



SMERA RATINGS LIMITED

Amulya Sea Foods (ASF)

Rating Rationale

August 24, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loans	4.06	SMERA BB+/Stable (Assigned)
Export Packing Credit	25.00	SMERA A4+ (Assigned)
Foreign Bill Purchase	20.00	SMERA A4+ (Assigned)
Foreign Letter of Credit	3.00	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.52.06 crore bank facilities of Amulya Sea Foods. The outlook is '**Stable**'. For arriving at the ratings, SMERA has combined the business and financial risk profiles of Amulya Sea Foods (ASF) and Nila Sea Foods Exports (NSFE) referred to as the Nila Group. The consolidation is in view of the common management, similar line of business, and has significant operational and financial linkages between the companies.

The ratings derive comfort from the group's integrated business operations, certifications and approvals from regulatory bodies, strategic plant locations and diversified customer base. The ratings are also supported by the extensive experience of the promoters in the seafood industry. However, the ratings are constrained by the group's declining operating profitability which has resulted into stretched financial risk profile. The ratings are also constrained by the group's increasing working capital requirement driven by elongation in working capital cycle. The ratings also factor the group's exposure towards fluctuation in foreign exchange rates and changes in government policies in the exporting countries. The group's business is also exposed to intense competition and susceptibility to vagaries in the seafood industry.

The group has vertically integrated operations which involves processing to cold storage. Additionally, it has an Individual Quick Freezing (IQF) plant for catering to departmental stores located overseas. The processing units of the group are certified by Hazard Analysis Critical Control Points (HACCP) and are approved by European Union and USFDA. The processing units are located at major fishing areas of Pattukottai and Thootukudi, which helps the group to procure raw material conveniently and also gives easy access to International sea route. The group has customers spread across European countries, Japan, U.S.A. and UAE. The group has experienced management team. Mr. D. Chandran (Diploma in Fisheries Technology), the promoter of the group has over three decades of experience in the seafood industry.

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The group reported operating income of Rs.287.04 crore (provisional) in FY2014-15, as compared to operating income of Rs.192.09 crore in FY2012-13. However, the operating profitability has declined significantly to 4.42 per cent from 9.07 per cent for the same period. The group's financial risk profile is marked by net worth of Rs.34.68 crore (provisional) as on March 31, 2015 and interest coverage of 1.91 times (provisional) in FY2014-15. However the group's leverage is on a higher side, and it stood at 2.81 times as on March 31, 2015. The group's net cash accruals (NCA) have significantly declined to Rs.5.74 crore (provisional) in FY2014-15, as compared to Rs.11.62 crore in FY2013-14. The group's working capital requirements have increased due to stretch in collection days to 117 days (provisional) in FY2014-15 vis-à-vis 13 days in FY2013-14.

The group's business is highly exposed to fluctuation in foreign exchange rates and changes in government policies in the exporting countries. The group's business is also exposed to intense competition from domestic as well as international players in a highly competitive seafood industry. The ratings also note the inherent risks associated with the seafood industry such as susceptibility to diseases and climate changes.

Outlook: Stable

SMERA believes that the group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its experienced management and established presence in the seafood industry. The outlook may be revised to 'Positive' in case the group registers sustained growth in revenues while achieving substantial improvement in profit margins and debt-coverage metrics. Conversely, the outlook may be revised to 'Negative' in case of further decline in the group's profitability margins, or in case of deterioration in the group's financial risk profile and liquidity position. The rating may also undergo a change in case of the withdrawal of capital by the promoters.

About the Group

Amulya Sea Foods (ASF) and Nila Sea Foods Exports (NSFE) are part of the Nila Group, a Tuticorin-based group managed by Mr. D. Chandran and his family members. ASF was established in 2000 whereas NSFE in 2010 at Pattukottai. The group is engaged in the processing and export of frozen marine products that are marketed under the 'Amulya and 'Nila' brand names.

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*Rating
Rationale*

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