The Waterbase Limited

October 27, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term/Short term Bank Facilities	73.81	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Reaffirmed
Short term Bank Facilities	0.03	CARE A2+ (A Two Plus)	Reaffirmed
Long term Bank Facilities	0.00	-	Withdrawn
Total	**73.84 (Rs. Seventy Three Crore and Eighty Four Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to The Waterbase Limited (TWL) continue to draw strength from the experience of the promoters with long track record of operation, the company being part of the Karam Chand Thapar (KCT) group, partially integrated nature of operations, strong brand with established marketing network and comfortable capital structure and debt coverage indicators. The ratings also take note of the initiatives taken by the company for diversification of revenue by venturing into farm care products and frozen sea food.

The ratings are, however, constrained by the moderate capacity utilization, working capital intensive nature of operations, exposure to volatility in raw material prices, geographical concentration risk and risks inherent in the seafood industry.

The ratings also factor in the moderation in the operational performance of the company in FY20 (refers to the period April 01 to March 31) and Q1FY21 marked by decrease in operating income and profitability. The sales volume in FY20 was impacted mainly on account of subdued industry demand and tightening of credit terms with dealers. With lower sales and increase in raw material costs which could not be passed on due to stable feed prices in the industry, the profitability was also impacted in FY20, though remaining satisfactory. The performance in Q1FY21 was affected due to the impact of outbreak of Covid-19 on sales. Nevertheless, the debt protection metrics continue to remain comfortable with significant reduction in debt level in H1FY21. The ratings also take note of the capital expenditure plans of the company for expansion in capacity which is mainly expected to be funded out of internal generations.

Rating Sensitivities

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

- Ability to increase scale of operations beyond Rs.400 crore while improving PBILDT margins above 12% on sustained basis
- Efficient management of working capital requirement and operating cycle going below 120 days on sustained basis

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

- Decline in PBILDT margin beyond 7% and PAT margin beyond 3% on sustained basis
- Any major debt funded capex resulting in deterioration in capital structure and debt coverage indicators. Increase in gearing beyond 0.75x and TD/GCA beyond 2.50x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record

TWL is promoted by the KCT Group, which has interests in sectors ranging from coal logistics, real estate and aquaculture.

The company has long track record of more than two decades and is spearheaded by Mr. Vikramaditya Thapar, Chairman. Mr. Thapar has been in the shrimp feed industry for almost three decades and thus has long experience in the seafood business. The day-to-day operations of the business are looked after by Mr. Ramakanth V Akula (CEO) along with an experienced management team.

Partially integrated nature of operations with strong brand and established 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. Going forward, the company plans to expand the hatchery capacity.

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

The company sells shrimp feeds under the brand 'Bay White- Enriched', 'Ulta XL', 'Tiger Bay XL' and 'Magnum'. It sells shrimp feeds through an established network of more than 184 dealers.

Diversification into farm care products and frozen sea food
TWL had diversified its product offering by launch of the farm care range of products under the brand name 'Baylife' in H1FY17 and frozen sea food products (processed shrimps and pasteurized crab meat) under the brand 'Price Catch' in Q3FY18. However, these two new segments continue to remain a small percentage of overall revenue.

Comfortable capital structure and debt protection metrics
The total debt outstanding decreased substantially from Rs.27.62 crore as on March 31, 2019 to Rs.12.46 crore as on March 31, 2020 with repayment of term debt and lower working capital utilisation. The overall gearing ratio further improved and remained comfortable at 0.07x as on March 31, 2020 as compared to 0.16x as on March 31, 2019 with lower debt and accruals of profits to networth.
The interest coverage ratio and total debt to GCA also stood comfortable at 12.32x and 0.50x respectively in FY20 vis-à-vis 15.69x and 0.77x respectively in FY19.
The debt coverage indicators are comfortable with low debt levels and healthy operating profitability along with sufficient cash accruals.
The total debt further decreased to Rs.7.24 crore as on June 30, 2020. Subsequently, the company has prepaid all term loans and working capital utilization was also nil as on September 30, 2020.

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. Frozen shrimp continued 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/higher yield and lower cost of production leading to higher demand for same.
Despite short term volatilities due to global outbreak of Covid-19 along with firm raw material prices, the Indian aqua business is poised to grow and hence the aqua feed business is expected to benefit in the long term.

Key Rating Weaknesses
Moderate capacity utilization
The capacity utilization of TWL has been moderate due to inability of the company to increase the sales volume. The capacity utilization further declined from 45.63% in FY19 to 37.00% in FY20 due to lower production with lower sales volume in FY20.

Geographical concentration risk in an intensely competitive and fragmented market
The revenue concentration risk of TWL remained similar in FY20 vis-à-vis FY19, with revenue contribution of around 43% from Andhra Pradesh, around 43% from Gujarat and remaining from Maharashtra, Goa, Tamil Nadu, Karnataka, Kerala, West Bengal and Odisha. However, going forward the company plans to reduce concentration by increasing the sales from newer geographies.
Low capital intensity and low entry barriers facilitate entry of un-organised players, leading to high competition and fragmentation. However, the organized market is dominated by few major players in the shrimp feed segment.

Decrease in operating income with moderation in profitability during FY20
The total operating income of the company decreased by 12% from Rs.365.48 crore in FY19 to Rs.322.43 crore in FY20. The sales were lower in FY20 y-o-y primarily due to lower sales volume of shrimp feeds with subdued shrimp farming in India in FY20. Further, the sales were also impacted due to implementation of stricter credit policy by the company. However, the farm care products continued to witness volume growth in existing and newer geographies. The sales from newly commenced hatchery business also increased during the year. The operating margin declined from 14.09% in FY19 to 10.01% in FY20 due to lower sales during the year along with elevated cost of raw materials which could not be passed on with stable feed prices. Accordingly, with lower operating profit and stable capital charges, the net profit decreased from Rs.30.85 crore in FY19 to Rs.18.54 crore in FY20. The net profit was also lower due to lower other income in FY20 y-o-y as company had received insurance claims of Rs.3.55 crore in FY19.
The performance of the company was impacted during Q1FY21 due to Covid-19 pandemic. The company reported net profit of Rs.4.90 crore on total income of Rs.62.85 crore in Q1FY21 vis-a-vis net profit of Rs.11.38 crore on total income of Rs.119.50 crore in Q1FY20.

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 during the year end. The collection period remained stable at 83 days for FY20 vis-a-vis 81 days for FY19. The company's main season is during March to July as evident by ~40% of yearly sales during the first quarter. Consequently the inventory holding is high during the year end. The inventory period remained relatively stable at 98 days for FY20 vis-a-vis 103 days for FY19. However, with decrease in creditor period from 45 days for FY19 to 29 days for FY20, the operating cycle of the company increased from 139 days for FY19 to 152 days for FY20. The company, however, has low reliance on debt to fund its working capital.

Volatility in raw material prices

The major raw materials are agro products like Soya, wheat flour and fish meal. Other raw materials are fish oil, Squid Meal, Molasses yeast, Mono-calcium Phosphate, Minerals, Vitamin C, binders etc. Since the major raw material availability is seasonal in nature and dependent on climatic conditions, the raw material costs are volatile in nature. Further, the company has limited ability to pass on the increase in raw material prices.

The cost of raw materials remained low for large part of FY18 leading to higher margins. However, with increase in price of major raw materials the industry margins have corrected since January'18 leading to moderation in profitability since FY19.

Risks inherent in the seafood industry

The main threat to the industry is from diseases. Further, 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 macro-economic factors like Anti-dumping duties, inflation etc. which increase the expenses of the companies operating on the seafood industry. The outbreak of Covid-19 has also impacted the industry with lower demand and supply chain issues.

Liquidity: Adequate

The liquidity is marked by adequate accruals against low debt levels. Despite the working capital intensive nature of operations, the working capital borrowings of the company have remained low in view of same being funded majorly from internal generations. The average of maximum utilization of fund based working capital limits of TWL stood at around 3% for the 12 months ending August 2020 indicating available un-utilised limit of Rs.50 crore on an average.

Further, with a gearing of 0.07x as of March 31, 2020, the company has sufficient gearing headroom, to raise additional debt for its capital expenditure plans in case of lower accruals. Its unutilized bank lines are also adequate to meet its incremental working capital needs over the next one year.

The company has repaid all term loans and had free cash and bank balance of around Rs.54 crore as on September 29, 2020.

Analytical approach: Standalone.

Applicable Criteria

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
Financial Ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Policy on withdrawal of ratings

About the Company

TWL was incorporated in November 23, 1987 as Thapar Waterbase Limited and commenced commercial operation in 1993 while the name got changed to present one in February 1992. It is promoted by the KCT Group with Mr. Vikramaditya Mohan Thapar as the Chairman of the Company.

TWL is a partially integrated aquaculture entity, consisting of two feed units having an aggregate installed capacity of 1,10,000 MTPA (increased from 35,000 mtpa after merger of Pinnae Feeds Limited), a shrimp hatchery of 250 mn post larvae and a shrimp processing plant with an aggregate capacity of 4000 MTPA, all located at Nellore, Andhra Pradesh. TWL also has cold storage facility capable of storing 750 MT of finished products. TWL's feed mills and labs have various accreditations and certifications.

Going forward, the company plans to expand the hatchery capacity as well as set up additional feed manufacturing units in new locations. The capacities would be set up in phased manner depending on demand scenario and largely expected to be funded out of internal accruals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	365.48	322.43
PBILDT	51.49	32.28
PAT	30.85	18.54
Overall gearing (times)	0.16	0.07
Interest coverage (times)	15.69	12.32

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	41.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	5.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	13.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Forward Contract	-	-	-	0.03	CARE A2+
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Letter of credit	-	-	-	14.81	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	41.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable (01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	-
2.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (27-Mar-20)	1)CARE A2+ (01-Mar-19) 2)CARE A2 (04-Apr-18)	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable (01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	-
4.	Fund-based - LT/ ST-CC/PC/Bill	LT/ST	13.00	CARE A-; Stable /	-	1)CARE A-; Stable / CARE	1)CARE A-; Stable	-

	Discounting			CARE A2+		A2+ (27-Mar-20)	(01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	
5.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	-	-	-	1)Withdrawn (27-Mar-20)	1)CARE A2+ (01-Mar-19) 2)CARE A2 (04-Apr-18)	-
6.	Non-fund-based - ST-Forward Contract	ST	0.03	CARE A2+	-	1)CARE A2+ (27-Mar-20)	1)CARE A2+ (01-Mar-19) 2)CARE A2 (04-Apr-18)	-
7.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (27-Mar-20)	1)CARE A-; Stable (01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	-
8.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	14.81	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable / CARE A2+ (01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	-

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

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
4.	Non-fund-based - LT/ ST-BG/LC	Simple
5.	Non-fund-based - LT/ ST-Letter of credit	Simple
6.	Non-fund-based - ST-Forward Contract	Simple

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

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