

Fernandes Brothers: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Secured Overdraft	1.90	SMERA BB/Stable (Assigned)
Overdraft	7.00	SMERA BB/Stable (Assigned)
Packing Credit	13.00	SMERA A4+ (Assigned)
Bank Guarantee	0.10	SMERA A4+ (Assigned)

SMERA has assigned ratings of '**SMERA BB**' (read as **SMERA double B**) and '**SMERA A4+**' (read as **SMERA A four plus**) to the above mentioned bank facilities of Fernandes Brothers. The outlook is '**Stable**'.

The ratings derive comfort from the extensive industry experience of the promoters and moderate scale of operations with improvement in revenues. The ratings also factor in the efficient working capital management. However, the ratings are constrained by the high gearing, moderate coverage indicators and susceptibility of profit margins to volatility in raw material prices.

Fernandes Brothers, incorporated in 1946 is a Mangalore-based partnership firm engaged in the processing and export of cashew kernel, Cashew Nut Shell Liquid (CNSL) and allied products. The managing partner, Mr. Walter D'Souza, has more than three decades of experience in the same line of business. The firm operates on a moderate scale with operating income of Rs.67.00 crore in FY2015 that improved to Rs.74.90 crore in FY2016. Further, the firm achieved revenue of Rs.91.24 crore for HY2016-17 with increase in order book.

The firm has comfortable working capital cycle of 64 days in FY2015-16. The gross current assets days stood at 74 in FY2016. The average six months utilisation of cash credit ended June 2016 stands at 66 percent.

Fernandes Brothers has moderate financial risk profile marked by gearing of 3.08 times as on March 31, 2016. The total debt stands at Rs.17.92 crore including unsecured loan from relatives of Rs.0.76 crore and Rs.17.17 crore of short term bank facilities. The net worth stands at Rs.5.82 crore as on 31 March, 2016. However, the debt protection metrics deteriorated as interest coverage ratio (ICR) stood at 1.67 times in FY2015-16 as compared to 3.75 times in FY2014-15.

The operating margins of the firm are susceptible to volatility in raw material prices of cashew. The EBITDA margin declined to 3.24 percent in FY2015-16 as compared to 5.53 percent in FY2015. Besides, the firm imports 90 percent of cashew from African countries such as Nigeria, Benin, and Ghana and exports ~ 27 percent of its sales to Korea, Bahrain, Canada and US. The firm is also exposed to foreign exchange fluctuation risk for unhedged imports and exports.

Rating Sensitivity Factors

- Scaling up operations while improving profitability
- Improvement in financial risk profile.

Outlook-Stable

SMERA believes that the outlook on Fernandes Brothers will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of further improvement in the firm's scale of operations, while improving profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or deterioration in the financial risk profile.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Firm

The Mangalore-based partnership firm, Fernandes Brothers, was established in 1946. The managing partner, Mr. Walter D Souza took over the organisation in 1986. The firm is engaged in the export of cashew and allied products. The firm procures 90 percent of cashew through imports from African countries such as Nigeria, Benin, Ghana and exports to countries like Korea, Bahrain, Canada and US.

In FY2015-16, the firm reported profit after tax (PAT) of Rs.0.59 crore on operating income of Rs.74.90 crore against PAT of Rs.1.79 crore on operating income of Rs.67.00 crore in the previous year.

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ABOUT SMERA

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