

## Press Release

### Lakshmee Cashews

September 13, 2019



### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 9.50 Cr.
<b>Long Term Rating</b>	ACUITE B/ Stable (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs. 9.50 crore bank facilities of LAKSHMEE CASHEWS (LC). The outlook is '**Stable**'.

The rating reaffirmation is based on volatility in revenues accompanied with stagnancy in profitability margins with constraining factors of working capital intensive management and stretched liquidity. The fluctuation in the revenue can be attributed to a drop in the demand and prices of cashew kernels at an industry level. The firm also had lower realisations as compared to high cost of raw materials. However, the ratings were constrained due to working capital intensive management, which is reflected by the increase in inventory.

Lakshmee Cashews was established in 2006 under the partnership of Mrs. Shradha Nayak, Mr. Kamlashishanai and Mr. Nagraj Kamath. However, in FY2014, Mr. Kamlashishanai and Mr. Nagraj Kamath retired, and Mr. Mahesh Nayak, Mrs. Rashmitha Kamath and Mr. Ratnakar Nayak joined in as new partners.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of LC to arrive at the rating.

### Key Rating Drivers

#### Strengths

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

Established in 2006, Lakshmee Cashews has a long operational track record of more than two decades in the cashew processing. Mr. Ratnakar Nayak, promoter, has an experience of around four decades in the cashew business. Prior to Lakshmee Cashews, the promoter had similar business in small scale and it consisted 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. Further, the management of the firm over the years has also built healthy relationship with its customers and suppliers, which has helped them record revenue of Rs.20 crore in FY2019 (provisional) from Rs.13.85 crore in FY2017. Acuité believes that the firm will continue to benefit from its experienced management and established relations with its customers and suppliers.

#### Weaknesses

- **Weak financial risk profile**

Lakshmee Cashew's financial risk profile is weak, marked by a low networth, high gearing (debt-to-equity), and modest debt protection measures. Lakshmee Cashew's net worth has remained low at around Rs.1.98 crore as on March 31, 2019 (provisional). The net worth levels have remained modest due to modest scale of operations, which has resulted in limited accretion to reserves over the last three years through FY2019. Though, the revenues of the firm are expected to remain in the range of Rs.27.14 crore – Rs. 35.28 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Acuité expects the net worth to remain modest in the range of Rs.2.15 crore – Rs. 2.69 crore over the medium term, in the absence of any capital infusion by the partners.

The firm has followed an aggressive financial policy in the past; the same is reflected through its peak gearing levels of 8.65 times as on March 31, 2018. The leverage levels have improved to around 5.22 times as on March 31, 2019 (provisional). The firm incurred capex of Rs.2.26 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to

support the increase in scale of operations has been around Rs.9.67 crore. The firm, on the other hand, generated cash accruals in the range of Rs.0.23 crore – Rs. 0.37 crore over the same period. The gearing, however, is expected to improve at around 4.70 times as on March 31, 2020, as the firm has no plans of any debt funded capex; meanwhile, the accretion to reserves during the same period is likely to remain low.

The revenues of the firm decreased by around 18 per cent to Rs.20.84 crore during 2018-19, while its operating margins remained stable in the range of 4.08-4.81 per cent. The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were modest at 0.05 times and 1.37 times, respectively.

The firm procures 85 per cent of its total raw material requirements, while there are no export sales.

Acuité expects the financial risk profile to improve over the medium term on account of improving topline, profitability and no significant capex or repayment obligations.

#### • **Working capital intensive nature of operations**

Lakshmee Cashew's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 234 days as on March 31, 2019 (provisional), which is due to rise in the inventory levels. The inventory spike is due to inability to clear the stocks due to global price drop. The firm imports a significant portion of raw cashew nuts, and therefore maintains an inventory of around 4-7 months. On the other hand, the firm gets a limited credit period from its suppliers, leading to higher reliance on working capital limits at 98 per cent through the last six months ending August 2019. Acuité expects the operations of the firm to remain working capital intensive on account of the high inventory levels maintained by the firm to cater to spot orders.

#### **Liquidity Position**

Lakshmee Cashews has stretched liquidity, marked by high GCA days and almost full utilisation of its cash credit facilities. The net cash accruals of the firm have been in the range of Rs.0.23 crore – Rs.0.27 crore during the period under study and are almost in line with its current maturing debt obligations of Rs. 0.15 crore – Rs. 0.24 crore during the same period. The net cash accruals of the firm are expected to be around Rs. 0.48 crore in the current financial year. The firm has to maintain high levels of inventory due to the trading nature and seasonality of its business, because of which it utilises its cash credit facilities fully. The firm does not have any plans of debt-funded capex. Acuité believes that going forward, the liquidity position of the firm will continue to remain stretched in the medium term.

#### **Outlook: Stable**

Acuite believes that Lakshmee Cashews will continue to benefit over the medium term due to its experienced management. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels, while improving its capital structure through capital infusion. Conversely, the outlook may be revised to 'Negative' in case of further deterioration of capital structure and a decline in the firm's revenues and profit margins.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	20.84	25.52	13.85
EBITDA	Rs. Cr.	1.00	1.04	0.82
PAT	Rs. Cr.	0.10	0.07	0.04
EBITDA Margin	(%)	4.81	4.08	5.92
PAT Margin	(%)	0.48	0.29	0.31
ROCE	(%)	9.72	9.96	13.34
Total Debt/Tangible Net Worth	Times	5.22	8.65	5.87
PBDIT/Interest	Times	1.37	1.43	1.47
Total Debt/PBDIT	Times	7.17	9.15	6.57
Gross Current Assets (Days)	Days	234	148	133

#### **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-6.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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
02-Aug-2018	Cash Credit	Long Term	5.00	ACUITE B / Stable (Reaffirmed)
	Term Loan	Long Term	1.79	ACUITE B / Stable (Reaffirmed)
09-May-2017	Cash Credit	Long Term	5.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	1.79	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.79	ACUITE B / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.71	ACUITE B / Stable (Reaffirmed)

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