

Rating Rationale

Ananda Foods

06 May 2019

Brickwork Ratings upgrades/reaffirms the ratings to 'BWR BB/A4' for the bank loan facilities of Rs. 83.08 Crore of Ananda Foods ['AF' or 'the firm'], Bhimavaram, West Godavari, Andhra Pradesh

Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous	Present
Fund Based					
Term Loan	2.80	1.08 [#]	Long Term	BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable	BWR BB (Pronounced as BWR Double B) Outlook: Stable Upgraded
PC/PCFC/FDB/FBE/ BRD	22.00	80.00	Short Term	BWR A4 (Pronounced as BWR A Four)	BWR A4 (Pronounced as BWR A Four) Reaffirmed
Non Fund Based					
Standby Letter of Credit	2.00	2.00	Short Term	BWR A4 (Pronounced as BWR A Four)	BWR A4 (Pronounced as BWR A Four) Reaffirmed
Total	26.80	Rs. 83.08 Crore (Rupees. Eighty Three Crore Eight Lakh Only)			

Note: Annexure I provides details of the credit facilities

Term Loans outstanding

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

Ratings Upgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings has essentially relied upon the audited financials upto FY18, provisional financials of FY19, projections upto FY21, publicly available information and information/clarifications provided by the firm's management.



The ratings upgrade factors the improved operational performance of the firm. The ratings continue to factor the partners' experience in the seafood industry, favourable location of the plant with easy accessibility to raw materials and partners' long standing relationships with its customers and suppliers. However, the ratings continue to be constrained by the limited value-additive nature of operations, intense competition from domestic players as well as other low-cost countries, resulting in low operating margins and working capital intensive operations. Further, there are inherent risks associated with the seafood industry such as seasonality in sales and raw material availability, vulnerability of margins to foreign currency risks, susceptibility of business to diseases outbreaks, climatic changes and changes in regulatory norms.

Going forward, the ability of the firm to increase its scale of operations, improve profitability, strengthen its liquidity and credit profile, efficiently manage its supply chain and manage its working capital efficiently would be the key rating sensitivities.

Key Rating drivers

Credit Strengths:

- **Promoters' experience and established operations:** AF has an operational track record of around a decade in the seafood industry. The firm benefits from the partners' extensive experience of more than 25 years in the seafood industry, understanding of the dynamics of the industry and established relationships with customers and suppliers. AF exports cultured shrimps to its clients in the USA, Canada, European Countries, Singapore, South Africa, UAE, Saudi Arabia and Middle East.
- **Locational advantages:** AF's shrimp processing unit is located close to shrimp culturing districts of Andhra Pradesh, namely, East Godavari, West Godavari, Krishna and Guntur districts, thereby deriving benefits of lower logistics costs and easy availability.
- **Moderate financial risk profile:** AF's revenue increased to Rs. 317.17 crore in FY18 from Rs. 64.60 crore in FY17. On a provisional basis, the firm has achieved a revenue of around Rs. 291 crore in FY19. ISCR and DSCR were 14.34 times and 12.09 times respectively as on 31st March 2018 as against 17.45 times and 18.69 times as on 31st March 2017. Partners' capital was Rs. 35.90 crore as on 31st March 2018 as against Rs. 22.22 crore as on 31st March 2017, on account of retention of majority of profits in the business. AF's leverage ratios are at comfortable levels reflected by Total Debt/Partners' capital and Total outside liabilities/Partners' capital at 0.75 times and 2.14 times respectively as on 31st March 2018.

Credit Constraints:

- **Susceptibility of profitability to volatility in shrimp prices:** Seafood industry's profitability margins are highly correlated with fluctuations in shrimp prices and are susceptible to various risks like perishability, need for high adherence to quality, exchange rates, availability during a particular period etc. AF's profitability margins are thin. Furthermore, the firm does not have any long-term contracts with suppliers with regard to either quantity or price, however it has several years of relationships. The seafood industry is fragmented and there is significant competition among the players in the industry; as a result, their bargaining power is moderate.
- **Exposure to forex fluctuations:** Profitability is exposed to forex rates as around 80% - 90% revenue is derived from exports and is exposed to forex fluctuation risks. The firm partly mitigates the risks through the utilization of PCFC facilities.
- **Susceptibility to risks inherent in the seafood industry and changes in government regulations:** The industry is characterized by low entry barriers and intense competition from unorganized players. Volatility in feed prices, diseases, climatic vagaries, lack of quality seeds and feed affect supply of seafood and hence, prices. The seafood industry is affected by demand-supply imbalance as seafood is a depleting commodity; tightened regulations on fishing have made supply conditions more irregular. Moreover, many export destinations such as the US, Japan, and European countries implement regulations (including anti-dumping duty, food safety regulations, and quality requirements) that need to be met and any detrimental regulation could impact profitability. Indian seafood exporters also face intense competition from cheaper varieties sourced from countries such as Bangladesh, Thailand, Indonesia, etc. Moreover, any change in Government policies would adversely impact the players' revenues and margins.
- **Working capital:** AF's working capital requirements are high and are also reflected by utilisation level of the bank lines at around 90% over the last 9 months.
- **Investments in related companies and withdrawal of capital:** As a partnership, AF is exposed to the inherent risk of withdrawal of capital and this has been observed over the last three years. The firm has increased its investments in a related entity [*i.e., Godavari Mega Aqua Food Park Private Limited*] to Rs. 10.83 crore as on 31st March 2018 from Rs. 2.22 crore as on 31st March 2017.

Liquidity: Moderate: Current ratio was 1.17 times as on 31st March 2018 as against 1.15 times as on 31st March 2017. Net cash accruals to total debt was around 0.62 times as on 31st March 2018 as against 0.61 times as on 31st March 2017. The cash conversion cycle is satisfactory at 8 days for FY18 and FY17. Cash & Cash equivalents stood at Rs. 0.71 crore as on 31st March 2018. Debt repayment obligations is around Rs. 1.00 crore for FY20 and FY21 which are expected to be serviced through internal cash accruals.



Analytical Approach

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 Outlook: Stable

Brickwork Ratings believes that **Ananda Foods**' ('AF' or 'the firm') business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement leading to improvement in cash accruals and strengthening of financial risk profile. The rating outlook may be revised to 'Negative' if the revenues go down, profit margins show lower than expected figures, working capital cycle is stretched pressurizing the liquidity position or any major debt funded capital expenditure plan leads to stress on the financial risk profile of the firm.

About the Firm

Ananda Foods [*'AF' or 'the firm'*], a family owned partnership entity, was established in August 1993 by Shir. U Kasi Viswanadha Raju at Bhimavaram, West Godavari, Andhra Pradesh. The firm discontinued its business operations in January 2005 for various reasons and subsequently commenced its operations from 2016. AF is engaged in export of processed frozen shrimp to its clients in various countries, namely, USA, Canada, European Countries, Singapore, South Africa, UAE, Saudi Arabia and Middle East Countries. The firm has a seafood processing facilities at Bhimavaram, West Godavari, Andhra Pradesh and is a 100% export oriented unit.

Financial Performance

AF's total revenue increased to Rs. 317.17 crore in FY18 from Rs. 64.60 crore in FY17. Profit after Tax was Rs. 18.02 crore for FY18 as against Rs. 2.79 crore for FY17. The firm received incentives under various government schemes amounting to Rs. 23.51 crore in FY18 as against Rs. 2.14 crore in FY17, which have been included in the total revenue. Partners' capital stood at Rs. 35.90 crore as on 31st March 2018. On a provisional basis, AF has achieved revenue of around Rs. 291 crore for FY19.

The key financial indicators are summarized in Annexure II.

Rating History for the last three years

Sl. No.	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Cr)	Ratings	2018' [27 th Feb 2018]	2017	2016
1	Term Loan	Long Term	1.08 [#]	BWR BB (Outlook: Stable) (Pronounced as BWR Double B) Upgraded	BWR BB- (Outlook: Stable) (Pronounced as BWR Double B Minus) Assigned	-	-
2	PC/PCFC/FDB/FBE/ BRD	Short Term	80.00	BWR A4 (Pronounced as BWR A Four) Reaffirmed	BWR A4 (Pronounced as BWR A Four) Assigned	-	-
3	Standby letter of credit		2.00			-	-
Total			Rs. 83.08 Crore (Rupees Eighty Three Crore Eight Lakh Only)				

#Term Loan outstanding

1 Amount Rated: Rs. 26.80 crore;

Status of Non-Cooperation with other CRA: NA

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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Annexure I Bank Loan Facilities

Bank	Facilities	Tenure	Previous (Rs. Crs)	Present (Rs. Crs)
Canara Bank Specialised Aqua Finance Branch, Bhimavaram, Andhra Pradesh	Fund Based			
	Term Loan	Long Term	2.80	1.08 [#]
	PC/PCFC/FDB/FBE/BRD	Short Term	22.00	80.00
	Non Fund Based			
	Standby letter of credit	Short Term	2.00	2.00
Total			26.80	83.08

[#] Term Loans outstanding

Annexure II Key Financial Parameters

Particulars		31 Mar 2017	31 Mar 2018
		Audited	Audited
Net Revenue	Rs. Cr	64.60	317.17
EBITDA	Rs. Cr	3.08	24.20
Profit After Tax	Rs. Cr	2.79	18.02
Partners' Capital	Rs. Cr	22.22	35.90
Total Debt : Tangible Net Worth	Times	0.24	0.75
Current Ratio	Times	1.15	1.17



For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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