

Press Release

Dammam Cashew

December 06, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long-term rating to '**ACUITE B+** (**read as ACUITE B plus**) from '**ACUITE BB-** (**read as ACUITE double B minus**) on the Rs.10.00 crore bank facilities of DAMMAM CASHEW. The outlook is '**Stable**'.

Kerala based Dammam Cashew (DC) was established in 2005 by Mr. Abdul Vahid and is engaged in the trading and processing of raw cashew nuts. The firm imports 100 percent of its raw materials from African countries. Trading business contributes around 30 per cent of the revenue and the rest is contributed by processing business.

Downgrade in on the account of downfall in the scale of operations and deterioration in the inventory holding period and debtors collection period. Operating income stood at Rs.30.73 crore in FY2019 (Provisional), Rs.33.64 crore in FY2018 and Rs.29.97 crore in FY2017. Further, Inventory holding period of 78 days in FY2019 (Provisional) as against 47 days in the previous year and debtors' collection period of 90 days in FY2019 (Provisional) as against 70 days in the previous year

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Proprietor of the firm, Mr. Abdul Vahid has extensive experience in the cashew processing business. Further, having more than a decade of operational track record has enabled the firm to maintain strong relations with its customers as well as with its suppliers.

Weaknesses

- **Working capital intensive nature of Operations**

Operations of DC are working capital intensive marked by Gross Current Assets (GCA) of 173 days in FY2019 (Provisional) as against 145 days in FY2018. This is on account of inventory holding period of 78 days in FY2019 (Provisional) as against 47 days in the previous year and debtors' collection period of 90 days in FY2019 (Provisional) as against 70 days in the previous year. However, current ratio stood moderate at 1.38 times as on 31 March, 2019 (Provisional) as against 1.42 times as on 31 March, 2018.

- **Reduced and modest scale of Operations**

Operating income for the firm reduced by ~9 per cent in FY2019 (Provisional) over FY2018. Operating income stood at Rs.30.73 crore in FY2019 (Provisional), Rs.33.64 crore in FY2018 and Rs.29.97 crore in FY2017. However, operating margins improved and stood 4.91 times in FY2019 (Provisional) as against 3.98 times in FY2018.

- **Average Financial risk profile**

DC has average financial risk profile marked by average net worth, average coverage ratio and high gearing. Net worth of the firm stood average at Rs.6.69 crore as on 31 March, 2019 (Provisional) as against Rs.6.21 crore as on 31 March, 2018. Gearing (debt-equity) of the firm stood at 1.53 times as on 31 March, 2019 (Provisional) as against 1.55 times as on 31 March, 2018. The total debt of Rs.10.23 crore as on 31 March, 2019 comprises of long term debt of Rs.0.24 crore and working capital facility of Rs.9.99 crore. Interest coverage ratio (ICR) stood at 1.47 times in FY2019 (Provisional) as against 1.50

times in FY2018. TOL/ TNW stood Rs.1.61 times in FY2019 (Provisional) as against 1.55 times in FY2018. Debt to EBITDA stood high at 6.75 times in FY2019 (Provisional).

Liquidity Position:

Firm has adequate liquidity marked by average net cash accruals to its maturing debt obligations. DC generated cash accruals of Rs.0.49 crore in FY2019 (Provisional) against no debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.0.46 crore to Rs.0.72 crore during FY2020-22 against repayment obligations of Rs.0.12 crore for the same period. Firm's working capital operations are intensive marked by gross current asset (GCA) days of 173 days in FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.18 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.38 times as on 31 March, 2019 (Provisional).

Outlook: Stable

Acuité believes that the outlook on DC's rated facilities will remain stable over the medium term on account of its 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 the firm registers deterioration in its capital structure resulting in a steep decline in revenues and profit margins.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	30.73	33.64	29.97
EBITDA	Rs. Cr.	1.51	1.34	1.19
PAT	Rs. Cr.	0.40	0.40	0.39
EBITDA Margin	(%)	4.91	3.98	3.99
PAT Margin	(%)	1.31	1.17	1.31
ROCE	(%)	8.73	8.52	10.09
Total Debt/Tangible Net Worth	Times	1.53	1.55	2.28
PBDIT/Interest	Times	1.47	1.50	1.55
Total Debt/PBDIT	Times	6.75	7.17	8.42
Gross Current Assets (Days)	Days	173	145	172

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
11-Oct-2018	Cash Credit	Long term	10.00	ACUITE BB- Issue Not Cooperating
16-Aug-2017	Cash Credit	Long Term	10.00	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)

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About Acuité Ratings & Research:

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