

Press Release
Malnad Coffee Curing Works

June 20, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating to '**ACUITE B**' (read as **ACUITE B**) on the Rs.7.00 crore bank facilities of Malnad Coffee Curing Works (MCCW). The outlook is '**Stable**'.

The rating reaffirmation reflects tightly matching cash accruals vis-à-vis its repayment obligations, and full utilisation of its working capital limits, though the firm sustained on its revenue profile and profitability margins in line with the past trend. The rating reaffirmation also factors in comfortable debt protection metrics such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 3.08 times and 0.12 times respectively for FY2018 (Provisional).

Incorporated in 2012, MCCW is a Chikmagaluru (Karnataka) based partnership firm engaged in hulling and grading of coffee seeds. The firm is led by partners, Mr. Abdul Kareem and Mr. H. L. Natesh, having prior experience of trading in raw coffee since 2010, after which they have moved into the current business of processing and selling. MCCW's facility is located in Sakleshpur (Karnataka) with installed capacity to process and grade 10 tons of dry coffee seeds per hour.

Key Rating Driver

Strengths

• Experienced management

The Partners have been in this line of business for nearly a decade. They have established relationships with key exporters of agricultural commodities such as Olam International, Surendra Bolar Kamath, among others. The entity's unit is located in Sakleshpur which has major coffee estates in Karnataka. Karnataka produces more than 70 percent of India's coffee and the state's key coffee cultivation centres are Coorg, Chikmagalur and Sakleshpur. The demand for the product, and stabilisation of the firm's operations have supported in healthy growth in revenues at a compound annual growth rate (CAGR) of about 57 percent over four years through FY2018 at Rs.64.0 crore (Provisional). MCCW has order book position of about Rs.7.00 crore as of April 30, 2018 and will be executed within the next 45 days. Acuité believes that the business risk profile is expected to be stable backed by the partners' longstanding presence, healthy relations with the customers and the continued demand for the coffee.

• Efficient working capital management

The firm's working capital operations are efficiently managed, as reflected in the Gross Current Asset (GCA) days of 29 (Provisional) as on March 31, 2018 due to cash and carry model (majorly) and against advance payments from its clients, majorly coffee bean exporters; whereas it maintains inventory (both processed and raw material) of about 25 days for smooth flow of business. On procurement front, it gets about a week of credit from the suppliers. Acuité believes that the working capital cycle is expected to be at similar levels over the medium term based on better inventory management (majorly due to proximity to raw materials) and improved collection mechanism.

Weaknesses

- **Weak financial risk profile**

The financial risk profile is marked by high gearing and low net worth. The gearing is high at 3.92 times as of March 31, 2018 (Provisional); deteriorated from 2.96 times as of March 31, 2017 owing to continued debt funded capex over the last three years, coupled with increased working capital requirements for the revenue growth. The net worth is modest at Rs.1.51 crore as on 31 March, 2018 (Provisional) against Rs.1.25 crore in FY2017, mainly attributed to low profit accretions. The entity's net cash accruals in FY2018 stood at Rs.0.71 crore (Provisional) as against maturing debt obligations of Rs.0.50 crore. Going forward, its estimated cash accruals in the range of Rs.0.70 - Rs.0.80 crore tightly matches against its repayment obligations of Rs.0.69 crore. Further, increment in working capital requirement for the revenue growth is expected to exert further pressure on the liquidity. Its bank lines are fully utilised over the past four months through May 31, 2018. Its debt protection metrics are comfortable with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 3.08 times and 0.12 times respectively for FY2018 (Provisional). Though the financial risk profile is expected to improve marginally over the medium term as the firm is not contemplating any sizeable capex, however, stretch in liquidity is expected to continue due to thin margins and profitability.

- **Risk associated with volatility in coffee prices**

Due to commoditised nature of coffee, the firm's earnings are exposed to the seasonal/ periodical swings in the coffee prices especially in the export market, since the entity majorly supplies to exporters. The price risk is partially mitigated by managing the inventory holding levels.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MCCW to arrive at this rating.

Outlook: Stable

Acuité believes that MCCW will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and stable demand for the product. The outlook may be revised to 'Positive' in case of significant improvement in profitability and capital structure while sustaining its revenue growth. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected cash accruals resulting further stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	51.39	19.90	16.63
EBITDA	Rs. Cr.	0.80	0.38	0.19
PAT	Rs. Cr.	0.15	0.05	0.03
EBITDA Margin	(%)	1.56	1.89	1.14
PAT Margin	(%)	0.30	0.27	0.19
ROCE	(%)	8.48	8.33	14.89
Total Debt/Tangible Net Worth	Times	2.96	3.61	1.62
PBDIT/Interest	Times	3.85	2.29	2.21
Total Debt/PBDIT	Times	4.60	7.58	5.13
Gross Current Assets (Days)	Days	19	85	43

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29-Mar-2017	Cash Credit	Long Term	1.50	ACUITE B/ Stable (Assigned)
	Proposed Cash Credit	Long Term	3.50	ACUITE B/ Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B/ Stable (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B/ Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.59	ACUITE B/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.91	ACUITE B/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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