Coastal Corporation Limited (Revised)

October 21, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	120.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable / A Three Plus)	Assigned
Total Facilities	120.00 (Rs. One Hundred Twenty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Coastal Corporation Limited (CCL) draw strength from experienced management with long track record, satisfactory total operating income (TOI) during FY19-FY22 (FY refers to period from April 01 to March 31), satisfactory operational performance, growing production with completion capex related to setting up of another processing unit, 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 are, however, partially 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 ethanol business and projected debt funded capex for the same.

Rating Sensitivities:

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

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

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

- × Overall gearing deteriorating 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%.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified management and satisfactory track record in aquaculture industry

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

Geographical advantage due to presence in the aquaculture zone in Andhra Pradesh

CCL has three processing units which are located in the prime aquaculture zone near 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, SEPL also procures from Gujarat and Orissa during May-July and August-November season every year.

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

Satisfactory operational performance, growing production with few ongoing and some completed capex

The capacity utilization levels of the company have been at satisfactory levels at more than 60% for the past three-year period ended Mar. 2022. In view of 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 from May 2022 to meet the increasing demand. The sales realization improved to Rs. 7.10 lakh/MT during FY22 as against Rs. 6.53 lakh/MT during FY20 backed by increased demand of value-added products.

This apart, the company has also commissioned 3.6 MW AC solar PV plant at Daleswaram Village, Srikakulam District, Andhra Pradesh for the captive consumption. The plant has achieved COD in July 2022. This will reduce the coast of the company and aid in improvement of the margins going forward.

Further, the company has undertaken a greenfield expansion at Odisha with additional capacity of 12 MTPD. The estimated capex for the same is around Rs. 42 crore which will funded through debt: equity mix of 48:52.

Satisfactory income levels and comfortable profitability margins albeit declining

The total operating income (TOI) of CCL witnessed marginal improvement of 4.71% from Rs. 477.68 crore in FY21 to Rs. 500.21 crore in FY22 on account of healthy demand from USA market. With augmentation in the capacity due to completion of capex at Kakinada (Unit-III) in May 2022, the revenue of the company is expected to improve, going forward. The PBILDT levels and margins however declined to Rs. 25.54 crore and 5.11% in FY22 on account of higher processing cost and other expenses owing to increase in the freight expenses due to the scarcity of shipping containers and increase in power expenses owing to levy of electricity cess by Government of AP leading to increase in the per unit cost of electricity in FY22. Further, the PAT margins also declined to 2.71% in FY22 as against 3.85% in FY21 due to increase in depreciation and interest expense.

Above average financial risk profile

The overall gearing of the company, remined below unity although deteriorated marginally from 0.79x as on March 31, 2021 to 0.84x as on March 31, 2022 due to increase capex related debt. The networth of the company improved on account of plough back of profits coupled with infusion of funds by the promoters in the form of equity upon conversion of warrants. PBILDT interest coverage ratio of the company declined to 4.22x during FY22 as against 6.92x during FY21 on account of decline in PBILDT levels during FY22, though remained satisfactory. The other debt coverage indicator, total debt to GCA of the company stood at 9.53x during FY22 (6.21x during FY21) on account of decrease in GCA levels and increase in debt.

Government support by way of subsidies and export incentives

Being an export-oriented entity SAPL is eligible for financial incentives such as 'Duty Drawback' and Remission of Duties or Taxes on Export Product (RoDTEP). Starting 1 January 2021, Indian government had 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.

Industry Outlook- Stable

Marine products exports from India reached the all time high of US$ 7,740 million during 2021-22, despite the heavy odds faced by the sector. The target for 2021-22 fixed by Department of Commerce, GoI, for this sector was US$ 7809 million and marine products export achieved 99.12% of the target. The growth observed is 30% higher when compared to 2020-21 in US$ value terms. The seafood export Compound Annual Growth Rate (CAGR) during the past decade stands as 8.23%.

Key Rating Weaknesses

Geographical concentration risk

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

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 realizations. The seafood export segment is marked by stringent regulations and quality requirements. Many of the export destinations, such as the US, 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 CCL's under RoDTEP is 2.5% against 5% which was received earlier under MEIS. Such changes in export incentives may impact the margins 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 agro commodity is exposed to climatic conditions. Production and raw material prices tend to fluctuate and may depend on 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 one decade in 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 at 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 credit perspective. CCL is likely to benefit from the capex and projected to register notable growth in revenue and profits, in upcoming years.

Liquidity analysis – Adequate

Liquidity is characterized by sufficient cushion in accruals vis-à-vis repayment obligations and a moderate cash balance of Rs. 36.86 Crore. However, given the working capital-intensive nature of operations, fund based working capital utilization of the company in the past 12 months ended June 30, 2022 remained high at ~76%. Liquidity is supported by an above unity current ratio of 1.30x as on March 31, 2022.

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)

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

Consolidation

About the Company

Coastal Corporation Limited (CCL) was promoted by Mr. T. Valsaraj in the year 1981. The company is engaged in 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 is associated with the seafood industry for last 30 years and looks after the management of the company.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23(UA)
Total operating income	477.68	500.21	121.99
PBILDT	29.71	25.54	14.53
PAT	18.41	13.55	8.79
Overall gearing (times)	0.79	0.84	NA
Interest coverage (times)	6.92	4.22	8.40

A: Audited, UA: Un -Audited, NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
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)Withdrawn (07-Jun-21) 2)CARE A4+; ISSUER NOT COOPERATING* (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	ST	-	-	-	1)Withdrawn (07-Jun-21)	1)CARE A4+; ISSUER NOT	-

	Contract					2)CARE A4+; ISSUER NOT COOPERATING* (07-Jun-21)	COOPERATING* (18-May-20)	
5	Fund-based - LT/ ST-EPC/PSC	LT/ST*	120.00	CARE BBB; Stable / CARE A3+	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-EPC/PSC	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 Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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