

Press Release

Sri Gowri Cashew (SGC)

15 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr
Long Term Rating	SMERA B+ / Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating to '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 10.00 crore bank facilities of Sri Gowri Cashew (SGC). The outlook is '**Stable**'.

Sri Gowri Cashews (SGC) was established in 2006 by Mr. Mohandas Hegde. The firm is engaged in the processing of cashew kernels, shells, cashew husk and rejects. The firm imports cashews from Nigeria, Singapore, and Africa and sells final product in Maharashtra, Gujarat and Punjab. The installed capacity stands at approximately 90 bags of 80 kg each per day.

List of key rating drivers and their detailed description

Strengths:

Experienced management: SGC was established in 2006 by Mr. Mohandas Hegde. The promoter has experience of almost two decades in cashew nut processing.

Comfortable working capital cycle: SGC has comfortable working capital cycle evident from the working cycle days of 87 in FY2016 compared to 157 days in FY2015. The cash credit utilisation has been around 70 percent.

Moderate revenue growth: SGC booked revenue of Rs.25.95 crore in FY2016 compared to Rs.13.15 crore in FY2015. Further, in FY2016-17 the firm booked revenue of around Rs.30.00 crore. SGC has grown at a CAGR of 75 percent from FY2014 to FY2016.

Weaknesses

Declining operating margins: SGC's operating margins declined from 8.10 percent in FY2015 to 6.05 percent in FY2016 due to increase in raw material prices.

Susceptibility to fluctuations in raw material prices and fluctuations in forex rates: SGC imports cashew kernels from South Africa, Nigeria, Singapore, and other African countries. The firm is thus exposed to fluctuations in raw material prices and forex rates.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles

Outlook- Stable

SMERA believes that SGC will maintain a stable outlook and continue to benefit over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of increase in revenue backed by improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of significant losses and deterioration in its financial risk profile or working capital management.

About the Rated Entity – key financials

The firm reported Profit after Tax (PAT) of Rs. 0.30 crore on operating income of Rs. 25.95 crore in FY2016 compared to PAT of Rs. 0.22 crore on operating income of Rs. 13.15 crore in FY2015. The net worth stood at Rs. 1.97 crore as on 31 March, 2016 as against Rs.1.80 crore in the previous year.

Status of non-cooperation with previous CRA:

CRISIL, wide release dated August 11, 2017 had inter-alia mentioned the following: Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of Sri Gowri Cashews. This restricts CRISIL's ability to take a forward looking view on the credit quality of the entity. CRISIL believes that the information available for Sri Gowri Cashews is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL B' category or lower. Based on the last available information, CRISIL has downgraded the rating at 'CRISIL B/Stable'.

Any other information: Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument

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

Rating History for the last three years: NA

*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	N.A	N.A	N.A	10.00	SMERA B+/Stable (Assigned)

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ABOUT SMERA

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