

Press Release

Hegde Cashews

September 14, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Downgraded from ACUITE B+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating of '**ACUITE B**' (read as **ACUITE B**) from **ACUITE B+ (read as ACUITE B plus)** on the Rs. 9.00 crore bank facilities of Hegde Cashews (HC). The outlook is '**Stable**'.

The rating downgrade is based on the declining operating performance as exhibited by revenues of Rs. 8.38 crore in FY2020 (Provisional) from Rs. 17.15 crore in FY2019. The operating performance has been impacted on account of slackening demand and sudden decline in cashew prices coupled with the impact of COVID – 19 in the last quarter of FY2020. The net loss in FY2020 (Provisional) has led to further deterioration in coverage indicators along with stretch in liquidity profile resulting in insufficient net cash accruals and fully utilized bank lines.

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 eight years. The firm benefits from over a decade experience of the promoter, Mr. Prathap Hegde, in the cashew processing and trading industry. The firm is also well supported by the second line of management. The firm has been able to maintain longstanding relationships with its customers and suppliers. Acuite believes the firm is likely to benefit from the extensive experience of the promoter.

Weaknesses

• Decline in scale of operations and margins

The operating income of the firm has declined to Rs. 8.38 crore in FY2020 (Provisional) from Rs. 17.15 crore in FY2019. Also, operating and PAT margins of the firm have declined to 2.68 percent and (6.22) percent in FY2020 (Provisional) as compared to 6.34 percent and 0.46 percent in FY2019. The decline in operating performance is due to slackening demand and sudden decline in cashew prices. The firm has recorded a net loss of Rs.0.52 crores in FY2020 (Provisional) as against a net profit of Rs. 0.08 crores in FY2019.

• Average financial risk profile and working capital intensive nature of operations

The financial risk profile is marked by a negative net worth of Rs. (0.42) crore as on 31 March, 2020 (Provisional) as compared to Rs. 0.73 crore 31 March, 2019 due to losses in the current year. The gearing (debt to equity ratio) stood high between 4.20 to 6.05 times during last three years ending 31 March 2020 (Provisional). The Interest Coverage Ratio (ICR) stood low at 0.43 times in FY2020 (Provisional) as against 1.46 times in FY2019. The Debt Service Coverage Ratio (DSCR) stood low at 0.37 times in FY2020 (Provisional) as against 1.32 times in FY2019. Further, the firm has a moderately working capital intensive cycle marked by Gross Current Asset (GCA) days of 299 days for FY2020 (Provisional), which has increased from 120 days for FY2019. The increase in GCA days was marked by an increase in inventory days to 227 days for FY2020 (Provisional) from 120 days for FY2019. Debtor days stood at 27 days for FY2020 (Provisional) as against 15 days for FY2019.

• Highly Competitive industry and margins susceptible to raw material prices

The cashew industry is highly competitive, with low entry barriers. The firm is exposed to competition from organised as well as unorganised players in the industry. Further, cashew being Agro commodity prices are volatile and fluctuating in nature, having a direct impact on margins of the firm.

• 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.

Rating Sensitivities

- Decline in revenues and margins
- Elongation in working capital cycle and stretch in liquidity profile

Liquidity Position: Poor

The liquidity profile of the firm stood slightly stretched, the debt obligation repayment stood at Rs.0.10-0.50 crore as against Rs.0.35 - 0.45 crore net cash accruals for three years ending FY2020 (Provisional). The working capital cycle of HC stood high on account of high GCA (Gross Current Asset) days of 299 in FY2020 (Provisional) which has increased significantly from 120 days in FY2019. The working capital bank limit utilisation stood at 98.00 percent for the last nine-month ending August 2020. The Current Ratio of the firm stood low at 1.24 times in FY2020 (Provisional) as compared to 0.80 times in FY2019. The liquidity of the firm is likely to improve over near to medium term owing to an increase in the scale of operations and margins.

Outlook: Stable

Acuite believes that HC will maintain a 'Stable' outlook in the medium term on the back of its experienced promoters. The outlook may be revised to 'Positive' in case the firm registers higher than expected revenue while booking healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of higher than anticipated decline in revenues leading to deterioration in the overall financial risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	8.38	17.15
PAT	Rs. Cr.	(0.52)	0.08
PAT Margin	(%)	(6.22)	0.46
Total Debt/Tangible Net Worth	Times	(22.35)	6.02
PBDIT/Interest	Times	0.43	1.46

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Jul-2020	Cash Credit	Long Term	4.75	ACUITE B+ (Indicative)
	Proposed Cash Credit	Long Term	4.25	ACUITE B+ (Indicative)
06-May-2019	Proposed Cash Credit	Long Term	4.25	ACUITE B+/ Stable (Reaffirmed)
	Cash Credit	Long Term	4.75	ACUITE B+/ Stable (Reaffirmed)
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 (Downgraded from B+)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE B/Stable (Downgraded from B+)

Contacts

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