

Press Release

Alin Cashews

August 10, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 17.00 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. 17.00 crore bank facilities of Alin Cashews. The outlook is '**Stable**'.

Established in 2006, Alin Cashews a Quilon (Kerala) based partnership firm is engaged in processing and exporting of cashews. The firm was promoted by Mr. Shihansha and Mrs. Shanimol. Currently, the firm owns four processing units and six rented units with a processing capacity of 20 tonnes per day.

Key Rating Drivers

Strengths

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

Established in 2006, Alin Cashews has a long operational track record of more than a decade in the cashew processing business. Prior to Alin Cashews, the promoters had similar business in small scale and it consisted of trading of cashew kernels. Alin Cashews has customer base in Pan India and overseas: about 60 percent of its revenues are derived from United Arab Emirates, Africa and Europe and 40 percent from domestic market. Further, the management of the entity over the years has also built a healthy relationship with suppliers for procurement of raw materials (raw cashews). This helped Alin in reporting a healthy compound annual growth rate (CAGR) of about 24 percent over three years through FY2018 at Rs.107.8 crore (Provisional). The moderate demand and the experienced management is expected to support in improvement of its business risk profile with expected revenues in the range of Rs.120.0-150.0 crore over the medium term.

Weaknesses

- **Working capital intensive operations**

The firms operations remained working capital intensive as reflected in moderate Gross Current Assets (GCA) of 124 days as on March 31, 2018 compared to 102 days as on March 31, 2017; moderate due to credit period allowed of about 2-3 months and inventory of about one-and-half month for regular supplies to its clientele both in domestic and overseas market. This results in high utilisation of its bank lines at more than 95 percent for the period of April 2017 to March 2018. Acuite believes that the operations continues to be moderately working capital intensive over the medium term.

- **Below-average financial risk profile**

The financial risk profile is weak marked by high gearing (debt-to-equity) and total outside liabilities to total net worth (TOL/TNW) though underpinned by average debt protection metrics. The gearing stood at 3.21 times as on March 31, 2018 (Provisional) against 2.71 times as on March 31, 2017. The total debt of Rs.27.35 crore includes short term loan of Rs.23.93 crore and term loan of Rs.1.67 crore and unsecured loan of Rs.1.75 crore as on March 31, 2018 (Provisional). The net worth is modest at Rs.8.53 crore as on March 2018 (Provisional). Modest net worth and high working capital requirement is expected to keep the gearing levels high over the medium term. Also, TOL/TNW is high at 3.61 times as of March 31, 2018 (Provisional). The debt protection metrics are average as interest coverage ratio (ICR) stood at 1.43 times and low net cash accruals to total debt (NCA/TD) of about 0.02 times in FY2018 (Provisional). Acuite believes that with expected increase in revenues and incremental working capital requirement with low profitability margins of below 2.0 percent historically, the financial risk profile is likely to deteriorate over the medium term.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Alin Cashews to arrive at this rating.

Outlook: Stable

Acuite believes that the outlook on Alin Cashews will remain 'Stable' over the medium term on account of experienced management. The outlook may be revised to 'Positive' if the firm achieves a sustained growth in revenues and profit margins while improving its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or deterioration in its profitability margins leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	107.78	89.78	69.61
EBITDA	Rs. Cr.	1.90	2.19	1.39
PAT	Rs. Cr.	0.26	0.22	0.16
EBITDA Margin	(%)	1.76	2.43	1.99
PAT Margin	(%)	0.24	0.24	0.23
ROCE	(%)	5.49	7.75	5.93
Total Debt/Tangible Net Worth	Times	3.21	2.71	3.86
PBDIT/Interest	Times	1.43	1.22	1.33
Total Debt/PBDIT	Times	14.33	9.06	14.29
Gross Current Assets (Days)	Days	124	102	122

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)

Not Applicable

*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	3.00	ACUITE B+ / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+ / Stable
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+ / Stable

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About Acuite Ratings & Research:

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