

## Press Release

### Sidhivinayaka Cashew Industries

JUNE 29, 2018



### Rating Assigned

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

\* Refer Annexure for details

### Rating Rationale

Acuité 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, Acuité 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 networth 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**

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

### **Outlook: Stable**

Acuité 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)

<sup>^</sup>Includes sublimit of Trust loan to the extent of Rs. 1.10 crore.

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### About Acuité Ratings & Research:

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