

Press Release

Shivagiri Cashews

June 03, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 12.50 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 minus**) on the Rs. 12.50 crore bank facilities of Shivagiri Cashews (SC). The outlook is '**Stable**'.

Shivagiri Cashews (SC), a Karnataka-based partnership firm was established in April 2016 by Mr. Pratap Hegde and Mrs. Divya Hegde. SC is engaged in the processing and trading of cashew, cashew nuts and byproducts such as cashew husk and shells at Udupi. The installed capacity stands at 4800 kg of cashews per day.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of Shivagiri Cashews to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced Partner's**

The partners of the firm Mr. Pratap Hegde and Mrs. Divya Hegde possess eight years of experience in cashew processing industry. The firm is also well supported second line of management and has established relations with its customer's suppliers.

- **Improving margins**

The operating margins of the firm have improved to 15.80 percent in FY2019 (Provisional) as compared to 12.09 percent in FY2018 despite decline in operating income to Rs. 13.45 crore in FY2018-19 (Provisional) from Rs. 16.55 crore in FY2018. The PAT margins have improved to 2.90 percent in FY2019 (Provisional) as compared to 1.51 percent improving its net cash accruals for the period.

Weaknesses

- **Average financial risk profile**

The financial risk profile is marked by low net worth of Rs. 1.50 crore as on 31 March, 2019 (Provisional) as compared to Rs. 0.75 crore 31 March, 2018. The gearing (debt to equity ratio) stood high at 10.11 times as on 31 March, 2019 (Provisional) as compared to Rs. 12.97 crore 31 March, 2018. The Interest Coverage Ratio (ICR) stood at 1.51 times in FY2019 (Provisional) as against 1.42 times in FY2018. The Debt Service Coverage Ratio (DSCR) stood low at 1.08 times in FY2019 (Provisional).

- **Highly Competitive industry and margins susceptible to raw material prices**

The cashew industry is highly competitive with low entry barriers. The firm is exposed to competition from organised as well as unorganised players in the industry. Further, cashew being Agro commodity prices are volatile and fluctuating in nature having direct impact on margins of the firm.

Liquidity Position

The liquidity profile of the firm stood slightly stretched, the debt obligation repayment stood at Rs.0.65 crore as against Rs.0.71 crore net cash accruals for FY2019 (Provisional). The working capital cycle of SC stood high on account of high GCA (Gross Current Asset) days of 390 in FY2019 (Provisional) which has increased significantly from 168 days in FY2018. The working capital bank limit utilisation stood at 95.00 percent for last six month ending April 2019. The Current Ratio of the firm stood at 1.28 times in FY2019 (Provisional) as compared to 1.43 times in FY2018. The liquidity of the firm is likely to improve

over near to medium term owing to increase in scale of operations and margins.

Outlook: Stable

Acuité believes that SC will maintain a 'Stable' outlook in the medium term on the back of its experienced partners. The outlook may be revised to 'Positive' in case the firm registers higher than expected revenue while booking healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of higher than anticipated decline in revenues leading to deterioration in overall financial risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	13.45	16.55	5.27
EBITDA	Rs. Cr.	2.13	2.00	0.32
PAT	Rs. Cr.	0.39	0.25	(0.54)
EBITDA Margin	(%)	15.80	12.09	6.01
PAT Margin	(%)	2.90	1.51	(10.20)
ROCE	(%)	13.26	17.62	3.69
Total Debt/Tangible Net Worth	Times	10.11	12.97	26.75
PBDIT/Interest	Times	1.51	1.42	0.46
Total Debt/PBDIT	Times	7.15	4.87	25.24
Gross Current Assets (Days)	Days	390	168	439

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
04-May-2018	Secured Overdraft	Long Term	3.00	ACUITE B- / Stable (Downgraded)
	Cash Credit	Long Term	7.50	ACUITE B- / Stable (Downgraded)
	Term Loan	Long Term	2.00	ACUITE B- / Stable (Downgraded)
23-May-2017	Secured Overdraft	Long Term	3.00	ACUITE B/ Stable (Assigned)
	Cash Credit	Long Term	7.50	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. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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