



Press Release
Nanda Gokula Industries
September 26, 2023
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	-	-

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, below average financial risk profile 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.

Standalone (Unsupported) Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Nanda Gokula Industries (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 firm 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 firm constantly endeavours to add new customers

and enter new geographies. This has helped the firm to sustain its topline to some extent. Further, the NGL'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. The net worth of the firm stood at Rs.1.82 Cr in the FY2023 (prov) against Rs.2.43 Cr in the FY2022. Proprietor has withdrawn total of Rs.1.12 Cr of capital in the FY2023 (prov). It mainly includes Rs.0.91 Cr drawings for house construction, Rs.0.15 Cr for the payment of income tax. The gearing (debt-to-equity) and TOL/TNW stood high at 4.34 times and 4.47 times as on 31 March, 2023 (prov) vis-à-vis at 4.20 times and 4.26 times as on 31 March, 2022. 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 2.12 times and 0.12 times, respectively in FY2023 (prov) vis-à-vis 2.22 times and 0.10 times respectively FY2022. 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 127 days in FY 2023 (prov). NGI imports a significant portion of raw cashew nuts, and therefore maintains an inventory of around 60-90 days. 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 69 days in FY 2023 (prov). Debtor's cycle improved to 47 days as on 31st March 2023 (prov) as against 69 days as on 31st March 2022. The firm's creditors days are low and stood at 4 days as on 31st March 2023 (prov). The bank utilization level remained moderately utilized at an average of nearly 79.90 per cent for the 12 months ending May 2023.

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 and leverage ratios

All Covenants

None

Liquidity Position

Adequate

The liquidity position is adequate marked by the Net cash accruals to its maturing debt obligation going forward. NGI has generated cash accruals in the range of Rs.0.91-1.12 Cr during last three years ending FY2023 (prov) as against its long term debt obligations of Rs.0.21-0.31 Cr for the same period. The company is expected to generate NCAs in the range of Rs.1.18-1.60 Cr. in the FY2024 –FY2026. The Cash and Bank balance as on 31st March 2023 (prov) stood at Rs.0.14 Cr. Current ratio of the company stood at 1.14 times as on 31st March 2023 (prov). 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	22.09	18.80
PAT	Rs. Cr.	0.54	0.50
PAT Margin	(%)	2.44	2.64
Total Debt/Tangible Net Worth	Times	4.34	4.20
PBDIT/Interest	Times	2.12	2.22

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

CRISIL vide its press release dated 17th Aug 2022, had rated the company to CRISIL B+/Stable; Issuer Not Cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jul 2022	Cash Credit	Long Term	2.40	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.50	ACUITE B+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.25	ACUITE B+ Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	3.87	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	1.19	ACUITE B+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.79	ACUITE B+ Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.50	ACUITE B+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.40	ACUITE B+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.87	ACUITE B+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.23	ACUITE B+ Stable Reaffirmed

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About Acuité Ratings & Research

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