Press Release

Malnad Coffee Curing Works

March 29, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 7.00 Cr.
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 Rs. 7.00 crore bank facilities of Malnad Coffee Curing Works. The outlook is **'Stable'**.

Malnad Coffee Curing Works (MCCW), located at Chickamagaluru, Karnataka is engaged in the curing, handling and grading of coffee. Constituted as a partnership firm, MCCW, established in 2012 is led by Mr. Abdul Kareem and Mr. H. L. Natesh. The company processes and sells coffee and has a capacity of handling and grading 4 tons and 6 tons of coffee per hour respectively which are almost fully utilised.

Key Rating Drivers

Strengths

- **Proximity to raw materials**
  MCCW sources its raw material from the nearby coffee estates since Chickamagaluru is predominantly into coffee cultivation.

- **Steady revenue growth**
  The company has witnessed steady revenue growth as evident from a 3 year CAGR of 71 per cent between FY2014-16. The growth has been mainly due to the new processing facilities introduced recently. The company has registered a topline of around Rs. 38 cr till February 2017 (provisional). SMERA expects the company to maintain its growth momentum over the medium term.

- **Prudent working capital management**
  The efficient working capital cycle is marked by gross current asset (GCA) days of 85 in FY2016. This is mainly due to comfortable receivable cycle of 31 days and inventory of 34 days in FY2016.

Weaknesses

- **Weak financial risk profile**
  MCCW's weak financial risk profile is marked by high gearing, low net worth and a healthy debt protection metrics. The gearing is high marked by debt equity of 3.61 times in FY2016 as against 1.62 times and FY2015 respectively. In FY2016, the debt mainly consists of term loan of Rs.1.34 crore (as compared to Rs.0.39 crore in FY2015) for the installation of coffee handling and grading machine and working capital facilities of Rs.1.51 crore (as compared to Rs.0.58 crore in FY2015) with bank. The net worth base is low at Rs.0.79 cr as on 31st March 2016. Both interest coverage and debt service coverage ratios are comfortable at 2.29 times in FY2016 as compared to 2.21 in FY2015.

- **Thin margins**
  The thin margins, which is mainly due to the limited value additions in the manufacturing processes, are marked by EBITDA of 1.89 percent and 1.14 percent for FY2016 and FY2015 respectively. Also, the PAT was at 0.27 percent and 0.19 percent for FY2016 and FY2015 respectively.

Analytical Approach
SMERA has taken a standalone view of the business and financial risk profiles of the entity.

Outlook: Stable
SMERA believes that MCCW will maintain a stable outlook in the medium term while benefitting from its experienced management and comfortable working capital management. The outlook may be revised to 'Positive' if MCCW scales up its operations and registers improvement in the overall financial risk profile of the firm. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or if the working capital deteriorates.

About the Rated Entity - Key Financials
For FY2016, MCCW reported profit after tax (PAT) of Rs.0.05 cr on total operating income of Rs.19.90 cr, as compared with PAT of Rs.0.03 cr on total operating income of Rs.16.63 cr in FY2015. The tangible net worth stood at Rs.0.79 cr in FY2016 as compared to Rs.0.60 cr in FY2015.

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

• Default Recognition - https://www.smera.in/criteria-default.htm
• Manufacturing Entities - 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

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA B / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA B / Stable
Term loans	Not Applicable	Not Applicable	26-Jan-2022	2.00	SMERA B / Stable

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ABOUT SMERA

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