

Press Release

SIDHIVINAYAKA CASHEW INDUSTRIES

June 07, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 5.45 crore bank facilities of SIDHIVINAYAKA CASHEW INDUSTRIES. The outlook is '**Stable**'.

The reaffirmation of the rating reflects experienced management, efficient working capital operations; however, the rating is constrained by modest and fluctuating revenues and modest net worth.

Sidhivinayaka Cashew Industries (SCI) is a proprietorship concern promoted by Mrs. Shubha Shetty, established in the year 1995. The concern is engaged in processing cashew kernels from raw cashew nuts. SCI has its processing unit in Udupi, Karnataka with an installed capacity of processing 30 bags (80 kg per bag) of raw cashew nuts per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Sidhivinayaka Cashew Industries to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

SCI is engaged in processing of cashew kernels from raw cashew nuts for more than two decades and also benefits from experience of its proprietor Mrs. Shubha Shetty who also has more than two decades of experience in the cashew processing activity. Acuité believes that proprietor's experience and her relations with stakeholders are expected to support in maintaining its business risk profile over the medium term.

• Efficient working capital cycle

The working capital cycle of the firm is efficient from the last two years through FY2019 (Provisional). Gross current assets stood at 64 days as per FY2019 (Provisional) as against 94 days during FY2018. Inventory days stood around at 30 days in FY2019 (Provisional) as against 32 days in FY2018. Debtor days stood at 22 days in FY2019 (Provisional) as against 31 days in FY2018 respectively. Bank limit utilization is about is around 90 percent utilization for the last six months through March 2019. Acuité believes that with moderate collection mechanism and moderate inventory levels, working capital cycle will continue to be at similar levels over the medium term.

• Moderate Financial risk profile

The firm has a moderate financial risk profile which is marked by comfortable gearing (debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW), and debt protections metrics though partly constrained by low networth. Gearing is comfortable at 0.89 times as on 31 March, 2019 (Provisional) as against 1.14 times as on 31 March, 2018. TOL/TNW is moderate at 0.89 times as on 31 March, 2019 (Provisional) as against 1.15 times as on 31 March, 2018. Net worth is low at Rs.2.15 crore as on 31 March, 2019 (Provisional) as against Rs.1.51 crore as on 31 March, 2018. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 2.57 times and 0.17 times respectively in FY2018. ICR and NCA/TD are estimated to be at 5.04 times and 0.39 times in FY2019 (Provisional) respectively. Acuité believes that, financial risk profile is expected to be moderate in the absence of major debt funded capital expenditure.

Weaknesses

- **Modest scale of operations**

The revenues are moderate and fluctuating for the last three years through FY2019. The firm reported revenues of Rs. 18.95 crore in FY2019 (Provisional) as against Rs. 9.71 crore in FY2018 and Rs. 11.12 crore in FY2017. Decline in revenues in FY2018 is due to implementation of GST and increase in raw cashew prices in the global market. Acuité believes that, ability of the company to increase the scale of operations would be the key rating factor over the medium term.

- **Low tangible networth and Proprietorship concern**

The concern operates at low net worth of Rs.2.15 crore as on 31 March, 2019 (Provisional) as against Rs.1.51 crore in the previous year. Further, SCI being a proprietorship concern is exposed to the inherent risk of withdrawal of funds from the entity.

- **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.

Liquidity

Liquidity of the firm is moderate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs. 0.75 crore in FY2019 (Provisional). Accruals over the medium term are expected around Rs. 1.0 crore – 1.4 crore against which the firm has no repayment obligations. The firm has moderate working capital cycle; however, bank limit utilisation is about 90 per cent over last six months through March 31, 2019. Acuité believes that the liquidity profile is expected to be at moderate levels going forward in the absence of any significant capex plans.

Outlook: Stable

Acuité believes that SCI will continue to benefit over the medium term on account of the proprietor's experience in the industry. The outlook may be revised to 'Positive' in case the company registers substantial increase in its profitability margins supported by healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in company's profitability margins or significant deterioration in the financial risk profile due to elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	9.71	11.12	7.63
EBITDA	Rs. Cr.	0.65	0.43	0.42
PAT	Rs. Cr.	0.21	0.01	0.08
EBITDA Margin	(%)	6.67	3.86	5.49
PAT Margin	(%)	2.14	0.13	1.02
ROCE	(%)	14.38	9.44	18.35
Total Debt/Tangible Net Worth	Times	1.14	2.40	3.16
PBDIT/Interest	Times	2.57	1.48	1.82
Total Debt/PBDIT	Times	2.63	6.52	7.38
Gross Current Assets (Days)	Days	94	136	201

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

None

Any other information

None

Applicable Criteria

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

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Jun-2018	Secured Overdraft	Long Term	INR 1.80	ACUITE B+/ Stable
	Overdraft against Goods Pledge	Long Term	INR 3.65^	ACUITE B+ / Stable

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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE B+ / Stable
Overdraft against Goods Pledge	Not Applicable	Not Applicable	Not Applicable	3.65*	ACUITE B+ / Stable

^{*}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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