# The Waterbase Limited

December 06, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term / Short-term bank facilities | 93.81 (Enhanced from 68.81) | CARE BBB+; Stable / CARE A2 | Reaffirmed |
| Short-term bank facilities | 5.03 | CARE A2 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of The Waterbase Limited (TWL) continue to derive 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, company's comfortable capital structure along with its adequate liquidity. Additionally, the ratings also take cognisance of the initiatives taken by the company for diversification of its revenue by venturing into processing of shrimps on their own instead of third-party processing, farm care products and frozen sea food, thereby contributing to gradual increase in the total operating income (TOI).

The ratings, however, continue to remain constrained on account of the sustained decline in the operational performance of the company marked by lower capacity utilisation (CU) of the shrimp feed unit and continuous decline in PBILDT margin over the past few years. The ratings also take note of the funds blocked in long due debtors, though there is improvement in outstanding receivables as on September 30, 2023 on account of company's stringent credit policy. The ratings further continue to remain constrained by the exposure to volatility in raw material prices, geographical concentration of revenue and risks inherent to the seafood industry.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Ability to increase scale of operations to around ₹400 crore along with improving profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 10% on a sustained basis.
- Ability to maintain its healthy leverage while sustaining the improvement in operating cycle at less than 90 days along with earning return on capital employed (ROCE) of around 12%.

**Negative factors**

- Continued inability to improve PBILDT margin from the lows of FY23 on a sustained basis and its significant impact on its leverage and debt coverage indicators.
- Any major debt-funded capex resulting in deterioration in capital structure and debt coverage indicators marked by total debt (TD)/gross cash accruals (GCA) beyond 4x on a sustained basis.
- Significant moderation in its liquidity cushion.

**Analytical approach:** Standalone

**Outlook:** Stable

The 'Stable' outlook assigned to the long-term rating of TWL considers strong leverage position of the company with expectation of improvement in TOI and profitability in the medium term along-with availability of need-based support from the KCT group.

## Detailed description of the key rating drivers:

### Key strengths

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

TWL has long track record of more than three decades in the shrimp feed industry. It is part of the KCT group which is spearheaded by Vikramaditya Thapar, Chairman. He 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. The KCT group has interests in sectors ranging from coal logistics, real estate and aquaculture.

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

**Partially integrated nature of operations with strong brand and established marketing 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. The company sells shrimp feeds under the brands, 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 20% of sales in FY23.

**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 pasteurised crab meat) under the brand 'Prize Catch'. Farm care, processing and hatchery business contributed to 35% of the TOI in Q1FY24 against 17% in FY23. With modification and renovations in its processing unit, CARE Ratings expects the TOI to increase in the medium term.

**Comfortable capital structure and debt protection metrics**
During FY23, TWL availed working capital borrowings to fund its elongated operating cycle leading to overall gearing of 0.21x as on March 31, 2023 vis-à-vis 0.01x as on March 31, 2022, albeit the same remains comfortable on the back of no term debt. Interest coverage ratio and TD/GCA though moderated to 1.92x and 18.44x, respectively, in FY23 as against 8.43x and 0.17x, respectively, in FY22 due to increase in the working capital limits utilisation. CARE Ratings expects the same to improve from H2FY24 onwards, as the company has started recovering its elongated receivables.

**Stable growth prospects of 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 in the long term. Frozen shrimp continues 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. Despite short-term volatilities in FY21 and FY22 due to global outbreak of COVID-19 along with muted growth in Aqua Feed business mainly due to sharp fall in global prices, sluggish exports and high cost of raw materials, the Indian aqua business is poised to have muted growth in the short term. However, it is expected to grow in the long term mainly due to the seafood sector getting boost with the passing of Coastal Aquaculture Authority (Amendment) Bill 2023 and India being well placed to cater to global demand due to large coastline.

## Liquidity: Adequate
TWL had adequate liquidity in the form of free cash and cash equivalents of ₹24.31 crore as on September 30, 2023. Furthermore, the company continued to have NIL term debt on its books. Average utilisation level of fund-based working capital limit stood at around 50% for the 12 months ended on October 30, 2023, which provides cushion to its liquidity. Furthermore, utilisation of its fund-based working capital limits is expected to decrease, as the company has started recovering its pending receivables from Gujarat region through the tightening of its credit policy.

## Key weaknesses
**Sustained decline in profitability in FY23 and H1FY24**
The capacity utilisation (CU) of the shrimp feed unit of TWL (which is the major contributor to revenue) continued to remain low at 26.37% in FY23 and 30.34% in Q1FY24. The TOI of the company remains largely stable in FY23 at ₹304.08 crore as compared with ₹298.73 crore in FY22 mainly due to sales volume. The realisation of feed remains largely stable in FY23 as compared with FY22. However, its TOI increased by around 18% to ₹197.99 crore in H1FY24 as compared with ₹167.77 crore in H1FY23, mainly due to increase in shrimp processing sales. However, The PBILDT margin declined from 2.36% in FY22 to 1.33% in FY23 and 1.54% in H1FY24 due to significant increase in the input prices, which the company could not pass on fully and relatively lower margins in the processing sales. Going forward, although CARE Ratings expects absolute profitability to improve due to higher scale of operations from processing of shrimps, we expects the margins to remain subdued in the near term.

**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). There was deterioration in the operating cycle in FY23 to 108 days from 84 days in FY22 due to higher level of outstanding receivables and inventory. However, the same stands improved in H1FY24 with reduction in its debtors' level. The company continued to have significant debtors outstanding of around ₹67 crore (net of provisions) as on September 30, 2023. CARE Ratings observes that the company has tightened its credit norms and is focussing on increasing the cash sales and recovery of elongated debtors, which is expected to support its working capital.

**Volatility in raw material prices**
The cost of raw materials constitutes the major portion of cost of sales (about 80% in FY23 vis-à-vis about 74% in FY22) of the company. The major raw materials are agro products like soya, wheat flour and fish meal. Other raw materials include fish oil, mono-calcium phosphate, minerals, Vitamin C, binders, etc. Since the availability of major raw materials is seasonal in nature and dependent on climatic conditions, the raw material costs are volatile. Furthermore, the company has limited ability to pass on the increase in raw material prices. There has been significant increase in the prices of soya and fish meal in the past 2-3

years and the profitability of the company has been impacted due to the same. Also, there have been net losses in FY23 despite stable sales compared with FY22.

**Geographical concentration risk in an intensively fragmented and competitive market**
The feed industry is driven by regional demand and supply because of transportation constraints and perishable nature of the products. The geographical concentration of TWL's sales increased in Q1FY24 vis-à-vis FY23, with revenue contribution of about 82% from Andhra Pradesh as against 61% in FY23 due to lower sales in Gujarat region on account of the company's strategy of curtailing its sales to Gujarat dealers with which large receivables were due and now supplying to them only on receipt of prior dues. The company has lower presence in other geographies like Tamil Nadu, West Bengal, Karnataka, Kerala and Odisha. Low capital intensity and low entry barriers facilitate entry of unorganised players, leading to high competition and fragmentation. Though the organised market is dominated by few major players in the shrimp feed segment, the higher capacity in the industry as compared with demand leads to intense competition.

**Risks inherent in the seafood industry**
The main threat to the 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 macroeconomic factors like anti-dumping duties, inflation, etc., which increase the expenses of the companies operating on the seafood industry. The prospects of shrimp feed business remain linked to the performance of the shrimp industry.

## Environment, social, and governance (ESG) risks

| Risk factors | Actions taken by the company |
|---|---|
| Environmental | The Company ensures better farm management practices through good pond preparation, quality seed selection, water quality management, feed management, health monitoring, pond bottom monitoring, disease management, emergency harvest, harvest and post-harvest, food safety and environmental awareness that has prevented any shrimp disease outbreaks. |
| Social | The Company incurred CSR expenses of ₹0.29 crore in FY23 in line with its CSR obligations as per Companies Act, 2013. |
| Governance | The company is managed by professional board of directors who have extensive experience in the industry. The Board comprises six directors including two women directors. The independent directors are 50% of the total number of directors. |

## 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

## About the company and industry

## Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Fast moving consumer goods | Fast moving consumer goods | Food products | Animal feed |

TWL was incorporated in November 1987 as Thapar Waterbase Limited and commenced commercial operation in 1993. It is promoted by the KCT Group with Vikramaditya Mohan Thapar as the Chairman of the company. TWL is a partially integrated aquaculture entity, consisting of a feed plant having an installed capacity of 110,000 MTPA, a shrimp hatchery of 250 mn post larvae and a shrimp processing plant with an aggregate capacity of 5,000 MTPA (increased from 4,000 MTPA in September 2022), all located at Nellore, Andhra Pradesh.
The shrimp feed mill produces high-quality shrimp feed for both brackish and fresh-water shrimp farming. As a part of its integrated activities, the company works closely with its farmers by providing them quality inputs like 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.

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) | H1FY24 (UA) |
|---|---|---|---|
| Total operating income | 298.73 | 304.07 | 197.99 |
| PBILDT | 7.06 | 4.05 | 3.05 |
| PAT / (Net losses) | 0.10 | -3.47 | -1.51 |
| Overall gearing (times) | 0.01 | 0.21 | 0.12 |
| Interest coverage (times) | 8.43 | 1.92 | 1.62 |

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 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-Cash credit | | - | - | - | 66.00 | CARE BBB+; Stable / CARE A2 |
| Fund-based - LT/ ST-CC/PC/Bill discounting | | - | - | - | 13.00 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - LT/ ST-Letter of credit | | - | - | - | 14.81 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - ST-BG/LC | | - | - | - | 5.00 | CARE A2 |
| Non-fund-based - ST-Forward contract | | - | - | - | 0.03 | CARE A2 |

## 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/ ST-Cash credit | LT/ST* | 66.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB+; Stable / CARE A2 (08-Sep-22) | 1)CARE A-; Stable / CARE A2+ (06-Oct-21) | 1)CARE A-; Stable / CARE A2+ (27-Oct-20) |
| 2 | Non-fund-based - ST-BG/LC | ST | 5.00 | CARE A2 | - | 1)CARE A2 (08-Sep-22) | 1)CARE A-; Stable / CARE A2+ (06-Oct-21) | 1)CARE A-; Stable / CARE A2+ (27-Oct-20) |
| 3 | Fund-based - LT/ ST-CC/PC/Bill discounting | LT/ST* | 13.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB+; Stable / CARE A2 (08-Sep-22) | 1)CARE A-; Stable / CARE A2+ (06-Oct-21) | 1)CARE A-; Stable / CARE A2+ (27-Oct-20) |
| 4 | Non-fund-based - ST-Forward contract | ST | 0.03 | CARE A2 | - | 1)CARE A2 (08-Sep-22) | 1)CARE A2+ (06-Oct-21) | 1)CARE A2+ (27-Oct-20) |
| 5 | Fund-based - LT-Term loan | LT | - | - | - | - | - | 1)Withdrawn (27-Oct-20) |
| 6 | Non-fund-based - LT/ ST-Letter of credit | LT/ST* | 14.81 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB+; Stable / CARE A2 (08-Sep-22) | 1)CARE A-; Stable / CARE A2+ (06-Oct-21) | 1)CARE A-; Stable / CARE A2+ (27-Oct-20) |

*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-Cash credit | Simple |
| 2 | Fund-based - LT/ ST-CC/PC/Bill discounting | Simple |
| 3 | Non-fund-based - LT/ ST-Letter of credit | Simple |
| 4 | Non-fund-based - ST-BG/LC | Simple |
| 5 | Non-fund-based - ST-Forward contract | 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.

## Contact us

| Media Contact<br>Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br>Saikat Roy<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: 91-22-6754 3404<br>E-mail: saikat.roy@careedge.in | Analytical Contacts<br>Hardik Manharbhai Shah<br>Director<br>**CARE Ratings Limited**<br>Phone: 91-22-67543591<br>E-mail: hardik.shah@careedge.in<br><br>Akhil Kumar<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: 91-120-4451986<br>E-mail: akhil.kumar@careedge.in<br><br>Sanchit Agarwal<br>Lead Analyst<br>**CARE Ratings Limited**<br>E-mail: sanchit.agarwal@careedge.in |
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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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