

## The Waterbase Limited

October 06, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term/Short-term (LT/ST) Bank Facilities	73.81	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Reaffirmed
Short-term Bank Facilities	0.03	CARE A2+ (A Two Plus)	Reaffirmed
<b>Total</b>	<b>73.84</b> <b>(Rs. Seventy three crore and eighty four lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Waterbase Limited (TWL) continue to draw strength from the experience of its promoters with long track record of operations of the company in the shrimp feed industry and it being a part of the Karam Chand Thapar (KCT) group. The ratings also factor the partially integrated nature of its operations with an established brand presence and marketing network. Further, the ratings derive strength from its robust capital structure with negligible debt level outstanding as on March 31, 2021 along with its adequate liquidity. Additionally, the ratings take cognizance of the initiatives taken by the company for diversification of its revenue by venturing into farm care products and frozen sea food, the contribution of which to total operating income (TOI) has been gradually increasing.

The ratings are, however, tempered by the significant decline in its TOI and profitability during FY21 (refers to the period April 1 to March 31) due to the impact of COVID-19 pandemic on its demand, increase in its raw material costs and provision for doubtful debtors. While the company has again reported significant increase in its TOI in Q1FY22 as compared with Q1FY21, the profitability margin has remained impacted due to the increase in raw material costs which is expected to result in continued subdued profitability even in FY22. Nevertheless, the debt protection metrics continue to remain adequate with significant reduction in debt levels. Further, the operations of the company remain working capital intensive with significant funds blocked in debtors and inventory resulting in an elongated operating cycle of 158 days in FY21. The ratings are also constrained by its moderate capacity utilisation, exposure to volatility in raw material prices, geographical concentration of revenue and risks inherent to the seafood industry.

The ratings also take note of the capital expenditure plans of the company for expansion in capacity and process improvement which is expected to be funded out of internal cash accruals and liquid investments.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade**

- Ability to increase its scale of operations with TOI beyond Rs.400 crore while improving PBILDT margins above 12% on a sustained basis.
- Substantial improvement in gross operating cycle with the same going below 120 days

#### **Negative Factors - Factors that could lead to negative rating action/downgrade**

- Decline in its PBILDT margin below 6% on a sustained basis
- Any major debt funded capex or stretch in its working capital requirements resulting in deterioration of its capital structure and debt coverage indicators marked by increase in its overall gearing beyond 0.75x and TD/GCA beyond 2.50x.

### Detailed description of the key rating drivers

#### **Key Rating Strengths**

##### **Experienced promoters with long track record in the shrimp feed industry**

TWL has long track record of more than two decades in the shrimp feed industry. It is part of the KCT group which is spearheaded by Mr Vikramaditya Thapar, Chairman. Mr Thapar has been in the shrimp feed industry for almost three decades and thus has long experience in the seafood business. Furthermore, the promoter group is well supported by experienced personnel. KCT group has interests in sectors ranging from coal logistics, real estate and aquaculture.

##### **Partially integrated nature of operations with strong brand and established network**

TWL is predominantly a shrimp feed manufacturer with a small processing facility for shrimp. The company has increased its integration and presence in the value chain post commencement of hatchery with 250 million post larvae capacity from October 2018.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The company sells shrimp feeds under the brand *Bay White-Enriched*, *Maximy* and *Vanamax*. It sells various shrimp feeds that are of high quality, freshness, appropriate calorific value and rich in nutrients through an established network of more than 184 dealers primarily in the coastal areas of the country. TWL enjoys long-standing relationship with its network of dealers with top 10 dealers contributing around 40-45% of sales.

#### ***Diversification into farm care products and frozen sea food***

TWL had diversified its product offering through launch of its farm care range of products under the brand name *Baylife* and frozen sea food products (processed shrimps and pasteurized crab meat) under the brand *Price Catch*. Revenue share from these two new segments is gradually increasing and it contributed around 9% of its TOI in FY21 as against 5% in FY20.

#### ***Robust capital structure and adequate debt protection metrics***

TWL's total outstanding debt decreased substantially from Rs.12.46 crore as on March 31, 2020 to Rs. 1.22 crore as on March 31, 2021, due to full repayment of its term debt and no outstanding fund-based working capital borrowings as on even date; with lease liability being its only debt. Consequently, its already robust overall gearing ratio further improved to 0.01x as on March 31, 2021 from 0.07x as on March 31, 2020. Interest coverage ratio and total debt to GCA also stood adequate at 9.61x and at 0.11x respectively in FY21 as against 12.32x and 0.50x respectively in FY20.

With significant free liquidity available with the company (Rs.54.45 crore as on March 31, 2021) to meet its envisaged capital expenditure and working capital requirements, the capital structure of TWL is expected to remain comfortable in the medium-term.

#### ***Stable demand prospects for aquaculture industry***

The supply of wild catch is expected to remain stagnant and the incremental supply is expected to come from aquaculture. Consequently, the Indian seafood industry is expected to grow with growth in global demand. Frozen shrimp continued to be the major export item in terms of quantity and value. The shrimp exports have been increasing with adoption of *Vannamei* culture in India which has stocking density of three to four times over *Black Tiger* species/higher yield and lower cost of production leading to higher demand for same. Despite short term volatilities due to global outbreak of COVID-19 along with firm raw material prices, the Indian aqua business is poised to grow and hence the aqua feed business is expected to benefit in the long term.

#### **Key Rating Weaknesses**

##### ***Moderation in sales and profitability of the company***

The capacity utilisation of TWL moderated to 23.47% in FY21 as against 36.53% in FY20. The TOI of the company decreased by 34.47% from Rs.322.43 crore in FY20 to Rs.211.30 crore in FY21. Volumes declined by 40.24% FY21 primarily due to closure of operations and muted operations on the back of COVID-19 outbreak in Q1FY21, which accounts for ~40% of the revenue for the entire fiscal. Further, the company continued to tighten its credit policy to dealers which also impacted its sales. The lower volumes could only be partially offset by increase in realisations.

PBILDT margin declined from 10.01% in FY20 to 6.73% due to decrease in scale of operations which led to under absorption of fixed costs. Provision for doubtful debtors also impacted its profitability during FY21. Going ahead, the operating margin is expected to remain under pressure during FY22 also given the increase in raw material prices (especially soya seed) and inability to fully pass on the increase to its customers immediately. TWL's profitability was impacted in Q1FY22 due to higher raw material prices. However, the company has increased the price of feed in Q1FY22 and is also looking at further price hikes increases which is expected to marginally offset the increase of input costs.

##### ***Working capital intensive nature of operations***

The operations of the company are working capital intensive on account of credit period offered to dealers along with stocking of raw materials (depending on prevailing market prices) resulting in inventory period of around 120 days in FY21. The collection period also increased to 105 days in FY21 from 83 days in FY20 with the reduction in scale though on an absolute basis debtors reduced.

The company's main season is during March to July as evident by ~40% of yearly sales during the first quarter. Consequently, the inventory holding is high during the year end. The operating cycle of the company increased from 152 days for FY20 to 167 days for FY21. The company, however, has low reliance on debt to fund its operating cycle.

##### ***Geographical concentration risk in an intensely competitive and fragmented market***

The feed industry is driven by regional demand and supply because of transportation constraints and perishable nature of the products. The geographical concentration risk of TWL increased in FY21 vis-à-vis FY20, with revenue contribution of over 55% from Andhra Pradesh as against 43% in FY20. About 32% of sales were to Gujarat with lower presence in other geographies like Maharashtra, Tamil Nadu, West Bengal and Odisha. However, going forward, the company plans to reduce concentration by increasing the sales from newer geographies.

Low capital intensity and low entry barriers facilitate entry of un-organized players, leading to high competition and fragmentation. However, the organised market is dominated by few major players in the shrimp feed segment.

#### **Volatility in raw material prices**

The cost of raw materials constitutes the major portion of cost of sales (~73% in FY21 vis-à-vis ~80% in FY20) of the company. The major raw materials are agro products like soya, wheat flour and fish meal. Other raw materials are fish oil, squid meal, molasses yeast, mono-calcium phosphate, minerals, Vitamin C, binders, etc. Since the major raw material availability is seasonal in nature and dependent on climatic conditions, the raw material costs are volatile in nature. Furthermore, the company has limited ability to pass on the increase in raw material prices.

There has been significant increase in prices of soya in the recent past and the profitability of the company has been impacted due to the same.

#### **Risks inherent in the seafood industry**

The main threat to shrimp industry is from outbreak of diseases. Furthermore, the Indian shrimp exports industry is highly fragmented given the low entry barriers and significant competition in the export market from other competing countries and threat from other seafood varieties. Moreover, government policies keep varying depending upon other macro-economic factors like anti-dumping duties, inflation, etc., which increase the expenses of the companies operating on the seafood industry.

#### **Liquidity: Adequate**

TWL had adequate liquidity in the form of free cash & cash equivalents to the tune of Rs.54.81 crore as on June 30, 2021. Furthermore, the company has not utilised its sanctioned fund based working capital limits of Rs.54 crore in the last twelve months. However, it has historically had large receivables outstanding for more than one year and it also has high provisions towards doubtful debtors; although the company has been taking steps to address this issue by tightening its credit policy. TWL does not have any term debt in its books. The envisaged internal accruals and available liquidity is expected to be sufficient to meet its capex requirements of about Rs.45 crore towards capacity expansion and process improvement over the next three years.

#### **Analytical Approach: Standalone**

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financials Ratio-Non-Financial Sector](#)

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

#### **About the Company**

TWL was incorporated in November 1987 as Thapar Waterbase Limited and commenced commercial operation in 1993. It is promoted by the Karam Chand Thapar (KCT) Group with Mr. Vikramaditya Mohan Thapar as the Chairman of the Company. The KCT group has a portfolio of businesses in real estate, treasury, aquaculture and coal logistics with core focus on business of coal logistics through Karam Chand Thapar & Bros. (Coal Sales) Ltd.; (KCTBL: rated CARE AA-; Stable/CARE A1+).

TWL is a partially integrated aquaculture entity, consisting of a feed plant having an installed capacity of 1,10,000 MTPA, a shrimp hatchery of 250 mn post larvae and a shrimp processing plant with an aggregate capacity of 4,000 MTPA, all located at Nellore, Andhra Pradesh spread across an area of 50 acres.

The Shrimp Feed Mill produces high quality shrimp feed for both brackish and fresh-water shrimp farming. As part of its integrated activities, the company works closely with its farmers by providing them quality inputs like seed, feed and other farming inputs, post larvae and buying back of shrimp directly from their farms. TWL also has a cold storage facility capable of storing 750 MT of finished products.

<b>Brief Financials (Rs. crore)</b>	<b>FY20 (A)</b>	<b>FY21 (A)</b>
Total operating income	322.43	211.30
PBILDT	32.28	14.21
PAT	18.54	5.93
Overall gearing (times)	0.07	0.01
Interest coverage (times)	12.32	9.61

A: Audited

In Q1FY22, TWL reported PAT of Rs.7.61 crore on a TOI of Rs.126.74 crore.

**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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	41.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	5.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	13.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Forward Contract	-	-	-	0.03	CARE A2+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	14.81	CARE A-; Stable / CARE A2+

#### 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	Fund-based - LT/ ST-Cash Credit	LT/ST*	41.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable (01-Mar-19)2)CARE A-; Stable (04-Apr-18)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (27-Mar-20)	1)CARE A2+ (01-Mar-19)2)CARE A2 (04-Apr-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	5.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable (01-Mar-19)2)CARE A-; Stable (04-Apr-18)
4	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	13.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable (01-Mar-19)2)CARE A-; Stable (04-Apr-18)
5	Non-fund-based - ST-Bills Discounting / Bills	ST	-	-	-	-	1)Withdrawn (27-Mar-20)	1)CARE A2+ (01-Mar-19)2)CARE

	Purchasing							A2 (04-Apr-18)
6	Non-fund-based - ST-Forward Contract	ST	0.03	CARE A2+	-	1)CARE A2+ (27-Oct-20)	1)CARE A2+ (27-Mar-20)	1)CARE A2+ (01-Mar-19)2)CARE A2 (04-Apr-18)
7	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (27-Oct-20)	1)CARE A-; Stable (27-Mar-20)	1)CARE A-; Stable (01-Mar-19)2)CARE A-; Stable (04-Apr-18)
8	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	14.81	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable / CARE A2+ (01-Mar-19)2)CARE A-; Stable (04-Apr-18)

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - LT/ ST-Letter of credit	Simple
5	Non-fund-based - ST-Forward Contract	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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