Annexure 2

The Waterbase Limited

Press Release

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term/Short Term Bank Facilities	68.81	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Revised from CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)
Short Term Bank Facilities*	5.00	CARE A2 (A Two)	Revised from CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)
Short Term Bank Facilities	0.03	CARE A2 (A Two)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**73.84 (₹ Seventy-Three Crore and Eighty-Four Lakh Only)**		

Details of facilities in Annexure-1.
**Reclassified from Long-term/Short-term facility to Short-term facility*

Detailed rationale & key rating drivers

The revision in the ratings assigned to the bank facilities of The Waterbase Limited (TWL) is on account of the sustained decline in the operational performance of the company marked by lower capacity utilisation (CU) of the shrimp feed unit and continuous decline in PBILDT margin over the past few years.

The profitability of TWL had been adversely impacted in FY21 (refers to the period April 1 to March 31) due to the impact of COVID-19 pandemic on its demand, increase in raw material costs and provision for doubtful debtors. While the total operating income (TOI) increased in FY22 to Rs.298.73 crore from Rs.211.30 crore in FY21, mainly due to increase in processing sales and higher feed sales during the year, the PBILDT margin declined further from 6.73% in FY21 to 2.39% in FY22. This was on account of significant increase in input prices during the year which the company could not pass on fully given the subdued demand and high competitive intensity in the industry. The capacity utilisation continued to remain on the lower side at about 24% in FY22.

The performance in the first quarter of the current fiscal (Q1FY23), which is traditionally a strong quarter for the company was also weaker than Q1FY22 with significantly lower y-o-y sales volume and profitability on the back of continued impact of high input prices. While the planned completion of the upgradation capex in the processing plant in Q2FY23 is expected to lead to further diversification in revenue profile and increase contribution to profitability in FY23, on an overall basis, the profitability is expected to remain subdued during the year.

The ratings, however, continue to draw strength from the experience of the promoters with long track record of operations of the company in the shrimp feed industry and it being a part of the Karam Chand Thapar (KCT) group. The ratings also factor the partially integrated nature of its operations with an established brand presence and marketing network. Further, the ratings derive strength from its comfortable capital structure with negligible debt level outstanding as on March 31, 2022 along with its adequate liquidity. Additionally, the ratings take cognizance of the initiatives taken by the company for diversification of its revenue by venturing into farm care products and frozen sea food, the contribution of which to TOI has been gradually increasing. The ratings factor in the capital expenditure plans of the company for expansion in capacity and process improvement which is expected to be funded out of internal cash accruals and liquid investments.

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

The ratings also take note of the funds blocked in long due debtors, though there is improvement in operating cycle in FY22 to 84 days from 167 days in FY21. The ratings continue to remain constrained by the exposure to volatility in raw material prices, geographical concentration of revenue and risks inherent to the seafood industry.

Rating Sensitivities

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

- Ability to increase scale of operations with TOI around Rs.400 crore, improving PBILDT margins above 10% on sustained basis and earning ROCE of around 12%.
- Ability to maintain its healthy leverage and sustaining the improvement in operating cycle.

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

- Continued inability to improve PBILDT margin from the lows of FY22 and Q1FY23 on a sustained basis and its significant impact on its leverage and debt coverage indicators.
- Any major debt funded capex resulting in deterioration in capital structure and debt coverage indicators with increase in overall gearing beyond 0.75x and TD/GCA beyond 2.50x
- Significant moderation in its liquidity cushion.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record in the shrimp feed industry: TWL has long track record of more than two decades in the shrimp feed industry. It is part of the KCT group which 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. Furthermore, the promoter group is well supported by experienced personnel. KCT group has interests in sectors ranging from coal logistics, real estate and aquaculture.

Partially integrated nature of operations with strong brand and established marketing 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. The company sells shrimp feeds under the brand *Bay White-Enriched, Maximy and Vanamax*. 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 of the country. TWL enjoys long-standing relationship with its network of dealers with top 10 dealers contributing around 41% of sales.

Diversification into farm care products and frozen sea food: TWL had diversified its product offering through launch of its farm care range of products under the brand name *Baylife* and frozen sea food products (processed shrimps and pasteurized crab meat) under the brand *Prize Catch*. Farm care, processing and hatchery business contributed to 23% of the TOI in FY22 against 10% in FY21. Going forward, the company expects sales from processing unit to increase further with upgradation and capacity enhancement in the processing capacity.

Comfortable capital structure and debt protection metrics: The company continues to have nil debt outstanding as on March 31, 2022 except nominal amount of lease liabilities. Its overall gearing ratio continues to be comfortable at 0.01x as on March 31, 2022 (0.01x as on March 31, 2021 as well). Interest coverage ratio and total debt to GCA also stood adequate at 8.50x and 0.17x respectively in FY22 as against 9.61x and at 0.11x respectively in FY21. With significant free liquidity available with the company to meet its envisaged capital expenditure and working capital requirements, the capital structure of TWL is expected to remain comfortable in the medium-term.

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 continues 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 in FY21 and FY22 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.

Liquidity: Adequate
TWL had adequate liquidity in the form of free cash and cash equivalents of Rs.38.33 crore as on July 15, 2022. Furthermore, the company has not utilised its sanctioned fund based working capital limits of Rs.54 crore in the last twelve months. However, it has historically had large receivables outstanding for more than one year and it also has high provisions towards doubtful debtors; although the company has been taking steps to address this issue by tightening its credit policy. TWL does not have any term debt in its books. The envisaged internal accruals and available liquidity is expected to be sufficient to meet its capex requirements of about Rs.33 crore towards capacity expansion and process improvement over the next three years.

Key Rating Weaknesses
Sustained decline in profitability in FY22 and Q1FY23: The CU of the shrimp feed unit of TWL (which is the major contributor to revenue) continued to remain low at 23.79% in FY22 after witnessing a decline to 23.47% in FY21 from 36.53% in FY20 and 45.63% in FY19.
The TOI increased to Rs.298.73 crore in FY22 from Rs.211.30 crore in FY21 mainly due to increase in processing sales and shrimp feed sales. The increase in shrimp feed sales was driven by increase in both sales realisation and volume. However, PBILDT margin reduced to 2.39% in FY22 as against 6.73% in FY21 due to significant increase in input prices which the company could not pass on fully and relatively lower margins in the processing sales.
In Q1FY23, TOI was lower than Q1FY22 by about 37% with decline in sales volume of feeds and absence of processing sales due to the unit being under renovation. The volume of feed sales dipped on account of decline in demand from its Gujarat market due to delay in availability of brood stock to the farmers which has resulted in shift of demand to current quarter.
Apart from the impact of lower sales, profitability continued to remain impacted due to high input prices and inability to take price hikes to pass on the same.
The processing unit is expected to start contributing to revenue from Q2FY23 onwards. However, on an overall basis, the profitability margins are expected to remain under pressure during FY23.

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 (depending on prevailing market prices). There was significant improvement in operating cycle in FY22 to 84 days because of decrease in average collection period and inventory period. However, the company continued to have significant debtors outstanding for more than 365 days of Rs.15.14 crore (net of provisions). Although these are secured against collateral provided by its customers, the recovery continues to be slow-paced.
The company has tightened its credit norms and is focussing on increasing the cash sales, due to which also sale volumes have been impacted over the last few years.

Volatility in raw material prices: The cost of raw materials constitutes the major portion of cost of sales (about 78% in FY22 vis-à-vis about 73% in FY21) of the company. The major raw materials are agro products like soya, wheat flour and fish meal. Other raw materials are fish oil, mono-calcium phosphate, minerals, Vitamin C, binders, etc. Since the availability of major raw materials is seasonal in nature and dependent on climatic conditions, the raw material costs are volatile. Furthermore, the company has limited ability to pass on the increase in raw material prices. There has been significant increase in prices of soya and fish meal in the recent past and the profitability of the company has been impacted due to the same, with there being very low profits in FY22 despite increase in sales compared to FY21.

Geographical concentration risk in an intensively fragmented and competitive market: The feed industry is driven by regional demand and supply because of transportation constraints and perishable nature of the products. The geographical concentration of TWL's sales increased in FY22 vis-à-vis FY21, with revenue contribution of about 68% from Andhra Pradesh as against 55% in FY21. The revenue contribution from Gujarat, which is its second major market has reduced in both FY21 and FY22. About 25% of sales in FY22 were to Gujarat, Maharashtra and Goa with lower presence in other geographies like Tamil Nadu, West Bengal, Karnataka, Kerala and Odisha. Low capital intensity and low entry barriers facilitate entry of unorganized players, leading to high competition and fragmentation. Though the organised market is dominated by few major players in the shrimp feed segment, the higher capacity in the industry as compared to demand leads to intense competition.

Risks inherent in the seafood industry: The main threat to shrimp industry is from outbreak of diseases. Furthermore, 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 macroeconomic factors like anti-dumping duties, inflation, etc., which increase the expenses of the companies operating on the seafood industry. The prospects of shrimp feed business remain linked to the performance of the shrimp industry.

Analytical approach: Standalone

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

About the Company
TWL was incorporated in November 1987 as Thapar Waterbase Limited and commenced commercial operation in 1993. 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, a shrimp hatchery of 250 mn post larvae and a shrimp processing plant with an aggregate capacity of 5,000 MTPA (increased from 4,000 MTPA in September 2022), all located at Nellore, Andhra Pradesh.
The shrimp feed mill produces high quality shrimp feed for both brackish and fresh-water shrimp farming. As part of its integrated activities, the company works closely with its farmers by providing them quality inputs like feed and other farming inputs, post larvae and buying back of shrimp directly from their farms. TWL also has a cold storage facility capable of storing 750 MT of finished products.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	211.30	298.73	79.87
PBILDT	14.21	7.13	2.55
PAT	5.93	0.10	0.61
Overall gearing (times)	0.01	0.01	NA
Interest coverage (times)	9.61	8.50	14.17

A: Audited, UA: Unaudited, NA: Not Available
Financials have been classified as per CARE Ratings standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	41.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A2
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	13.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Forward Contract		-	-	-	0.03	CARE A2
Non-fund-based - LT/ ST-Letter of credit		-	-	-	14.81	CARE BBB+; 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 (₹ 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/ ST-Cash Credit	LT/ST*	41.00	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2+ (06-Oct-21)	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (27-Mar-20)
3	Non-fund-based - ST-BG/LC	ST	5.00	CARE A2	-	1)CARE A-; Stable / CARE A2+ (06-Oct-21)	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)
4	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	13.00	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2+ (06-Oct-21)	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)
5	Non-fund-based - ST-Bill Discounting / Bills Purchasing	ST	-	-	-	-	-	1)Withdrawn (27-Mar-20)
6	Non-fund-based - ST-Forward Contract	ST	0.03	CARE A2	-	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (27-Oct-20)	1)CARE A2+ (27-Mar-20)
7	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (27-Oct-20)	1)CARE A-; Stable (27-Mar-20)
8	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	14.81	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2+ (06-Oct-21)	1)CARE A-; Stable / CARE A2+ (27-Oct-20)	1)CARE A-; Stable / CARE A2+ (27-Mar-20)

*Long term/ Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

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

Annexure-5: Bank Lender Details
To view the lender wise details of bank facilities please click here

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@careedge.in for any clarifications.*

Contact us

Media Contact
Name: Mr Mradul Mishra
Contact no.- +91-22-6837-4424
Email ID – mradul.mishra@careedge.in

Analyst Contact
Name: Mrs Mamta Muklania
Contact No. - 033-4018 1651
Email id –mamta.khemka@careedge.in

Relationship Contact
Name: Mr Lalit Sikaria
Contact No. - 033-4018 1607
Email id – lalit.sikaria@careedge.in

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