

Press Release

KOMAL CASHEWS

22 December, 2017



Rating Assigned

Rating Rationale

Total Bank Facilities Rated*	Rs. 10.00 crore
Long Term Rating	SMERA BB-/ Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

* Refer Annexure for details

SMERA has assigned a long term rating of '**SMERA BB-**' (read as SMERA double B minus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) to above mentioned bank facilities of Komal Cashews. The outlook is '**Stable**'.

The Udupi based Komal Cashews (KC) was established in the year 2014 and is engaged in manufacturing raw kernels and graded cashew kernels. The firm has an installed capacity of 10-12 tons per day; utilization is around 50%.

Key Rating Drivers

Strengths

Experienced Management

The managing partners of the firm Mr. Shiva Prasad M Shenoy and Siddhi Prasad Shenoy have six years of experience in the cashew industry. SMERA believes that KC will benefit from its experienced management.

Moderate Financial Risk Profile

The financial risk profile is moderate marked by net worth of Rs. 3.13 crore as on March 31, 2017 as against Rs. 2.06 crore as on March 31, 2016. Net worth consists of subsidy from government and venture capital assistance from SFAC India to the tune of Rs 0.92 crore as on March 31, 2017. Gearing was moderate at 1.71x times as on March 31, 2017. Of the total debt, KC has term loan of Rs. 1.42 crore and working capital loan of Rs. 3.95 crore. Further, interest coverage ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 2.34x times and 1.51x times respectively for FY2017. SMERA expects the financial risk profile to remain moderate in the absence of any major debt funded capex plans in the future.

Weaknesses:

Margins susceptible to raw material price fluctuation

The primary raw material - raw cashew nut, being an agro product, has seasonal availability and its production is vulnerable to climatic changes, thus leading to fluctuations in its prices. The profitability of the firm thus remains susceptible to fluctuations in the prices of raw material and its availability.

Competitive and fragmented industry

KC operates in a highly fragmented cashew industry with limited entry barriers wherein the presence of large number of organized and unorganized players limit the bargaining power with customers.

Analytical approach

SMERA has considered standalone business and financial risk profile of KC.

Outlook – Stable

SMERA believes that KC will continue to benefit over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of sustainable improvement in the firm's scale of operations, while it maintains its profitability and moderate financial risk profile. Conversely, the outlook may be revised to 'Negative' if revenue and profitability decline or if its financial risk profile weakens.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.59	9.42	0.00
EBITDA	Rs. Cr.	1.53	0.51	0.00
PAT	Rs. Cr.	0.41	0.02	0.00
EBITDA Margin	(%)	7.44	5.41	0.00
PAT Margin	(%)	1.97	0.26	0.00
ROCE	(%)	16.99	9.29	0.00
Total Debt/Tangible Net Worth	Times	1.71	2.11	0.00
PBDIT/Interest	Times	2.34	1.94	0.00
Total Debt/PBDIT	Times	3.38	8.53	0.00
Gross Current Assets (Days)	Days	106	221	0

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

CRISIL Limited in its press release dated September 19, 2017 had inter-alia mentioned the following: 'CRISIL has been consistently following up with Komal Cashews (KC).for obtaining information through letters and emails dated July 13, 2017 and August 10, 2017 among others, apart from telephonic communication. However, the issuer has remained non cooperative.'

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Rating History (last three years)

Not Applicable

* Annexure - Details of instruments rated

Name of the facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB- /Stable Assigned
Pledge Loan	Not Applicable	Not Applicable	Not Applicable	5.25	SMERA A4+ Assigned
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB- /Stable Assigned
Proposed Pledge Loan	Not Applicable	Not Applicable	Not Applicable	1.75	SMERA A4+ Assigned

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ABOUT SMERA

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