

Press Release

Sri Shanthadurga Cashew Processors

May 21, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.5.80 Crore.
Long Term Rating	SMERA B+/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+** (read as SMERA B plus) to the Rs.5.80 crore bank facilities of Sri Shanthadurga Cashew Processors. The outlook is '**Stable**'.

Sri Shanthadurga Cashew Processors (SSCP) is a Mangalore-based proprietorship concern established in 2004 by Mrs. Akshatha Kamath. The firm is engaged in trading and processing of cashew kernels at Mangalore (Karnataka). Initially, the firm started the business on job work basis and later started their own processing in 2004 and subsequently trading activity in 2014. Mrs. Akshatha Kamath is well supported by her husband, Mr. Nagaraj Kamath (Manager) who has an experience of almost two decades in the cashew business.

Key rating drivers

Strengths

Established track record of operations and experienced management: Established in 2004, Sri Shanthadurga Cashew Processors (SSCP) has an established operational track record of more than a decade which has helped to develop and maintain long standing relations with customers and suppliers. The firm also benefits from its experienced proprietor, Mrs. Akshatha Kamath, who possess around 14 years of experience.

Moderate working capital management: The moderate working capital operations as evident from Gross Current Assets (GCA) of 121 days as on 31 March, 2017 as against 59 days as on 31 March, 2017. The inventory days ranged from 26 days to 104 days and debtor days ranged from 10 days to 17 days during FY2015-FY2017. The firm gives credit of up to a week to its customers. Inventory days increased to 104 as on 31 March, 2017 as compared to 48 days as on 31 March, 2016 due to stocking of more traded raw cashew nuts as the prices decreased. SMERA believes that the working capital operations of the firm will remain moderate as evident from increased inventory levels in the business.

Weaknesses

Modest scale of revenues and operating margins: SSCP reported operating revenues of Rs.24.11 crore in FY2017 as compared to Rs.16.99 crore in FY2016. For FY2018, SSCP has reported revenues of Rs.27.02 crore (Provisional), which is a growth of ~13 percent over FY2017. The growth in revenue was supported by increase in revenue from sale of processed cashew kernels. The operating margins deteriorated to 3.95 percent in FY2017 from 4.18 percent in FY2016 due to increase in share of revenue from trading activity. Revenues are expected to be at modest level of Rs.30.0 crore to Rs.35.0 crore over the medium term with thin profitability margins due to low value addition and trading nature of operations.

Weak financial risk profile: The weak financial risk profile is marked by low net worth, high gearing and modest debt protection metrics. The net worth stood at Rs.0.79 crore as on 31 March, 2017, improved by Rs.0.24 crore in FY2017. It was mainly due to accretion of profit to internal accruals. The gearing is high at 7.91 times in FY2017, deteriorated from 4.64 times in FY2016. The gearing levels deteriorated due to

incremental debt funded working capital. Short term debt increased to Rs.5.78 crore as on 31 March, 2017 from Rs.2.21 crore as on 31 March, 2016. Interest Coverage Ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 1.75 times and 0.07 times respectively for FY2017. SMERA believes that the financial risk profile such as gearing, ICR and NCA/TD are expected to remain at the same level over the medium term due to incremental debt funded working capital requirements.

Analytical approach:

SMERA has considered standalone business and financial risk profiles of SSCP to arrive at this rating.

Outlook – Stable

SMERA believes that the outlook on SSCP 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 revenues and profitability while improving its financial risk profile by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory levels or decline in the profitability.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.11	16.99	9.31
EBITDA	Rs. Cr.	0.95	0.71	0.50
PAT	Rs. Cr.	0.36	0.29	0.24
EBITDA Margin (%)	(%)	0.95	0.71	0.50
PAT Margin (%)	(%)	1.48	1.73	2.58
ROCE (%)	(%)	18.01	28.35	57.26
Total Debt/Tangible Net Worth	Times	7.91	4.64	1.80
PBDIT/Interest	Times	1.75	2.02	2.45
Total Debt/PBDIT	Times	6.43	3.42	1.97
Gross Current Assets (Days)	Days	121	59	53

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>

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

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	5.80	SMERA B+/Stable (Assigned)

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ABOUT SMERA

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