

Press Release

Nanda Gokula Industries

February 20, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 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**) to the Rs. 15.00 crore bank facilities of Nanda Gokula Industries (NGI). The outlook is '**Stable**'.

NGI is a proprietorship concern promoted by Mrs. Chandramathi Shetty and managed by Mr. Premanand Shetty established in 2012. The concern is engaged in processing cashew kernels from raw cashew nuts. The processing unit in Mangalore (Karnataka) has an installed capacity to process 4 to 5 tonnes of raw cashew nuts per day. The concern procures raw cashews from African countries including Benin and Tanzania. The company caters to traders located in Punjab, Karnataka, Gujarat, Rajasthan and Maharashtra to name a few.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of NGI to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

The concern was established in 2012 and the promoters have around three decades of prior experience in agriculture products. This has helped the firm to acquire new customers and maintain healthy relations with its suppliers. The firm has reported a healthy compounded annual growth rate of around 71 per cent for the last three years. Acuite believes that NGI benefits from the extensive experience of the management.

Weaknesses

- **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). The gearing (debt-equity) stood at 5.41 times as on 31 March, 2018 as against 7.11 times on 31 March, 2017. TOL/TNW was also high at 5.51 times as on 31 March, 2018. The total debt of Rs.9.33 crore includes short term debt of Rs.8.00 crore, unsecured loan of Rs.0.16 crore and term loan of Rs.1.17 crore as on 31 March, 2018. The net worth stood low at Rs.1.72 crore as on 31 March, 2018. Below average net worth and high working capital requirement are expected to keep gearing levels high over the near to medium term. Debt protection metrics also stood below average with interest coverage ratio (ICR) at 1.96 times as on March, 2018 and net cash accruals to total debt (NCA/TD) of 0.10 times in FY2018. Acuite believes that maintaining a stable financial risk profile will be crucial for overall sustainability.

- **Susceptible margins due to fluctuating raw material prices and intense competition**

The main raw material procured by the firm is raw cashew nut from African countries. The prices of the raw cashew nut are highly volatile in nature and the cost for the same stood at ~80 percent of the total sales for FY2018. This makes the profitability of the company susceptible to volatility in raw material prices. Additionally, the firm imports 100 percent of its raw cashew requirements from African countries such as Benin and Tanzania. This exposes the profitability of the firm to fluctuations in foreign exchange rates in the absence of adequate forex cover.

Further, the domestic cashew processing industry is intensely competitive with limited entry barriers,

in both the organised and unorganised sector. The intensive competition limits the bargaining power of the firm with its customers. This results in the profitability of the firm facing immense pressure.

• Proprietorship concern

NGI being a proprietorship concern is exposed to the inherent risk of capital withdrawal, which will have an impact on the credit profile of the company.

Liquidity Position:

NGI has a below average liquidity position. The net cash accruals for the firm stood at Rs.0.91 crore for FY2018 as against Rs.0.59 crore for FY2017. The accruals stood below average against debt repayment obligations. The current ratio of the firm stood low at 0.98 times in FY2018. The working capital facilities were utilised at 88 per cent in the last six months ending December 2018. The unencumbered cash and bank balance stood low at Rs.0.02 crore as on 31 March, 2018. Acuite believes that the proprietor's experience and improving scale of operations would stabilize the firm's operations. The liquidity of the company is likely to remain average over the medium term on account of stretched working capital cycle and higher dependency on working capital limits.

Outlook: Stable

Acuite believes that the outlook on the NGI will remain 'Stable' over the medium term on account of the experience of the management in the cashew processing industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining a 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.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	25.88	14.95	8.78
EBITDA	Rs. Cr.	1.65	1.26	0.82
PAT	Rs. Cr.	0.57	0.38	0.24
EBITDA Margin	(%)	6.36	8.43	9.36
PAT Margin	(%)	2.18	2.52	2.79
ROCE	(%)	13.97	12.23	20.58
Total Debt/Tangible Net Worth	Times	5.41	7.11	4.89
PBDIT/Interest	Times	1.96	1.87	1.92
Total Debt/PBDIT	Times	5.01	7.40	6.60
Gross Current Assets (Days)	Days	112	229	223

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	5.50	ACUITE B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.65	ACUITE B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE B+ / Stable
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	5.45	ACUITE B+ / Stable

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About Acuité Ratings & Research:

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