



SMERA RATINGS LIMITED

Southern Cashew Exporters (SCE)

Rating
Rationale**November 06, 2014**

| Facilities | Amount (Rs. Crore) | Ratings |
|-------------|--------------------|---------------------------|
| Cash Credit | 2.00 | SMERA B/Stable (Assigned) |
| EPC/PCFC | 25.00 | SMERA A4 (Assigned) |
| EPC/PCFC* | 15.00 | SMERA A4 (Assigned) |
| FDBP | 5.00 | SMERA A4 (Assigned) |

* Additional limit to be allowed during peak season

SMERA has assigned a long-term rating of '**SMERA B**' (read as **SMERA single B**) and a short-term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs.47.00 crore bank facilities of Southern Cashew Exporters (SCE). The outlook is '**Stable**'. The ratings are constrained by the firm's moderate scale of operations in a highly competitive and fragmented segment of the cashew processing industry. The ratings are also constrained by the firm's weak financial risk profile and working capital-intensive operations. The ratings note that the firm's profit margins are susceptible to volatility in raw material prices and fluctuations in foreign exchange rates. However, the ratings are supported by the firm's long track of operations and experienced management.

SCE, established in 1975, is a Kollam-based partnership firm engaged in processing of cashew kernels. SCE's moderate operating scale is reflected in revenues of Rs.100.88 crore in FY2012-13 (refers to financial year, April 01 to March 31). The firm faces intense competition from several players engaged in processing of cashew kernels. SCE's profit margins are susceptible to volatility in raw material prices. The firm's operating profit margin has fluctuated in the range of 4.98 per cent to 7.23 per cent during the period under study. Further, SCE's profit margins are also exposed to the fluctuations in the forex rates market. The firm does not hedge its forex exposure.

SCE's weak financial risk profile is marked by high gearing (debt-to-net worth ratio) of 2.40 times as on March 31, 2013 and low interest coverage ratio of 1.46 times in FY2012-13. The firm purchases raw cashews and sells cashew kernels on cash against document basis, maintaining average inventory of 135 days to 140 days on account of the seasonal nature of the product. SCE's working capital cycle is thus stretched at ~141 days. The firm's average utilisation of working capital limit is high at 92 per cent during January 2014 to July 2014.

SCE benefits from its experienced management. Mr. M. Shamsudeen, partner of SCE, has around three decades of experience in the firm's line of business.

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**Outlook: Stable**

SMERA believes the outlook on SCE's rated facilities will remain stable over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm achieves sustained growth in revenues and profit margins with substantial improvement in capital structure. The outlook may be revised to 'Negative' in case of decline in the firm's revenues and profit margins, or in case of deterioration in the firm's capital structure.

About the firm

SCE (formerly known as Southern Cashew) was established in 1975 as a partnership firm promoted by Mr. Haji M. Muhammed Kunju and his family members. The current partners of the firm are Ms. Rahumath Nissa, Ms. Ramla, Mr. M. Shamsudeen, Mr. M. Kamarudeen, Mr. M. Hamsa and Mr. M. Sharafudeen.

SCE is a family run business, Mr. Anwar, Mr. Anzar and Mr. Harshid belong to the third generation and also look after the day to day operations along with the others. The firm has 21 factory units across Tamil Nadu and Kerala.

For FY2012-13, SCE reported net profit of Rs.1.02 crore on operating income of Rs.100.88 crore, as compared with net profit of Rs.1.30 crore on operating income of Rs.94.38 crore in FY2011-12. SCE's net worth stood at Rs.12.01 crore as on March 31, 2013, as compared with Rs.11.23 crore a year earlier.

As per the provisional financial statements of FY2013-14, SCE reported net profit of Rs.1.88 crore on operating income of Rs.89.62 crore.

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