

Press Release

Sun Thermo Process (STP)

23 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.6.00 Crore.
Long Term Rating	SMERA B/ Outlook:Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (read as **SMERA B**) on the above mentioned facility of Sun Thermo Process. The outlook is '**Stable**'.

Established in 2008 by Mr. Manivanan, Sun Thermo Process (STP) is a partnership firm engaged in processing of raw cashew nuts (RCNs) into cashew kernels. The firm imports RCNs primarily from African countries, processes them in its manufacturing facility located at Tiruvannamalai (Tamil Nadu) having an aggregate installed capacity to process 450 metric tonnes per annum, and sells the same to traders in the domestic market under its own brand name 'Krishna Cashews'.

Key rating drivers

Strengths

Experienced management:

The Partner, Mr. Manivanan, holds a decade's experience in the cashew processing industry.

Steady increase in operating income:

The operating income increased to Rs.19.54 crore in FY2017 as compared to Rs.19.46 crore in FY2016 and Rs.11.55 crore in FY2015 supported by expansion plans by the firm coupled with increase in sale of cashew kernels.

Weaknesses

Average financial risk profile:

The average financial risk profile is marked by low net worth, high gearing and modest debt protection measures. The net worth levels of the firm stood at Rs. 3.38 crore as on 31 March, 2017 as compared to Rs. 3.01 crore in the previous year. The gearing levels remained high at 2.56 times in FY2017 as compared to 2.84 times in FY2016 due to full utilisation of working capital limits amounting to Rs. 6.00 crore. The interest coverage levels increased to 1.89 times in FY2017 from 1.72 times in FY2016. The net cash accruals to total debt (NCA/TD) stood at 0.08 times in FY2017.

Working capital intensive operations:

The entity has working capital intensive operations as reflected in high Gross Current Assets (GCA) of 214 days as on March 31, 2017 compared to 173 days as on March 31, 2016 due to high debtor and inventory days. The inventory days in FY2017 stood at 125 compared to 144 in FY2016, since STP imports majority of raw cashew nuts. Receivable days in FY2017 stood at 100 compared to 43 in FY2016 due to delay in payments from one of the major customers.

Volatility in margins: The operating margins have been volatile due to fluctuations in raw material prices and exposure to foreign currency fluctuations in the absence of any systematic hedging mechanism. The ratings are further constrained by the intense competition in the highly fragmented cashew industry with low product differentiation limiting pricing flexibility.

Analytical approach:

SMERA has considered standalone business and financial risk profiles of STP.

Outlook – Stable

SMERA believes that STP will continue to benefit over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' if the company reports increased operating revenues, sustains its cash accruals thus leading to steady improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or deterioration in the capital structure.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	19.54	19.46	11.55
EBITDA	Rs. Cr.	1.81	2.04	0.95
PAT	Rs. Cr.	0.35	0.55	0.32
EBITDA Margin	(%)	9.27	10.51	8.21
PAT Margin	(%)	1.80	2.83	2.81
ROCE	(%)	12.72	16.70	25.81
Total Debt/Tangible Net Worth	Times	2.56	2.84	2.49
PBDIT/Interest	Times	1.89	1.72	1.67
Total Debt/PBDIT	Times	4.74	4.11	4.51
Gross Current Assets (Days)	Days	214	173	245

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Manufacturing Sector - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

Not Applicable.

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B/ Stable (Assigned)

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ABOUT SMERA

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