

Press Release

Sri Varun Aqua Enterprises

December 27, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) from **ACUITE BB-** (read as **ACUITE double B minus**) to the Rs. 7.00 crore bank facilities of Sri Varun Aqua Enterprises (SVAE). The outlook is 'Stable'.

SVAE, established in 2004, is an Andhra Pradesh-based partnership firm promoted by Mr. K. Srinivas Reddy, Mr. Dwarampudi Ammireddy and Ms. Kovvuri Somireddy. The firm is engaged in the trading of shrimp feed supplements. The firm buys feed and sells it to shrimp farmers across India. The rating has been downgraded on account of limited revenue visibility in the medium term due to EHP disease that has affected the shrimp industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SVAE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The partners possess around two decades of experience in the shrimp and fish feed trading business. This has helped build healthy relations with customers and suppliers over the years.

- **Comfortable working capital management**

The working capital cycle of SVAE is healthy marked by Gross Current Assets (GCA) of 73 days in FY2018 as against 81 days in FY2017. The firm provides credit to its customers up to 90 days, as seen in receivable period of 54 days in FY2018 and 39 days in FY2017. The inventory holding period stood stable at 7 days in FY2018 as well as in FY2017. The firm pays its suppliers on cash basis on an average. However, the average bank limit utilisation stood at ~90 percent for the last three months ended November 2018.

Weaknesses

- **Average financial risk profile**

The financial risk profile of SVAE is average marked by low net worth, moderate debt protection measures and moderate gearing. The net worth stood at Rs.4.77 crore as on 31 March, 2018 as against Rs.3.37 crore as on 31 March, 2017. The gearing of SVAE has improved to 1.56 times as on March 31, 2018 from 2.13 times as on March 31, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) also improved to 1.72 times as on 31 March, 2018 as against 2.50 times as on 31 March, 2017. Interest Coverage Ratio (ICR) remained healthy at 3.32 times in FY2018 and 3.71 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on 31 March, 2018 as against 0.12 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 3.33 times for FY2018 as against 3.71 times in FY2017. Acuité believes that the financial risk profile of SVAE will continue to remain average over the medium term on account of its conservative financial policy.

• Susceptibility to risks inherent in the seafood industry

The operations of SVAE are vulnerable to the inherent risks in the seafood industry such as susceptibility to diseases, climate changes, fluctuations in the exchange rate, adverse change in domestic and foreign Government policies, among others. In FY2019, the shrimp industry in Andhra Pradesh has been hit by disease caused by EHP which has affected SVAE's operations as marked by low sales booking till November 2018~ Rs.18.00 crore and target turnover of Rs.40.00 crore for FY2019.

Outlook: Stable

Acuite believes that SVAE will maintain a 'Stable' outlook in the medium term on the back of long standing experience of the partners in the business. The outlook may be revised to 'Positive' if SVAE achieves more than expected revenue while improving its profit margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of less than expected inflow of revenue or decline in profitability or capital structure.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	61.10	53.00	51.34
EBITDA	Rs. Cr.	1.55	1.21	1.12
PAT	Rs. Cr.	0.97	0.88	0.67
EBITDA Margin	(%)	2.54	2.29	2.18
PAT Margin	(%)	1.59	1.66	1.30
ROCE	(%)	12.67	11.59	21.66
Total Debt/Tangible Net Worth	Times	1.56	2.13	2.64
PBDIT/Interest	Times	3.32	3.71	2.52
Total Debt/PBDIT	Times	4.78	5.93	6.67
Gross Current Assets (Days)	Days	73	81	75

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Dec-2017	Cash Credit	Long Term	7.00	ACUITE BB- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE B+ / Stable (Downgraded)

Contacts

Analytical	Rating Desk
<p>Avadhoot Mane Senior Analyst - Rating Operations Tel: 022 49294022 avadhoot.mane@acuite ratings.in</p> <p>Sushmita Murai Analyst - Rating Operations Tel: 02249294055 sushmita.murai@acuite ratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.