

Press Release

Sidhivinayaka Cashew Industries

JUNE 29, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.45 Cr.
Long Term Rating	ACUITE B+ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.5.45 crore bank facilities of Sidhivinayaka Cashew Industries (SCI). The outlook is '**Stable**'.

SCI is an Udupi-based proprietorship concern established in 1995. The concern is promoted by Mrs. Shubha Shetty; however the day to day operations are handled by Mr. V. Ranjith Shetty for the past eight years. The concern is engaged in processing of cashew kernels from raw cashew nuts. The processing unit is located in Udupi (Karnataka) and has an installed capacity of processing 40 bags (80 kg per bag) of raw cashew nuts per day. SCI procures raw cashews from West and East African countries like Ivory Coast, Benin, Guinea, Indonesia and Tanzania among others. SCI caters to wholesalers located all over India.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SCI is engaged in processing of cashew kernels from raw cashew nuts for more than two decades and has maintained long standing relations with its customers and suppliers. The concern also benefits from extensive experience of its management i.e. Mrs. Shubha Shetty and Mr. V. Ranjith Shetty who collectively possess around eight years of experience in the cashew processing activity.

- **Comfortable liquidity position**

SCI has a comfortable operating cycle with Gross Current Assets (GCA) of around 100 days for FY2018 (Provisional) as against 136 days in the previous year. The improvement in the GCA days is on account of improvement in the inventory days to 33 days in FY2018 (Provisional) as against 95 days in the previous year. The inventory days tend to be on higher side during the year end due to the procurement season from January to March. The liquidity position of the concern is comfortable with bank limit utilisation at 68.93 percent as on 31 April, 2018.

Weaknesses

- **Small scale of operation**

The concern is operating at small scale with operating income of Rs.8.88 crore for FY2018 (Provisional) as against Rs.11.05 crore in the previous year. The decline in revenue is mainly on account of slowdown in sales due to GST implementation. The concern also delayed the procurement of raw cashew nuts due to increase in prices during FY2017-18. Going forward, Acuite expects SCI to report growth in revenue due to improvement in customer orders.

- **Profitability is susceptible to volatility in raw material prices and forex rates**

The operating margin is stable as same stood at 6.08 percent for FY2018 (Provisional) as against 6.07 percent in the previous year. The main raw material procured by SCI is raw cashew nuts from African countries and the price of the raw cashew nut is highly volatile in nature. The raw material cost constituted around 82 percent of the total sales in FY2018 (Provisional) as against 86 percent in the previous year. Hence, the profitability of the concern is susceptible to the volatility in raw material prices. Further, SCI imports around 100 percent of its purchases from African countries including Ivory

Coast, Guinea and Tanzania among others. Hence, the profitability of SCI is exposed to fluctuation in forex rates in the absence of adequate forex cover.

• **Highly fragmented and competitive industry**

SCI is exposed to intense competition as the cashew processing industry is highly fragmented and competitive in nature which also limits the pricing flexibility of the players.

• **Low tangible network and Proprietorship concern**

The concern operates at low net worth of Rs.1.51 crore as on 31 March, 2018 (Provisional) as against Rs.1.35 crore in the previous year. Further, SCI being a proprietorship concern is exposed to the inherent risk of such entities which will have an impact on the credit profile of the concern.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SCI for arriving at the rating.

Outlook: Stable

Acuite believes that the outlook on the SCI 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 concern registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	9.24	11.12	7.63
EBITDA	Rs. Cr.	0.56	0.67	0.59
PAT	Rs. Cr.	0.20	0.26	0.24
EBITDA Margin	(%)	6.08	6.07	7.67
PAT Margin	(%)	2.18	2.34	3.20
ROCE	(%)	14.24	14.74	16.39
Total Debt/Tangible Net Worth	Times	1.15	2.40	3.16
PBDIT/Interest	Times	2.54	2.21	2.45
Total Debt/PBDIT	Times	2.65	4.36	5.48
Gross Current Assets (Days)	Days	100	136	201

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <http://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE B+ / Stable (Assigned)
Overdraft against Goods Pledge	Not Applicable	Not Applicable	Not Applicable	3.65 [^]	ACUITE B+ / Stable (Assigned)

[^]Includes sublimit of Trust loan to the extent of Rs. 1.10 crore.

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Shashikala Hegde Senior Analyst - Rating Operations Tel: 022-67141321 shashikala.hegde@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.