks, high competitive intensity in the industry, working capital intensive nature of operations and the impact of COVID 19 on business operations.

BWR has taken note of the potential impact of COVID 19 on the business and financial risk profiles of the company. With the commencement of the nationwide lockdown, the company was unable to export goods for about two months in April and May 2020 due to the shortage in availability of vessels/ containers and labor. Operations have now resumed and the company has started exporting. The company has managed its working capital requirements using its cash reserves and the sanctioned working capital facilities. The company has not availed the
deferment of interest under the COVID-19 Relief Package announced by RBI, however a term loan of Rs. 6 crores as part of the working capital has been sanctioned under the Covid Emergency Line of Credit (CELC) by Union Bank of India.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that KAMEIPL’ business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if significant increase in revenue or profitability, improvement in capital structure and better working capital management strengthen the business risk and financial risk profiles of the company. The rating outlook may be revised to 'Negative' if the revenues and profits are lower than anticipated, there is any further red flagging by USFDA due to quality issues and/or any stretch in the working capital cycle weakens the financial risk profile.

**Key Rating Drivers**

**Credit Strengths:**

- **Established track record:** The company was incorporated in 2007 and has an operational track record of over a decade. The main promoter, Mr. P Rajendra Prasad is well experienced in the seafood industry. The extensive experience of the promoters and their understanding of the dynamics of the industry are expected to continue to support the business risk profile. The company is a 100% export oriented unit and has relationships with clientele across various countries such as USA, China, UAE etc.

- **Moderate Financial Risk Profile:** Total revenue from operations increased from Rs 90.68 Crs in FY18 to Rs 102.87 Crs in FY19. On a provisional basis, the company has reported revenue of ~Rs 88 Crs in FY20. The decline in revenue in FY20 was because the company’s processing facility was in the red tag list by the US Food and Drug Administration (USFDA) due to quality issues and the company had to use another manufacturing facility on a contract basis to complete its orders during this period. In January 2020, USFDA gave the manufacturing facility a green tag and operations have now resumed in the company’s own facility. Tangible Net worth (TNW) was Rs 23.87 Crs as on 31 Mar 2019 as against Rs Rs 22.03 Crs as on 31 Mar 2018. Total debt/TNW was 2.12 times as on 31 Mar 2019 as against 1.82 times as on 31 Mar 2018. Debt protection metrics were moderate with ISCR of 1.48 times and DSCR of 1.49 times in FY19.

- **Locational advantage:** The processing unit is located in Ongole District, Andhra Pradesh which provides location specific advantages in terms of easy accessibility to raw materials and lower transportation costs due to its proximity to the aquaculture zones of Andhra Pradesh.
Credit Constraints

- **Regulatory action:** There was a decline in revenue in FY20 as the processing facility of the company was in red tag list by the US Food and Drug Administration (FDA) due to quality issues. Due to this, the facility was under check by the authorities and all shipments were under scrutiny. During this period, the company was working through another manufacturing facility on a contract basis to complete its orders. In January 2020, USFDA gave the manufacturing facility a green tag and operations have now resumed in the company’s own facility. Going forward, any regulatory action by authorities in this regard will be a key monitorable.

- **Exposure to Forex Risk and Geographical concentration risk:** Since the company is a 100% export oriented unit and presently has no mechanism to hedge forex risk, it is exposed to volatility in forex rates. Also, since ~95% of exports are to USA, the company is exposed to geographic concentration risk. Any adverse changes in the regulatory or geopolitical environment of the country could severely impact the company’s revenue and profitability.

- **Susceptibility of profitability to volatility in raw material prices:** Profitability margins are highly susceptible to fluctuations in shrimp prices and various other risks such as perishability, need for adherence to quality as the products are susceptible to outbreak of diseases, seasonal availability of raw materials etc. Also, as the industry is affected by the Covid 19 pandemic, the shrimp prices are susceptible to volatility.

- **Intense competition and Highly regulated industry:** The industry is characterised by low entry barriers and intense competition with a large number of organised and unorganised players. Indian seafood exporters also face stiff competition from international players. This limits the bargaining power and places pressure on profitability. Moreover, the industry is highly regulated with stringent regulations and quality requirements. Since the company is a 100% export oriented unit with 95% of its sales to USA, revenues are exposed to any changes in Indian export/ USA import policies for seafood and quality checks by the US Food and Drug Association (FDA).

- **Impact of COVID 19 outbreak:** Due to the outbreak of COVID 19 and the nationwide lockdown, the company was unable to export goods for about two months in April and May 2020 due to the shortage in availability of vessels/ containers and labor. Although operations have now resumed and the company has started exporting, due to COVID 19 and the uncertainty around availability of labour etc, the ability of the company to complete the orders on hand and secure additional orders is likely to be impacted. The company is also susceptible to any adverse changes in the regulatory environment, global demand - supply dynamic and the likely fluctuations in prices due to the pandemic.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).
Rating Sensitivities
The Company’s ability to increase its scale of operations, ensure that there is no recurrence of quality issues inviting regulatory action, improve profitability, efficiently manage its working capital and strengthen its liquidity and overall credit profile would be the key rating sensitivities. The impact of COVID 19 on the price of shrimps, the demand supply situation as well as any regulatory developments in this sector would be key monitorables.

Positive: Given the ongoing weakness in the macro-economic environment and the Covid-19 impact on the sector, a rating upgrade in the near term appears unlikely.

Negative:
- Larger than expected delay in the normalization of business operations leading to substantial decline in revenue and profitability
- Regulatory action regarding the quality of produce.
- High volatility in the price of shrimps or any adverse changes in regulatory environment resulting in deterioration of overall credit and liquidity profiles.

Liquidity: Stretched - Average utilisation of working capital facilities over the last one year was ~90%. Net cash accruals of Rs 3.02 Crs in FY20 are sufficient to cover the debt obligations of Rs. 2.06 crores in FY21. Net cash accruals/Total debt was low at 0.05 times in FY19. Current ratio was moderate at 1.17 times as on 31 Mar 2019. Conversion cycle was stretched at 153 days in FY19 mainly on account of the increase in receivable days from 19 days in FY18 to 39 days in FY19 and a high inventory holding period of 187 days in FY19. Cash and cash equivalents were low at Rs 0.40 crores as on 31 Mar 2020 (Provisional) (as against Rs 0.45 crores as on 31 Mar 2019).

Company Profile
Kalyan Aqua & Marine Exports India Pvt Ltd was incorporated in October 2007, at Visakhapatnam, Andhra Pradesh. KAMEIPL is a 100% EOU, engaged in processing of shrimps and exporting them to US, UK, other European countries. More than 90% of the exports are made to the US and the rest to China, UAE and European countries. The company caters to retail clientele such as supermarkets. The processing plant with a processing capacity of 6000 tons per annum is located at Ongole, Andhra Pradesh and marine food products are procured from nearby coastal areas. The company exported 2031 tons in FY19 and 1730 tons in FY20. The company had proposed to set up another shrimp processing unit at Keerthipadu village, Maddipadu mandal, Prakasam district, Andhra Pradesh. However, this project was not executed and is not expected to start in the current financial year. Mr. Rajendra Prasad is the Managing Director and Mrs. Lakshmirajyam, Mrs. Savitra Sneha C and Mr. Seshadri Chowdary P are the other directors.
Key Financial Indicators

<table>
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<th>Key Parameters</th>
<th>Units</th>
<th>31 Mar 2018</th>
<th>31 Mar 2019</th>
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<tr>
<td>Operating Revenue</td>
<td>Rs Crs</td>
<td>90.68</td>
<td>102.87</td>
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<tr>
<td>EBITDA</td>
<td>Rs Crs</td>
<td>7.59</td>
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<td>PAT</td>
<td>Rs Crs</td>
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<tr>
<td>Tangible Net worth</td>
<td>Rs Crs</td>
<td>22.03</td>
<td>23.87</td>
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<tr>
<td>Total Debt/Tangible Net worth</td>
<td>Times</td>
<td>1.82</td>
<td>2.12</td>
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<tr>
<td>Current Ratio</td>
<td>Times</td>
<td>1.16</td>
<td>1.17</td>
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</table>

On a provisional basis, the company reported revenue of ~Rs 88 Crs in FY20.

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

Non-cooperation with previous CRA - CRISIL, vide its rationale dated 12 Mar 2020 has continued the ratings in the Issuer Not Cooperating category due non availability of requisite information to conduct the rating review.

Rating History for the previous three years [including withdrawn and suspended]

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<thead>
<tr>
<th>Facilities</th>
<th>Current Rating (July 2020)</th>
<th>Rating History</th>
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<tr>
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<td>Tenure</td>
<td>Amount (Rs.Crs)</td>
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<td>Fund Based</td>
<td>Long Term</td>
<td>6.00 20.00 40.00</td>
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<tr>
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<td>Standby LC</td>
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<tr>
<td>Inland BG</td>
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</table>
Total | 73.50 | Rs Seventy Three Crores and Fifty Lakhs Only

Complexity Levels of the Instruments:

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

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

<table>
<thead>
<tr>
<th>Analytical Contacts</th>
<th>Investor Contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shivangi Gupta</td>
<td>Liena Thakur</td>
</tr>
<tr>
<td>Ratings Analyst</td>
<td>Assistant Vice President - Corporate Communications</td>
</tr>
<tr>
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<td>+91 84339 94686</td>
</tr>
<tr>
<td><a href="mailto:Shivangi.g@brickworkratings.com">Shivangi.g@brickworkratings.com</a></td>
<td><a href="mailto:liena.t@brickworkratings.com">liena.t@brickworkratings.com</a></td>
</tr>
<tr>
<td>Rajee R</td>
<td></td>
</tr>
<tr>
<td>Senior Director - Ratings</td>
<td></td>
</tr>
<tr>
<td>B: +91 80 4040 9940</td>
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</tr>
<tr>
<td><a href="mailto:rajee.r@brickworkratings.com">rajee.r@brickworkratings.com</a></td>
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</tr>
<tr>
<td>1</td>
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<td></td>
<td>**Total: **Rupees Seventy Three Crores and Fifty Lakhs Only</td>
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