

Press Release

Panchakshari Cashews (PC)

09 June, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs. 12.02 Cr.
Long Term Rating	ACUITE B+/Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) to the total bank facilities of Rs.12.02 crore of Panchakshari Cashews (PC). The outlook is 'Stable'.

The rating upgrades reflects steady increase in the revenue levels of the firm coupled with improvements in the working capital intensity. The rating continues to reflect the extensive experience of management. However, this is partially offset by the below average financial risk profile of the firm.

PC was established in June 2017 by Ms. Shalini Raghuram. The proprietary firm is engaged in processing of cashews with an installed capacity of 6 tons per day (TPD). The manufacturing facility is located in Udupi district of Karnataka. The firm imports its raw material from Ghana, Ivory Coast and Benin and caters to the local market of Bangalore, Mysore, Delhi, Mumbai and Chandigarh.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of PC while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced Management

The proprietor of the firm Ms. Shalini Raghuram has almost a decade experience in processing and trading of cashews through other organization. This helped the firm to establish healthy relations with suppliers and customers over the years.

Weaknesses

Below average financial risk profile

The below average financial risk profile of the firm is marked by low net worth, high gearing and healthy debt protection metrics. The net worth of the firm stands low at Rs.3.37 crore in FY2020 (Prov.) as compared to Rs.2.77 crore in FY2019. This improvement in Networth is mainly due to retention of current year profit. The gearing of the firm stands high at 2.03 times as on March 31, 2020 (Prov.) when compared to 2.42 times as on March 31, 2019. The total debt of Rs 6.85 crore in FY2020 (Prov.) consists of long term loan of Rs.1.86 crore, short term loan of Rs.5.00 crore. Interest coverage ratio (ICR) is comfortable and stands at 2.59 times in FY2020 (Prov.) as against 1.96 times in FY 2019. The debt service coverage ratio also stands comfortable at 1.77 times in FY2020 (Prov.) as against of 1.42 times in FY2019. The net cash accruals to total debt (NCA/TD) stand moderate at 0.15 times in FY2020 (Prov.) as compared to 0.10 times in the previous year. Acuite believes that the financial risk profile of the company will be below average over the medium term backed by no fresh infusion of the capital into the business.

Decline in profitability margin

The operating profit margin of the firm has declined to 6.24 per cent in FY2020 (Prov.) as compared to 9.70 per cent in FY2019. This decline in profitability is mainly on account of increase in competition in domestic market has let down the price of the kernels, since the export has completely shut down from December 2019 due to COVID 19 pandemic in many countries. However, the net profitability margin of the firm has increased to 2.29 per cent in FY2020 (Prov.) as compared to 2.01 per cent in previous year.

Rating Sensitivity

- Scaling up of operations while stabilizing their profitability margin.
- Improvement in financial risk profile.

Material Covenant

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accruals of Rs.1.00 crore as against Rs.0.29 crore of yearly debt obligations in FY2020 (Prov.). The cash accruals of the firm are estimated to remain in the range of around Rs. 1.06 crore to Rs. 1.48 crore during 2020-22 against Rs.0.46 crore repayment in FY2021 and Rs. 0.62 crore in FY2022. The working capital intensity of the firm is marked by gross current asset (GCA) days of 100 days in FY2020 (Prov.). The bank limit is 80 per cent utilized by the firm for the last six months ended 30th Apr 2020. The firm has also applied for Covid19 Emergency Credit Line of Rs.0.50 crore is yet to be sanctioned by the bank. The said loans are to be repaid over a period of 2 years with a six months moratorium. Hence, Acuite believes that this short term funding will ease the liquidity position of the firm. Moreover, the firm has availed of moratorium on their CC & TL facilities till the end of May 2020. The liquidity position of the firm post the moratorium would be a key credit monitorable.

Outlook: Stable

Acuite believes that PC will maintain 'Stable' outlook over the medium term from the promoter's experience in the agro industry. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while stabilising its commercial operations efficiently. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and financial risk profile deteriorates owing to higher-than-expected increase in working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	26.16	15.01
PAT	Rs. Cr.	0.60	0.30
PAT Margin	(%)	2.29	2.01
Total Debt/Tangible Net Worth	Times	2.03	2.42
PBDIT/Interest	Times	2.59	1.96

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
18-Mar-2019	Cash Credit	Long Term	6.25	ACUITE B/Stable (Reaffirmed)
	Term Loan	Long Term	1.77	ACUITE B/Stable

				(Reaffirmed)
	Proposed Cash Credit	Long Term	4.00	ACUITE B/Stable (Assigned)
25-Apr-2018	Cash Credit	Long Term	6.25	ACUITE B/Stable (Assigned)
	Term Loan	Long Term	1.77	ACUITE B/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.25	ACUITE B+/Stable (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	1.77	ACUITE B+/Stable (Upgraded)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/Stable (Upgraded)

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About Acuité Ratings & Research:

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