

Press Release

Nanda Gokula Industries



January 28, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 15.00 crore bank facilities of Nanda Gokula Industries (NGI). The outlook is '**Stable**'.

The rating reaffirmation is based on stagnancy in revenues accompanied with volatility in profitability margins and working capital intensive operations. The fluctuation in the revenue can be attributed to a drop in the demand and prices of cashew kernels. The firm also had lower realisations on account of high cost of raw materials.

Established in 2012, Nanda Gokula Industries (NGI) is a proprietorship concern promoted by Mrs. Chandramathi Shetty and day to day operations are managed by Mr. Premanand Shetty. NGI engaged in processing of raw cashew. The processing unit in Mangalore (Karnataka) has an installed capacity to process 5 tonnes of raw cashew nuts per day. The firm imports 100 percent of its raw materials from African countries.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

Established in 2012, NGI has nearly a decade of track record in the cashew processing business. Mr. Premanand Shetty possess experience of over three decades in cashew industry. The extensive experience has enabled the firm to generate healthy relationships with customers and suppliers. The NGI has reported operating income of Rs.25.38 crore in FY2019 as against Rs.25.88 crore in FY2018. Acuité believes that NGI will continue to benefit from its experienced management and established relationships with customers and suppliers.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by low net worth, high gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Net worth stood at Rs.1.88 crore as on 31 March, 2019. The gearing (debt-to-equity) and TOL/TNW stood high at 3.72 times and 4.34 times as on 31 March, 2019 vis-à-vis 5.41 times and 5.51 times as on 31 March, 2018. The same is due to high reliance on working capital borrowings. The debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.83 times and 0.10 times, respectively in FY2019 vis-à-vis 1.96 times and 0.10 times respectively in FY2018. Acuité believes that the financial risk profile is expected be at similar levels over the medium term.

- **Moderate working capital cycle**

Working capital cycle is moderate marked by gross current assets (GCA) at 121 days in FY2019. NGI imports a significant portion of raw cashew nuts, and therefore maintains an inventory of around 3 months. Hence, to meet the regular demand in the market, the entity has to maintain inventory at high levels. The firm's inventory cycle stood at 72 days in FY2019 as against 80 days in the previous year. Debtor's cycle stood comfortable at 27 days as against 37 days in the previous year. This lead to moderate utilisation of its bank lines at about 80 per cent for the last six months through December 2019. Acuité believes that NGI's working capital cycle continues to be at similar levels over the medium term on account of the inventory levels maintained by the firm to cater to spot orders.

• Presence in the competitive industry

NGI is exposed to intense competition, as the cashew processing industry is highly fragmented and competitive in nature that also limits the bargaining power and pricing flexibility of the players. This in turn puts pressure on the profitability margins of the firm.

• Proprietorship constitution of business

There is risk of capital withdrawal owing to proprietorship constitution of business following which the firm may have to rely more on external funding.

Rating Sensitivity

- Increase in scale of operations along with profitability margins
- Improvement in capital structure.

Material Covenants

None.

Liquidity Position: Adequate

NGI has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations and moderate GCA levels. It generated cash accruals of Rs.0.69 crore in FY2019 against repayment obligations of Rs.0.15 for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.0.45 crore to Rs.0.65 crore during FY2020-22 against repayment obligations of Rs.0.15 to 0.20 crore for the same period. The working capital cycle is moderate with GCA days of 121 days in FY2019; resulted in moderate utilisation of its limits at 70-80 per cent over last six months through December 2019. Its current ratio is moderate at 1.24 times in FY2019. Firm maintains unencumbered cash and bank balances of Rs.0.27 crore as on 31 March 2019. 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 NGI 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 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	25.38	25.88
PAT	Rs. Cr.	0.44	0.57
PAT Margin	(%)	1.75	2.18
Total Debt/Tangible Net Worth	Times	3.72	5.41
PBDIT/Interest	Times	1.83	1.96

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading entities: <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
20-Feb-2019	Cash Credit	Long Term	5.50	ACUITE B+/ Stable (Assigned)
	Cash Credit	Long Term	1.65	ACUITE B+/ Stable (Assigned)
	Cash Credit	Long Term	2.40	ACUITE B+/ Stable (Assigned)
	Proposed Long Term	Long Term	5.45	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	5.50	ACUITE B+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.65	ACUITE B+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE B+ / Stable (Reaffirmed)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	5.45	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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