

Press Release

Bola Raghavendra Kamath & Sons

June 03, 2020



Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B+** (read as ACUITE B plus) from '**ACUITE BB-**' (read as ACUITE double B minus) and short-term rating to '**ACUITE A4**' (read as ACUITE A four) from '**ACUITE A4+**' (read as ACUITE A four plus) on the Rs. 125.00 crore bank facilities of BOLA RAGHAVENDRA KAMATH & SONS (BRKS). The outlook is '**Stable**'.

The rating downgrade is on account of deterioration in business and financial risk profile. The firm's operating margin stood at negative 2.82 percent in FY2019 as against 2.64 percent in FY2018. This is on account of fluctuations in raw material cost. However, the firm's operating margin stood at 3.98 percent (Provisional) in FY2020. Further, the firm's current ratio stood at 0.62 times in FY2020 (Provisional) as against 0.86 times in FY2019.

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

Acuité has considered the standalone financial and business risk profile of BRKS to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations 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 firm exports ~90 percent of its products to Middle East, Europe, USA and Africa. 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 as reflected by operating revenue of Rs.202.85 crore in FY2019 as against Rs.228.88 crore in the previous year. Also, BRKS's revenue stood at Rs.209.00 crore (Provisional) for the period April to March 2020. Going forward, the firm's ability to sustain revenue growth amidst intense competition and rising input cost will remain a key concern. Further, there is no major impact of Covid-19 on the firm since it sells essential product.

Weaknesses

- **Decline in profitability margins**

The firm reported decline in profitability margins as reflected as negative 2.82 percent in FY2019 as against 2.64 percent in FY2018 and 5.16 percent in FY2017. The steep decline in operating margins in FY2019 is on account of fluctuations in raw material cost 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.

• Average financial risk profile

BRKS's financial risk profile is average marked by its net worth, moderate gearing and moderate debt protection measures. The net worth increased to Rs.31.31 crore as on 31 March, 2020 Prov as against Rs.21.43 crore in the previous year on account of capital infusion. The firm's gearing stood moderate at 2.71 times (Provisional) as on 31 March, 2020 as against 3.88 times in the previous year. The total debt of Rs.85.31 crore as on 31 March, 2020 (Provisional) consists of working capital borrowing of Rs.79.26 crore and long-term debt Rs. 6.05 crore. The net cash accruals stood at Rs.3.60 crore (Provisional) for FY2020. The interest coverage ratio stood at 1.76 times (Provisional) in FY20 as against negative 0.86 times in the previous year. NCA/TD ratio stood at 0.04 times (Provisional) in FY20.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 110-130 days.
- Substantial improvement in scale of operation (~Rs.230.00-250.00 crore), while maintaining profitability margin of around 4.50-6.00 per cent over the medium term.

Material Covenants

None

Liquidity position: Stretched

The liquidity of the firm is stretched marked by net cash accruals as compared to its maturing debt obligations. The firm generated cash accruals of Rs.1.5-3.6 crore during the last three years through 2018-20, while the maturing debt obligations were Rs.2.9-7.0 over the same period. The cash accruals are estimated to remain in the range of Rs.3.6 -4.9 crore, during 2021-23, with repayment obligation of Rs. 3.0. The firm maintains cash and bank balances of Rs.10.23 crore for FY2019. The current ratio is weak at 0.62 times (Provisional) as on March 31, 2020. Acuité believes that the liquidity of the firm is likely to improve over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that BRKS will maintain 'Stable' outlook over the medium term on account of the experienced management and modest scale of operations. 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	209.00	202.85
PAT	Rs. Cr.	2.40	(11.75)
PAT Margin	(%)	1.15	(5.79)
Total Debt/Tangible Net Worth	Times	2.72	3.88
PBDIT/Interest	Times	1.76	(0.86)

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Mar-2019	Packing Credit	Short Term	75.00	ACUITE A4+ (Reaffirmed)
	Bill Discounting	Short Term	25.00	ACUITE A4+ (Reaffirmed)
	Proposed Packing Credit	Short Term	15.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BB-/Stable (Assigned)
06-Dec-2018	Packing Credit	Short Term	75.00	ACUITE A4+ (Indicative)
	Bill Discounting	Short Term	25.00	ACUITE A4+ (Indicative)
	Proposed Packing Credit	Short Term	25.00	ACUITE A4+ (Indicative)
06-Nov-2017	Packing Credit	Short Term	75.00	ACUITE A4+ (Assigned)
	Bill 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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A4 (Downgraded from ACUITE A4+)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Downgraded from ACUITE A4+)
Term Loan	2018	Not Applicable	2021	10.00	ACUITE B+/Stable (Downgraded from ACUITE BB-/Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Grishma Muni Analyst - Rating Operations Tel: 022-49294035 grishma.muni@acuite.in	

About Acuité Ratings & Research:

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