

Press Release

Mangala Cashew Industries

July 30, 2019



Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 60.00 crore bank facilities of MANGALA CASHEW INDUSTRIES (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 along with stretched liquidity position.

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 80 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.

Analytical Approach

Acuité has considered the standalone business and financial profiles of MCI to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

MCI was established in 1985 by Mr. Vaman Kamath and is currently managed by second generation promoter, Mr. Vasudev Kamath and Mr. Vedavyas Kamath. The firm has established track record of operations for more than three decades in the cashew industry. Acuité believes that MCI will benefit from experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

Weaknesses

- **Steep decline in revenue**

MCI has reported around ~60 percent decline in its operating income as same stood at Rs.186.81 crore for FY2019 (Provisional) as against Rs.488.13 crore in FY2018. This is on account of slowdown in demand from cashew processing countries. This is mainly due to increase in prices of raw cashew nut, however, the prices of cashew kernel have not increased correspondingly in the global market. Going forward, Acuité expects the raw cashew nut and kernel trading business to remain under pressure on account of high raw cashew nut prices.

- **Average financial risk profile**

The financial risk profile of the firm is average marked by tangible net worth of Rs.14.99 crore as on 31 March, 2019 (Prov) as against Rs.12.85 crore in the previous year. The gearing stood high at 3.41 times as on 31 March, 2018 as against 3.14 times in the previous year. The total debt of Rs.51.19 crore as on 31 March, 2019 (Prov) includes term loan from bank of Rs.1.66 crore and working capital borrowings of Rs.49.53 crore. The total outside liabilities to tangible net worth (TOL/TNW) stood at 4.57 times as on 31

March, 2019 (Prov) as against 5.10 times in the previous year. Interest Coverage Ratio (ICR) has deteriorated to 1.34 times in FY2019 (Prov) as against 2.05 times in FY2018. The net cash accruals to total debt (NCA/TD) stood at 0.03 times in FY2018. Going forward, Acuité believes that the firm's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Liquidity Position:

The firm has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. MCI generated cash accruals of Rs.2.3-4.9 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.0.84 crore over the same period. The cash accruals are expected to remain around Rs.1.3-2.5 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.6-0.8 crore. Further, the cash credit limit of the firm is fully utilised for last twelve months ended April, 2019. MCI maintains cash and bank balances of Rs.0.13 crore as on March 31, 2018. The current ratio stood moderate at 1.10 times as on March 31, 2018. Acuité believes that the liquidity of the firm is likely to remain the same over medium term on account no major capex over the medium term.

Outlook: Stable

Acuité believes that MCI's outlook will remain 'Stable' over the medium term from its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues along with its financial risk profile and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	186.81	488.13	630.05
EBITDA	Rs. Cr.	5.60	9.77	10.36
PAT	Rs. Cr.	0.63	2.83	4.30
EBITDA Margin	(%)	3.00	2.00	1.64
PAT Margin	(%)	0.34	0.58	0.68
ROCE	(%)	9.30	19.69	35.87
Total Debt/Tangible Net Worth	Times	3.41	3.14	4.15
PBDIT/Interest	Times	1.34	2.05	3.36
Total Debt/PBDIT	Times	8.24	4.00	3.14
Gross Current Assets (Days)	Days	139	49	49

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
06-Aug-2018	Secured Overdraft	Long Term	50.00	ACUITE BB- / Stable (Downgraded)
	Proposed Secured Overdraft	Long Term	10.00	ACUITE BB- / Stable (Downgraded)
01-Aug-2017	Cash Credit	Long Term	25.00	ACUITE BB / Stable (Assigned)
	Proposed Cash Credit	Long Term	25.00	ACUITE BB / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00^	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)
Proposed Fund based Facility	Not Applicable	Not Applicable	Not Applicable	8.83	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)

[^] 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.

Contacts

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About Acuité Ratings & Research:

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