

Press Release

Premier Cashew Products

September 27, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 9.00 Cr. (Enhanced from Rs. 7.00 crore)
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE B**' (**read as ACUITE B**) on the Rs. 7.00 crore bank facilities and assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 2.00 crore bank facilities of PREMIER CASHEW PRODUCTS. The outlook is '**Stable**'.

The rating upgrade reflects commencement and stabilization of its operations successfully. However, the rating continues to remain constrained due to expected modest scale of operations, moderate working capital intensive operations.

Established in 2018 as a partnership firm, Premier Cashew Products (PCP) is engaged in processing of raw cashew nuts into cashew kernels. Based in Udupi (Karnataka), the firm is promoted by Mr. Mahesh and Mr. Raghurama. The processing facility is located at Udupi with an installed capacity of 10 tons Per Day. The commercial operations started from January 2019.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The Promoters of the entity, Mr. Mahesh and Mr. Raghurama, possess around three years of experience in the cashew industry. Mr. Raghurama is a Chartered Accountant having experience of around two decades in practice, and Mr. Mahesh has around a decade experience in various processing industries. The firm has successfully commenced operations in January 2019 and reported revenues of Rs.5.08 crore for FY2019. Further, from April – July 2019, the firm reported revenues of Rs.6.00 crore and expecting revenues in the range of Rs.21-30 crores. Acuité believes that the firm will benefit from the experienced management over the medium term.

- **Moderate working capital cycle**

Working capital cycle is moderate marked by gross current assets (GCA) at 111 days in FY2019 (Provisional). The firm imports a significant portion of raw cashew nuts, and therefore maintains an inventory of around 3-5 months. Hence, to meet the regular demand in the market, the firm has to maintain inventory at high levels. The firm's inventory cycle stood at 118 days in FY2019 (Provisional). Debtor's cycle stood comfortable at 13 days. This lead to moderate utilisation of its bank lines at about 60-70 per cent for the last six months through August 2019. Acuite believes that PCP's working capital cycle continues to be at similar levels over the medium term.

Weaknesses

- **Modest scale of operations**

The firm commenced operation in January 2019 and reported revenues of Rs.5.08 crore for three months in FY2019. Further, the firm is expecting revenues of about Rs.20-30 crore over the medium term. Ability of the firm to increase the scale of operations, while maintaining the profitability levels, would be the key rating factor over the medium term.

• **Below average financial risk profile**

The financial risk profile of the firm is below average marked by high gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) though debt protection metrics are comfortable. The gearing (debt-to-equity) and TOL/TNW stood high at 3.15 times and 3.22 times as on 31 March, 2019 (Provisional). The same is due to low net worth and high reliance on working capital borrowings. Net worth stood at Rs.2.16 crore as on 31 March, 2019 (Provisional). Of the total debt of Rs.6.81 crore as on 31 March, 2019 (Provisional), long term debt constitutes Rs.2.89 crore and short term debt of Rs.3.92 crore. The debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.54 times and 0.43 times in FY2019 (Provisional). The firm reported net cash accruals (NCA) of Rs.0.62 crore in FY2019 (Provisional). Cash accruals are expected in the range of Rs.1 crore- Rs.2 crore, against repayment obligations of Rs.0.31 crore-Rs.0.41 crore. Acuité believes that with moderate accruals and in absence of major debt funded capital expenditure, the financial risk profile is expected to improve over the medium term.

Rating Sensitivity

- Increase in scale of operations, while maintaining stable profit margins
- Improvement in capital structure.

Material Covenants

None

Liquidity Position:

The liquidity position of PCP is adequate marked by modest cash accruals and moderate working capital cycle. It has reported cash accruals of Rs.0.62 crore in FY2019 (Provisional). Its expected cash accruals are in the range of Rs.1-2 crore against the repayment obligations of Rs.0.31-0.41 crore. The working capital cycle is moderate with GCA days of 111 days in FY2019 (Provisional); resulted in moderate utilisation of its limits at 60-70 per cent over last six months through August 2019. Its current ratio is moderate at 1.42 times in FY2019 (Provisional). Acuité believes that with modest accruals and moderate working capital operations, the liquidity profile continues to be adequate over the medium term

Outlook: Stable

Acuité believes that PCP will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience. The outlook may be revised to 'Positive' if the firm registers more than expected growth in its revenues, while maintaining its profitability and improves its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' if there is any stretch in its working capital cycle or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	5.08	-	-
EBITDA	Rs. Cr.	1.20	-	-
PAT	Rs. Cr.	0.33	-	-
EBITDA Margin	(%)	23.57	-	-
PAT Margin	(%)	6.46	-	-
ROCE	(%)	81.13	-	-
Total Debt/Tangible Net Worth	Times	3.15	-	-
PBDIT/Interest	Times	2.54	-	-
Total Debt/PBDIT	Times	1.42	-	-
Gross Current Assets (Days)	Days	111	-	-

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-17.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
30-Nov-2018	Cash Credit	Long Term	4.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	2.67	ACUITE B / Stable (Assigned)
	Proposed	Long Term	0.33	ACUITE B / Stable (Assigned)

***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	4.00	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.67	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.33	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+ / Stable (Assigned)

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About Acuité Ratings & Research:

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