Press Release

The Waterbase Limited

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	93.81	CARE BBB; Stable / CARE A3+	Revised from CARE BBB+; Stable / CARE A2
Short Term Bank Facilities	5.03	CARE A3+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of The Waterbase Limited (TWL) is on account of the continuous decline in its profitability over the past few years with cash losses reported in FY24 & Q1FY25. The persistent decline over recent quarters is largely attributed to the decline in operational performance of the company marked by lower capacity utilisation (CU) of the shrimp feed unit.

The ratings, however, continue to derive strength from the experience of its 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, company's comfortable capital structure with nil term debt, along with its adequate liquidity. Additionally, the ratings also take cognisance of the initiatives taken by the company for diversification of its revenue by venturing into processing of shrimps on their own instead of third-party processing, farm care products and frozen sea food, thereby contributing to gradual increase in the total operating income (TOI). 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. The ratings continue to remain constrained by the working capital-intensive nature of the operations, albeit there is some recovery of its outstanding receivables from Gujarat region in FY24 (refers to the period April 1 to March 31).

Rating Sensitivities

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

- Ability to sustain scale of operations along with improvement in profitability with PBILDT margin above 6% and ROCE of 8% on sustained basis
- Ability to maintain its healthy leverage and sustaining the improvement in operating cycle at less than 90 days.

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

- Continued losses resulting in further deterioration in debt coverage indicators and liquidity profile
- Any major debt funded capex resulting in deterioration in capital structure and debt coverage indicators marked by TD/GCA beyond 4.00x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook assigned to the long-term rating of TWL considers strong leverage position of the company with expectation of improvement in TOI and profitability in the medium term along-with availability of need-based support from the KCT group.

Detailed description of the key rating drivers:

Key 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 and his son, Mr Varun Aditya Thapar. Mr Vikramaditya 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.

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

Partially integrated nature of operations with strong brand and established marketing network: TWL is predominantly a shrimp feed manufacturer with a 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-Advanced, Maximy, Tiger XL 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 164 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 27% of sales in FY24.

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*. Contribution from Farm care, processing and hatchery business improved to about 40% of TOI in FY24 as against 17% in FY23. Further its contribution continues to remain steady at 37% in Q1FY25 (35% in Q1FY24). With modification and renovations in its processing unit, CARE Ratings expects the TOI to increase in the medium term.

Comfortable capital structure and debt protection metrics: The company continues to have nil term debt outstanding as on March 31, 2024, with nominal amount of lease liabilities and working capital borrowings to fund its elongated operating cycle. Recovery of receivables from Gujarat region supported for lower working capital utilization in FY24, which also supported improvement of overall gearing to 0.15x as on March 31, 2024 as against 0.21x as on March 31, 2023.
Interest coverage ratio and total debt to GCA though deteriorated in FY24 because of operating losses and cash losses. With adequate 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 over 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. Indian shrimp industry is expected to gain better global market share going forward, riding on the back of Government of India's initiatives undertaken to improve product quality, and productivity, reducing wastages & rejections through improved infrastructure like cold storage chain, and presence of testing laboratories, among others. 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 ₹12.30 crore as on March 31, 2024. Furthermore, the company does not have any term debt on its books along with low working capital limit utilization. The average working capital limit utilization for the last 12 months ended April 30, 2024 was around 37% which provides cushion to its liquidity. The available liquidity is expected to be sufficient to meet its capex requirements of about ₹8-10 crore towards establishing a cold storage unit near its processing plant in FY25.

Key weaknesses

Sustained decline in profitability over the years with cash losses in FY24 and Q1FY25: The CU of the shrimp feed unit of TWL (which is the major contributor to revenue) continued to remain low at 20.45% in FY24 (26.37% in FY23). While the TOI increased to ₹339.25 crore in FY24 from ₹304.07 crore in FY23, the same was mainly due to increase in processing shrimp sales (driven by increase in volume of exports) revenue which made up for the decrease in shrimp feed sales. The reduction in volume sale in Gujarat region was mainly to mitigate increase in long standing debtors. PBILDT margin moderated to -1.12% in FY24 as against 1.33% in FY23 due to significant increase in input prices with limited immediate pass through available. This coupled with relatively lower margins in the processing sales segment and losses in shrimp feeds segment, kept the overall profitability under stress in FY24. Its operating profitability has generally shown a declining trend from FY21 onwards with cash losses reported in FY24 and cash losses expanded in Q1FY25.
In Q1FY25, TOI was lower than Q1FY24 by about 35% with decline in sales volume of both feeds and processed shrimp. The volume of feed sales dipped on account of weak demand, low farmgate prices, further exacerbated by sporadic disease outbreak. While, in the shrimp processing business, the company encountered setbacks due to labour shortage and lower international

prices during the 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 more to revenue from Q2FY25 onwards. However, on an overall basis, the profitability margins are expected to remain under pressure during FY25.

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 slight deterioration in operating cycle in FY24 to 112 days (108 days in FY23) because of decrease in average creditors period. However, the company has recovered its receivables from Gujarat region in FY24 and reduced its outstanding debtors to ₹42.55 crore as on March 31, 2024 as against ₹86.63 crore as on March 31, 2023.
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. Also, the company has decreased its sales in Gujarat region in FY24 and Q1FY25, due to long pending debtors in the past.

Volatility in raw material prices: The cost of raw materials constitutes the major portion of cost of sales (about 74% in FY24 vis-à-vis about 75% in FY23) of the company. The major raw materials are agro products like soya, wheat flour and fish meal. Other raw materials include 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 the prices of soya and fish meal in the past few years and the profitability of the company has been impacted due to the same. Also, there have been net losses in FY24 and FY23 despite steady increase in sales since FY22.

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 FY24 vis-à-vis FY23, with revenue contribution from Andhra Pradesh increasing due to lower sales in Gujarat region on account of the company's strategy of curtailing its sales to Gujarat dealers with which large receivables were due and now supplying to them only on receipt of prior dues. The company has lower presence in other geographies like Tamil Nadu, West Bengal, Karnataka, Kerala and Odisha. Low capital intensity and low entry barriers facilitate entry of unorganised 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 with 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.

Environment, social, and governance (ESG) risks

The Company ensures better farm management practices through good pond preparation, quality seed selection, water quality management, feed management, health monitoring, pond bottom monitoring, disease management, emergency harvest, harvest and post-harvest, food safety and environmental awareness that has prevented any shrimp disease outbreaks.
The Company incurred CSR expenses of ₹0.06 crore in FY24 in line with its CSR obligations as per Companies Act, 2013.
The company is managed by professional board of directors who have extensive experience in the industry. The Board comprises five directors including two women directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Animal Feed

TWL was incorporated in November 1987 as Thapar Waterbase Limited and commenced commercial operation in 1993. It is promoted by the KCT Group with 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 110,000 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 a 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)	FY23 (A)	FY24 (Abr.)	Q1FY25 (UA)
Total operating income	304.07	339.25	72.43
PBILDT	4.05	-3.81	-5.93
PAT	-3.47	-10.44	-6.34
Overall gearing (times)	0.21	0.15	NA
Interest coverage (times)	1.92	NM	NM

A: Audited UA: Unaudited Abr.: Abridged NM: Not Meaningful NA: Not Available; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	66.00	CARE BBB; Stable / CARE A3+
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	13.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Letter of credit		-	-	-	14.81	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.03	CARE A3+

Annexure-2: Rating history for the 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Cash Credit	LT/ST	66.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (06-Dec-23)	1)CARE BBB+; Stable / CARE A2 (08-Sep-22)	1)CARE A-; Stable / CARE A2+ (06-Oct-21)
2	Non-fund-based - ST-BG/LC	ST	5.00	CARE A3+	-	1)CARE A2 (06-Dec-23)	1)CARE A2 (08-Sep-22)	1)CARE A-; Stable / CARE A2+ (06-Oct-21)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	13.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (06-Dec-23)	1)CARE BBB+; Stable / CARE A2 (08-Sep-22)	1)CARE A-; Stable / CARE A2+ (06-Oct-21)
4	Non-fund-based - ST-Forward Contract	ST	0.03	CARE A3+	-	1)CARE A2 (06-Dec-23)	1)CARE A2 (08-Sep-22)	1)CARE A2+ (06-Oct-21)
5	Non-fund-based - LT/ ST-Letter of credit	LT/ST	14.81	CARE BBB; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (06-Dec-23)	1)CARE BBB+; Stable / CARE A2 (08-Sep-22)	1)CARE A-; Stable / CARE A2+ (06-Oct-21)

ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:

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