

Press Release

Lakshmee Cashews

August 02, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 6.79 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 6.79 crore bank facilities of Lakshmee Cashews. The outlook is '**Stable**'.

Lakshmee Cashews established in 2006 is a partnership firm with Mrs. Sharada Nayak, Mr. Mahesh Nayak, Mrs. Rashmitha Kamath and Mr. Ratnakar Nayak as partners. The firm is engaged in the processing of cashew kernels and trading of raw cashew nuts. The unit is located in Udupi, Karnataka with processing capacity of around 50 bags of 80 kgs per day.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Established in 2006, Lakshmee Cashews has a long operational track record of over a decade in the cashew processing. Mr. Ratnakar Nayak, promoter, has an experience of around four decades in cashew business. Prior to Lakshmee Cashews, the promoter had similar business in small scale and it consists of trading of cashew kernels. Lakshmee Cashews has customer base Pan India; about 70 per cent of its revenues are derived from processing and 30 per cent from trading operations. Established relations with both customers and suppliers supported in improving its revenues from low levels of about Rs.13.9 crores in FY2017 to above modest levels of about Rs.24.3 crores (provisional) in FY2018. Acuité believes that the established setup and relations will support in improving its business risk profile over the medium term.

Weaknesses

- **Working capital intensive operations**

Firm's operations remained working capital intensive, as reflected in high gross current assets (GCA) of 127 days as on March 31, 2018 compared to 133 days as on March 31, 2017; it is owing to seasonal nature of product and availability. The firm is required to stock sufficient inventory required for the off-season which makes it working capital dependent. The firm's credit terms with customers ranges from 15 to 30 days. Working capital intensive operations resulted in high utilization of its bank lines over 90 per cent during April 2017 to March 2018. Acuité believes that the operations continue to be working capital intensive over the medium term requiring working capital in proportion to the scale of operations.

- **Weak financial risk profile**

The financial risk profile of entity is weak marked by high gearing (debt-to-equity) and total outside liabilities to total net worth (TOLTNW) though underpinned by comfortable debt protection metrics. Its gearing is high at about 7.7 times (provisional) as of March 31, 2018 against 5.9 times in FY2017. The total debt of 5.61 cores includes short term loan of Rs.4.71 crore and term loan of Rs.0.90 crore as on March 31, 2017; its net worth is low at Rs.0.96 crore as on March 2017. Modest net worth and high working capital requirement is expected to keep the gearing levels high over the medium term. Also its TOLTNW is high 6.21 times as of March 31, 2017; its debt protection metrics are below-average: interest coverage ratio (ICR) at 1.47 times and low net cash accruals to total debt (NCA/TD) of about 0.04 times in FY2018. Acuité believes that with modest revenues and accruals, the financial risk profile is expected to be at similar levels over the medium term.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Lakshmee Cashews

Outlook: Stable

Acuité believes the outlook on Lakshmee Cashews will remain stable over the medium term on account of the firm's experienced management. The outlook may be revised to 'Positive' if the firm achieves a sustained growth in its revenues while improving its capital structure by equity infusion. Conversely, the outlook maybe revised to 'Negative' in case of any further deterioration of its capital structure owing to stretch in its working capital management and any sharp decline in profitability margins.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	13.89	7.00	4.38
EBITDA	Rs. Cr.	0.85	0.52	0.35
PAT	Rs. Cr.	0.04	0.08	0.03
EBITDA Margin	(%)	6.15	7.46	7.95
PAT Margin	(%)	0.30	1.12	0.77
ROCE	(%)	13.34	15.65	29.85
Total Debt/Tangible Net Worth	Times	5.87	2.81	3.13
PBDIT/Interest	Times	1.47	1.67	1.62
Total Debt/PBDIT	Times	6.57	4.92	4.01
Gross Current Assets (Days)	Days	133	139	88

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
09-May-2017	Cash Credit	Long Term	INR 5	ACUITE B / Stable
	Term Loan	Long Term	INR 1.79	ACUITE B / Stable

*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	ACUITE B / Stable
Term loans	Not	Not	Not	1.79	ACUITE B / Stable

	Applicable	Applicable	Applicable	
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About Acuité Ratings & Research:

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