

Press Release

Fernandes Brothers

April 29, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.33.00 Cr. (Enhanced from Rs.22 Cr)
Long Term Rating	ACUITE BB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.33.00 crore bank facilities of Fernandes Brothers (FB). The outlook is '**Stable**'.

The rating reaffirmation takes into account the extensive experience of promoters in the cashew kernels processing industry and the established relationship with the customers and supplier in the cashew industry. However, the ratings continue to remain constrained by declined operating income by 63% to Rs.163.52 crore in FY2019, primarily due to volatility in prices of cashew kernels and global demand-supply scenario coupled with intense competition.

Established in 1946, Fernandes Brothers is a Mangalore based partnership involved in the processing of RCNs into cashew kernels and trading of RCNs and processed cashew. The firm processed at its manufacturing facilities in Kulashekara-Mangalore-Karnataka. The processed cashew kernels are packed and sold to domestic and foreign wholesalers.

Analytical Approach

Acuite 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 is a Mangalore-based partnership firm established in 1946. The firm engaged in processing of Cashew kernel and cashew allied products. The Managing partner, Mr. Walter D'Souza, has an experience of over three decades in the cashew processing sector. It has enabled it in establishing strong ties with its key customers, which has resulted in repeat orders.

Acuite believes that FB will continue to benefit from its experienced management and healthy relations with customers and suppliers should continue to support the business over the medium term.

- **Efficient working capital management**

Operations of the firm have shown efficient working capital management marked by gross current assets (GCA) days at 56 days in FY2019 as against 37 days in FY2018. Inventory days stood at 38 days in FY2019 against 20 days in FY2018. Debtor's cycle stood comfortable at 17 days as against 14 days in the previous year. Efficient management of working capital operations led to average utilisation of its bank lines at about 52 per cent over last six months through February 2020. Acuite believes that FB's working capital cycle continues to be at similar levels over the medium term on account of the moderate inventory levels maintained by the firm to cater to spot orders.

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 2.27 and 2.47 times as on 31 March, 2019 as against 3.04 and 4.87 times respectively as on 31 March, 2018. Net worth is modest at Rs.7.87 crore as on 31 March, 2019 as against Rs.8.00 crore as on 31 March, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.20 times and 0.02 times respectively in FY2019. 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.0.32 crore. Acuité believes that financial risk profile is expected to remain moderate in the absence of major debt funded capital expenditure plans.

• **Highly fragmented and intensely competitive cashew industry**

The domestic cashew industry is highly fragmented with the presence of many unorganised players, owing to low entry barriers. Intense price competition, along with low product differentiation, limits the firm's pricing flexibility. Further the firm's margins have fluctuated over the years due to variations in RCN and cashew kernel prices. Cashew prices are highly volatile. Kernel prices are determined by buyers and brokers, in line with the prevailing demand-supply scenario.

• **Risks inherent to partnership nature**

FB is exposed to risks associated with partnership firms including the risk of capital withdrawal, which might adversely impact the capital structure.

Rating Sensitivity

- Deterioration working capital and Substantial capital withdrawals.
- Decline in revenue and deterioration in operating margins leading to weak accruals.

Material Covenants

None.

Liquidity Position: Adequate

Liquidity profile of FB is adequate reflected by moderate bank line utilisation. It has reported cash accruals of Rs.0.32 crore in FY2019. It is expected to generate cash accruals in the range of Rs.0.50-0.75 crore over the medium term, against which its repayment obligations are about nil. Its working capital limits are utilised at about 52 per cent for the last six months through February 2020. Its current ratio is comfortable at about 1.55 times as of March 31, 2019. Acuité believes that efficient working capital management with enhanced working capital facilities keeps the liquidity profile of FB's adequate over the medium term.

Outlook: Stable

Acuité believes that FB will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience. The outlook may be revised to 'Positive' if the firm registers more than expected growth in its revenues, while maintaining its profitability and improves its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' if there is any stretch in its working capital cycle or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	163.52	444.41
PAT	Rs. Cr.	0.23	1.39
PAT Margin	(%)	0.14	0.31
Total Debt/Tangible Net Worth	Times	2.27	3.04
PBDIT/Interest	Times	1.20	1.87

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading entities: <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-July-2019	Secured Overdraft	Long Term	1.90	ACUITE BB-/Stable (Downgraded from ACUITE BB+/Stable)
	Secured Overdraft	Long Term	7.00	ACUITE BB-/Stable (Downgraded from ACUITE BB+/Stable)
	Packing Credit	Short Term	13.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.10	ACUITE A4+ (Reaffirmed)
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)

*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	12.90 (Enhanced from Rs. 1.90 Cr)	ACUITE BB-/Stable (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs. 7.00 Cr)	ACUITE BB-/Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00 (Reduced from Rs. 13.00 Cr)	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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