

Press Release

HEGDE CASHEWS

February 17, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.00 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. 9.00 crore bank facilities of HEGDE CASHEWS. The outlook is '**Stable**'.

Hedge Cashews (HC) is a Mangalore-based proprietorship concern established in 2012 by Mr. Prathap Hegde. The firm is engaged in the processing of cashew kernels at Mangalore, Karnataka. The installed capacity stands at 90 bags (60 kg per bag) of raw cashew nuts per day. The firm procures raw cashews from Africa - Ivory Coast, Benin, Guinea, Indonesia and Tanzania. It caters to traders in Bangalore, Rajasthan, Maharashtra and Delhi.

Key Rating Drivers

Strengths

- **Experienced promoters**

HC is engaged in the processing of cashew kernels for the last six years. The firm benefits from the seven years of experience of the promoter, Mr. Prathap Hegde, in the cashew processing industry.

- **Comfortable operating cycle**

The firm has a comfortable operating cycle with Gross Current Days (GCA) of around 85 for FY2017 as against 153 days in the previous year. The improvement in the GCA days is on account of improvement in the inventory days to 112 days in FY2017 from 56 days in the previous year. The inventory days tend to be on the higher side during the year end due to the procurement season being from January to March and June to July.

Weaknesses

- **Limited track record of operations**

The firm has limited track record of operations. Hence, the scale of operations is small. However, the firm reported operating income of Rs. 19.90 crore for FY 2017 as against Rs. 9.80 crore in the previous year. The revenue growth is mainly supported by trading income of around 46 percent during FY2017 as compared to nil in the previous year. Further, HC reported operating income of Rs. 13.00 crore during April, 2017 to December, 2017.

- **Weak financial risk profile**

The financial risk profile of HC is weak marked by low networth of Rs. 1.08 crore as on 31 March, 2017 as against Rs. 0.47 crore in the previous year. Further, the gearing position is highly leveraged with debt to equity ratio of 5.68 times as on 31st March, 2017 as against 13.49 times in the previous year. The improvement in the gearing position is on account of retained earnings and capital infusion by the promoter. Further, the interest coverage ratio stood at 1.96 times for FY 2017 as against 1.61 times in the previous year.

- **Margins are susceptible to volatility in raw material prices and forex rates**

The main raw material procured by HC is raw cashew nuts from African countries. The price of the raw

cashew nut is highly volatile in nature. The raw material cost constituted ~87 percent of the total sales for FY2017 as against 78.37 percent in the previous year. Hence, the profitability of the firm is susceptible to volatility in raw material prices and revenue mix i.e. processing and trading. Further, HC imports around 95 percent of its purchases from African countries including Ivory Coast, Guinea, Tanzania, Indonesia etc. Hence the profitability of HC is exposed to fluctuations in forex rates in the absence of adequate forex cover.

- **Highly fragmented and competitive industry**

HC is exposed to intense competition as the cashew processing industry is highly fragmented and competitive which limits the pricing flexibility of the players.

- **Proprietorship concern constitution**

HC being a proprietorship concern is exposed to the inherent risk of capital withdrawal, which will have an impact on the credit profile of the firm.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Hegde Cashews to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on HC will remain stable over the medium term on account of the experience of the promoter in the cashew processing industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	19.90	9.80	8.09
EBITDA	Rs. Cr.	1.30	1.07	0.88
PAT	Rs. Cr.	0.31	0.13	0.13
EBITDA Margin	(%)	6.56	10.94	10.91
PAT Margin	(%)	1.56	1.34	1.56
ROCE	(%)	16.24	13.83	22.59
Total Debt/Tangible Net Worth	Times	5.68	13.49	12.68
PBDIT/Interest	Times	1.96	1.61	1.92
Total Debt/PBDIT	Times	4.50	5.59	5.58
Gross Current Assets (Days)	Days	85	153	156

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

CRIISL in its press release dated 29 September, 2017 had mentioned the following: "CRISIL has been consistently following up with Hegde Cashews (HC) for obtaining information through letters and emails dated August 21, 2017 and September 08, 2017 among others, apart from telephonic communication. However, the issuer has remained non cooperative."

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.75	SMERA B+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.25	SMERA B+ / Stable

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Shashikala Hegde Senior Analyst - Rating Operations Tel: 022-67141321 shashikala.hegde@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.