

Press Release

Mangala Cashew Industries

August 06, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 60.00 Cr. (Enhanced from Rs. 50.00 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.50.00 crore bank facilities of Mangala Cashew Industries (MCI). Further, Acuite has assigned long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs.10.00 crore bank facility of MCI. The outlook is '**Stable**'.

The rating has been downgraded in view of the deterioration in the financial risk profile of the firm marked by lower than expected revenue and profitability alongwith stretched liquidity position.

The rating continues to draw comfort from experienced management and established presence in the cashew industry. However, the aforementioned strengths are partially offset by below average capital structure, low margins and susceptibility of the same to volatility in raw material prices and forex rate. The rating is also constrained on account of the risk associated with partnership constitution.

Mangala Cashew Industries (MCI) is a Mangalore based partnership firm established in 1985. The firm is engaged in trading and processing of raw cashew nuts. The firm derives around 98 percent of its revenue from trading of raw cashew nuts and remaining from processing of raw cashew nuts. The firm exports around 96 percent of its revenue to countries including Vietnam, Middle East, Europe and United States of America and remaining is sold in the domestic market. The firm procures the raw cashew nuts from East and West African countries.

Key Rating Drivers

Strengths

- **Experienced management**

The firm is promoted by Mr. Vaman Kamath and his sons, Mr. Vasudev Kamath and Mr. Vedavyas Kamath who collectively possess over three decades of experience in the cashew industry. The long standing presence has helped the firm to establish strong relationships with customers and suppliers.

Weaknesses

- **Decline in revenue and profitability**

MCI has reported around 20 percent decline in its operating income as same stood at Rs.507.87 crore for FY2018 (Provisional) as against Rs.630.05 crore in FY2017. The decline was mainly on account of slowdown in demand from cashew processing countries during FY2017-18. The prices of raw cashew nut had increased during FY2017-18; however, the prices of cashew kernel did not increase correspondingly in the global market. This has led to shrinking of margins for cashew processing companies. Going forward, Acuite expects the raw cashew nut and kernel trading business to remain under pressure on account of high raw cashew nut prices.

- **Low profitability margins and same is susceptible to volatility in forex rates**

The firm continues to operate at low operating margin as same stood at 1.73 percent for FY2018 (Provisional) as against 1.64 percent in the previous year due to low value addition nature of the business. The firm exports around 96 percent of its sales and imports around 100 percent of its purchases. Further, the operating profit of Rs.8.77 crore for FY2018 (Provisional) was entirely supported by foreign exchange gain of Rs.9.35 crore as against foreign exchange loss of Rs.0.05 crore. Hence, the profitability of the firm is exposed to volatility in the foreign exchange rate in the absence of adequate hedging mechanism.

- **Below average financial risk profile alongwith stretched liquidity position**

The financial risk profile continues to remain below average marked by tangible net worth of Rs.13.19 crore as on 31 March, 2018 (Provisional) as against Rs.7.99 crore in the previous year. The debt to equity ratio is stretched at 3.06 times as on 31 March, 2018 (Provisional) as against 4.15 times in the previous year. The total debt of Rs.40.31 crore as on 31 March, 2018 (Provisional) includes long term debt of Rs.2.50 crore and short term borrowing of Rs.37.81 crore. The total outside liabilities to total tangible net worth (TOL/TNW) stood at 4.96 times as on 31 March, 2018 (Provisional) as against 10.53 times in the previous year. The interest coverage ratio (ICR) has deteriorated to 1.85 times in FY2018 (Provisional) as against 3.36 times in the previous year. The firm has utilised its short term borrowings to repay its long term borrowings during FY2017-18.

The liquidity profile of the firm is stretched as the current ratio stood at 1.10 times as on 31 March, 2018 (Provisional) as against 1.19 times in the previous year. The average bank limit utilisation stood at around 88 percent during the last six months ended as on 30 June, 2018. Going forward, Acuite expects the raw cashew nut and kernel trading business to remain under pressure on account of high raw cashew nut prices.

- **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

Acuite has considered the standalone business and financial risk profiles of the MCI for arriving at the rating.

Outlook: Stable

Acuite believes that the outlook on MCI's rated facilities will remain 'Stable' on account of the experienced management and established presence in the agro commodity market. 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 - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	507.87	630.05	262.45
EBITDA	Rs. Cr.	8.77	10.36	4.37
PAT	Rs. Cr.	2.18	4.30	1.94
EBITDA Margin	(%)	1.73	1.64	1.66
PAT Margin	(%)	0.43	0.68	0.74
ROCE	(%)	17.53	35.87	37.29
Total Debt/Tangible Net Worth	Times	3.06	4.15	0.93
PBDIT/Interest	Times	1.85	3.36	3.98
Total Debt/PBDIT	Times	4.44	3.14	1.51
Gross Current Assets (Days)	Days	47	49	31

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

None

Any other information

None

Applicable Criteria

- Trading Entities - <http://www.acuite.in/view-rating-criteria-6.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <http://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Aug-2017	Cash Credit	Long Term	25.00	ACUITE BB/Stable (Assigned)
	Proposed Cash Credit	Long Term	25.00	ACUITE BB/Stable (Assigned)

Cash credit includes sublimit of packing credit limit to the extent of Rs.10.00 crore, ITRL of Rs.10.00 crore, import letter of credit of Rs.10.00 crore, packing credit in foreign currency of Rs.10.00 crore, FDBN/FDBP/FDBD of Rs.10.00 crore.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00 (Enhanced from Rs. 25.00 crore)	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB-/Stable (Assigned)

Overdraft includes sublimit of pre-shipment facility of Rs.25.00 crore and post shipment facility of Rs.25.00 crore; Import Letter of Credit of Rs.25.00 crore and credit exposure limit of Rs.1.00 crore

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About Acuité Ratings & Research:

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