

## Sai Marine Exports Private Limited

January 09, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	27.11 (Reduced from 32.18)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	162.64 (Enhanced from 157.57)	CARE A-; Stable / CARE A2	Reaffirmed
Short-term bank facilities	11.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Sai Marine Exports Private Limited (SMEPL) considers established track record of operations with experienced promoters, location advantage due to presence in the aquaculture zone in Andhra Pradesh, and accredited manufacturing facilities from national and international authorities. Ratings also consider SMEPL's long-standing association with its clients, comfortable financial risk profile with strong debt coverage indicators, comfortable operating cycle despite operating in working capital intensive operations, and positive cash flow generated from operations with efficient working capital management resulted in strong liquidity position.

The rating strengths are partially offset by subdued operational and financial performance in FY24 owing to intense competition from other countries seeking foothold in the United States (US) market, which is a major importer of Indian Seafood, and inflation scenario in the US exerting pressure on selling prices leading to moderation in profitability margins. US has imposed countervailing duties on Indian shrimp exporters in current fiscal at 4.36% at preliminary determination and same has been increased to 5.77% in Q3FY25. However, expected lag in passing on the increased input costs is likely to result in moderate profitability margins in the current fiscal. Any adverse changes in international trade policies or company's inability to pass on rise in input costs resulting in moderation in profitability than projected is a key monitorable factor from credit perspective.

Ratings are also constrained by geographical and customer concentration risk, elongated operating cycle, and profitability margins being susceptible to fluctuating raw material prices, and susceptibility to risks inherent in the aquaculture business due to disease-prone nature of shrimps with dependence on climatic conditions. Moreover, adverse changes in export incentives, and international trade policies & forex risk also constrain ratings.

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

#### Positive factors

- The total operating income (TOI) of over ₹800 crore on a consistent basis and sustainable margins at 10% or above.
- Improvement in the working capital cycle to less than one month.
- Total debt/ gross cash accruals (TD/GCA) falling below 2x, on a sustained basis.

#### Negative factors

- Deterioration of the capital structure represented by overall gearing ratio weakening beyond 1.0x, in future.
- Operating cycle stretching to over 120 days, going forward.

### Analytical approach: Standalone

**Outlook:** Stable. CARE Ratings Limited (CARE Ratings) believes that SMEPL is expected to sustain its revenue and profitability margins while maintaining a comfortable financial risk profile.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced management and long proven track record of operations

SMEPL is promoted by J. Chandrasekhar Rao and K. Srinivasa Prasad, who has vast experience in the aqua culture industry with the company having an established track record of 25 years of operations. The Chairman of the company, K Srinivasa Prasad, has over 25 years of experience in the shrimp industry. He has done his masters in zoology and leads the production and exports department of the company.

##### Comfortable capital structure with strong debt coverage indicators

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

As on March 31, 2024, SMEPL's capital structure marked by overall gearing and long-term debt equity ratio improved and remained satisfactory at 0.19x and 0.02x against 0.24x and 0.05x as on March 31, 2023, respectively. The total debt consists of working capital borrowings and small portion of term loans. Despite SMEPL being into working capital intensive operations, the reliance on working capital bank borrowings has been below 40% with efficient management cycle resulting in improved overall gearing ratio. Other debt coverage indicators, profit before interest, lease rentals, depreciation, and taxation (PBILDT) interest coverage ratio and TDGCA stood comfortable at 13.64x (PYE:9.81x) 1.17x (1.15x) as on March 31, 2024, led by low reliance on working capital (WC) limit. Also, the debt service coverage ratio (DSCR) levels are comfortable given the healthy cash accruals being generated by the company.

As on September 30, 2024, overall gearing stood comfortable at 0.32x at the back of increase in reliance of working capital limits with changes in export market regulations.

#### **Location advantage due to presence in aquaculture zone in Andhra Pradesh**

SMEPL's processing units are in Nellore and Vizag, which are prime aquaculture zones near coastal area of Andhra Pradesh, helping the company procure raw materials and process them immediately after harvest. SMEPL procures raw materials from local farmers in and around Bhimavaram, Vizag, Ongole, and Nellore, through its agents on mutual price bargain. The shrimps are transported to the processing units in insulated trucks. The processing plants at Nellore and Vizag are near to major seaports such as Krishnapatnam, Vizag, and Chennai port, making export shipments logistically viable.

#### **Accredited manufacturing facility from various authorities**

Both manufacturing facilities of SMEPL, located at Nellore and Vizag are fully equipped state-of-the-art processing units and compliant with international standards for seafood products. The units are accredited with certifications from Hazard Analysis Critical Control Point (HACCP) regulated by United States Food and Drug Administration (USFDA). The company has British Retail Consortium (BRC) Global Standard for Food Safety certification. The company is also certified by European Union (EU) for seafood exports. It also has other certifications like Best Aqua Culture Practices (BAP) (from USA and Europe) and Food Safety and System Certification (FSSC)-22000.

#### **Long-standing association with clientele**

SMEPL has over three decades of experience in this field and has successfully cemented its place as one of the India's major sea food exporters. CARE Ratings notes that the company is able to get repeat orders from the clients due to its established relationship which provides the visibility of stable revenue streams.

#### **Government support to aqua industry**

India's seafood exports touched an all-time high in volume in FY23-24 despite challenges in significant export markets. India shipped 1,781,602 MT of seafood worth ₹60,523.89 crore (US\$7.38 billion) in 2023-24. This was accomplished despite numerous challenges in some of its key export markets, including the US. Frozen shrimp, which earned ₹40,013.54 crore (US\$4881.27 million), retained its position as the top item in the seafood export basket, accounting for a share of 40.19% in quantity and 66.12% of the total dollar earnings. The Indian shrimp exports in FY24, moderated in INR terms compared to growth in earlier years, majorly due to international pricing pressure, with export realisations falling by ~10% y-o-y in FY24, with no major change in volumes. Pricing pressures are majorly from muted demand from China and Europe, which have been two major customers for India after the US, and competition from Ecuador.

The marine product export from India is targeted to reach US\$ 14 billion by 2025. Marine Products Exports Development Authority (MPEDA) has already submitted a roadmap to achieve this goal, which includes inter alia, the interventions required in the production, value addition, and market promotion of seafood.

#### **Comfortable operating cycle despite working capital intensive in nature**

SMEPL is majorly an export-oriented entity with sales concentrated majorly towards the US. The total time involved for completing a batch is 40-45 days for the US, including period for procuring, processing, and shipment till the destination. Owing to the high transit time, the company must depend on the working capital borrowings for its operations. However, SMEPL is able to maintain operating cycle at ~64 days (PY: 66days) considering inventory levels maintained on needed basis. The company's collection period stood at ~60 days (including transit time) resulted in efficient working capital management. However, the company's ability to secure export orders to achieve anticipated turnover is a key factor from credit perspective.

#### **Key weaknesses**

##### **Moderation in operational and financial performance in FY24 and H1FY25**

In FY24, SMEPL's capacity utilisation stood at 42% with sales volume declined by ~8% at the back of intense competition from other countries such as Ecuador and Indonesia leading to pressure on selling prices. Additionally, Indian shrimp exporters faced challenges from the inflationary scenario in the US, which reduced consumer spending, and from the increased import of cheaper shrimp from Ecuador, benefiting from lower transportation costs due to proximity alongside disruption caused by Red Sea crisis. As a result, TOI of the company declined by 16.77%, to ₹₹626.29 crore against ₹752.52 crore. In line with TOI, PBILDT and profit after tax (PAT) levels of the company declined by ~18% to ₹46.56 crore and ₹22.98 crore, respectively (FY23: ₹56.86 crore and ₹228.06 crore, respectively).

The situation continued in H1FY25 with SMEPL reporting TOI at ₹348.84 crore with PBILDT and PAT levels of ₹24.47 crore and ₹12.21 crore, respectively.

### **Moderate profitability margins in FY24 and H1FY25**

In FY24, profitability margins further moderated to 7.43% (PY: 7.56%) despite pressure on selling prices with intense competition in the shrimp industry. This is primarily considering reduction in logistics costs by ~₹28.14 crore reflecting 60% reduction in freight costs contributed to 3% of cost savings helped company to maintain margins in similar lines with FY23. In line with PBILDT margins, PAT margins of the company remained at ~3.67% considering low reliance on working capital limits.

The US government announced levy of countervailing duty (CVD) ~4.63% from April to July 2024 and the same was revised to 5.77% in October 2024 effective from December 2024. However, expected lag time to pass on increased input costs which is likely to result in moderate profitability margins in current fiscal.

The imposition of CVD on export sales to USA led to decline in PBILDT and PAT margins of the company to 7.01% and 3.50% respectively in H1FY25. While the CVD rate marginally increased in December 2024, realisations are anticipated to be slightly higher in H2FY25 compared to the first half of the fiscal year, which is expected to result in profitability margins remain in line with the trends observed in H1FY25.

### **Geographical and customer concentration risk**

SMEPL is an export-oriented entity with over 90% of the company's total income generated from export sales. The US has been the major customer which alone contributes 98% of the total export sales. This makes 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 which will have a major impact on both operational and financial performance of the company. However, SMEPL has successfully cemented its place as one of the India's major sea food exporters. SMEPL is also subjected to customer concentration with the top 10 customers in FY24 alone contributed ~75% of the TOI for the company against 64% in FY23. However, the same increased to ~79% in H1FY25.

### **Presence in 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 realisations. The seafood export segment is marked by stringent regulations and quality requirements. Many of the export destinations, such as the United States, Japan, and European countries, implement timely regulations (including anti-dumping duty, food safety regulations, and quality requirements) that need to be complied with.

### **Disease-prone industry with dependence on climatic conditions**

Being agro commodity, shrimp farming is exposed to climatic conditions. Production and raw material prices tend to fluctuate and may depend on the vagaries of nature. Thus, profitability margin is impacted due to volatile nature of raw material. 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. There has not been disease outbreak for the past one decade in Indian seafood sector. In addition to that, the company rigorously follows pond management system and timely cultural stocking process to avoid the aforementioned risk.

### **Volatility in availability of raw material affecting profitability margins**

SMEPL procures raw materials from local farmers in Bhimavaram, Ongole, Nellore and Vishakhapatnam through its agents on mutual price bargain. The likelihood to drop the shrimp price (owing to over stocking in the export markets) and fear of spread of diseases among shrimps have forced aquaculture farmers to cut production in the farms. Shrimp farming is highly disease prone as there are a variety of lethal viral and bacterial diseases that affect shrimp.

### **Vulnerability to adverse changes in export incentives, international trade policies, and forex risk**

SMEPL's profitability is supported by the export incentives received from the Government of India (GoI). Any adverse changes in export incentives by GoI will have impact on business profile. The company derived over 90% of its sales from exports in FY24, making it vulnerable to geographical concentration risk as demand slowdown or adverse changes in the trade policies of the importing countries may affect the business profile of the company.

On October 22, 2024, the U.S. Department of Commerce (Commerce) announced its final determinations in the antidumping duty (AD) investigations of frozen warmwater shrimp from Ecuador and Indonesia and CVD investigations of frozen warmwater shrimp from Ecuador, India, Indonesia, and the Socialist Republic of Vietnam (Vietnam). This CVD rate is effective from October 28, 2024, which could hit Indian seafood exports to the US and provide an edge to the competing countries. Additionally, the company remains exposed to forex fluctuation risks, however, the said risk mitigated with the help of forward contracts.

### **Liquidity: Strong**

Liquidity is marked by strong accruals of ₹36.12 crore against negligible repayment obligation of ₹4.83 crore for FY24. Free cash and bank balance of ₹21.51 crore available as on March 31, 2024. Average utilisation of working capital limits stood at ~28% in the last 12 months ended November 2024. The company's unutilised working capital limits provide sufficient cushion to meet working capital requirements. Also, cash flow from operating activities stood positive at ₹27.07 crore at the back of efficient working capital cycle.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[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

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Food products	Seafood

Incorporated in 1995, SMEPL is engaged in processing and exporting cultured shrimps majorly to the US. SMEPL has two processing units, one in Nellore having a total installed capacity of 13,500 MTPA (metric ton per annum) and another processing unit in Visakhapatnam with an installed capacity of 12,150 MTPA, which has been recently set up. The product range of the company includes, block frozen, peeled and deveined (PD), PD tail on, Pud Shrimps, IQF varieties of PD tail on, PD tailoff, easy peel, cooked tail-on and tail-off.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	752.52	626.29	348.84
PBILDT	56.86	46.56	24.47
PAT	28.06	22.98	12.21
Overall gearing (times)	0.24	0.19	0.32
Interest coverage (times)	9.81	13.64	10.28

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Stand by Limits		-	-	-	25.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	30-06-2026	2.11	CARE A-; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	145.14	CARE A-; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	17.50	CARE A-; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit		-	-	-	11.00	CARE A2

**Annexure-2: Rating history for 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/ST-CC/Packing Credit	LT/ST	145.14	CARE A- ; Stable / CARE A2	-	1)CARE A- ; Stable / CARE A2 (03-Jan-24)	1)CARE A- ; Stable / CARE A2 (05-Jan-23)	1)CARE A- ; Stable / CARE A2 (24-Dec-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	17.50	CARE A- ; Stable / CARE A2	-	1)CARE A- ; Stable / CARE A2 (03-Jan-24)	1)CARE A- ; Stable / CARE A2 (05-Jan-23)	1)CARE A- ; Stable / CARE A2 (24-Dec-21)
3	Fund-based - LT-Term Loan	LT	2.11	CARE A- ; Stable	-	1)CARE A- ; Stable (03-Jan-24)	1)CARE A- ; Stable (05-Jan-23)	1)CARE A- ; Stable (24-Dec-21)
4	Non-fund-based - ST-Credit Exposure Limit	ST	11.00	CARE A2	-	1)CARE A2 (03-Jan-24)	1)CARE A2 (05-Jan-23)	1)CARE A2 (24-Dec-21)
5	Fund-based - LT-Stand by Limits	LT	25.00	CARE A- ; Stable	-	1)CARE A- ; Stable (03-Jan-24)	1)CARE A- ; Stable (05-Jan-23)	1)CARE A- ; Stable (24-Dec-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Stand by Limits	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-CC/Packing Credit	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Credit Exposure Limit	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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