

Press Release

SRI SAI MARUTHI CASHEW INDUSTRIES

14 February, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 6.00 Cr. |
| Long Term Rating | SMERA B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 6.00 crore bank facilities of SRI SAI MARUTHI CASHEW INDUSTRIES (SSMCI). The outlook is '**Stable**'.

SSMCI a partnership firm, was established by Mr. Jayaprakash Shetty and Mrs. Anita Shetty in 2008. The firm is engaged in the processing of raw cashewnuts (into cashew kernels, shells, cashew husk and rejects). The firm imports cashews from Tanzania, Benin Indonesia and other African countries and sells the processed products in Maharashtra, Delhi, Rajasthan and other states. The firm has capacity of approximately 35 bags - 80 kgs each per day.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

SSMCI was established by Mr. Jayaprakash Shetty and Mrs. Anita Shetty who have a decade of experience in the industry. The firm has an established track record of operations and has been growing at a CAGR of 35 percent.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs. 2.40 crore as on 31 March, 2017 as compared to Rs. 1.21 crore as on 31 March, 2016. The adjusted gearing (debt-equity) improved to 1.80 times as on 31 March, 2017 as against 3.98 times as on 31 March, 2016. The total debt mainly comprises working capital borrowings of Rs. 5.00 crore as on 31 March, 2017. The Interest Coverage ratio (ICR) stood at 1.49 times in FY2017 and 1.42 times in FY2016. The Debt Service Coverage ratio (DSCR) stood at 1.40 times in FY2017 as against 1.38 times in FY2016. The total outstanding liabilities to total net worth (TOL/TNW) stood at 1.86 times as on 31 March, 2017 as against 4.04 times as on 31 March, 2016. Going forward, SMERA expects the firm to maintain its financial risk profile and improve its net worth.

Weaknesses

- **Competitive and fragmented industry**

The firm operates in a highly competitive and fragmented industry characterised by a large number of unorganised players affecting margins.

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Asset (GCA) days of 229 in FY2017 as against 344 days in FY2016. The GCA days are mainly dominated by inventory days of 154 in FY2017 as against 292 days in FY2016. The average bank limit utilisation for the past six months stood at 90 percent. SMERA believes that the efficient working capital management is important for the firm in order to maintain a stable credit profile.

- **Margins are susceptible to volatility in raw material prices**

The operating margins are susceptible to fluctuations in raw material prices and foreign exchange fluctuation

risk. The firm procures 90 percent of its raw cashewnuts through imports from African countries.

• Low Profitability Margins

The EBITDA margin is declined to 8.38 percent in FY2017 against 10.18 percent in FY2016. PAT margin of the firm is 1.13 percent in FY2017 as compared to 0.44 percent in FY2016. SMERA believes that profitability margins will remain stagnant in the medium term.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles SSMCI to arrive at the rating.

Outlook: Stable

SMERA believes that SSMCI will maintain a Stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher than expected revenue and liquidity position while maintaining profitability margins. Conversely, the outlook will be revised to 'Negative' in case of significant decline in firm's revenue and profitability or higher than expected debt funded working capital requirement leading to strain on its debt servicing ability.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 8.74 | 4.87 | 3.54 |
| EBITDA | Rs. Cr. | 0.73 | 0.50 | 0.29 |
| PAT | Rs. Cr. | 0.10 | 0.02 | 0.02 |
| EBITDA Margin | (%) | 8.38 | 10.18 | 8.14 |
| PAT Margin | (%) | 1.13 | 0.44 | 0.43 |
| ROCE | (%) | 10.15 | 8.76 | 14.03 |
| Total Debt/Tangible Net Worth | Times | 1.80 | 3.98 | 2.93 |
| PBDIT/Interest | Times | 1.49 | 1.42 | 1.57 |
| Total Debt/PBDIT | Times | 5.78 | 9.49 | 7.63 |
| Gross Current Assets (Days) | Days | 229 | 344 | 180 |

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto 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 |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------|
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA B+ / Stable |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | SMERA B+ / Stable |

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ABOUT SMERA

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