

# The COVID-19 impact: Global shrimp prices to correct

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## GLOBAL SHRIMP PRICES TO CORRECT

Global shrimp prices are expected to face pressure over the next few months, as global trade adjusts to the changing demand dynamics in China, a key importer and consumer of farmed shrimp. The sizable domestic production (estimated at over 10.0 lakh MT ) and consumption of shrimp in China, makes China a key price-mover in the global markets. In fact, China was a market stabiliser during CY2019, when global demand from USA, EU and Japan floundered.

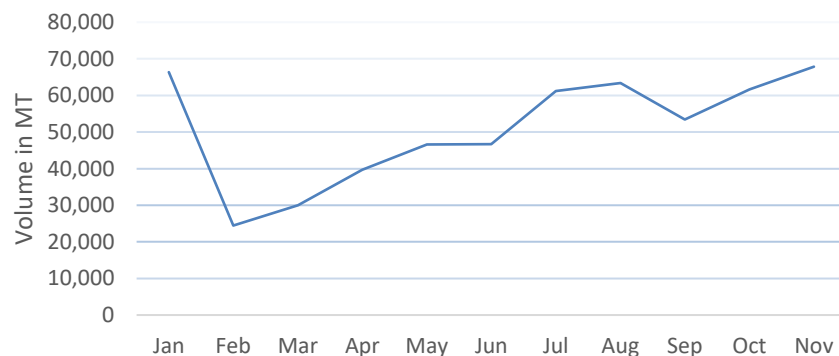
The rapidly spreading novel coronavirus (COVID-19) pandemic, which originated in Wuhan, China is believed to be zoonotic and since has been transmitted human-to-human. The reactionary unprecedented massive shutdown in China has led to contraction in Chinese demand for seafood, leading to a supply glut in the global market. Apart from the reduced demand, disruption in China's internal logistics: for unloading, storing and further processing, will play havoc with all types of seafoods, impact of which will be felt along the entire value chain, leading up to the farmers. Port clearance for seafood containers in Chinese ports would be difficult in the current environment, effectively cutting off the supply pipeline temporarily.

## CHINA OVERTAKES USA TO BECOME THE LARGEST SHRIMP IMPORTER

**USA** has traditionally been the largest importer of shrimp globally, with imports of 6.98 lakh MT of frozen shrimp in CY2019 (*Refer: Shrimp import Infographics*). **China** closely followed USA, with imports of 6.5 lakh MT; this is despite China being the largest producer globally. During the second half of CY2019, China overtook USA to become the largest shrimp importer globally, with its increasing domestic consumption far surpassing disease hit domestic production. The **European Union, Japan** and **Vietnam** are the other key shrimp importing countries. The European Union and Japan have reported largely flat shrimp imports over the past five years while imports by Vietnam crashed during CY2019. Vietnam, more a re-exporter than a consumer, was the largest conduit for unreported shrimp imports into China until FY2019. With China cracking down on imports via Vietnam, India's direct exports to China jumped in FY2020. China and Vietnam (*EXHIBIT 2*) together now account

for 25% of shrimp exports from India (in value terms) while 45% plus of India's exports are shipped to the USA.

**EXHIBIT 1: China's monthly shrimp import trend during CY2019 (in MT)**



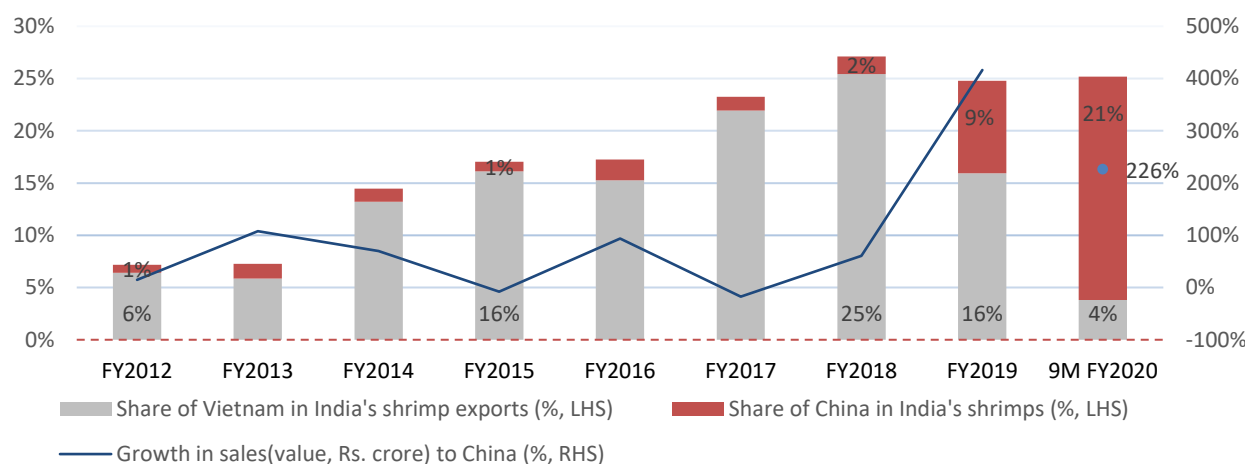
Source: International Trade Centre; ICRA research

For China, the key sources of frozen shrimp imports (*Refer: Shrimp export Infographics*) are Ecuador (50.7% during 11MCY2019); India (24%); and Vietnam and Thailand (at a cumulative 9.6%). Q3 and Q4 account for over 60% (*EXHIBIT 1*) of the shrimp imported by China annually. Demand peaks in December and January of each year, before falling to seasonal lows in February, post the Chinese New Year. The Chinese New Year in January is a critical period of heightened consumption in local Chinese markets which clears the channel inventory, leading to fresh buying by March. This period of Chinese high consumption has been disrupted by the Chinese lockdown on cities and movement following the COVID-19.

## DEMAND FOR INDIA TO FALTER

### EXHIBIT 2: India's shrimp export trends

Over the last three years, China + Vietnam have accounted for 25-27% of India's shrimp exports



Source: DGFT; ICRA research

After China, India is the 2<sup>nd</sup> largest producer (around 8 lakh MT in CY2019) and the largest global exporter of farmed shrimp, exporting over 6.69 lakh MT of frozen shrimp, worth USD 4.9 billion in CY2019. About 21% (in value terms) and 26% (in volume terms) of shrimp exports from India ends up in China.

China is a key importer of block frozen shrimp from India. While bulk of the imports are consumed in the country, some proportion is reprocessed into higher value-added (like breaded) for exports to countries like USA. Chinese demand for frozen shrimp is expected to witness a significant reduction in the coming few months.

## CREDIT PROFILE OF SMALLER INDIAN EXPORTED TO BE IMPACTED

With China largely importing lower-value added and block frozen shrimp from India, the demand is serviced by several smaller exporters and few large players. Companies with high concentration on the Chinese markets would be impacted immediately, as demand falls. Further, given the low cost of foreign currency funding for exporters, several shrimp processing companies in India have high utilisation of their working capital limits. The Chinese billing cycle works on part advance and the balance on mailing of the bill of lading. This reduces the Chinese debtor cycle to about two weeks, compared to the much longer billing cycle in other markets like USA, supporting the local exporters liquidity. As exports to China dry up, the impact on the Indian shrimp industry's working capital cycle would also have to be watched. Smaller companies with limited financial flexibility will be impacted more.

Products processed for the Chinese markets can be reprocessed for other export markets, but at a cost, and India would have to actively look for other export destinations. As a market, Ecuador, a large global producer, with 6.35 lakh MT of production in CY2019, has more at stake given its over 50% dependence on China. The alternative source of demand, likely from EU, Japan and USA, would depend on local inventory levels in those markets. Given that demand in the EU and Japan

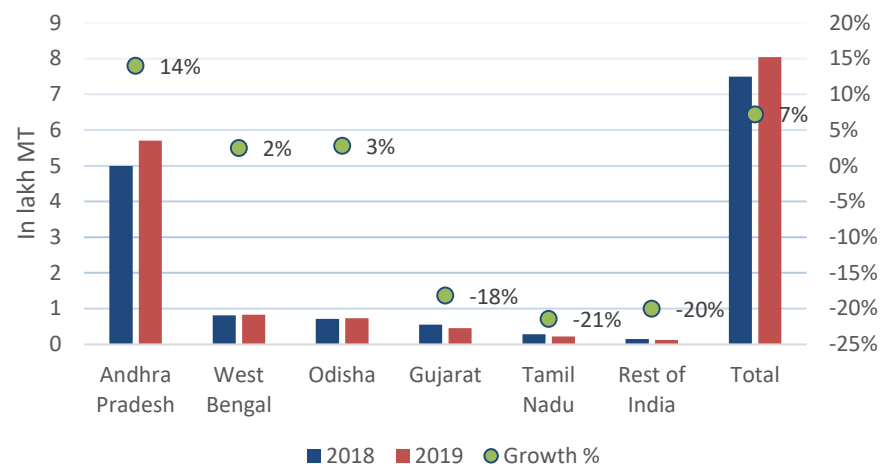
has been flat for several years now, India and Ecuador would compete for the USA markets. While Ecuador happens to be logistically at an advantage, it lacks adequate processing capacities, as compared to India. Estimates place India's processing capacities at over 1 million MT (as against production of 0.8 million MT in CY2019).

The impact on India would stem from not only a reduction in Chinese demand but a correction in prices as the global supply-demand dynamics are disturbed. Ecuadorian shrimp prices have already started correcting, as demand from their biggest source market China contracted. Impact of fall in global shrimp prices on the Indian exporters would depend on their pricing contracts with their customers. Companies already locked into quarterly to annual price contracts would not feel the immediate impact. Margins of companies selling on spot prices would however be impacted. Given the lead time of 3-4 months for cultivation, immediate term supply of shrimp is inelastic. However, stocking levels in Indian farms is showing signs of contraction, during the seasonally peak stock month of February. This could reduce supply over the next few months.

On a related note China is a key market for live seafood from India and this limited shelf-life market is already facing the brunt of the heightened Chinese regulations on live markets. Live and chilled seafood accounts for about Rs.1,000 crores of exports from India and this includes items like crabs, lobsters, whelks etc.

India, like all other large exporters, including Ecuador would have to wait-and-watch for the spread and severity of the pandemic and the impact on demand in China, post the Chinese lunar holiday in February 2020. While a confluence of factors like the ability to find alternative markets, reduction in supply over the next 3-4 months, early harvesting, and delayed stocking will determine how the dynamics play out, the immediate term correction in shrimp prices is a given.

EXHIBIT: State wise production of shrimp in India



Andhra Pradesh accounts for 71% of the production in India

EXHIBIT: Usual harvesting Calendar for India

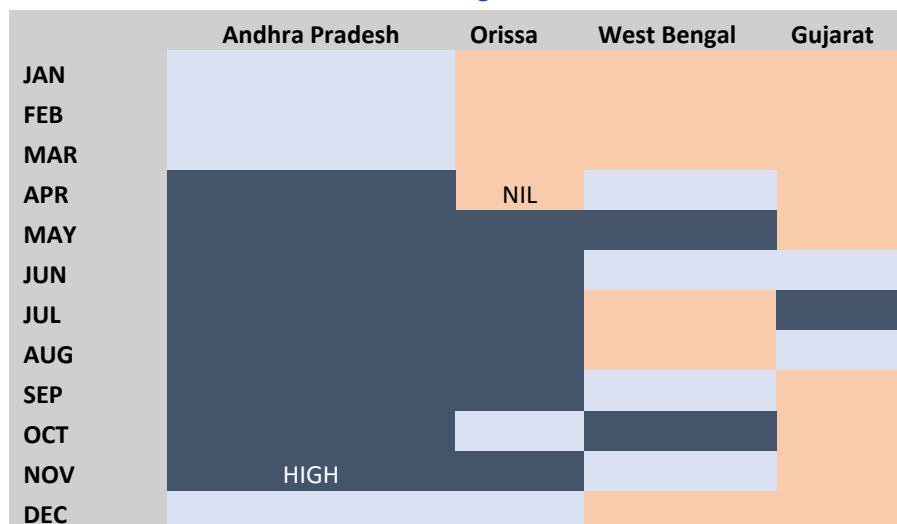
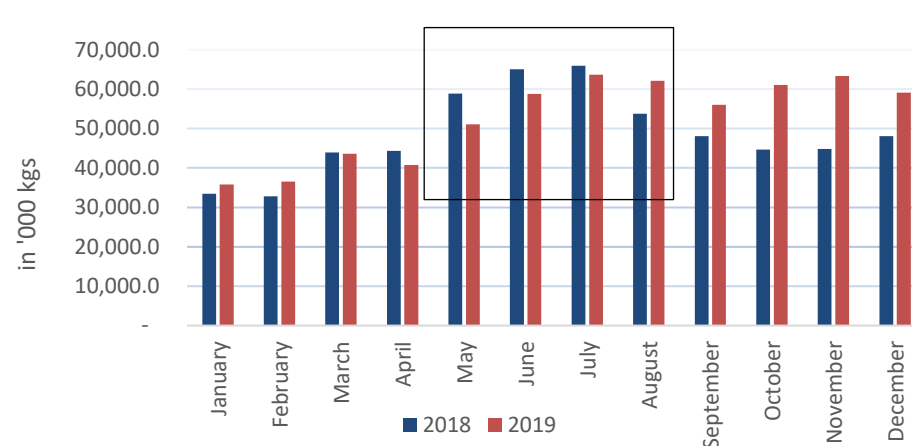
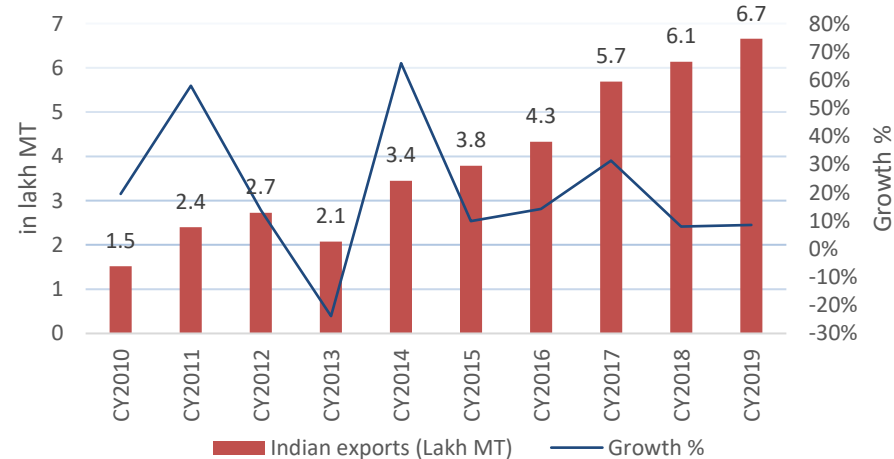


EXHIBIT: Indian shrimp exports (monthly trends)



Typically, production and exports peak during May to August every year, but CY2019 was atypical with continued high production till December 19

EXHIBIT: Indian shrimp export trends (historical)



Source: DGFT, ICRA research, MPEDA, Industry



## USA



### 6.98 lakh MT of imports (0.4% growth)

*Head-less-shell-on (HLSO) to Cooked. Moving towards larger and peel shrimp.*

From:

- India 40.5%
- Indonesia 19.1%
- Ecuador 11.9%
- Vietnam 8.6%

Source: NDAA

### 5.61 lakh MT of imports (236.5% growth)\*

*Head-on-shell-on (HOSO) smaller sizes*

- Ecuador 50.7%
- India 24.0%
- Vietnam 5.2%
- Argentina 5.0%



## CHINA

Source: ITC; \*11MCY2019



## EUROPE



### 4.39 lakh MT of imports (1.5 % growth)\*

*Head-on-shell-on (HOSO) to cooked*

- Ecuador 23.5%
- Argentina 18.5%
- India 14.9%
- Vietnam 10.0%

\*CY2018

Source: European Commission Tradehelpdesk

## 1.44 lakh MT of imports (1% growth)

*Largely Head-less-shell-on (HOSO)*

- India 26.5%
- Vietnam 21.5%
- Indonesia 16.4%
- Argentina 11.3%

Source: Ministry of Finance, Japan





# Global Shrimp Exports

# CY2019



**INDIA**



**6.65 lakh MT (9% growth)**

Destinations:

-- USA	42.7%
-- China	24.2%
-- EU	10.7%
-- Japan	6.0%
-- Vietnam	4.8%

Source: DGFT

**~6.34 lakh MT (~26% growth)**

Destinations:\*

-- China	51.3%
-- EU	16.3%
-- Vietnam	13.9%
-- USA	11.7%

Source: ITC; destination wise breakup is based on 8MCY2019



**ECUADOR**



**VIETNAM**



**~2.9 lakh MT**

Destinations:

-- USA	21.2%
-- Japan	19.1%
-- Korea	15.0%
-- China	10.4%

Source: ITC



**~1.89 lakh MT \***

Destinations:

- USA 68.3%
- Japan 16.1%
- Europe 5.4%
- China 3.3%

Source: ITC; \* CY2018



**INDONESIA**



**~1.86 lakh MT \***

Destinations:

- EU 45.5%
- China 25.3%
- Japan 5.9%
- Peru 4.2%

**ARGENTINA**

Source: ITC; \*CY2018

**EXHIBIT: FINANCIAL PARAMETERS for ICRA sample of 16 large seafood exporters**

Financial Parameters	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Operating Income	3,034.7	3,059.1	3,331.3	4,412.5	5,405.2	5,422.8
Operating Profit Margin	6.1%	5.4%	5.8%	5.8%	9.1%	8.3%
Net Profit Margin	2.9%	2.2%	2.5%	2.8%	5.8%	4.8%
RoCE		23.1%	23.5%	24.7%	35.8%	25.5%
RoNW		28.9%	29.4%	29.3%	41.0%	24.0%
Total Debt	506	677.1	776.9	1019.7	658.2	829.5
Interest Coverage Ratio	4.2	3.1	3.9	4.6	8.3	6.8
Debt-Equity Ratio	2.0	1.9	1.5	1.3	0.7	0.7
TD/OPBDITA	2.7	4.1	4.0	4.0	1.3	1.8
Current Ratio	1.3	1.3	1.3	1.3	1.6	1.6
TOL/ TNW	2.7	2.6	2.1	1.8	1.1	1.0
Asset Turnover Ratio		3.3	3.2	3.3	2.8	2.3
	0.0	0.0	0.0	0.0	0.0	0.0
Inventory days	37.3	42.0	50.0	44.0	37.0	38.0
Debtors days	23.1	34.0	44.0	54.0	65.0	75.0
Creditors days	14.4	23.0	23.0	26.0	22.0	23.5

Source: ICRA research; In Rs. Crore

**EXHIBIT: RATINGS BY ICRA IN THE SEAFOOD INDUSTRY**

S.No.	Name of Issuer	LT Rating	Outlook/Special Symbol	ST Rating
1	Accelerated Freeze Drying Company Limited	[ICRA]BBB-	Stable	[ICRA]A3
2	Ananda Aqua Exports Private Limited	[ICRA]BB+	Stable	
3	Ananda Enterprises India Private Limited	[ICRA]BB+	Stable	
4	Apex Frozen Foods Limited	[ICRA]BBB-	Stable/Non-cooperation on info and fee	[ICRA]A3
5	Aquatica Frozen Foods Global Private Limited	[ICRA]BBB+	Positive	[ICRA]A2+
6	Crystal Sea Foods Private Limited	[ICRA]D		[ICRA]D
7	Devi Marine Food Exports Private Limited	[ICRA]BBB-	Stable	[ICRA]A3
8	Diamond Sea Food Exports	[ICRA]BB	Stable	[ICRA]A4+
9	Dolphin Marine Foods & Processors (India) Private Limited	[ICRA]D	NDS NON-COOPERATION	[ICRA]D
10	Edhayam Frozen Foods Private Limited	[ICRA]BB	Stable	[ICRA]A4+
11	Fedora Sea Foods Private Limited	[ICRA]B+	Stable/Non-cooperation on info and fee	
12	Goan Fresh Marine Exports Private Limited	[ICRA]BB+	Negative	[ICRA]A4+
13	Gvr Seafoods	[ICRA]BB-	Stable	[ICRA]A4
14	Jai Maakali Fish Farms Private Limited	[ICRA]D	Non-cooperation on info and fee	
15	Janatha Fish Meal And Oil Products	[ICRA]BBB	Stable	[ICRA]A3+
16	Jayalakshmi Sea Foods Private Limited	[ICRA]BBB	Stable	[ICRA]A3+
17	Jude Foods India Private Limited	[ICRA]BB-	Stable/NDS NON-COOPERATION	
18	K. M. Fisheries	[ICRA]B+	Stable/Non-cooperation on information	[ICRA]A4
19	Kadalkanny Frozen Foods	[ICRA]BB	Stable	[ICRA]A4+
20	Kader Exports Private Limited	[ICRA]BBB-	Stable	[ICRA]A3

S.No.	Name of Issuer	LT Rating	Outlook/Special Symbol	ST Rating
21	Kader Investment & Trading Company Private Limited	[ICRA]BBB-	Stable	[ICRA]A3
22	Kalpana Impex	[ICRA]B	Stable/Non-cooperation on info and fee	[ICRA]A4
23	Liberty Frozen Foods Private Limited	[ICRA]BBB-	Stable	[ICRA]A3
24	Malpefresh Marine Export Private Limited	[ICRA]B	Stable/Non-cooperation on information	
25	Marble Valley Foods And Beverages Private Limited	[ICRA]BB-	Stable/NDS NON-COOPERATION	
26	Milsha Agro Exports Pvt. Ltd.	[ICRA]B+	Stable	[ICRA]A4
27	Noor Ice & Cold Storage Private Limited	[ICRA]B+	Stable/Non-cooperation on info and fee	[ICRA]A4
28	Premier Marine Products Private Limited (erstwhile Premier Marine Products)	[ICRA]BBB-	Stable	[ICRA]A3
29	Premier Seafoods Exim Private Limited			[ICRA]A4+
30	Rudra Techno Feeds	[ICRA]BB-	Stable	
31	Sagar Foods	[ICRA]B	Stable/Non-cooperation on info and fee	[ICRA]A4
32	Sagar Grandhi Aqua Farms	[ICRA]BB-	Stable	[ICRA]A4
33	Sagar Grandhi Exports Private Limited	[ICRA]A-	Stable	[ICRA]A2+
34	Sanchita Frozen Foods Pvt. Ltd.			[ICRA]A4+
35	Sanchita Marine Products Pvt. Ltd.			[ICRA]A4+
36	Sandhya Aqua Exports Pvt. Limited	[ICRA]BBB-	Stable	
37	Sandhya Marines Limited	[ICRA]A	Stable	[ICRA]A1
38	Sarveshwari Exports Private Limited	[ICRA]B+	Stable/Non-cooperation on info and fee	[ICRA]A4
39	Shankha Deep Exports Pvt. Ltd.	[ICRA]BB-	Stable	
40	Soneri Marine Foods	[ICRA]B+	Stable/Non-cooperation on info and fee	[ICRA]A4
41	Sunrise Seafoods India Private Limited	[ICRA]B+	Stable	[ICRA]A4
42	Teekay Marines Private Limited	[ICRA]B	Stable/Non-cooperation on info and fee	[ICRA]A4
43	Theva & Co.	[ICRA]BB	Stable	[ICRA]A4+
44	Unihira Exports Private Limited			[ICRA]A4
45	Universal Cold Storage Private Limited	[ICRA]BBB-	Stable	[ICRA]A3
46	Veerabhadra Exports Private Limited	[ICRA]BB-	Stable/Non-cooperation on info and fee	
47	West Coast Foods	[ICRA]B+	Stable/Non-cooperation on info and fee	[ICRA]A4

Source: ICRA research; as on February 11, 2020

Infographics: ICRA research

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