

Press Release

Hegde Cashews

May 06, 2019



Rating Reaffirmed

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 9.00 Cr. |
| Long Term Rating | ACUITE B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 9.00 crore bank facilities of HEGDE CASHEWS (HC). The outlook is '**Stable**'.

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.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoters**

HC is engaged in the processing of cashew kernels for over six years. The firm benefits from almost 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 Assets (GCA) of around 124 days in FY2018 as against 85 days in the previous year. The stretched GCA days is on account of inventory of 108 days in FY2018 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.15.54 crore for FY 2018 as against Rs.19.90 crore in the previous year. The decline in revenue is mainly on account of low trading income during FY2018 as compared to the previous year. Further, HC reported operating income of Rs.13.37 crore during April, 2018 to December, 2018.

- **Weak financial risk profile**

The financial risk profile of HC is weak marked by low net worth of Rs.1.38 crore as on 31 March, 2018 as against Rs.1.08 crore in the previous year. Further, the gearing position is highly leveraged with debt to equity ratio of 4.20 times as on 31 March, 2018 as against 5.68 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 (ICR) stood at 1.73 times for FY 2018 as against 1.96 times in the previous year.

- **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 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.

Liquidity Position:

HC has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm had cash accruals of Rs.0.43 crore during the FY2018 as against annual repayment of around Rs.0.09 crore. The cash accruals of the concern are estimated to remain around Rs.0.57-0.96 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.09 crore. The firm's operations are moderately working capital intensive as marked by Gross Current Assets (GCA) of 124 days in FY 2018. The current ratio stood at 0.96 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of adequate cash accrual as compared to repayments over the medium term.

Outlook: Stable

Acuite 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 | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 15.54 | 19.90 | 9.80 |
| EBITDA | Rs. Cr. | 1.22 | 1.30 | 1.07 |
| PAT | Rs. Cr. | 0.17 | 0.31 | 0.13 |
| EBITDA Margin | (%) | 7.82 | 6.56 | 10.94 |
| PAT Margin | (%) | 1.11 | 1.56 | 1.34 |
| ROCE | (%) | 13.28 | 16.24 | 13.83 |
| Total Debt/Tangible Net Worth | Times | 4.20 | 5.68 | 13.49 |
| PBDIT/Interest | Times | 1.73 | 1.96 | 1.61 |
| Total Debt/PBDIT | Times | 4.76 | 4.50 | 5.59 |
| Gross Current Assets (Days) | Days | 124 | 85 | 153 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|-------------------------------|
| 17-Feb-2018 | Cash Credit | Long Term | 4.75 | ACUITE B+ / Stable (Assigned) |
| | Proposed Cash Credit | Long Term | 4.25 | ACUITE B+ / Stable (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 |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.75 | ACUITE B+ / Stable (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.25 | ACUITE B+ / Stable (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Disha Parmar Analyst - Rating Operations Tel: 022-49294064 disha.parmar@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in |

About Acuite Ratings & Research:

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