Devi Aquatech Private Limited

October 25, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00 (Enhanced from 10.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities	5.00	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Long Term / Short Term Bank Facilities	5.00	CARE A (CE); Stable / CARE A1 (CE) [Single A (Credit Enhancement); Outlook: Stable/ A One (Credit Enhancement)]	Reaffirmed
Total Bank Facilities	**25.00 (Rs. Twenty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

@backed by unconditional and irrevocable corporate guarantee extended by Devi Fisheries Limited

Unsupported Rating   *As stipulated vide SEBI circular dated June 13, 2019*
Withdrawn [Revised from CARE BBB / CARE A3]

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the enhanced bank facilities of Devi Aquatech Private Limited (DAPL) are based on the credit enhancement in the form of unconditional and irrevocable Corporate Guarantee provided by Devi Fisheries Limited (DFL).

Detailed Rationale & Key Rating Drivers of Devi Fisheries Limited

The reaffirmation in the ratings assigned to the bank facilities of Devi Fisheries Limited (DFL) continues to derive comfort from satisfactory operational and financial performance of Devi Fisheries Group in FY21 (FY refers to the time period between April 01 t0 March 31), experienced promoters with vast aquaculture industry experience, locational advantage, accredited manufacturing facility, long standing relationship with clients, comfortable capital structure and healthy debt coverage indicators along with stable industry growth prospects. The rating strength however are partially offset by volatility in raw material prices, stretched operating cycle, geographical concentration risk, exposure to various national and international regulations along with inherent risk associated with aqua culture industry.

Key Rating Drivers of Devi Aquatech Private Limited

The reaffirmation in the ratings assigned to the enhanced bank facilities of Devi Aquatech Private Limited (DAPL) continue to derive strength from satisfactory financial performance of DAPL in FY20 (FY refers to period between April 01 to March 31), and stable monthly rentals from parent (Devi Fisheries Limited) for the company.

Rating Sensitivities

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

- ✓ Increase in scale of operation with TOI by more than 30% y-o-y while maintaining PBILDT margins at 12% or above on a consistent basis.
- ✓ Operating cycle falling below 90 days, on a sustained basis.

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

- × Decline in PBILDT margin below 6% or any notable decline in total operating income.
- × Overall gearing deteriorating beyond 1x, going forward.
- × Total debt to PBILDT deteriorating beyond 3x, in future.

Detailed description of the key rating drivers- Devi Fisheries Limited

Key Rating Strengths

Experienced promoters with vast aquaculture industry exposure

Incorporated in 1997 by Mr. Y Surya Rao, Devi fisheries group has an established brand name in the business of processing and exporting of shrimps. Their most famous brands across various destinations are ‘Volga Classic’, ‘Sindhu Classic’ and ‘Mornings Harvest’. Mr. Y Surya Rao (Managing Director) has over 25 years of experience in the shrimp industry and has developed well established network and long-standing relationships with overseas customers. He is responsible for marketing and finance functions of the company. Mr. Ch. Rajagopal Choudhary is the present Chairman of DFL and is in-charge of procurement and

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

taxation functions of the company. He has more than 25 years of experience in shrimp industry and has got extensive contacts with shrimp farmers.

Geographical advantage as establishment is in aquaculture zone of the state, hence sufficient raw materials availability.
The Prakasam, Nellore, Krishna, East and West Godavari districts of Andhra Pradesh are the hub of freshwater fish and shrimp farming. DFL's processing plant is in the prime aquaculture zone in Pendurti at Visakhapatnam, which enables company to procure raw materials and process them immediately after harvest resulting in better quality products and ensures that the company has uninterrupted access to raw material. The raw material is procured majorly from coastal regions of A.P. viz. Kakinada, Bhimavaram, Guntur, Amalapuram and Ongole. The group has own trucks and vehicles to transport the raw material from various farmers to their own manufacturing units which results in lower transportation costs. Furthermore, the processing plants are located near to major sea ports, thereby making export shipments logistically viable

Accredited manufacturing facility from international authorities coupled with various export incentives offered by the government
The group earns majority of its export's revenue from USA, Belgium, Vietnam, Spain, Canada, Russia, Germany, Ireland etc. The manufacturing facilities have their own laboratory for microbiological & anti-biotic analysis is compliant with international standards for seafood products. The manufacturing units of Devi fisheries are accredited with certifications from Hazard Analysis Critical Control Point (HACCP), regulated by United States Food and Drug Administration (USFDA). The group also has BRC (British Retail Consortium) Global Standard for Food Safety certification and is certified by European Union (EU) for seafood exports. It also has other certifications like Best Aqua Culture Practices (BAP) (from USA and Europe) and IFS Food Standard. Furthermore, the government offers various benefits to export-oriented units in this sector. The group is eligible for financial incentives such as duty drawback, interest subsidies etc. Govt of India has started a new scheme named RODTEP (Remission of Duties and Taxes on Export Products) for exporters to receive the refunds on the embedded taxes and duties.

Satisfactory operational and financial performance in FY21 (Prov.)
The operational and financial performance of the company remains satisfactory albeit moderated in FY21. The company witnessed a decline in its capacity utilisation levels to 48% in FY21 as against 64.08% in FY19 on account of the COVID induced disruptions like lockdown, migration of labour and logistical issues. Resultantly, the total operating income (TOI) of the company declined marginally around 10% to Rs 1438.26 crore in FY21. The PBILDT margin and PAT margin also marginally declined in FY21 to 9.67% (PY: 10.11%) and 5.23% (PY: 5.34%) because of increase in fright cost.

Comfortable capital structure and strong coverage indicators.
As on March' 21 the capital structure of the company marked by overall gearing and long-term debt equity ratio remain comfortable at 0.69x and 0.06x (PY: 0.60x and 0.12x respectively). Although, the company's reliance on working capital borrowing was relatively higher in FY21 owing to the increased transit time and elongated operating cycle, the capital structure remained healthy marked by strong net worth base. The coverage indicators like PBILDT interest coverage ratio and TD/GCA continues to remain strong in FY21 at 7.70x and 3.43x (PY: 6.34x and 2.27x) respectively.

Industry Outlook
Despite setbacks caused by the COVID-19 pandemic and increasing competition from Ecuador, Asia's top shrimp exporting nations expect continued growth. The India shrimp market attained a volume of 5.90 lakh tons in FY21. Aided by the rising health awareness and a shift towards sustainable farming practices, the market is expected to witness a further growth in the forecast period of 2021-2026, growing at a CAGR of 9.5%. During the last financial year (2020-21), India exported 11,49,341 MT (PY: 12,89,651 MT) seafood worth US $ 5.96 billion (PY: US$ 6.68 Billion). The market is projected to reach 1.23 million tons by 2026.
At global level, USA has been the major importer of Indian seafood amongst the overseas markets. The demand from USA for shrimps has been increasing y-o-y. Although, it may seem like geographical concentration, but USA is a better margin market and has healthy future growth prospects for value added products as well, since the demand for Indian shrimps continues to remain on an upward trend in the USA. Nevertheless, the demand is also emerging from countries like China, Japan and Vietnam, although these are relatively lower margin markets.

Key Rating Weaknesses
Elongated operating cycle
Operating cycle of the company elongated from 97 days as on March 2020 to 138 days on March 2021 due to increased receivable and inventory holding. The average receivable and inventory days have elongated primarily because of Devi INC USA contract, increase in the transit time of US shipments in view of congestion at destination port as well as Vizag port, increased check points due to COVID.

Seasonal availability of raw material subject to sporadic occurrences of diseases with high dependence on inclement weather

The group procures raw materials from local farmers or through its agents on mutual price bargain. The raw material availability and prices vary year on year depending upon the crop yield, demand and supply scenario and is also subject to vagaries of nature. The profitability margin gets impacted because of this volatile nature of raw material. Further, Shrimp farming is highly 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, comfort can be taken form the fact that being in the industry for more than fifteen years the company had developed strong vendor network to mitigate the shortage of raw material availability.

Geographical concentration risk

The US market accounted for about 70% of group's total export sales in FY20 exposing it to the risk of geographical concentration. Any unfavorable change in the US government policy like higher anti-dumping duty or other import restriction could have significant bearing on the group's operations. However, the group has been acquiring new markets and expanding its reach to Europe, Vietnam, and other Southeast Asian markets to mitigate the risk of geographical concentration, going forward.

High exposure to government regulations and forex risk

Government policies keep varying depending upon other macro-economic factors like Anti-dumping duties and inflation etc., which increase the expenses for companies operating in the seafood industry. The anti-dumping duty (ADD) rates are revised every year by US authorities (presently ADD is at 1.35%). Due to high volume of exports to US, DFL is exposed to fluctuation in foreign currency exchange which may affect the company's profitability margins. Further, the company has hedged its foreign exchange fluctuation by way of forward contracts hedging to reduce the uncertainty of receivables.

Highly competitive industry owing to low entry barriers.

Indian shrimp industry is characterized by high number of unorganized players who together contribute a considerable part of the total shrimp exports. DFL faces stiff demand from both local and global player. In India, shrimp processing and exports business has been attracting many investors during the past decade as the government pushing for growth in the sea foods exports and increased incentives.

Liquidity: Adequate

Adequate liquidity characterized by healthy accruals vis-à-vis repayment obligations. The average WC utilization is around 70% supported by a cash balance of Rs 24.77 crore as on March 31, 2021. Although, the company has been witnessing elongated operating cycle which is resulting in high reliance on working capital, but the same is a short-term scenario and with improvement in COVID situation and after the container issue gets resolved, the working capital cycle will become comfortable.

Analytical approach: Credit Enhanced Rating. CARE has based its rating of DAFPL on the assessment of the guarantor viz Devi Fisheries Limited, which has extended unconditional and irrevocable corporate guarantee to the rated bank facilities of Devi Aqua tech Private Limited.

<u>Analytical approach of the guarantor: Consolidated</u>

CARE has analysed DFL's credit profile by considering the consolidated financial statements factoring in financial and operational linkages between the parent and its subsidiaries which include common management and inter-company transactions resulting in cash-flow fungibility. The consolidated financial statements include DFL (the holding company) and its following subsidiaries:

- Satya Seafoods Private Limited (India) : 100% subsidiary
- DSF Aquatech Private Limited (India) : 100% subsidiary
- Devi Aquatech Private Limited (India) : 100% subsidiary
- Devi Aqua Feeds Private Limited (India) : 100% subsidiary
- Devi Fisheries Inc. (USA) : 100% subsidiary

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
Rating Methodology: Notching by factoring linkages in Ratings
Rating Credit Enhanced Debt

[Policy on default recognition](#)
[Financial Ratios – Non-financial Sector](#)

About the Company Devi Fisheries Limited
Devi Fisheries Limited (DFL) was incorporated in 1992 by Mr. Yarlagadda Surya Rao. The company is engaged in the business of processing and exporting shrimps. Its processing plant is in Visakhapatnam, Andhra Pradesh. The company exports under the brands name of 'Volga Classic', 'Sindhu Classic', and 'Mornings Harvest'. DFL exports to USA, Europe, Japan, China, Middle-East and various other destinations across the globe.

About the company- Devi Aquatech private Limited
Devi Aquatech Private Limited (DAPL) incorporated in 2014, was earlier 80% subsidiary of DFL until FY17. Later in December 2018, DAPL became a 100% subsidiary of DFL. DAPL is also engaged in the business of processing and exporting of shrimps. The total installed capacity as on March 31, 2019 of the processing plant is 16,304 MTPA. DAPL unit was set up by incurring a total cost of Rs Rs.84.00 crore

Devi Fisheries Limited- Consolidated

Brief Financials (Rs. crore)- Consolidated	31-03-2020 (A)	31-03-2021 (Prov.)
Total operating income	1602.11	1438.26
PBILDT	162.04	139.09
PAT	85.58	75.19
Overall gearing (times)	0.60	0.69
Interest coverage (times)	8.48	7.70

A: Audited; Prov: Provisional

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov)
Total operating income	552.24	157.36
PBILDT	59.85	17.39
PAT	29.90	2.03
Overall gearing (times)	0.99	0.32
Interest coverage (times)	7.60	5.29

A: Audited; Prov: Provisional
Status of non-cooperation with previous CRA: NA
Any other information: NA
Disclosure of Interest of Independent/Non-Executive Directors of CARE: NA
Disclosure of Interest of Managing Director & CEO: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	5.00	CARE A (CE); Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5.00	CARE A (CE); Stable / CARE A1 (CE)
Fund-based - LT-Term Loan	-	-	-	-	15.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type 2021-2022	Amount Outstanding (Rs. crore) 2021-2022	Rating 2021-2022	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	5.00	CARE A (CE); Stable	1)CARE A (CE); Stable (07-Oct-21)	1)CARE A (CE); Stable (25-Mar-21)	1)CARE A (CE); Stable (27-Mar-20) 2)CARE A (SO); Stable (04-Apr-19)	-
2	Fund-based - LT-EPC/PSC	LT	-	-	-	1)Withdrawn (25-Mar-21)	1)CARE A (CE); Stable (27-Mar-20) 2)CARE A1 (SO) (04-Apr-19)	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	5.00	CARE A (CE); Stable / CARE A1 (CE)	1)CARE A (CE); Stable / CARE A1 (CE) (07-Oct-21)	1)CARE A (CE); Stable / CARE A1 (CE) (25-Mar-21)	1)CARE A (CE); Stable / CARE A1 (CE) (27-Mar-20) 2)CARE A (SO); Stable / CARE A1 (SO) (04-Apr-19)	-
4	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (25-Mar-21)	1)CARE A1 (CE) (27-Mar-20)	-
5	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	1)Withdrawn (07-Oct-21)	1)CARE BBB / CARE A3 (25-Mar-21)	1)CARE BBB / CARE A3 (27-Mar-20)	-
6	Fund-based - LT-Term Loan	LT	15.00	CARE BBB; Stable	1)CARE BBB; Stable (07-Oct-21)	-	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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