

The Waterbase Limited

March 01, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long term Bank Facilities	72.81 (reduced from 111.97)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long term/Short term Bank Facilities	14.81	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Revised from CARE A-; Stable/CARE A2 (Single A Minus; Outlook: Stable/A Two)
Short term Bank Facilities	26.78 (reduced from 43.78)	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total	114.40 (Rs. One Hundred Fourteen Crore and Forty Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short term rating assigned to the bank facilities of The Waterbase Limited (TWL) takes into account the improvement in the liquidity profile of the company. The ratings also factor in the improvement in the financial performance of the company in FY18 (refers to the period April 01 to March 31) marked by improvement in profitability margin and reduction in debt levels. The ratings also take note of the relatively stable operational performance during 9MFY19 and commencement of phase-I of hatchery from October'18.

The ratings continue to draw strength from experience of the promoters with long track record, the company being part of the Karam Chand Thapar (KCT) Group, strong brand & established marketing network, integrated nature of operations, and diversification into farm care products & frozen sea food.

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

Ability of the company to increase scale of operations with sustainability in profitability while maintaining the capital structure would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record

TWL is promoted by the Karam Chand Thapar (KCT) Group, a diversified portfolio of businesses with interests in sectors ranging from coal logistics, infrastructure, real estate and treasury.

The company 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.

Strong brand and established network

The company sells shrimp feeds under the brand 'Bay White- Enriched', 'Ulta XL', 'Tiger Bay XL' and 'Magnum'. It sells various shrimp feeds that are of high quality, freshness, appropriate calorific value and rich in nutrients through an established network of more than 184 dealers primarily in the coastal areas.

Diversification into farm care products and frozen sea food

TWL has 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.

Relatively stable geographical concentration risk in an intensely competitive and fragmented market

The revenue concentration risk of TWL remained similar in FY18 vis-à-vis FY17, with revenue contribution of around 53% from Andhra Pradesh, around 37% from Gujarat, Maharashtra and Goa, and remaining from other states in FY18.

Significant improvement in profitability during FY18; albeit slight moderation in 9MFY19

The total operating income of the company increased by 6.50% from Rs.321.94 crore in FY17 to Rs.342.74 crore in FY18. The company witnessed healthy revenue growth from feed sales during FY18 primarily driven by volume growth with

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

stable realisations. The PBILDT margin improved from 9.50% in FY17 to 16.81% in FY18 on account of significant decline in cost of raw materials along with increase in CU resulting in better fixed cost absorption. Consequently, with improvement in operating profit and lower capital charges, the PAT margin also improved from 3.58% in FY17 to 8.69% in FY18.

During 9MFY19, the company's total operating income increased by 13.50% with relatively stable profitability. The company reported PAT of Rs.29.40 crore on total operating income of Rs.314.33 crore in 9MFY19 vis-à-vis PAT of Rs.27.41 crore on total operating income of Rs.276.95 crore in 9MFY18. The PBILDT margin declined from 17.95% in 9MFY18 to 15.32% in 9MFY19 on account of rise in cost of raw materials after touching record lows last year. However, despite moderation in operating profit and stable capital charges, the PAT margin remained relatively stable at 9.21% in 9MFY19 vis-a-vis 9.88% in 9MFY18 as the company received insurance claim of Rs.3.55 crore pertaining to floods in FY16. GCA increased and stood at Rs.33.97 crore in 9MFY19 vis-à-vis Rs.30.39 crore in 9MFY18.

Comfortable capital structure and debt protection metrics

The equity share capital of the company increased from Rs.38.60 crore as on March 31, 2017 to Rs.41.43 crore as on March 31, 2018 post issue of shares to Karam Chand Thapar & Bros. (Coal Sales) Limited, i.e., the shareholder of Pinnae Feeds Limited (PFL) in consideration of the amalgamation w.e.f November 27, 2017.

The debt equity ratio remained stable at 0.14x as on March 31, 2018 vis-à-vis 0.17x as on March 31, 2017 with drawdown of new loan of Rs.6.85 crore for hatchery project and scheduled repayment of existing term debt obligations. However, the overall gearing ratio improved significantly from 0.54x as on March 31, 2017 to 0.19x as on March 31, 2018 with lower working capital borrowings and accruals of profits to network.

The interest coverage ratio improved and stood comfortable at 13.13x in FY18 vis-à-vis 3.56x in FY17. The total debt to GCA also improved and stood at 0.81x in FY18 as compared to 3.56x in FY17 with lower debt and higher cash accruals during the year.

The total debt reduced and stood at ~Rs.19 crore as on December 31, 2018.

Successful commencement of Phase-I of hatchery

In order to diversify its revenue stream along with making it an integrated aquaculture plant, TWL is setting up 500 million post larvae (baby shrimps) hatchery in two phases comprising of two modules of 250 million each. The company completed the phase-I as planned in Q1FY19 at a cost of Rs.14 crore funded through term loan of Rs.10.50 crore and remaining through internal accruals. TWL commenced operations of phase-I from October'18. The phase-II is at nascent stage and would be implemented post successful season of phase-I at a cost of about Rs.6-7 crore through internal accruals.

Going forward the company does not have any major debt funded capex.

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. All the major shrimp farming states in the country have increased their production in the last 2 years with Andhra Pradesh being the largest producer. Frozen shrimp continued to be the major export item in the export basket 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.

Key Rating Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive on account of credit period of 60-100 days to dealers coupled with stocking of raw materials during the year end resulting in inventory period of 50-80 days. The company's main season is during March to July as evident by ~40% of yearly sales during the first quarter. The collection period remained at similar levels at 91 days for FY18 vis-à-vis 85 days for FY17, whereas, the inventory period increased from 68 days for FY17 to 104 days for FY18. The creditor period also increased to 54 days for FY18 vis-à-vis 34 days for FY17. Consequently, the operating cycle of the company increased and stood at 141 days for FY18 vis-à-vis 118 days for FY17.

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. Except additives, vitamins and minerals the other raw materials are purchased at prevailing market price. Since the raw material availability is seasonal in nature and dependent on climatic conditions, the raw material costs are volatile in nature.

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 anti-dumping duty (ADD) rates are revised every year by US authorities.

Liquidity

The liquidity profile of the company is satisfactory. Despite the working capital intensive nature of operations the working capital borrowings of the company has remained low due to the working capital requirement being funded from internal accruals. The average of maximum utilization of fund based limits stood at around 16% for the 12 months ended January'2019.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

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 a feed plant having an installed capacity of 1,10,000 MTPA (increased from 35,000 mtpa after merger of PFL), a shrimp farm and a shrimp processing plant with an aggregate capacity of 4000 MTPA, all located at Nellore, Andhra Pradesh spread in an area of 50 acres. TWL also has cold storage facility capable of storing 750 MT of finished products. TWL's shrimp processing quality assurance lab is accredited with European Union Approval (No. 937), HACCP certification, BAP certification and EIC approval.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	321.94	342.74
PBILDT	30.58	57.62
PAT	11.57	29.90
Overall gearing (times)	0.54	0.19
Interest coverage (times)	3.56	13.13

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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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-Cash Credit	-	-	-	40.86	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	22.75	CARE A2+
Non-fund-based - LT-Bank Guarantees	-	-	-	2.55	CARE A-; Stable
Fund-based - LT-Packing Credit in Indian rupee	-	-	-	10.00	CARE A-; Stable
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	4.00	CARE A2+
Non-fund-based - ST-Forward Contract	-	-	-	0.03	CARE A2+
Fund-based - LT-Term Loan	-	-	-	19.40	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	40.86	CARE A-; Stable	1)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB; Stable (09-Mar-17) 2)CARE BBB- (08-Jul-16) 3)CARE BBB- (15-Jun-16)	-
2.	Non-fund-based - ST-Letter of credit	ST	22.75	CARE A2+	1)CARE A2 (04-Apr-18)	-	1)CARE A3+ (09-Mar-17) 2)CARE A3 (08-Jul-16) 3)CARE A3 (15-Jun-16)	-
3.	Non-fund-based - LT-Bank Guarantees	LT	2.55	CARE A-; Stable	1)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB; Stable (09-Mar-17) 2)CARE BBB- (08-Jul-16) 3)CARE BBB- (15-Jun-16)	-
4.	Fund-based - LT-Packing Credit in Indian rupee	LT	10.00	CARE A-; Stable	1)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB; Stable (09-Mar-17) 2)CARE BBB- (08-Jul-16)	-
5.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	4.00	CARE A2+	1)CARE A2 (04-Apr-18)	-	1)CARE A3+ (09-Mar-17) 2)CARE A3 (08-Jul-16)	-
6.	Non-fund-based - ST-Forward Contract	ST	0.03	CARE A2+	1)CARE A2 (04-Apr-18)	-	1)CARE A3+ (09-Mar-17) 2)CARE A3 (08-Jul-16)	-
7.	Fund-based - LT-Term Loan	LT	19.40	CARE A-; Stable	1)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB; Stable (09-Mar-17)	-
8.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	14.81	CARE A-; Stable / CARE A2+	1)CARE A-; Stable (04-Apr-18)	-	-	-

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