

Press Release

Lakshmee Cashews

May 09, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.79 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. 6.79 crore bank facilities of Lakshmee Cashews. The outlook is '**Stable**'.

LC established in 2006, is engaged in processing of cashew kernels and trading of raw cashew nuts at Udupi, Karnataka.

Key Rating Drivers

Strengths

- **Experienced management**

The firm is promoted by Mr. Ratnakar Nayak, promoter, who possesses an experience of over three decades in cashew processing industry. Prior to setting up Lakshmee Cashews, the promoter was engaged in trading of cashew kernels.

Weaknesses

- **Modest scale of operations**

The firm as modest scale of operations evident from the revenue of around Rs.7.00 crore in FY2016. Further, the firm has earned revenues of Rs.10.00 crore from April to December, 2016 (provisional).

- **Weak financial risk profile**

The firm has high gearing of around 2.81 times and networth stood low at Rs.0.92 crore as on March 31, 2016. Interest coverage stood moderate at 1.67 times in FY2016. Further the firm plans to increase capacity which will cost around Rs.2.30 crore, funded through a term loan of Rs.1.79 crore and balance through promoter's contribution. SMERA believes the addition of debt is likely to keep high gearing levels.

- **Margins susceptible to raw material price fluctuation**

The major raw material, raw cashew nut being an agro product has seasonal availability and its production is vulnerable to climatic changes, leading to fluctuations in its prices. The revenues and profitability of the firm, thus remain susceptible to the fluctuation in the prices of raw material and its availability.

- **Working capital intensive operations**

The firm's GCA stands high at around 139 days in FY2016 mainly on account of high inventory holding of about 122 days. The firm is required to stock sufficient inventory required for the off-season which makes it working capital dependent. Further the average cash credit utilisation stands high at around ~94 per cent during September, 2016 to February, 2017.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the

ratings.

Outlook: Stable

SMERA believes that the outlook on LC's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm achieves a sustained growth in revenues and profit margins apart from improving its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of deterioration of capital structure and steep decline in revenues and profit margins.

About the Rated Entity - Key Financials

Lakshmee Cashews established in 2006 is a partnership firm with Mrs. Sharada Nayak, Mr. Mahesh Nayak, Mrs. Rashmitha Kamath and Mr. Rathnakar Nayak as partners. The firm is engaged in the processing of cashew kernels and trading of raw cashew nuts. Cashew processing contributes around 70 per cent of the revenues with the balance coming from trading. Around 70 per cent of raw cashew imports are from African countries and the rest from domestic market. The firm sells cashew kernels in the domestic market. The factory is located at Udupi, Karnataka. For FY2015-16, LC reported net profit of Rs.0.08 crore on operating income of Rs.7.00 crore, as compared to net profit of Rs.0.03 crore on operating income of Rs.4.38 crore in FY2014-15.

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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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	5.00	SMERA B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.79	SMERA B / Stable

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