

Press Release

Mangala Cashew Industries (MCI)

01 August, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr
Long Term Rating	SMERA BB/Stable

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) on the Rs.50.00 crore bank facilities of Mangala Cashew Industries (MCI). The outlook is '**Stable**'.

MCI, established in 1985 is a Mangalore-based firm, engaged in the trading and processing of raw cashew nuts.

List of key rating drivers and their detailed description

Strengths

Experienced management

Mr. Vaman Kamath, the promoter, has experience of over three decades in the cashew industry. Mr. Kamath is assisted by his sons, Mr. Vasudev Kamath and Mr. Vedavyas Kamath who joined the business in 1992 and 1999 respectively. The long standing presence has helped the firm establish strong relationships with customers and suppliers.

Increasing revenue trend

The revenue grew at a CAGR of 85 per cent during FY2014 to FY2017 to Rs.635.33 crore in FY2017 (Provisional) compared to Rs.262.45 crore in FY2016 and Rs.134.85 crore in FY2015. The increase in revenues is mainly on account of increased trading of raw cashew nuts.

Weaknesses

Low margins and susceptibility to raw material price fluctuation

The firm has low operating margins due to low value addition nature of business. The operating margins stood at 1.96 per cent in FY2017 (Provisional) as against 1.66 per cent in FY2016.

The major raw material, raw cashew nut being an agro product has seasonal availability and its production is vulnerable to climatic changes, leading to fluctuations in its prices. The profitability of the firm, thus remains susceptible to fluctuations in the prices of raw material and its availability.

Below average capital structure

The networth of the firm stands low at around Rs.8.57 crore as on 31 March, 2017(Provisional) (as against Rs.7.28 crore as on 31 March, 2016). Further, the high external borrowings, corresponding to the low networth has led to high TOL to TNW ratio of 5.21 times and gearing of 3.87 times as on 31 March, 2017(Provisional).

The total debt of Rs.33.16 crore includes term loans of Rs.3.06 crore, loans against FD of Rs.8.82 crore and cash credit of Rs.21.27 crore.

Capital withdrawal risk

MCI, being a partnership firm is exposed to the inherent risk of capital withdrawal, which will have an impact on the credit profile of the firm.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & 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 on MCI's rated facilities will remain stable on account of the firm's experienced management. The outlook may be revised to 'Positive' if the firm achieves sustained growth in revenues and profit margins and improves its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of deterioration of capital structure and if the firm registers steep decline in revenues and profit margins.

About the Rated Entity

Mangala Cashew Industries was established in 1985 as a partnership firm. The day-to-day affairs are led by Mr. D Vasudev Kamath, Mr. Vedavyas Kamath and Mr. D Vaman Kamath. The firm is engaged in the trading and processing of raw cashew nuts. The firm earns around 98 per cent revenue from trading of raw cashew nuts. Raw cashew nuts are exported to Vietnam, Middle Eastern countries, Europe and USA. Exports contribute around ~98 per cent to revenue.

The firm has processing installed capacity of 3MT per day at Padavinangady, Mangalore.

For FY2016-17 (Provisional), MCI reported net profit of Rs.5.83 crore on operating income of Rs.635.33 crore, compared to net profit of Rs.1.94 crore on operating income of Rs.262.45 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit *	LT	25.00	SMERA BB/Stable (Assigned)	-	-	-	-	-	-
Proposed Cash Credit	LT	25.00	SMERA BB/Stable (Assigned)	-	-	-	-	-	-

*Sublimit: PCL - Rs.10.00 cr, ITRL-Rs.10.00 cr, Import LC-Rs.10.00 cr, PCFC-Rs.10.00 cr, FDBN/FDBP/FDBD-Rs.10.00 cr.

***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 *	NA	NA	NA	25.00	SMERA BB/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	25.00	SMERA BB/Stable (Assigned)

*Sublimit: PCL - Rs.10.00 cr, ITRL-Rs.10.00 cr, Import LC-Rs.10.00 cr, PCFC-Rs.10.00 cr, FDBN/FDBP/FDBD-Rs.10.00 cr.

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head - Rating Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Reema Gangola, Manager - Rating Operations, Tel:022-67141111 Email: reema.gangola@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.