

## The Waterbase Limited

March 27, 2020

### Ratings

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities@	9.60 (reduced from 72.81)	<b>CARE A-; Stable</b> <b>(Single A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long term/Short term Bank Facilities@	73.81 (enhanced from 14.81)	<b>CARE A-; Stable/CARE A2+</b> <b>(Single A Minus; Outlook: Stable/A Two Plus)</b>	<b>Reaffirmed</b>
Short term Bank Facilities@	0.03 (reduced from 26.78)	<b>CARE A2+</b> <b>(A Two Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>83.44</b> <b>(Rs. Eighty Three Crore and Forty Four Lakh only)</b>		

*Details of facilities in Annexure-1*

*@ Reclassified*

### 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, the company being part of the Karam Chand Thapar (KCT) group, strong brand and established marketing network, partially integrated nature of operations, diversification into farm care products & frozen sea food and comfortable capital structure and debt coverage indicators with low debt levels.

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.

The ratings also take note of the moderation in profitability of the company in FY19 (refers to the period April 01 to March 31) and 9MFY20.

### Rating Sensitivities

#### Positive rating sensitivities:

- Ability to increase scale of operations beyond Rs.450 crore while improving PBILDT and PAT margins above 14% and 8% respectively on sustained basis
- Efficient management of working capital requirement and operating cycle going below 120 days on sustained basis

#### Negative rating sensitivities:

- Decline in PBILDT margin beyond 11% and PAT margin beyond 6% on sustained basis
- Increase in gearing beyond 0.75x and TD/GCA beyond 1.50x

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Experienced promoters with long track record***

TWL is promoted by the KCT Group, a diversified portfolio of businesses with 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***

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

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 phase-I of hatchery with 250 million post larvae capacity from October'18. Going forward, the company plans to double the hatchery capacity.

TWL also plans to expand its feed manufacturing capacity by setting up a new unit with an annual installed capacity of 50,000 tonne. The proposed unit will be set up in Gujarat to cater to the western domestic markets. The total project cost is

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

estimated to be Rs.40 crore which will be funded through term loans of Rs.13 crore and remaining through internal accruals. The company is in final stages of procuring the land and the project is expected to be completed by mid of FY22.

#### ***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.

#### ***Comfortable capital structure and debt protection metrics***

The total debt outstanding remained stable at Rs.27.62 crore as on March 31, 2019 as against Rs.28.50 crore as on March 31, 2018. The overall gearing ratio remained comfortable at 0.16x as on March 31, 2019 as compared to 0.19x as on March 31, 2018 with stable debt and accretion of profits to networth.

The interest coverage ratio and total debt to GCA also stood comfortable at 15.69x and 0.77x respectively in FY19 vis-à-vis 13.13x and 0.81x respectively in FY18.

The debt coverage indicators are comfortable with low debt levels and healthy operating profitability along with sufficient cash accruals.

The total debt further reduced significantly and stood at Rs.10.27 crore as on December 31, 2019 with nil utilization in working capital limits.

#### ***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 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.

However, the impact of Covid-19 on the global demand-supply of shrimps along with price trends remains to be seen.

#### ***Key Rating Weaknesses***

##### ***Moderation in profitability during FY19 and 9MFY20***

The total operating income of the company increased by 6.64% from Rs.342.74 crore in FY18 to Rs.365.48 crore in FY19. The growth was primarily from feed sales during the first half driven by volume growth with stable realisations. The consistent performance of farm care products also contributed to revenue growth. However, the PBILDT margin declined from 16.81% in FY18 to 14.09% in FY19 on account of rise in cost of raw materials which had remained at abnormally low levels in FY18. Despite moderation in operating profit, the PAT margin remained relatively stable at 8.30% in FY19 vis-a-vis 8.69% in FY18 due to stable capital charge and higher other income of Rs.6.05 crore in FY19 as against Rs.1.53 crore in FY18. The other income comprised insurance claim of Rs.3.55 crore (pertaining to floods in FY16) during FY19. Accordingly, GCA remained stable at Rs.35.64 crore in FY19 vis-à-vis Rs.35.35 crore in FY18.

The company reported net profit of Rs.21.04 crore on total income of Rs.277 crore in 9MFY20 vis-a-vis net profit of Rs.29.40 crore on total income of Rs.319.13 crore in 9MFY19. The sales were lower in 9MFY20 y-o-y primarily due to lower sales of shrimp feeds with subdued shrimp farming in India in the current season due to extended winter season and muted farm gate prices. Further, the sales were also impacted in Q1FY20 due to stricter credit terms to dealers. The operating margins further declined to 12.36% in 9MFY20 due to lower sales and increase in cost of raw materials which could not be passed on with stable feed prices. Accordingly, with lower operating margin and stable capital charges, the net profit was lower during the period. The net profit was also lower due to lower other income in 9MFY20 y-o-y as company had received insurance claims in FY19.

##### ***Geographical concentration risk in an intensely competitive and fragmented market***

The revenue concentration risk of TWL remained similar in FY19 vis-à-vis FY18, with revenue contribution of around 42% from Andhra Pradesh, around 44% 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.

##### ***Working capital intensive nature of operations***

The operations of the company are working capital intensive on account of credit period of 80-90 days to dealers along with stocking of raw materials during the year end resulting in inventory period of around 100 days. The collection period improved to 81 days for FY19 vis-a-vis 91 days in FY18 with decrease in receivables. 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 stood at ~Rs.31 crore as on September 30, 2019 as against Rs.88.60 crore as on March 31, 2019.

The inventory period remained relatively stable at 103 days for FY19 vis-a-vis 104 days for FY18. However, with decrease in creditor period from 54 days for FY18 to 45 days for FY19, the operating cycle of the company remained stable. The operating cycle stood at 139 days for FY19 vis-a-vis 141 days for FY18.

#### **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.

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 witnessed in FY19 and current year.

#### **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.

#### **Liquidity: Adequate**

The liquidity is marked by adequate accruals against repayment obligations of Rs.9.50 crore in FY20. Despite the working capital intensive nature of operations the working capital borrowings of the company has remained low in view of same being funded majorly from internal accruals. The average of maximum utilization of TWL stood at around 9% for the 12 months ending February'20 indicating available un-utilised limit of Rs.50 crore on an average.

Further, with a gearing of 0.16x as of March 31, 2019, the company has sufficient gearing headroom, to raise additional debt for its capex in case of lower accruals. Its unutilized bank lines are also more than adequate to meet its incremental working capital needs over the next one year.

**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](#)

#### **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 hatchery of 250 mn post larvae 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 feed mills and labs have various accreditations and certifications.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	342.74	365.48
PBILDT	57.62	51.49
PAT	29.90	30.85
Overall gearing (times)	0.19	0.16
Interest coverage (times)	13.13	15.69

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 - ST-Letter of credit	-	-	-	0.00	Withdrawn
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-Bills Discounting / Bills Purchasing	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Forward Contract	-	-	-	0.03	CARE A2+
Fund-based - LT-Term Loan	-	-	December'23	9.60	CARE A-; Stable
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	41.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (01-Mar-19) 2)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	-	-	-	1)CARE A2+ (01-Mar-19) 2)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/ ST- BG/LC	LT/ST	5.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (01-Mar-19) 2)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/ ST- CC/PC/Bill Discounting	LT/ST	13.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (01-Mar-19) 2)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	-	-	-	1)CARE A2+ (01-Mar-19) 2)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+ (01-Mar-19) 2)CARE A2 (04-Apr-18)	-	1)CARE A3+ (09-Mar-17) 2)CARE A3 (08-Jul-16)
7.	Fund-based - LT-Term Loan	LT	9.60	CARE A-; Stable	-	1)CARE A-; Stable (01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB; Stable (09-Mar-17)
8.	Non-fund-based - LT/ ST- Letter of credit	LT/ST	14.81	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (01-Mar-19) 2)CARE A-; Stable (04-Apr-18)	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Contact us

#### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6837 4424  
Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

#### Analyst Contact

Name: Ms Mamta Muklania  
Contact no.: 033-4018 1651/98304 07120  
Email ID: [mamta.khemka@careratings.com](mailto:mamta.khemka@careratings.com)

#### Business Development Contact

Name: Mr. Lalit Sikaria  
Contact no.: 033-40181607  
Email ID: [lalit.sikaria@careratings.com](mailto:lalit.sikaria@careratings.com)

#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**