

# **Seafood exports to stay robust, US shrimp export realisations to drop 10%**

April 2018

## Profitability to be cushioned by steady volume growth, rupee weakness

CRISIL Research expects seafood exports to grow 17-18% in fiscal 2019, 500-700 basis points (bps), slower than the 23% and 25% logged in fiscals 2017 and 2018, respectively. But that would be still robust considering that growth would come over a high base.

Exports volume is seen growing 20-21%, apace with the past two years.

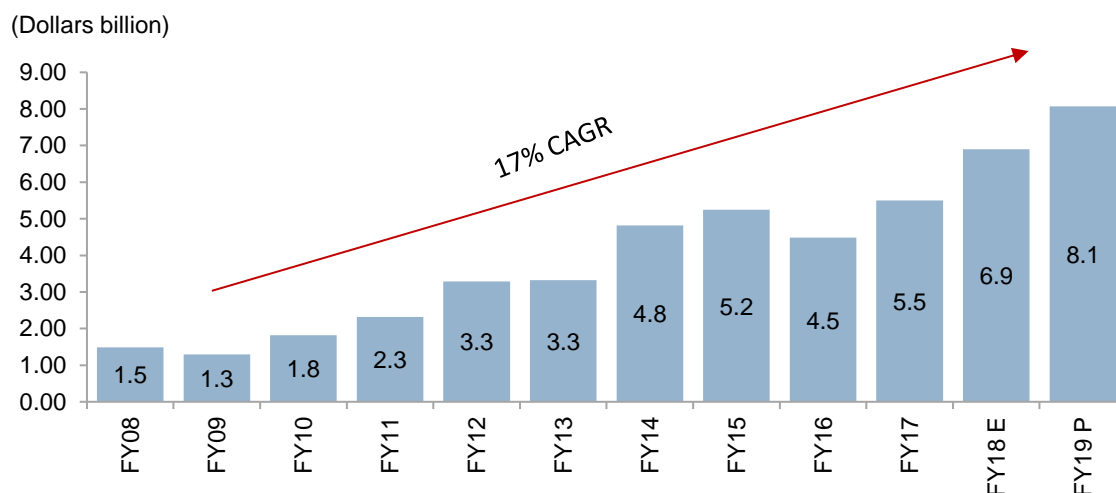
In recent years, Indian seafood exports have been driven by shrimps, revenue from which grew at 21% and 31% in fiscals 2017 and 2018, respectively, even as Chinese, Vietnamese and Thai production was hit by the dreaded early mortality syndrome.

The global supply shortage that ensued had shored up realisations for Indian exporters to a whopping 56% on-year in fiscal 2014, but then tempered to 2% and 5% in fiscals 2017 and 2018, respectively, as supplies improved.

Now, two factors are threatening to crimp realisations – one, a spurt in supply following increased production of Vannamei shrimps in India and other key exporting countries, and two, slower offtake from the US, a major importer.

Consequently, US shrimp export realisations (in dollar terms), that account for 70% of export value, are expected to fall ~10% in fiscal 2019. However, steady volume growth and expected depreciation in the rupee will limit the impact.

### Exports to cross \$8 billion in fiscal 2019



Source: Directorate General of Foreign Trade (DGFT), CRISIL Research

### India's share of exports small, but growing much faster than global trade

Between calendar years 2007 and 2017, Indian seafood exports grew aggressively, clocking ~16% compound annual growth rate (CAGR) against ~6% CAGR for global seafood exports, lifting India's share of seafood exports pie to 6% from 2%.

In 2017, India exported shrimps worth \$4.8 billion (~70% of total seafood exports), which made it the largest shrimp exporter. The nearest competitor was Ecuador, South America, with \$3.1 billion exports.

India is well-positioned to hold its leadership position, with key shrimp producing states – Andhra Pradesh, West Bengal, Odisha and Gujarat – increasing output significantly. Also, last year, India’s shrimp exports to China rose ~43% on-year as consumption surged and production plunged in that country.

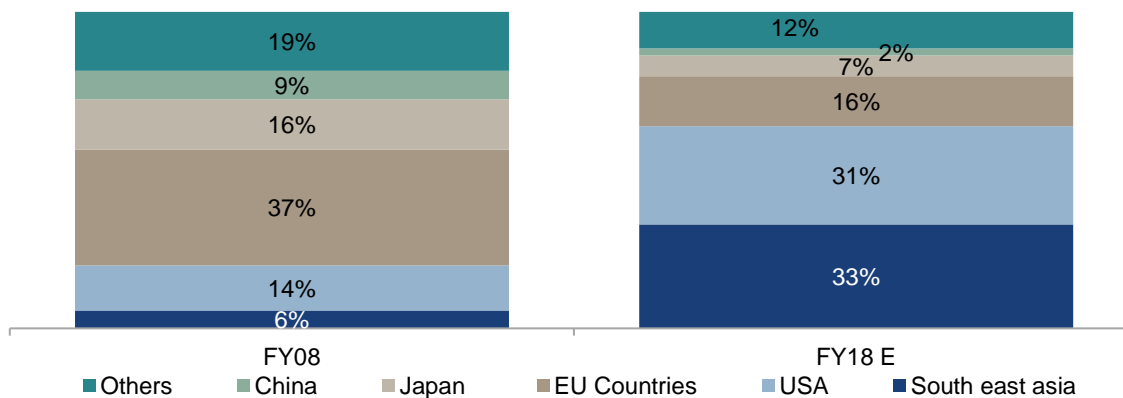
**US the largest market for both India and Vietnam**

The US, the world’s leading seafood importer, accounted for 31% of India’s exports last fiscal, and for 28% of Vietnam’s. Over the past five years, Indian seafood exports to the US have clocked ~26% CAGR.

The US is also the largest importer of Indian shrimps. Last year, 27% of US shrimp imports were from India. It is also a significant export market for Vietnam, which is the second-largest export destination for India – as 28% of India’s exports are directed to Vietnam and 17% of Vietnam’s exports are directed to the US.

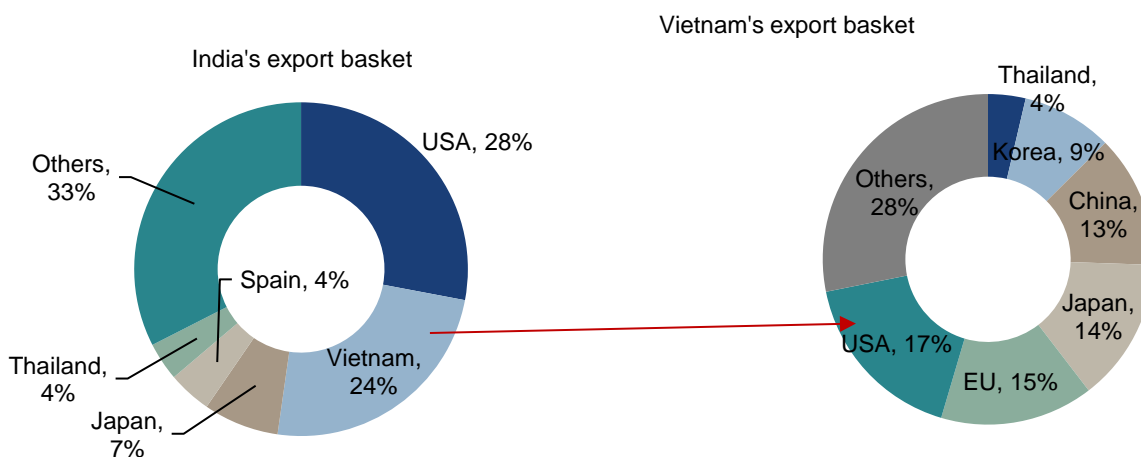
Hence, any change in trade policies by the US, concerning India or Vietnam, could impact Indian exports.

**Share of US in India’s export basket grew 17 percentage points in the past decade**



Source: Directorate General of Foreign Trade (DGFT)

**US the largest market for Vietnam, India’s second-largest export market**



Source: UN Comtrade, DGFT

Note: Both India’s and Vietnam’s export basket is for calendar year 2016.

### But realisations from the US starting to taper

Realisations from the US rocketed in fiscal 2014 and fiscal 2015, but softened during fiscal 2016 as supply improved. The impact of declining demand is visible already as international shrimp prices traded ~7% on-year lower on average between December 2017 and February 2018. The pace of decline intensified to 11% drop in March 2018. Prices are expected to fall further.

### For India, fall in export realisations (in USD) have been lower but intensifying

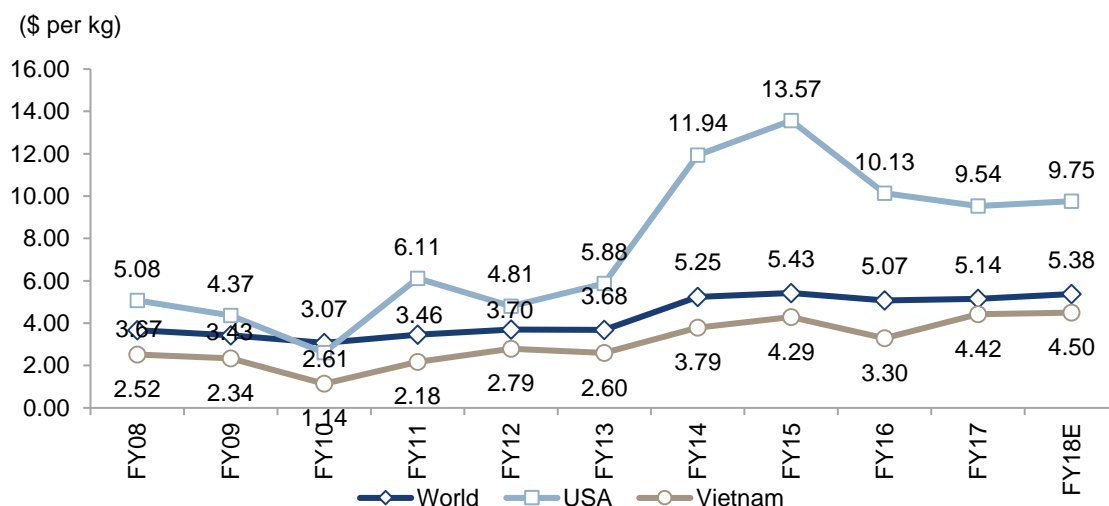
	Dec 2017 – Feb 2018		Feb 2018	
	Total Seafood exports	Shrimp	Total Seafood exports	Shrimp
Total Indian export basket	-1.2%	-1.1%	-2%	-3%
US	-1.5%	-2.2%	-4%	-5%

Source: DGFT, CRISIL research

The fall in prices and realisations are due to depressed demand, especially from the US where a longer-than-usual winter led to lower consumer offtake. This led to a pile-up of inventories.

Shrimp exports from India, Ecuador and Indonesia, which account for a tenth of global seafood exports, grew ~33%, 18% and 15%, respectively in 2017.

### US realisations almost 1.5 times overall exports



Source: CRISIL Research

### US duty hike can shear realisations further

The US has preliminarily tripled the anti-dumping duty (ADD) on seafood exports from India to 2.34% from 0.84%. This is a key monitorable, as it will impact realisations of exporters, while not directly impacting volumes. The final rates will be announced in July 2018.

In March 2018, the US also announced that it would increase ADD on seafood from Vietnam from 4.8% to 25.39% starting September 2018. Since Vietnam, the second-largest market for the Indian seafood exports, processes and re-exports seafood to the US and the European Union, it could indirectly hurt Indian exports in the near term.

### **Lower realisation to impact profitability of exporters; rupee weakness to provide cushion**

Currently, realisation on exported products is almost four times' domestic realisation because of significant difference in product baskets. In fiscal 2017, shrimps accounted for 38% of total volume and 65% of total value of exports, while fresh water catla, rohu and tuna dominated the domestic sales. The difference in realisations significantly rose in fiscal 2014 when exports of shrimps, a high-realisation product, surged ~58% and increased overall exports realisations.

The domestic market, estimated at Rs 950 billion in fiscal 2018, is highly unorganised and fragmented, which makes it intensely competitive and consequently a low-margin industry. The exports market, estimated at Rs 450 billion, is regulated and highly organised. The difference in the share of organised players is the major reason for a yawning gap in realisations between domestic players and exporters.

In fiscal 2018, the average realisation for shrimps rose ~1% in dollar terms, but in rupee terms, it fell ~3% as the local currency appreciated. A decline in demand would lower dollar realisations by ~10% this fiscal, impacting the margins of exporters. In fiscal 2019, a 2% depreciation in the rupee and reduction in hatchery seed prices (which represent over 75% of revenue) will partially offset a fall in dollar realisations.

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**Last updated: April 2016**

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