Press Release

Sri Srinivas Industries

August 17, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE BB minus)** on the Rs. 10.00 crore bank facilities of Sri Srinivas Industries. The outlook is **'Stable'**.

Sri Srinivas Industries (SSI) is a Karnataka based partnership firm established in the year 1981. Mr Prabhu, the current Managing Partner joined the family business and the firm in the year 1991. It is engaged in processing of cashew kernels and graded kernels. The manufacturing facility is located at Bantwal, Karnataka, with an installed capacity of 15,000 kgs of raw cashew per day. The firm sells its products to the traders and distributors all over India.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
  SSI is in the process of cashew kernels since 1981. The partners of the firm Mr. Vinayak Prabhu and Ms.Vinaya Prabhu possess more than 25 years of experience in the cashew business. The firm has established network of suppliers from Indonesia and African territories; it has reputed clientele like Vijaya Lakhsmi trading company, JK Enterprises among others while selling the raw cashew nut through dealers and distributors all over India. Acuité believes that healthy demand for the cashew and continued investment on modernisation of the equipment is expected to support in improvement of its business risk profile over the medium term.

- **Moderate revenue growth and profitability**
  Revenues of the firm grew at a compound annual growth rate (CAGR) of 13.56 percent from Rs.27.10 crore in FY2015 to Rs.39.69 crore in FY2018 (Provisional). The same is on account of increase in orders from the vintage clients and addition of new clients to its customer portfolio. Further, operating margins of the firm improved from 4.94 percent in FY2016 to 7.87 percent in FY2018 due to automation in the plant and machinery helped in better absorption of overheads costs.

Weaknesses

- **Average financial risk profile**
  Financial risk profile of the firm is moderately high marked by high gearing (debt to equity ratio) and moderately high total outside liabilities to total net worth (TOL/TNW), though it is underpinned by moderate debt protection metrics. Gearing is high at 2.92 times as on 31 March, 2018 as against 2.08 times as on 31 March, 2017 due to high reliance on external borrowings to fund its working capital requirements. Further, TOL/TNW is also moderately high at 2.99 times on 31 March, 2018 as against 2.23 times 31 March, 2017. However, debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.32 times and 0.11 times respectively for FY2018. Acuité believes that, improvement in gearing ratio would be the key rating sensitivity factor over the medium term.

- **Working capital intensive operations**
  Operations of the firm are working capital intensive marked by high gross current assets (GCA) of about 150 days for the last three months through FY2018. This is mainly on account of high inventory holding around 123-146 days. The same led to full utilization of bank limits for the last six months through June 2018. However, debtor's realization is comfortable and improved to 7 days in FY2018

from 24 days in FY2017. Acuité believes that operations are expected to be working capital intensive on account of high inventory holding levels.

- **Competitive and fragmented industry**
  SSI operates in a highly fragmented cashew industry with limited entry barriers wherein the presence of large number of organized and unorganized players limit the bargaining power with customers.

Analytical Approach
Acuité has considered the standalone business and financial risk profiles of the SSI to arrive at this rating.

Outlook: Stable
Acuité believes that the outlook on SSI will remain 'stable' over the medium term on account of the experience of the promoter in the cashew processing industry and long track record of operations. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenues while improving capital structure by infusion of equity funds. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory levels.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	39.69	35.79	32.06
EBITDA	Rs. Cr.	3.12	1.99	1.58
PAT	Rs. Cr.	1.01	0.31	0.16
EBITDA Margin	(%)	7.87	5.55	4.94
PAT Margin	(%)	2.53	0.86	0.50
ROCE	(%)	15.72	10.04	9.21
Total Debt/Tangible Net Worth	Times	2.92	2.08	3.27
PBDIT/Interest	Times	2.32	1.80	1.59
Total Debt/PBDIT	Times	4.24	5.77	7.38
Gross Current Assets (Days)	Days	148	159	154

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	10.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:
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