

Press Release

Shivagiri Cashews

August 29, 2020



Rating Reaffirmed & Withdrawn

Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs. 12.50 crore bank facilities of Shivagiri Cashews (SC). Acuité has also withdrawn the previously rated cash credit facility of Rs. 7.50 crore as it has converted into overdraft as per latest sanction and withdrawn on request of the client. 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 6000 kg of cashews per day.

Analytical Approach

Acuité has taken the 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 over eight years of experience in the cashew processing industry. The firm is also well supported by the second line of management. The firm has been able to maintain longstanding relationships with its customers and suppliers. Acuité believes the firm to benefit from the extensive experience of the partners.

Weaknesses

- **Decline in scale of operations and margins**

The operating income of firm, has declined to Rs. 14.82 crore in FY2020 (Provisional) from Rs. 22.04 crore in FY2019. Also, operating and PAT margins of the firm have declined to 1.56 percent and (9.34) percent in FY2020 (Provisional) as compared to 8.04 percent and 0.23 percent in FY2019. The decline in operating performance is due to slackening demand and sudden decline in cashew prices. The firm has recorded net loss of Rs.1.38 crores in FY2020 (Provisional) as against net profit of Rs. 0.05 crores in FY2019.

- **Average financial risk profile and working capital intensive nature of operations**

The financial risk profile of the firm is marked by a negative net worth of Rs. 0.45 crore as on 31 March, 2020 (Provisional) as compared to Rs. 0.73 crore 31 March, 2019. The gearing (debt to equity ratio) stood high between 13 to 17 times during the last three years ending 31 March 2020 (Provisional). The Interest Coverage Ratio (ICR) stood low at 0.17 times in FY2020 (Provisional) as against 1.25 times in FY2019. The Debt Service Coverage Ratio (DSCR) stood low at 0.13 times in FY2020 (Provisional). Further, the working capital cycle of SC stood high on account of high GCA (Gross Current Asset) days of 235 in FY2020 (Provisional) which has increased significantly from 182 days in FY2019. Further, firm has high inventory holding days of 217 in FY2020 (Provisional) as compared to 129 days in FY2019.

• 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 a direct impact on margins of the firm.

Rating Sensitivities

- Decline in revenues and margins
- Stretch in working capital cycle
- Deterioration in coverage ratios and liquidity profile

Liquidity Position: Poor

The liquidity profile of the firm stood slightly stretched, the debt obligation repayment stood at Rs.0.40-0.60 crore as against Rs.0.35 - 0.50 crore net cash accruals for three years ending FY2020 (Provisional). The working capital cycle of SC stood high on account of high GCA (Gross Current Asset) days of 235 in FY2020 (Provisional) which has increased significantly from 182 days in FY2019. The working capital bank limit utilisation stood at 98.63 percent for last six month ending July 2020. The Current Ratio of the firm stood low at 0.89 times in FY2020 (Provisional) as compared to 0.96 times in FY2019. The liquidity of the firm is likely to improve over near to medium term owing to increase in the 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 the overall financial risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	14.82	22.04
PAT	Rs. Cr.	(1.38)	0.05
PAT Margin	(%)	(9.34)	0.23
Total Debt/Tangible Net Worth	Times	(26.99)	17.04
PBDIT/Interest	Times	0.17	1.25

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

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Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Jun-2019	Term Loan	Long Term	2.00	ACUITE B-/ Stable (Reaffirmed)
	Cash Credit	Long Term	7.50	ACUITE B-/ Stable (Reaffirmed)
	Secured Overdraft	Long Term	3.00	ACUITE B-/ Stable (Reaffirmed)
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	Cash Credit	Long Term	7.50	ACUITE B/ Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B/ Stable (Assigned)
	Secured Overdraft	Long Term	3.00	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	10.50	ACUITE B-/ Stable (Reaffirmed)
Term loans	Not Available	Not Applicable	31-Jul-2023	2.00	ACUITE B-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B- (Withdrawn)

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About Acuité Ratings & Research:

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