Coastal Corporation Limited

June 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	120.00	CARE BBB-; Stable / CARE A3	Revised from CARE BBB; Stable / CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating revision for the bank facilities of Coastal Corporation Limited (CCL) is due to a deterioration in the financial performance of the company during FY23 (FY refers to the period from April 01 to March 31) caused by slowdown in the demand in the USA marine food market coupled with a delay in the regulatory approvals. However, the ratings derive strength from experienced management with a long track record, moderate operational performance, geographical advantage due to presence in the aquaculture zone, moderate financial risk profile, subsidy and export incentives extended by the government and favourable industry outlook. The rating strengths, however, are offset by working capital-intensive operations resulting in high reliance on bank lines, geographical concentration risk, highly competitive business, dependence on climatic conditions and presence in a regulated industry. The ratings take cognizance of unrelated diversification of the group into the ethanol business and projected debt-funded capex for the same.

The marine food market in the USA displayed slowdown in the demand during major period of FY23. The import of shrimp in US had declined by ~11% in CY22 compared to CY21. This has impacted CCL severely as the major export destination for the company is the USA. The company has also commissioned unit III for serving the mature marine food markets and was awaiting approval from the USFDA for the full-fledged export from this unit, which also led to lower sales in FY23.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- ✓ Improvement in overall gearing to below 1.0x and TD/GCA below 3x, going forward.
- ✓ PBILDT margin improved to more than 9% while consistent growth in TOI by more than 30%.

Negative factors

- × Overall gearing deteriorates beyond 1.50x, going forward.
- × Significant decline in TOI by more than 30% y-o-y and decline in the PBILDT margins below 7.50%.

Analytical approach: Consolidated

Consolidated business and financial risk profiles of CCL and its wholly owned subsidiaries namely

- Continental Fisheries India Pvt Ltd (to export marine products)
- Seacrest Seafoods Inc. (USA) (To sell sea foods in the American markets)
- Coastal Bio-Tech Pvt Ltd (To manufacture ethanol)

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the extensive experience of the promoters in the industry.

A detailed description of the key rating drivers:

Key Rating Strengths

Qualified management and satisfactory track record in the aquaculture industry: Mr. T. Valsaraj, Managing Director, is at the helm of the affairs of the company. He has a high degree of involvement in the day-to-day operations of the company right from sourcing orders to final delivery. He is well supported by a highly experienced and professional team. The company has developed a long-standing relationship with the USA and European importers over the last decade. CCL has also developed a strong network of suppliers for aqua-cultured products, majorly Vannamei shrimps, throughout the aqua-cultured zone in Godavari District of Andhra Pradesh.

Geographical advantage due to the presence in the aquaculture zone in Andhra Pradesh: CCL has three processing units which are located in the prime aquaculture zone near the coastal area of Andhra Pradesh, which enables the company to

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

procure raw materials and process them immediately after harvest. The purchases are made from all the major coastal regions of A.P. viz. Srikakulam, Tuni, Kakinada, Amalapuram, Bhimavaram, Narasapuram, Machilipatnam, Repalle, Ongole and Nellore. Apart from these places, CCL also procures from Gujarat and Orissa during May-July and August-November seasons every year.

Government support by way of subsidies and export incentives: Being an export-oriented entity CCL is eligible for financial incentives such as 'Duty Drawback' and Remission of Duties or Taxes on Export Products (RoDTEP). Starting 1 January 2021, the Indian government announced a new WTO-compliant scheme called Remission of Duties or Taxes on Export Product (RoDTEP) which has replaced MEIS. Although there is a tad reduction in the percentage of benefit for exporters, the impact of the same is shared across the value chain and thus the profitability margins of exporters are expected to remain stable.

Moderate operational performance with few ongoing and some completed capex: The capacity utilization levels of the company have declined and stood at 60% for the past three-year period that ended March 2023. Given increasing demand, the company has set up an additional processing plant (Unit-III) with a capacity of 35 MT/day at KSEZ, Kakinada, Andhra Pradesh funded through a debt: equity mix of 25:75. The plant commenced commercial operations in May 2022. The sales realization improved to Rs. 7.15 lakh/MT during FY23 as against Rs. 7.09 lakh/MT during FY22, though the volume has declined by around 28%.

Above average financial risk profile: The overall gearing of the company remained below unity although improved marginally to 0.72x as on March 31, 2023, from 0.84x as on March 31, 2022, due to a marginal increase in total debt as against higher net worth. The net worth of the company improved on account of the plough back of profits coupled with the infusion of funds by the promoters in the form of equity. The PBILDT interest coverage ratio of the company declined to 2.78x during FY23 as against 4.22x during FY22 on account of the decline in PBILDT levels. This is due to an increase in interest expenses coupled with a decrease in the PBILDT. The other debt coverage indicator, the total debt to GCA of the company stood at 10.98x during FY23 (9.53x during FY22) on account of a decrease in GCA levels and an increase in debt.

Stable Industry Outlook: India's marine product exports recorded an all-time high in FY22; Growing by over 30% to Rs 57,586.48 crore (USD 7.76 billion) India shipped 13,69,264 MT of seafood worth Rs 57,586.48 crore (USD 7.76 billion) during 2021-22, despite heavy odds. During FY 2021-22, the exports improved in rupee terms by 31.71%, in USD terms by 30.26% and in quantity terms by 19.12%. Frozen shrimp remained the major export item in terms of quantity and value. Frozen shrimp, which earned Rs 42,706.04 crore (USD 5,828.59 million), accounted for a share of 53.18% in quantity and 75.11% of the total dollar earnings. The market is expected to grow by CAGR 10.59% for the period 2022-2027.

Key Rating Weaknesses

Deterioration in the financial performance of the company during FY23: The total operating income (TOI) of CCL witnessed a decline of 27.78% from Rs.500.21 crore in FY22 to Rs.364.27 crore in FY23. The fall in the revenue of the company was majorly due to the slump in shrimp demand in the USA market. The PBILDT margins, however, improved 8.61% in FY23 on account of lower processing costs and a decline in freight expenses. Thus, even with a lower TOI, the company reported Rs.5.84 crore higher PBILDT of Rs.31.38 crore in FY23 as compared to Rs.25.54 crore in FY22. Further, the PAT margins also improved to 2.95% in FY23 as against 2.71% in FY22. At absolute levels, the PAT of the company stood at Rs.6.70 crore in FY23 as against Rs.13.55 crore in FY22. Due to higher interest costs of Rs.11.27 crore the profit levels were significantly lower than FY22.

Geographical concentration risk: CCL is a 100% export-oriented unit. CCL's customer base is concentrated majorly in the USA, which contributes around 95% followed by UAE and Canada at 1% and others at 4% (including Europe, and Hongkong) in FY22. However, dependency on a single country like the USA makes CCL vulnerable to any unfavourable change in the USA government policy like higher anti-dumping duty or other import restrictions which will have a major impact on the company's operational and financial performance.

Presence in a highly competitive industry: 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 seafood export segment is marked by stringent regulations and quality requirements. Many of the export destinations, such as the USA, Japan, and European countries, implement timely regulations (including anti-dumping duty, food safety regulations, and quality requirements) that need to be complied with.

Vulnerability to adverse changes in export incentives, international trade policies and forex risk: CCL's profitability is supported by the export incentives received from the GoI. The GoI replaced the Merchandise Exports from India Scheme (MEIS) with the Remission of Duties and Taxes on Export Products (RoDTEP) scheme in January 2021. The rate of incentive for CCLs under RoDTEP is 2.5% against 5% which was received earlier under MEIS. Such changes in export incentives may impact the margin players in the industry. Also, adverse, or unfavourable changes in the trade policies of the importing countries may affect the business profile of the company.

Disease-prone industry with dependence on climatic conditions: Shrimp farming being an agro commodity is exposed to climatic conditions. Production and raw material prices tend to fluctuate and may depend on the vagaries of nature. Furthermore, shrimp farming is disease prone as there are a variety of lethal viral and bacterial diseases that affect shrimp. However, after repeated tests, Vannamei shrimps have been observed to be more resistant than Black Tiger to various diseases. Moreover, there has not been any major disease outbreak for the past decade in the Indian seafood sector.

Unrelated Diversification: The company has set up a 100% subsidiary named Coastal Biotech Pvt Ltd for Ethanol manufacturing with a capacity of 198 KLPD in Odisha. The estimated capex is around Rs.156 crore which will be funded through debt: equity mix of 80:20. Timely competition of capex without any cost overrun remains critical from a credit perspective. CCL is likely to benefit from the capex and is projected to register notable growth in revenue and profits in upcoming years.

Liquidity: Adequate

Liquidity is characterized by a sufficient cushion in accruals vis-à-vis repayment obligations and a moderate cash balance of Rs.33.92 Crore on March 31, 2023. However, given the working capital-intensive nature of operations, fund-based working capital utilization of the company in the past 12 months ended April 31, 2023, remained high at ~96%. Liquidity is supported by an above unity current ratio of 1.29x as of March 31, 2023

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings
Consolidation

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Seafood

Corporation Limited (CCL) was promoted by Mr. T. Valsaraj in the year 1981. The company is engaged in the processing and export of frozen aqua and seafood products, mainly shrimps. The key product line consists of sea caught and aquaculture shrimps, value-added and processed, raw or cooked in frozen blocks or IQF forms, as per the customer specifications. CCL was listed on BSE in 1986. Further, on October 08, 2021, the company has been approved for listing its equity shares on NSE. CCL's promoter has been associated with the seafood industry for the last 30 years and looks after the management of the company.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	477.68	500.21	364.27
PBILDT	29.71	25.54	31.38
PAT	18.41	13.55	6.70
Overall gearing (times)	0.79	0.84	0.72
Interest coverage (times)	6.92	4.22	2.78

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer to 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-EPC/PSC		-	-	-	120.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-EPC/PSC	LT	-	-	-	-	1)CARE BB+; ISSUER NOT COOPERATING* (07-Jun-21) 2)Withdrawn (07-Jun-21)	1)CARE BB+; ISSUER NOT COOPERATING* (18-May-20)
2	Fund-based - ST-FBN / FBP	ST	-	-	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21) 2)Withdrawn (07-Jun-21)	1)CARE A4+; ISSUER NOT COOPERATING* (18-May-20)
3	Non-fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21) 2)Withdrawn (07-Jun-21)	1)CARE A4+; ISSUER NOT COOPERATING* (18-May-20)
4	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21) 2)Withdrawn	1)CARE A4+; ISSUER NOT COOPERATING* (18-May-20)

							(07-Jun-21)	
5	Fund-based - LT/ ST-EPC/PSC	LT/ST *	120.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (21-Oct-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated.

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-EPC/PSC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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