

Press Release

Fernandes Brothers

July 05, 2019

Rating Downgraded and Reaffirmed



Total Bank Facilities Rated*	Rs.22.00 Cr.
Long Term Rating	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The rating downgrade reflects significantly lesser than expected performance and significant decline in its profitability margins from projected levels. The revenues have fallen for FY2019 (provisional) and it stood at about Rs.142 crore against Rs.444 crore in FY2018; which was due to reduction in the traded volumes of commodity as a skeptical measure to tackle the volatility in the market. However, the ratings factors in longstanding presence of the promoters in the industry, comfortable working capital management though constrained by moderate financial risk profile.

Fernandes Brothers, established in the year 1946, is a Mangalore based partnership firm engaged in exporting of cashews and other cashew allied products. Further, the firm also does merchant trading. The managing partner, Mr. Walter D Souza took over the organisation in the year 1986. The firm procures cashew, 80-90 percent, through imports from African countries such as Nigeria, Benin, and Ghana. The firm exports to countries such as Korea, Bahrain, Canada and US.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of FB to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensively experienced team of management**

Fernandes Brothers, established in 1946, is a Mangalore-based partnership firm engaged in processing of Cashew kernel, Cashew Nut Shell Liquid (CNSL) and cashew allied products. The Managing partner, Mr. Walter D'Souza, is a post graduate in Economics and Industrial Management. Apart from processing operations, the firm also does merchant trading which is about 56 per cent of total revenues in FY2019 (provisional). Acuité believes that though the promoters are moving away from volatile trading segment, however the revenues are expected to be moderate over the medium term.

- **Comfortable working capital management**

Operations of the firm have shown comfortable working capital management marked by gross current assets (GCA) at 65 days in FY2019 (provisional) as against 37 days in FY2018. Decline in the GCA is owing to high inventory. Inventory days stood at 44 days in FY2019 (provisional) against 20 days in FY2018. The firm usually gives a credit period of 30-60 days to its customers but receives payments within 30 days. The same stood at 19 days for FY2019 (provisional) against 14 days in FY2018. Comfortable working capital operations led to average utilisation of its bank lines at about 70 per cent over last six months through March 2019. Also, its current ratio is comfortable at about 1.58 times as of March 31, 2019 (provisional). Acuité believes that the comfortable working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

• Moderate financial risk profile

Financial risk profile of the firm is moderate marked by high gearing, total outside liabilities to total net worth (TOL/TNW) as well as moderate debt protection metrics. Gearing and TOL/TNW are moderate at 2.14 and 2.32 times as on 31 March, 2019 (provisional) as against 3.04 and 4.87 times respectively as on 31 March, 2018. Net worth is modest at Rs.8.33 crore as on 31 March, 2019 (provisional) as against Rs.8.00 crore as on 31 March, 2018. The partners had brought in additional funds besides accruals. Of the total debt of Rs.17.84 crore as on 31 March, 2019 (provisional), short term debt constitutes Rs.14.59 crore and unsecured loans from promoters of Rs.3.25 crore.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.46 times and 0.04 times respectively in FY2019 (provisional). The firm reported cash accruals of Rs.0.78 crore for FY2019. Further, repayment obligations are expected to be nil against annual cash accruals of about Rs.0.50-1.00 crore. Acuite believes that financial risk profile is expected to remain moderate in the absence of major debt funded capital expenditure plans.

• Uneven revenue trends due to turbulence in industry

The firm's revenue has remained uneven with Rs.272.68 crore in FY2017, Rs.444.41 crore in FY2018 and Rs.142.14 crore in FY2019 (provisional). This was mainly due to changes in the industry with exports falling. Further, the revenues are expected to remain in the same range at Rs.150-180 crore in the medium term with the company planning to lay more emphasis on processing business than merchant trading business which is about 56 per cent of total revenues, and also until the industry takes back into good shape.

Liquidity Position:

Liquidity profile of FB is adequate reflected by moderate bank line utilisation. It has reported cash accruals of Rs.0.78 crore in FY2019 (provisional). It is expected to generate cash accruals in the range of Rs.0.50-1.00 crore over the medium term, against which its repayment obligations are about nil. Its working capital limits are utilised at about 70 per cent for the last six months through March 2019. Acuite believes that efficient working capital management and absence of repayment obligations and capex are expected to support the liquidity at comfortable levels.

Outlook: Stable

Acuite 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. Conversely, the outlook may be revised to 'Negative' in case of any further decline in its revenues and profitability leading to deterioration of its business and financial risk profile and liquidity position.

About the Rated Entity - Key financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	142.14	444.41	272.68
EBITDA	Rs. Cr.	1.85	4.80	4.35
PAT	Rs. Cr.	0.70	1.39	1.38
EBITDA Margin	(%)	1.30	1.08	1.60
PAT Margin	(%)	0.49	0.31	0.50
ROCE	(%)	10.73	14.60	15.39
Total Debt/Tangible Net Worth	Times	2.14	3.04	3.98
PBDIT/Interest	Times	1.46	1.87	1.96
Total Debt/PBDIT	Times	5.54	4.97	5.93
Gross Current Assets (Days)	Days	65	37	79

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
17-Apr-2019	Secured Overdraft	Long Term	1.90	ACUITE BB (Indicative)
	Secured Overdraft	Long Term	7.00	ACUITE BB (Indicative)
	Packing Credit	Short Term	13.00	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Indicative)
05-Feb-2018	Secured Overdraft	Long Term	1.90	ACUITE BB/Stable (Reaffirmed)
	Secured Overdraft	Long Term	7.00	ACUITE BB/Stable (Reaffirmed)
	Packing Credit	Short Term	13.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Reaffirmed)
30-Nov-2016	Secured Overdraft	Long Term	1.90	ACUITE BB/Stable (Assigned)
	Secured Overdraft	Long Term	7.00	ACUITE BB/Stable (Assigned)
	Packing Credit	Short Term	13.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

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

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About Acuité Ratings & Research:

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