Coastal Corporation Limited

November 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	120.00	CARE BB; Stable / CARE A4	Downgraded from CARE BBB-; Stable/ CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the ratings assigned to the bank facilities of Coastal Corporation Limited (CCL) is driven by deterioration in the financial performance of the company during FY24 and H1FY25 (FY refers to the period from April 01 to March 31) along with increase in the working capital borrowings. Furthermore, the ratings are tempered by geographical concentration risk, highly competitive business, dependence on climatic conditions and presence in a regulated industry.

The subsidiary of CCL has undertaken to setting up ethanol plant backed by term loan, the project has seen delay in implementation. Timely completion of the project and stabilisation of production to generate adequate cash flows to repay debt starting from January 2025 is critical from the credit perspective. Any reliance on support from CCL shall weaken its financial profile.

The ratings derive strength from experienced management with a long track record, moderate operational performance, geographical advantage due to presence in the aquaculture zone, improvement in TOI, and stable industry outlook.

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%
- Stabilisation of ethanol plant with generation of adequate cash flow to support its obligations.

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 6%
- Delay in project implementation leading to cost overrun.

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.

Detailed description of the key rating drivers:

Key weaknesses

Moderate capital structure and profitability

CCL's capital structure has deteriorated as on March 31, 2024. The company's overall gearing moderated from 0.72x in FY23 to 1.28x in FY24 due to increase in total debt. The company's major debt is working capital where utilisation is expected to remain high because of working capital-intensive business and term loan which was availed due to ongoing capex for set-up of ethanol plant and upgradation of capacity. The company's coverage indicators deteriorated because of lower accruals marred by higher interest cost. The company's PBILDT interest coverage ratio declined and stood moderate at 2.12x in FY24 against 2.55x in FY23. Other debt coverage indicator, such as the company's TD/GCA, declined and continues to be moderate at 18.54x in FY24 (9.24x in FY23).

Elongated operating cycle despite improved and working capital intensive operations

CCL operates in the industry where requirement of working capital is very high. The company procures raw material from local suppliers and agents which it later processes and exports to countries. The average collection period has been around 30-45 days which is better than its competitors. However, the company's working capital cycle has moderated from 111 days in FY22 to 163

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

days and 164 days in FY24 and FY24 due to increase in inventory level given the high transit time as an impact of red sea crisis, where the company had to reroute its transits. The utilisation of fund based working capital limits for the last 12 months ending September 2024 stood high at 95%.

Geographical concentration risk: CCL is a 100% export-oriented unit. CCL's customer base is concentrated majorly in the USA, which contributes around 85% followed by China, South Korea, Japan and others. This dependency has led to decline in the profitability margins during FY24 and H1FY25 due to imposition of countervailing duty by the US government. The company has already started to export Russia and Japan the benefits of the same holds significance for CCL's profitability.

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. Additionally, the company remains exposed to forex fluctuation risks in the absence of formal hedging policy.

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 ₹156 crore which will be funded through debt: equity mix of 60:40. The project has seen delay in execution which has led to limiting the financial flexibility of the company, which already deteriorated due to lower profitability in the shrimp business. The upcoming ethanol plant is expected to navigate its operations under volatile raw material prices, regulated selling prices and any adverse movement in the policies that may result in deterioration in the CCL's profitability.

Key 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 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 to aqua industry:
In the last financial year (2023-24), India exported 17,81,602 metric tonne (MT) seafood worth ₹60,523.89 crore (US$7.38 billion) which is all time high exports by value. As for overseas markets, the USA continued to be the major importer of Indian seafood in value terms, with an import worth US$2,549.15 million, accounting for a share of 34.53% in terms of US$ value. The export increased by 1.42% in ₹, and 7.46% in quantity however, they declined by 3.15% in US$ terms throughout the course of FY24. The increase is mostly, considering increase in export of frozen shrimps accounting for a share of 41% in quantity and 67.72% of the total US$ earnings. To support the fisheries sector Honourable Prime Minister of India launched the Pradhan Mantri Matsya Sampada Yojana (PMMSY) on 10th September 2020 to "transform" the fisheries sector and add strength to the efforts of building an 'Aatmanirbhar Bharat'. The PMMSY is a flagship scheme for focused and sustainable development of the fisheries sector in the country. The scheme is aiming to support farmers with assistance and hence it is envisaged that the scheme will help in doubling the income of farmers. Also, 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 2024. 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 company is planning to upgrade its capacity more with an additional Unit-IV at Odisha with 12MTPD which is under execution. The sales realization moderated to ₹ 6.45 lakh/MT during FY24 as against ₹ 7.15 lakh/MT during FY23, though the volume has improved by around 38%.

In H1FY25 CCL has sold total of 4082.31 MT with a sales value of ₹ 263.21 crore. The sales realization in H1FY25 stood at ₹ 6.45 Lakh/MT. The raw material price stood at ₹ 2.96 Lakh/MT in H1FY25.

Marginal improvement in TOI although moderate profitability during FY24 and H1FY25:
The total operating income (TOI) of CCL witnessed a marginal improvement of 21.60% from ₹361.59 crore in FY23 to ₹439.71 crore in FY24. The improvement in the revenue of the company was majorly due increase in volume of sales due to demand in shrimp although realisations have moderated due to recessionary trends in USA. The PBILDT margins, however, moderated at 7.39% in FY24 on account of lower processing costs, decrease in sales realizations and a decline in freight expenses. Thus, even with a higher TOI, the company reported ₹4.52 crore PAT and PBILDT of ₹32.49 crore in FY24 as compared to ₹6.70 and 28.70 crore in FY23. Further, the PAT margins declined to 1.03% in FY24 as against 1.85% in FY23. At absolute levels, the PAT of the company stood at ₹4.52 crore in FY24 as against ₹6.70 crore in FY23. Due to higher interest costs of ₹15.33 crore the profit levels were significantly lower than FY23 and FY22.
In H1FY25 the CCL has achieved a TOI of ₹ 291.32 crores which is ~35% increase when compared to H1FY24 which saw revenue of ₹ 215.28 crore. Although, the PBILDT margin moderated from 10.97% in H1FY24 to 7.13% in H1FY24 due to lower sales realisations coupled with levy of CVD charges and PBILDT on absolute terms (₹ 20.79 crore in H1FY25). Further the PAT margins declined TO 1.22% in H1FY25 as against 3.61% in H1FY24. At absolute levels the PAT stood at ₹ 9.67 crores as compared to ₹ 13.78 crores in H1FY23 due to higher interest cost and higher depreciation.

Long standing association with clientele despite geographical concentration risk
CCL is an export-oriented entity with ~85% of the company's total income coming from export sales majorly from the USA. This makes the company vulnerable to single geography for big order. Any unfavourable change in the US government policy like higher anti-dumping duty or other import restriction will have a major impact on the company's operational and financial performance. Although, it may seem like geographical concentration, but the USA is a better margin market and has healthy future growth prospects for value added products, since the demand for Indian shrimps continues to remain on an upward trend in the USA. However, CCL has now forayed in Chinese, Russia, Japan and European markets having equally high demand as USA. However, the margins remain on the lower side when compared to USA. Hence, with presence of over three decades of operations, the group has successfully cemented its place as one of the India's major sea food exporters.

Liquidity: Stretched

Liquidity of the company is stretched, though supported by year-end balance of ₹ 42.58 crore against repayment of ₹ 8 crore for FY25. However, given the working capital-intensive nature of operations, fund-based working capital utilization of the company in the past 12 months ended September 30, 2024, remained high at ~94%. The company has availed temporary overdraft from existing lenders during the year.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	361.59	439.71	291.32
PBILDT	28.70	32.49	20.79
PAT	6.70	4.52	9.67
Overall gearing (times)	0.72	1.28	1.62
Interest coverage (times)	2.55	2.12	2.27

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-EPC/PSC		-	-	-	120.00	CARE BB; Stable / CARE A4

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 2024-2025	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
1	Fund-based - LT-EPC/PSC	LT	-	-	-	-	-	1)CARE BB+; ISSUER NOT COOPERATING* (07-Jun-21) 2)Withdrawn (07-Jun-21)
2	Fund-based - ST-FBN / FBP	ST	-	-	-	-	-	1)Withdrawn (07-Jun-21) 2)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21)
3	Non-fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21) 2)Withdrawn (07-Jun-21)
4	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (07-Jun-21) 2)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21)
5	Fund-based - LT/ ST-EPC/PSC	LT/ST	120.00	CARE BB; Stable / CARE A4	-	1)CARE BBB-; Stable / CARE A3 (02-Jan-24) 2)CARE BBB-; Stable / CARE A3 (08-Jun-23)	1)CARE BBB; Stable / CARE A3+ (21-Oct-22)	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: 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.

Contact us.

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80- 4662 5555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Niraj Thorat Assistant Director **CARE Ratings Limited** Phone: +91-40- 4010 2030 E-mail: Niraj.Thorat@careedge.in Mou Ghanty Analyst **CARE Ratings Limited** E-mail: Mou.ghanty@careedge.in

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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