

Press Release

K Subraya Anantha Kamath and Sons (KSAKS)

21 August, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs.19.59 Cr.
Long Term Rating	SMERA BB+/Stable
Short Term Rating	SMERA A4+

**Refer annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the above mentioned bank facilities of K Subraya Anantha Kamath and Sons (KSAKS). The outlook is '**Stable**'.

KSAKS is led by Mr. K Giridhara Kamath, Ms. Radha Kamath, Mr. Pramod Kamath and Mr. Prasad Kamath. The firm is engaged in the processing and export of cashew kernels, cashew nut shell liquid, organic cashews among others. The firm generates 80 per cent revenue from processing. About 50 per cent of its produce is exported with the rest sold in the domestic market. The manufacturing facilities are located at Karnataka and Kerala with installed capacity of 12 MT per day.

List of key rating drivers and their detailed description:

Strengths

Long track record of operations and experienced management: KSAKS was established in 1937 by Mr. Kamath and family. The partners, Mr. K Giridhara Kamath, Ms. Radha Kamath and others have more than four decades of experience in the cashew processing business.

Improvement in operating margins: The operating margin improved to 4.80 percent in FY2015-16 from 3.47 percent in FY2014-15 and 2.40 percent in FY2013-14 on account of decline in raw material cost.

Moderate financial risk profile: The moderate financial risk profile is marked by healthy gearing of 0.80 times as on 31 March, 2016 compared to 0.54 times as on 31 March, 2015. The ICR stood at 2.11 times for FY2015-16 as against 2.69 times for FY2014-15. The firm has moderate networth of Rs.15.18 crore as on 31 March, 2016 compared to Rs.14.07 crore as on 31 March, 2015.

Weaknesses

Agro climatic risks: The main raw material - cashew and grains are seasonal crops and production of the same is highly dependent upon the monsoon. Thus, adverse weather conditions can affect crop availability.

Competitive and fragmented industry: KSAKS is exposed to intense competition in the industry from both, the organised as well as unorganised players due to low entry barriers.

Working capital intensive operations: KSAKS has working capital operations marked by high GCA days of 155 in FY2015-16 compared to 51 days in FY2014-15. The inventory days stood high at 141 days in FY2015-16 as against 45 days in the previous year. The cash credit facility has been fully utilised.

Analytical approach: SMERA has considered the standalone financial and business risk profile.

Applicable Criteria

- Manufacturing entity: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook of KSAKS will remain stable owing to its promoters experience in the food and agro industry and continuous increase in volumes. The outlook may be revised to 'Positive' if its scale of operations increases substantially, while maintaining operating profitability and improvement in its coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of weakening of operating margins or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements. The timely takeover of the business would be a key rating sensitivity.

About the Rated Entity: Key financials

The firm reported profit after tax (PAT) of Rs.0.55 crore on net sales of Rs.58.90 crore in FY2016 as against PAT of Rs.0.98 crore on net sales of Rs.59.04 crore in FY2015. The net worth stood at Rs. 15.18 crore as on 31 March, 2016 compared to Rs. 14.07 crore as on 31 March, 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Upto last three years): Not applicable

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	5.00	SMERA BB+/Stable (Assigned)
Term Loan	N.A	N.A	N.A	2.09	SMERA BB+/Stable (Assigned)
PC/PCFC	N.A	N.A	N.A	9.00	SMERA A4+ (Assigned)
FBN/FBP/FBD/PSFC/FBE	N.A	N.A	N.A	3.50	SMERA A4+ (Assigned)

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