

Press Release
Shivagiri Cashews

November 29, 2021



Rating Reaffirmed

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.50	12.50	ACUITE B- Stable Reaffirmed	
Total	12.50	12.50	-	-

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). The outlook is 'Stable'.

Rationale for rating reaffirmed

The rating reaffirmation takes into account its experienced management. These strengths are partially offset by its limited track record of operations and intensely competitive industry.

About the Company

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 its by products such as cashew husk and shells at Udupi. The installed capacity stands at 6000 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 by its second line of management and has established relations with its customers and suppliers. Acuité believes the firm to benefit from extensive experience of its partners over the medium term.

Weaknesses

Decline in operating margins

SC's operating and PAT margins have declined to 1.18 percent and (5.19) percent in FY2021 (Provisional) as compared to 3.86 percent and (7.64) percent in FY2020. The decline in operating performance is due to decline in cashew prices. The firm has recorded net loss of Rs.1.19 Cr in FY2021 (Provisional) as against net loss of Rs. 1.07 Cr in FY2020.

Weak financial risk profile

The financial risk profile is marked by negative net worth of Rs. (1.49) Cr as on 31 March, 2021 (Provisional) as compared to Rs. (0.16) Cr 31 March, 2020. The gearing (debt to equity ratio) stood high between 13 to 17 times during last three years ending 31 March 2021 (Provisional).

The Interest Coverage Ratio (ICR) stood low at 0.22 times in FY2021 (Provisional) as against 0.41 times in FY2020. The Debt Service Coverage Ratio (DSCR) stood low at 0.22 times in FY2021 (Provisional). Acuite believes that the financial risk profile will remain weak over the medium term too.

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.

ESG Factors Relevant for Rating

Not Applicable

Liquidity Position- Poor

The liquidity profile of the firm stood stretched, firm is having negative NCA of Rs 1.00 Cr in FY2021(Provisional). The working capital cycle of SC stood high on account of high GCA (Gross Current Asset) days of 157 in FY2021 (Provisional). The working capital bank limit utilisation stood at 100 percent for last six month ending September 2021. The Current Ratio of the firm stood low at 1.08 times in FY2021 (Provisional) as compared to 0.94 times in FY2020. The liquidity of the firm is likely to improve over near to medium term owing to increase in scale of operations and margins.

Rating Sensitivities

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

Material covenants

None

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.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	22.90	14.07
PAT	Rs. Cr.	(1.19)	(1.07)
PAT Margin	(%)	(5.19)	(7.64)
Total Debt/Tangible Net Worth	Times	(7.99)	(75.18)
PBDIT/Interest	Times	0.22	0.41

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

Not Applicable

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 Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Aug 2020	Cash Credit	Long Term	7.50	ACUITE B- (Withdrawn)
	Secured Overdraft	Long Term	10.50	ACUITE B- Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B- Stable (Reaffirmed)
03 Jun 2019	Cash Credit	Long Term	7.50	ACUITE B- Stable (Reaffirmed)
	Secured Overdraft	Long Term	3.00	ACUITE B- Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B- Stable (Reaffirmed)
04 May 2018	Secured Overdraft	Long Term	3.00	ACUITE B- Stable (Downgraded from ACUITE B Stable)
	Cash Credit	Long Term	7.50	ACUITE B- Stable (Downgraded from ACUITE B Stable)
	Term Loan	Long Term	2.00	ACUITE B- Stable (Downgraded from ACUITE B Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Bank of Baroda	Overdraft	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0.00	10.50	ACUITE B- Stable Reaffirmed
Bank of Baroda	Term Loan	Not Applicable	Not available	Not available	Not available	0.00	2.00	ACUITE B- Stable Reaffirmed

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About Acuité Ratings & Research

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