

Press Release
Shivagiri Cashews

January 24, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.50	ACUITE B- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	12.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 the rating

The rating reaffirmation takes into account its experienced management. These strengths are partially offset by below- average financial risk profile, intensive working capital operations, poor liquidity position and highly competitive industry and susceptibility of margins to raw material prices.

About the Firm

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

Acuite 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 Partners

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. Acuite believes the firm to benefit from extensive experience of its partners over the medium term.

Weaknesses

> Below- average financial risk profile

The financial risk profile of the firm has remained below- average with weak net worth, capital structure and debt protection metrics. The net worth of the firm stood at Rs.(3.33) Cr and Rs. (1.49) Cr as on March 31, 2022 and 2021 respectively. The gearing of the firm stood at (3.35)

times as on March 31, 2022 against (7.98) times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at (0.31) times and (0.15) times as on March 31, 2022 respectively as against 0.23 times and 0.23 times as on March 31, 2021 respectively. The debt to EBITDA of the company stood at (35.49) times as on March 31, 2022 as against 40.49 times as on March 31, 2021. The NCA to Total Debt stood at (0.12) times in FY2022 as against (0.08) times in FY2021. Acuite believes that the financial risk profile will remain weak over the medium term too.

> **Intensive working capital operations**

SC's working capital cycle is working capital intensive as reflected by its high gross current assets (GCA) days at 151 days as on March 31, 2022 as against 339 days as on March 31, 2021. The GCA days are driven by high inventory. Inventory days stood at 133 days as on March 31, 2022 as against 312 days as on March 31, 2021. Subsequently, the payable period stood at 17 days as on March 31, 2022 as against 31 days as on March 31, 2021 respectively. The debtor day stood at 7 days as on March 31, 2022 as against 16 days as on March 31, 2021. Further, the average bank limit utilization in the last six months ended December, 22 remained at ~78 percent for fund based limits. Acuite believes that the operations of the SC's will remain working capital intensive over the medium term.

> **Risks associated with partnership constitution**

SC being a partnership firm, is exposed to adverse capital structure risk, where any substantial capital withdrawal could negatively impact its net worth and capital structure and the liquidity position.

> **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.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Poor

The liquidity profile of the firm stood poor, firm is having negative net cash accruals (NCA) of Rs 1.34 Cr in FY2022 as against the repayment of Rs.1.01 Cr for the same period. The working capital cycle of SC stood high on account of high GCA (Gross Current Asset) days of 151 in FY2022. Unencumbered cash and bank balances stood at Rs. 0.09 Cr as on March 31, 2022. The current ratio of the firm stood at 0.79 times as on March 31, 2022. The fund based bank limits utilization of SC is 78 percent for fund based respectively for the past six months ending December 2022.

Outlook: Stable

Acuite 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 firm or withdrawal of capital by partners.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	17.53	10.56
PAT	Rs. Cr.	(1.52)	(1.17)
PAT Margin	(%)	(8.66)	(11.12)
Total Debt/Tangible Net Worth	Times	(3.35)	(7.98)
PBDIT/Interest	Times	(0.31)	0.23

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Nov 2021	Term Loan	Long Term	2.00	ACUITE B- Stable (Reaffirmed)
	Secured Overdraft	Long Term	10.50	ACUITE B- Stable (Reaffirmed)
29 Aug 2020	Secured Overdraft	Long Term	10.50	ACUITE B- Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B- Stable (Reaffirmed)
	Cash Credit	Long Term	7.50	ACUITE B- (Withdrawn)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

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