

Hyson Exports Private Limited

January 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.31 (Enhanced from 6.26)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	42.65 (Enhanced from 37.15)	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	52.96 (Rs. Fifty-Two Crore and Ninety-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hyson Exports Private Limited (HEPL) continue to be constrained by the company's leveraged capital structure, low profitability margins with losses in FY21, exposure to raw material price volatility and foreign currency fluctuations, and presence in highly competitive seafood industry with inherent risk of exposure to water borne diseases.

The ratings, however, derive strength from the vast experience of the promoters, locational advantage of the plant with presence in aquaculture zone and accredited processing facilities.

Rating Sensitivities

Positive Factors

- Consistent improvement in scale of operations above Rs.200 crore with stable profitability margins above the range of 5-6%
- Sustained improvement in overall gearing below 1.5x.

Negative Factors

- Decline in operating margins below 2% on a consistent basis
- Any major capex plan leading to deterioration in capital structure above 3.5x

Detailed description of Key rating drivers

Key rating weaknesses

Decline in operational performance in FY21, however improvement in 8MFY22

The scale of operations of the company declined by 35% in FY21 owing to the pandemic and the related disruptions. Further, due to increase in the freight charges, the company recorded losses at net-level. However, during 8MFY22, the company could turn around the losses and record TOI of Rs.113.25 crore and PBILDT of Rs.4.97 crore resulting from an improved demand scenario.

Leveraged capital structure

The capital structure of the company, though marginally improved, continued to remain leveraged with overall gearing at 1.90x as of March 31, 2021 (PY: 2.45x). the company has unsecured loans of Rs.15.07 crore of which Rs.9.80 crore is subordinated with the bank. The debt coverage indicators stood weak with interest coverage ratio of the company stood at 1.12x during FY21 (PY: 4.16X) and the total debt to GCA stood at 143.05x (PY: 6.29) as on March 31, 2021

Exposure to volatile raw material prices and foreign currency fluctuations.

The PBILDT margin of the company remains volatile because of the volatility in the end product prices which are exposed to international market demand supply dynamics. The company has to depend on shrimp farmers as such have little control over the procurement price. The price demanded by the shrimp farmers varies depending on the availability and demand. This often leads to volatile procurement price and hence the profitability margins of the company are affected. Further, since the company is entirely dependent on exports, it is inherently exposed to foreign currency fluctuations. The company has a policy of hedging case to case basis.

Highly competitive industry and exposure to water borne diseases

The seafood industry is exposed to intense competition as there are several small and large players. The players also face intense competition from south-east Asian exporters impacting the realizations. The players are not able to always pass on the price rise in entirety to its customers due to heavy competition from peer players. This puts pressure on the margins of the group tendering them low. Further, there are varieties of lethal viral and bacterial diseases that may affect shrimp. The fact that the shrimps are kept in clusters, acts as an exponential factor in multiplying the disease caught by a single shrimp and may wipe out almost 90% of total shrimp population in a particular farm. A major transfer vector of many of these viruses is the water itself; and thus, any virus outbreak also carries the danger of decimating shrimp living in the wild.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key rating strengths

Experienced Promoters in seafood Industry

The promoters, Mr. P.P. Fasalu and his son Mr. Mohamed Shafee Fasalu have been involved in the seafood business for more than 10 years. The day to day activities of the company are managed by Mr. P.M. Abdutty who is a full time resident director. He has more than 30 years' experience in supervisory and managerial level in India and abroad.

Accredited processing facilities

The company has its own land, factory, freezing plant, cold storage as part of its infrastructure and production facilities at Mambattu, Andhra Pradesh. The factory is certified by HACCP, ISO 22000, BAP-1 and BRC which are required by the European Union, Canada & USA for importing Shrimps into those markets. The company is also planning to obtain BAP 2, 3 & 4 certification & ASC certification which is most sought after by the US, European Union and Canada markets.

Locational advantages of the company's plant with presence in aquaculture zone

The plant is located at Mambattu having close proximity to West and East Godavari regions which are recognized as a major source for cultured Vannamei in India. The nearest town, Sullurpeta is only 12 km away from the plant and well connected to major cities like Hyderabad, Vijayawada and port cities like Vishakhapatnam and Chennai both by road as well as rail network. This facilitates transportation of the finished goods through containers/trucks to Chennai port and also to bring raw material to the plant in insulated vehicles from the farms from various parts of the state. The Presence of the plant in a region which has proximity to raw material location enables the company to procure its raw materials and process them immediately after the harvest season. The storage units at Mambattu is about 90 Km from Chennai Port from where most of the exports are made.

Liquidity: Stretched – Liquidity is marked by tightly matched accruals to repayment obligations of Rs.1.98 crore in FY22, highly utilized bank limits and modest cash balance of Rs.0.36 crore as on March 31, 2021. The company had a working capital cycle of 75 days as of FY21 (PY: 27 days). The elongation in the working capital cycle in FY21 was owing to an increase in the inventory days that stood at 95 days in FY21 (PY: 44 days) due to lower export demand in the last quarter on account of the second wave of Covid-19. The company's fund-based utilization remained high with average utilization at 97% for past 12 months ended November 2021.

Analytical approach: Standalone

Applicable criteria

[CARE's Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Manufacturing Companies](#)

About the company

Hyson Exports Private Limited (HEPL) is engaged in processing and exporting of frozen marine products, primarily Vannamei Shrimps, with its corporate base located in Chennai, Tamil Nadu. The managing director of the company is Mr. P.P. Fasalu and other directors include Mr. Mohamed Shafee Fasalu, who is the son of Mr. P.P. Fasalu. The day to day activities of the company are managed by Mr. P.M. Abdutty who is also one of the directors.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	8MFY22 (P)
Total operating income	161.30	105.19	113.25
PBILDT	6.78	1.99	4.97
PAT	1.62	-2.54	1.18
Overall gearing (times)	2.45	5.11	1.75
Interest coverage (times)	4.15	1.11	2.99

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Bank Lender Details: Annexure 5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit		-	-	-	1.07	CARE A4+
Fund-based - ST-EPC/PSC		-	-	-	23.00	CARE A4+
Fund-based - LT-Term Loan		-	-	October 2024	10.31	CARE BB+; Stable
Non-fund-based - ST-Export Bill Negotiation		-	-	-	10.00	CARE A4+
Fund-based - ST-FBN / FBP		-	-	-	8.00	CARE A4+
Non-fund-based - ST-Bank Guarantees		-	-	-	0.58	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-Letter of credit	ST	1.07	CARE A4+	-	1)CARE A4+ (05-Feb-21)	-	-
2	Fund-based - ST-EPC/PSC	ST	23.00	CARE A4+	-	1)CARE A4+ (05-Feb-21)	-	-
3	Fund-based - LT-Term Loan	LT	10.31	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Feb-21)	-	-
4	Non-fund-based - ST-Export Bill Negotiation	ST	10.00	CARE A4+	-	1)CARE A4+ (05-Feb-21)	-	-
5	Fund-based - ST-FBN / FBP	ST	8.00	CARE A4+	-	1)CARE A4+ (05-Feb-21)	-	-
6	Non-fund-based - ST-Bank Guarantees	ST	0.58	CARE A4+	-	1)CARE A4+ (05-Feb-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Fund-based - ST-FBN / FBP	Simple
4	Non-fund-based - ST-Bank Guarantees	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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