

Press Release

V V S Cashew

23 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.50 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**) to the Rs.5.50 crore bank facilities of V V S Cashew (VVSC). The outlook is '**Stable**'.

VVSC was established in 2010 as a partnership firm by Mr. Mokkadurai, Mr. Vanjinathan, Mr. Ramarajan and Mr. Shekar. The firm is engaged in the processing of cashews from raw kernels. The plant is located at Tamil Nadu and produces ~700 kgs of cashews per day.

Key Rating Drivers

Strengths

Experienced management

Mr. Mokkadurai (Promoter and Managing Partner) was engaged in cashew trading for over three decades before establishing VVSC. The other Partners, Mr. Ramarajan and Mr. Shekar have around a decades experience in the said business. VVSC benefits from the vast experience of the management in the cashew industry.

Weaknesses

Modest scale of operations

The firm registered a modest revenue of around Rs.6.48 crore in FY2017 as against Rs.4.26 crore in FY2016, posting a growth of 58 percent. The firm reported revenue of ~Rs.6.20 (provisional) until January, 2018.

Margins susceptible to volatility in raw material prices and intense competition

The operating margin decreased to 5.07 percent in FY2017 from 8.95 percent in FY2016 and 15.46 percent in FY2015. The PAT margins are thin at 1.41 percent in FY2017 as against 1.46 percent in FY2016 and 2.61 percent in FY2015. The operating margins are susceptible to fluctuations in raw material prices and foreign exchange fluctuation risk as the firm imports 90 percent of its raw cashewnuts from African countries. Further, the firm operates in a highly competitive and fragmented industry characterised by a large number of unorganised players affecting margins.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of VVSC.

Outlook: Stable

SMERA believes that VVSC 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 while maintaining profitability margins. Conversely, the outlook will be revised to 'Negative' in case of significant decline in revenue and profitability.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	6.40	4.26	2.63
EBITDA	Rs. Cr.	0.32	0.38	0.41
PAT	Rs. Cr.	0.09	0.06	0.07
EBITDA Margin	(%)	5.07	8.95	15.46
PAT Margin	(%)	1.44	1.46	2.61
ROCE	(%)	5.81	7.90	18.76
Total Debt/Tangible Net Worth	Times	1.41	1.39	1.45
PBDIT/Interest	Times	1.90	1.48	1.48
Total Debt/PBDIT	Times	8.30	6.55	5.25
Gross Current Assets (Days)	Days	154	285	500

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA B+ / Stable
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B+ / Stable

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