Press Release

Pruthwi Exports

December 02, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.8.75 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** on the Rs.8.75 crore bank facilities of Pruthwi Exports (PE). The outlook is **'Stable'**.

The rating reaffirmation draws comfort on account of extensive experience of the promoters, modest scale of operations with improvement in revenues in FY2020 (Provisional). The rating, however, continues to remain constrained on account of working capital-intensive operations driven majorly by high receivable levels, below-average financial risk profile with high gearing and moderate debt protection metrics and the impact on operations in FY2021 due to global outbreak of COVID-19.

About the Firm

Karnataka-based, PE was established in 2017 and commenced its operations in April, 2018. The firm is engaged in the processing of Cashew Kernels from Raw Cashew Nuts (RCNs). The firm is promoted by Mr. Shankar Hegde, Mrs. Poornima S Hegde, Mrs. Bhoomika Hegde and Mr. Pruthweesh Hegde. The RCNs are processed at the firm's manufacturing facility at Udupi (Karnataka). The manufacturing unit has an installed capacity of 3MT per day.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of PE to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of the promoters in the cashew-processing industry**
  The promoters, Mr. Shankar Hegde, Mrs. Poornima S Hegde, Mrs. Bhoomika Hegde and Mr. Pruthweesh Hegde have over two decades of experience in the said line of business. The extensive experience has enabled the firm to forge healthy relationships with customers and suppliers, resulting in ease of procurement of RCNs and aid in revenue growth. The partners of PE are also active partners in a firm named 'Favourite Cashews', which was established in 2008 and is engaged in the same line of business.
  Acuité believes that partners experience is expected to support its business risk profile over the medium term; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

Weaknesses

- **Below average financial risk profile**
  PE's financial risk profile is below average marked by low net worth, poor gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Tangible net worth of the firm stood modest at Rs.1.95 Cr as on 31st March, 2020 (Provisional) against Rs.1.34 Cr as on 31st March, 2019. The gearing stood at 3.11 times as on 31st March, 2020 (Provisional) against 3.15 times as on 31st March, 2019. TOL/TNW stood poor at 3.18 times as on 31st March, 2020 (Provisional) against 3.24 times as on 31st March, 2019. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 1.82 times and 0.07 times, respectively in FY2020 (Provisional).
  Acuité believes that the financial risk profile of the firm is expected to remain at a similar level on account of modest net worth and moderate debt protection metrics for the medium term.

- **Working capital intensive operations**
  PE's working capital operations are intensive marked by Gross Current Asset days (GCA) of 178 days in FY2020 (Provisional) against 116 days in FY2019 owing to high receivable days. The debtors' days were recorded at 129 days in FY2020 (Provisional) against 42 days in FY2019; this is majorly due to the delayed payment from the customers due to the current market scenario. The inventory days were recorded at 45 days in FY2020 (Provisional) against 68 days in FY2019. Further, the inventory holding policy followed by the firm ranges from 6-9 months due to seasonal availability of RCNs, price fluctuations and to cater to spot orders. However, working capital bank lines remain utilized at ~71 percent for last eight months ended November, 2020.
  Acuité believes that the working capital operations are expected to remain on similar lines with respect to the receivable cycle; which will remain a key rating sensitivity factor.

- **High competition and forex risk**
  The firm operates in a highly competitive industry with the presence of a large number of organized as well as unorganized players in India. The lack of product differentiation and intense competition restricts the bargaining power and price flexibility of the firm. The firm imports a major portion of raw materials from Africa. So, the firm is exposed to volatility in movements in the exchange rates due to the absence of hedging.

- **Risk of withdrawal associated with partnership nature**
  PE was established as a partnership firm in 2017. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities
- Growth in revenue with sustainability of the profitability margins
- Any deterioration of its financial risk profile and liquidity
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics

Material Covenants
None

Liquidity: Stretched
PE has a stretched liquidity position as reflected by modest net cash accruals and intensive working capital operations. The firm generated cash accruals of Rs.0.41 Cr in FY2020 (Provisional) against moderate repayment obligations of Rs.0.02 Cr. It is expected to generate cash accruals in the range of Rs.0.39 Cr- Rs.0.68 Cr over the medium term, against moderate repayment obligations in the range of Rs.0.02 Cr- Rs.0.04 Cr. Unencumbered cash and bank balances stood at Rs.0.02 Cr as on 31st March, 2020 (Provisional) with a current ratio of 1.41 times in the same period. The working capital operations are intensive marked by GCA of 178 days for FY2020 (Provisional). The working capital limits remain utilized at ~71 percent for the last eight months ended November, 2020.
Acuité believes that liquidity profile is expected to remain stretched on account of working capital-intensive operations and modest cash accruals against moderate repayment obligations.

Outlook: Stable
Acuité believes that PE will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues and profitability from the current levels while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or in case of deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	12.42	10.63
PAT	Rs. Cr.	0.16	0.05
PAT Margin	(%)	1.31	0.48
Total Debt/Tangible Net Worth	Times	3.11	3.15
PBDIT/Interest	Times	1.82	1.57

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

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
05-Sep-2019	Cash Credit	Long Term	7.00	ACUITE B+/ Stable (Reaffirmed)
	Term Loan	Long Term	1.75	ACUITE B+/ Stable (Reaffirmed)
26-Jun-2018	Term Loan	Long Term	1.75	ACUITE B+/ Stable (Assigned)
	Cash Credit	Long Term	7.00	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	7.00	ACUITE B+/ Stable (Reaffirmed)
Term Loan	Sep-2017	10.11%	Sep-2024	1.75	ACUITE B+/ Stable (Reaffirmed)

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