

Press Release

Bola Raghavendra Kamath & Sons

March 26, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 125.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 125.00 crore bank facilities of Bola Raghavendra Kamath & Sons (BRKS). The outlook is '**Stable**'.

The ratings continue to reflect the extensive experience of BRKS's promoter in the cashew processing industry and sustained improvement in its revenue profile. These rating strengths are partially offset by the susceptibility to adverse movements in cashew prices impacting profitability margins and weak financial risk profile.

Established in 1958, the Karnataka based BRKS is a two star export house engaged in processing of cashew kernels, cashew shell oil, and cashew shell cake and trading of coffee beans and other related products. The partnership firm was formed by Mr. Bola Ramanath Kamath and family. The installed capacity of the firm is 30,000 kg per day of cashew processing with manufacturing facility at Kukkundoor (Karnataka).

Analytical Approach

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

Key Rating Drivers

Strengths

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

Set up as a partnership in 1958, BRKS has an established track record in processing and trading of cashew kernels. Besides, the firm is also engaged in trading of coffee seeds, packing material and other related products. The extensive experience of the promoters in the business has helped the firm to establish longstanding relationship with customers and suppliers.

- **Moderate scale of operations**

BRKS scale of operations is moderate with operating revenue of Rs.228.88 crore in FY2018 as against Rs.159.78 crore in the previous year. In the current fiscal, BRKS's revenue stood at Rs.183.29 crore till February 2019 (provisional). Going forward, the firm's ability to sustain revenue growth amidst intense competition and rising input cost will remain a key concern.

Weaknesses

- **Decline in profitability margins**

BRKS's gross profitability has declined from 5.16 percent in FY2017 to a low of 2.64 percent to FY2018 due to high raw material cost in FY2018 and intense competition. BRKS is dependent on imports with over 80 percent of its cashew requirement sourced from African countries including Tanzania and West Africa.

• Weak financial risk profile

The financial risk profile deteriorated in the last two years through 2017-18 on account of higher working capital utilisation due to higher imports. Partner's capital has declined, albeit in small amount, from Rs.14.47 crore to Rs.14.00 crore. In the current year, partner's capital stands at Rs.13.67 crore as on February 28th, 2019(provisional). The gearing stood at 7.01 times as on March 31, 2018 as against 5.87 times in the previous year. Decline in profitability has further impacted the firm's ability to service interest with interest coverage ratio (ICR) registering a decline from 2.07 in FY2017 to 1.29 in FY2018. Debt service coverage ratio stood at 1.29 times in FY2018 as against 1.81 times in FY2017.

• Risks of capital withdrawal

The firm is exposed to the risks arising from the partnership nature of BRKS, such as withdrawal of capital and limited ability to raise capital among others.

Liquidity Position

BRKS has adequate liquidity position. The net cash accruals of the company stood at Rs. 1.53 Crore against Rs. 0.89 Crore of maturing debt obligations. The cash accruals of the company are estimated to remain comfortable to meet its repayment obligations during 2019-21. The average cash credit limit has been utilized at around 82 percent during the last 6 months ended February 2019. The company maintains unencumbered cash and bank balances of Rs. 0.68 crore as on March 31, 2018. The current ratio of the company stands low at 1.09 times as on March 31, 2018.

Outlook: Stable

Acuite believes that BRKS will maintain 'Stable' outlook over the medium term on account of the experienced management and moderate liquidity profile. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	228.88	159.78	155.06
EBITDA	Rs. Cr.	6.04	8.25	4.89
PAT	Rs. Cr.	0.65	2.21	0.90
EBITDA Margin	(%)	2.64	5.16	3.15
PAT Margin	(%)	0.28	1.38	0.58
ROCE	(%)	5.46	9.15	13.04
Total Debt/Tangible Net Worth	Times	7.01	5.87	3.91
PBDIT/Interest	Times	1.29	2.07	1.89
Total Debt/PBDIT	Times	14.97	9.94	9.98
Gross Current Assets (Days)	Days	144	179	100

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://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
06-Dec-2018	Packing Credit	Short Term	75.00	ACUITE A4+ Issuer not co-operating*
	Bills Discounting	Short Term	25.00	ACUITE A4+ Issuer not co-operating*
	Proposed Packing Credit	Short Term	25.00	ACUITE A4+ Issuer not co-operating*
06-Nov-2017	Packing Credit	Short Term	75.00	ACUITE A4+ (Assigned)
	Bills Discounting	Short Term	25.00	ACUITE A4+ (Assigned)
	Proposed Packing credit	Short Term	25.00	ACUITE A4+ (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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A4+ (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB- / Stable (Assigned)

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About Acuite Ratings & Research:

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debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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