

Press Release

Fernandes Brothers (FB)

5 February, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 22.00 Cr.
Long Term Rating	SMERA BB /Stable
Short Term Rating	SMERA A4+

**Refer annexure for details*

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 22.00 crore bank facilities of Fernandes Brothers (FB). The outlook is '**Stable**'.

Fernandes Brothers, established in 1946 is a Mangalore-based partnership firm engaged in processing, export and merchant trading of cashews and allied products. The Managing Partner, Mr. Walter Souza took over the firm in 1986. The firm procures 90 percent of the cashew through import from African countries including Nigeria, Benin, and Ghana and exports the same to Vietnam, Korea, Bahrain, Canada as also US.

Key rating drivers

Strengths

Experienced management, established track record

The Managing Partner, Mr. Walter D'Souza is the Chairman of the Cashew Export Promotion Council of India (from Karnataka) and Federation of Indian Export Organization (FIEO).

Significant growth in scale of operations with improvement in revenues

The firm registered significant growth in scale of operations with operating income of Rs. 272.68 crore in FY2017 compared to Rs.74.90 crore in FY2016 – a major increase in revenue from trading activity. Further, the firm registered revenue of Rs.350.00 crore from April to December 2017.

Moderate working capital cycle

FB has moderate working capital cycle marked by Gross Current Asset (GCA) days of 79 in FY2017 compared to 115 days in FY2016. The receivables stood at 25 days in FY2017 compared to 17 days in FY2016 while the inventory was 7 days in FY2017 as against 56 days in FY2016. The working capital limits have been fully utilised in the past six months. SMERA believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

Average financial risk profile

FB has average financial risk profile marked by tangible net worth of Rs. 6.66 crore as on 31 March, 2017 as against Rs. 5.82 crore as on 31 March, 2016. The gearing stood high at 3.98 times as on 31 March, 2017 as against 3.08 times as on 31 March, 2016. The debt of Rs. 25.24 crore mainly consists of working capital borrowings of Rs.24.67 crore and unsecured loans of Rs.0.57 as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 1.96 times for FY2017 as against 1.67 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.65 times for FY2017 as against 1.48 times for FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 8.20 times as on 31 March, 2017 against 3.50 times as on 31 March, 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31 March, 2017 against 0.04 times as on 31 March, 2016. Going forward, SMERA expects the firm to maintain financial risk profile in the absence of major debt funded capex plans.

Declining profitability

The profitability margins have seen a declining trend during the period under study. The operating margins declined to 1.60 percent in FY2017 from 3.24 percent in FY2016 mainly on account of thin margins that accounted for ~60 percent of the total revenue in FY2017. The Profit after tax (PAT) margins also declined to 0.50 percent in FY2017 from 0.78 percent in FY2016. The decline was mainly on account of increase in interest cost.

Competitive and fragmented industry

FB operates in a highly competitive and fragmented industry characterised by a large number of organised as well as unorganised players affecting margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of FB to arrive at the rating.

Outlook – Stable

SMERA believes that FB will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	272.68	74.90	67.00
EBITDA	Rs. Cr.	4.35	2.43	3.71
PAT	Rs. Cr.	1.38	0.59	1.79
EBITDA Margin	(%)	1.60	3.24	5.53
PAT Margin	(%)	0.50	0.78	2.67
ROCE	(%)	0.54	0.97	2.81
Total Debt/Tangible Net Worth	Times	3.98	3.08	0.87
PBDIT/Interest	Times	1.96	1.67	3.75
Total Debt/PBDIT	Times	6.09	7.38	1.23
Gross Current Assets (Days)	Days	79	115	48

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading entities - <https://www.smera.in/criteria-trading.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):

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-Nov, 2016	Secured Overdraft	Long Term	1.90	SMERA BB / Stable (Assigned)
	Secured Overdraft	Long Term	7.00	SMERA BB / Stable (Assigned)
	Packing Credit	Short Term	13.00	SMERA A4+ (Assigned)
	Bank Guarantee	Short Term	0.10	SMERA A4+ (Assigned)

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.90	SMERA BB/ Stable (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB/ Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA A4+ (Reaffirmed)

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ABOUT SMERA

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