

Press Release

K Subraya Anantha Kamath and Sons

May 19, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.19.59 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.19.59 Cr bank facilities of K Subraya Anantha Kamath and Sons (KSAKS). The outlook is '**Stable**'.

K Subraya Anantha Kamath is a Kerala based firm incorporated in the year 1945 as a proprietorship firm. Later in the year 1965, the constitution of the firm was changed into partnership. The firm's operation is entirely managed by the third and the fourth generation family members. The partners of the firm are Mr. K. Giridhar Kamath, Mrs. Radha Kamath, Mr. Pramod Kamath and Mr. Prasad Kamath. The firm is engaged in processing and export of cashew nut kernels, flavored kernels, cashew nut shell liquid and other by-products. The firm has two processing units located at Karnataka and Kerala with an installed capacity of 5400MPA.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KSAKS to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

K Subraya Anantha Kamath and Sons has a long track record of operation since 1937 when one of the then partners of the firm ventured into agro industry as a trader of raw cashew nuts. Later, in the year 1945 the firm was established as a proprietorship. In the year 1945, the firm engaged into processing of cashew kernels and later in the year 1965, the constitution of the firm was changed into partnership. Currently, the operation of the firm is managed by the third and the fourth generation family members. The partners of the firm are Mr. K. Giridhar Kamath, Mrs. Radha Kamath, Mr. Pramod Kamath and Mr. Prasad Kamath. The partners of the firm have been engaged in the aforementioned industry for more than two decades. The extensive experience of the partners and established track record of operation of the firm has helped the firm to maintain healthy relationships with its customer and suppliers.

Acuite believes that the firm will benefit from its experienced management and long track of operation.

Weaknesses

• Average Financial Risk Profile

KSAKS's financial risk profile is average marked by average net worth, high gearing coupled with below average debt protection metrics and coverage indicators. The firm's net worth stood at Rs.12.48 Cr (Prov.) as on March 31, 2021 as against Rs.15.57Cr as on March 31, 2020. The firm has followed aggressive financial policy; the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 1.89 times (Prov.) and 2.03 times (Prov.) respectively as on March 31, 2021 as against 1.05 times and 1.84 times respectively as on March 31, 2020. The firm, on the other hand, generated cash accruals of Rs.(1.75) Cr (Prov.) in FY2021 as against Rs.4.38Cr in FY2020.

The revenue of the firm has declined by around 30.30 percent to Rs.58.90Cr (Prov.) in FY2021 from Rs.84.51Cr in FY2020. The decline in the operating income in FY2021 is majorly on account of Covid-19

pandemic. During the initial two months of FY2021, the factories were closed on account of nationwide lockdown in view of the Covid-19 pandemic and later preceding to those months for another two months there no orders in hand. The industry demand had remained subdued in FY2021. EBITDA in absolute term has declined significantly to Rs.0.11 Cr (Prov.) in FY2021 as against Rs.6.17 Cr in FY2020. The firm registered a loss of Rs.2.68 Cr (Prov.) in FY2021 as against a profit of Rs.3.57 Cr in FY2020.

The firm's profitability margin has also deteriorated in FY2021 as against FY2020. The profitability margins are susceptible to volatility in the commodity price. The margins are also dependent on the quality and the quantity of the goods sold. There are certain varieties of the cashew kernels which are sold at a premium rate whereas there are other qualities of the cashew kernels which are sold at a higher volume though the margin associated to it is less. The realization in export is less than the domestic market; however export market helps in locking the risk and the margin. The duty charged on the flavored cashew kernels is less than the non-flavored cashew kernels. The operating margin stood at 0.19 percent (Prov.) in FY2021 as against 7.31 percent in FY2020. The PAT margin stood at (4.55) percent in FY2021 as against 4.22 percent in FY2020.

The decline in the profitability level, coupled with moderate debt level, has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY2021 stands at (0.07) times (Prov.) and 0.07 times (Prov.) respectively as against 0.27 times and 3.44 times in FY2020, respectively. The debt service coverage ratio has declined to 0.05 times (Prov.) in FY2021 as against 3.44 times in FY2020. The Debt-EBITDA ratio stands at 195.65 times (Prov.) in FY2021 against 2.65 times in FY2020.

As a course of measure, the firm has undertaken certain revival plans in view of Covid-19 pandemic. Currently, the cashew nuts have been perceived as the healthy nut for which the demand has slightly increased especially in the households. Now the customers require the products in a hygienic way for which people are purchasing more in the finished packages rather than in the form of loose. Seeing this as an opportunity, the firm has paved into retail segment and has made its presence in the online segment through its presence in Amazon and is also tying up with local grocery vendors. The firm is underway in launching two retail brands CazooTree and Veera to enable them to position themselves in the premium and cheaper ranges of the market. The firm is tying up with HORECA suppliers, Sweet Manufacturers, Ready to Eat food manufacturers to keep sales front strong in the lower valued broken cashews.

Acuite believes the financial risk profile of the firm will remain moderate in the near term on account no major debt funded capex in near to medium term.

- **Working Capital operation is intensive in nature**

KSAS's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 200 days (Prov.) in FY2021 as against 168 days in FY2020. The inventory holding period has been elongated to 134 days (Prov.) as on March 31, 2021 as against 76 days as March 31, 2020. The elongation in the inventory holding period is due to piling of the inventories as the firm was unable to dispatch the orders in view of Covid-19 pandemic. Also the demand from the export market had also declined. The debtor collection and the credit payment period have improved in FY2021 as against FY2020. The debtor collection period stood at 21 days (Prov.) as on March 31, 2021 as against 93 days as on March 31, 2020. On the other hand the credit payment period stood at 8 days (Prov.) as against 54 days as on March 31, 2020. The average bank limit utilization stood moderate at around 75.19 percent for six months ended January 31, 2021, while its peak utilization was high at around 92.40 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term on account of high inventory holding period. However, it is expected to improve further as the firm is able to export three containers per months for last few months and also has good number of orders which is expected to be executed in near term.

The firm has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.(1.75)Cr (Prov.) in FY2021, while its' maturing debt obligation were Rs.0.61Cr for the same period. The cash accrual of the firm is estimated to remain around Rs.1.00Cr to Rs.3.50Cr during 2022-24 against repayment obligations of around Rs.0.40Cr to Rs.1.50Cr during the same period. The firm's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 200 days (Prov.) in FY2021 as against 168 days in FY2020. The average bank limit utilization stood moderate at around 75.19 per cent for six months ended January, 2021. The firm maintains unencumbered cash and bank balances of Rs.6.21Cr (Prov.) as on 31 March 2021. The current ratio of the firm has marginally improved to 1.54 times (Prov.) as on 31 March 2021 from 1.43 times as on March 31, 2020. Acuite believes that the liquidity of the firm is likely to improve over the medium term on account of revival plan undertaken by the firm to overcome the Covid-19 pandemic.

Rating Sensitivities

- Significant and sustained growth in operating revenues while improving the profitability
- Any further deterioration in the working capital cycle will impact the financial risk profile thereby impact the credit risk profile
- Improvement in the liquidity profile of the company

Outlook: Stable

Acuite believes that the firm will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and average financial risk profile. The outlook may be revised to 'Positive', if the firm registers higher than expected growth in its revenue while maintaining sustained operating margin at its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the firm registers lower than expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	58.90	84.51
PAT	Rs. Cr.	(2.68)	3.57
PAT Margin	(%)	(4.55)	4.22
Total Debt/Tangible Net Worth	Times	1.89	1.05
PBDIT/Interest	Times	0.07	3.44

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Dec-2020	Cash Credit	Long Term	5.00	ACUITE BB (Downgraded from ACUITE BB+) Issuer Not Co-operating*
	Term Loan	Long Term	2.09	ACUITE BB (Downgraded from ACUITE BB+) Issuer Not Co-operating*
	Packing Credit	Short Term	9.00	ACUITE A4+ Issuer Not Co-operating*
	Post Shipment Credit	Short Term	3.50	ACUITE A4+ Issuer Not Co-operating*
25-Sept-2019	Cash Credit	Long Term	5.00	ACUITE BB+ Issuer Not Co-operating*
	Term Loan	Long Term	2.09	ACUITE BB+ Issuer Not Co-operating*
	Packing Credit	Short Term	9.00	ACUITE A4+ Issuer Not Co-operating*
	Post Shipment Credit	Short Term	3.50	ACUITE A4+ Issuer Not Co-operating*
04-Jul-2018	Cash Credit	Long Term	5.00	ACUITE BB+ Issuer Not Co-operating*
	Term Loan	Long Term	2.09	ACUITE BB+ Issuer Not Co-operating*
	Packing Credit	Short Term	9.00	ACUITE A4+ Issuer Not Co-operating*
	Post Shipment Credit	Short Term	3.50	ACUITE A4+ Issuer Not Co-operating*

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.42*	ACUITE BB/Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	0.60	ACUITE BB/Stable (Reaffirmed)
WCTL-GECL	Not Applicable	Not Applicable	Not Applicable	3.57	ACUITE BB/Stable (Assigned)

*Cash Credit of Rs.15.42Cr can be used as ODBD/PC/FDB/FBE and also includes sublimit of CPC of Rs.4.00Cr, FBE/FDB of Rs.4.00Cr and Non PBLC/Orders of Rs.0.60Cr

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About Acuité Ratings & Research:

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