

Press Release

California Agri Nuts Corporation

July 11, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) on the Rs. 20.00 crore bank facilities of California Agri Nuts Corporation. The outlook is '**Stable**'.

California Agri Nuts Corporation (CANC) is a partnership firm established in 2008 by Mr. Raju Bhatia and Mrs. Simi Bhatia. The firm is engaged in the trading of dry fruits and is based out of Delhi.

Key Rating Drivers

Strengths

- **Experienced partners**

The partners, Mr. Raju Bhatia and Mrs. Simi Bhatia have extensive experience of around four decades in the industry. The experience has helped establish comfortable relationships with customers and suppliers.

- **Efficient working capital management**

The firm's working capital cycle is marked by gross current asset (GCA) of 30 days in FY2016-17 (Provisional) as compared to 28 days in FY2015-16. The comfortable GCA days are on account of low inventory days of 12 in FY2016-17 (Provisional) as against 15 days in FY2015-16. Further, the debtor days of the firm stood at 1 day in FY2016-17 (Provisional) as against seven days in FY2015-16. The firm mainly sells on spot payment basis which results in short receivable cycle.

- **Healthy scale of operations**

The scale of operations of the firm stood at healthy levels with operating income at Rs.342.23 crore in FY2016-17 (Provisional) as compared to Rs.353.18 crore in FY2015-16. The marginal decline in the operating revenue is on account of decline in the prices of trading commodity i.e. nuts. However, the quantity traded has increased over a period of time from 6.52 lakhs kg in FY2016 to 8.80 lakhs kg in FY2017 (Provisional).

Weaknesses

- **Competitive and fragmented industry**

The dry fruits trading industry is highly fragmented with a large number of organised and unorganised players. The competition is further intensified due to low entry barriers and low product differentiation, thus limiting the pricing flexibility.

- **Susceptibility to fluctuations in forex rates**

The firm imports dry fruits from U.S.A, Australia, Chile, Afghanistan etc and is hence exposed to risks related to volatility in foreign exchange rates as also commodity prices.

- **Thin profit margins**

The operating margin stood low at 0.74 percent in FY2016-17 (Provisional) compared to 0.68

percent in FY2015-16. Further, the profit after tax (PAT) margin of the firm stands at 0.13 percent in FY2016-17 (Provisional) compared to 0.09 percent in FY2015-16. This is mainly due to the trading nature of operations with limited value addition.

• Moderate financial risk profile

The firm has moderate financial risk profile marked by gearing of 1.69 times as on 31 March, 2017 (Provisional) against 1.75 times as on 31 March, 2016. The gearing of 1.69 times as on 31st March, 2017 (Provisional) is evident from the moderate networth of Rs.8.98 crore against total debt of Rs.15.17 crore (includes long term loan of Rs.0.18 crore and short term working capital of Rs.14.99 crore) as on 31st March 2017 (Provisional). Further, the TOL/TNW of the firm stood at 2.23 times in FY2015-16. The networth stood at Rs. 8.98 crore as on 31 March, 2017 (Provisional) as against Rs.8.60 crore as on 31 March, 2016. The networth also includes unsecured loans of Rs. 1.28 crore treated as quasi equity as the amount is subordinated to bank debt. Moreover, the interest coverage ratio stood moderate at 1.27 times and net cash accrual to total debt (NCA/TD) at 0.04 times in FY2016-17 (Provisional) as compared to the interest coverage ratio of 1.16 times and NCA/TD of 0.03 times in FY2015-16. SMERA believes that any decline or non-improvement in debt protection metrics and further increase in debt to equity ratio would be a key credit monitoring factor.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the firm.

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook in the medium term owing to the extensive experience of its management in the dry fruits business. The outlook may be revised to 'Positive' in case of sustained growth in revenues, profitability profile and accruals while maintaining the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case significant decline in capital structure or debt protection metrics.

About the Rated Entity - Key Financials

In FY2016-17 (Provisional) the firm achieved operating income of Rs.342.23 crore with Profit After Tax (PAT) of 0.44 crore compared to operating income of Rs. 353.18 crore with PAT of 0.32 crore a year earlier. The networth stood at Rs.8.60 crore as on 31 March, 2017 (Provisional) as against Rs.7.98 crore a year earlier. The networth of Rs.8.60 crore in 31 March, 2017 (Provisional) includes quasi equity of Rs. 1.28 crore as subordinated to bank debt.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BB- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable

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ABOUT SMERA

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