

Press Release

Nanda Gokula Industries

July 07, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE B+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for Reaffirmation

The rating reaffirmation continues to take into account the extensive experience promoters in the cashew processing industry and the established relationship with its customer base. The rating, albeit remains constrained by the vulnerability of NGI's profitability to volatility in the cashew kernel and raw cashew nut (RCN) prices and working capital intensive nature of operations.

About the Company

Established in 2012, Nanda Gokula Industries (NGI) is a proprietorship concern promoted by Mrs. Chandramathi Shetty. The day to day operations are managed by Mr. Premanand Shetty. NGI is engaged in the processing of plain cashew kernels from raw cashew nuts (RCNs). The processing unit is located in Mangalore (Karnataka) with an installed capacity to process 5 tonnes of raw cashew nuts per day.

Analytical Approach

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

Key Rating Drivers

Strengths

Extensive experience of promoters in cashew industry

Established in 2012, NGI has nearly a decade of track record in the cashew processing business. Mr. Premanand Shetty possesses experience of over three decades in cashew industry. The extensive experience has enabled the firm to generate healthy relationship with its customers and suppliers which ensures repeat orders to an extent.

Diversified customer base

The entity caters to customers in the domestic market, comprising of traders and food

processors. The company has a strong long-term association with its customers across the states like Punjab, Karnataka, Gujarat, Rajasthan and Maharashtra, among others, from whom it gets repeat orders. This apart, the company constantly endeavours to add new customers and enter new geographies. This has helped the firm to sustain its topline to some extent. Further, the NGI's long-established track record of procurement from African regions continues to be a key credit positive.

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.2.77 crore as on 31 March, 2022 vis-à-vis Net worth stood at Rs.2.50 crore as on 31 March, 2021. The gearing (debt-to-equity) and TOL/TNW stood high at 3.68 times and 3.73 times as on 31 March, 2022 vis-à-vis at 3.92 times and 3.99 times as on 31 March, 2021. 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 2.62 times and 0.13 times, respectively in FY2022 vis-à-vis 2.16 times and 0.11 times respectively FY2021. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

Working capital intensive nature of operations

NGI operations are working capital intensive marked by gross current assets (GCA) of 179 days in FY 2022. 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 112 days in FY 2022. Debtor's cycle moderated to 44 days due to better receivable after opening up of market which in FY 2021 stood at 51 days. The firm gives credit period to its customers of around 30-40 days. The average bank utilization level between April 2021 and March 2022 stood at 70.06%.

Intense competition in the export and domestic Cashew industry

The domestic cashew industry is highly fragmented, with the presence of numerous unorganised players, owing to low entry barriers. The Indian players face competition from other countries in the export market. The intense price competition, along with low product differentiation, limits the firm's pricing flexibility. Also, the margins are exposed to volatility in kernels and RCN prices. The procurement of RCN is seasonal. The prices of cashew kernels and RCNs vary on a daily basis, depending on the international demand-supply scenario, exposing the company's margins to the price fluctuations. Moreover, the availability of RCNs is subject to agro climatic risks.

Rating Sensitivities

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

Material covenants

None.

Liquidity Position: Adequate

The liquidity position is adequate marked by the Net cash accruals to its maturing debt obligation going forward. In FY 2023 & 2024 the firm is expected to generate NCA of Rs. 1.30 Cr and 1.44 Cr respectively against CPLTD of Rs. 0.86 Cr and 0.72 Cr in respective years. In FY 2022 the cash and bank position of the company stood at Rs.0.09 Cr and current ratio at 1.33 times. Acuité believes that the liquidity of the NGI is likely to remain adequate over the medium term on account of adequate cash accruals against its repayment obligations.

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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	18.80	17.24
PAT	Rs. Cr.	0.84	0.42
PAT Margin	(%)	4.45	2.41
Total Debt/Tangible Net Worth	Times	3.68	3.92
PBDIT/Interest	Times	2.62	2.16

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Apr 2021	Cash Credit	Long Term	1.65	ACUITE B+ (Withdrawn)
	Proposed Long Term Loan	Long Term	3.87	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	1.19	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.50	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	2.40	ACUITE B+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.25	ACUITE B+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.79	ACUITE B+ Stable (Reaffirmed)
28 Jan 2020	Cash Credit	Long Term	2.40	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.50	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	1.65	ACUITE B+ Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	5.45	ACUITE B+ Stable (Reaffirmed)
20 Feb 2019	Proposed Long Term Loan	Long Term	5.45	ACUITE B+ Stable (Assigned)
	Cash Credit	Long Term	1.65	ACUITE B+ Stable (Assigned)
	Cash Credit	Long Term	5.50	ACUITE B+ Stable (Assigned)
	Cash Credit	Long Term	2.40	ACUITE B+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE B+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.87	ACUITE B+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	01-02-2020	9.60	31-01-2025	1.19	ACUITE B+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	0.79	ACUITE B+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.25	ACUITE B+ Stable Reaffirmed

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About Acuité Ratings & Research

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