

Press Release

KALBAVI CASHEWS

August 08, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 36.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 36.00 crore bank facilities of KALBAVI CASHEWS (KC). The outlook is '**Stable**'.

Kalbavi Cashews (KC) is a Mangalore-based partnership firm established in 1987 by Mr. Prakash Rao. The firm is engaged in processing of raw cashew nuts. Its product line includes Cashew Kernels, Cashew Husk, Cashew Shells, Brown Kernels, Value Added Cashews - Roasted & Salted and Flavored Cashews. Cashews are marketed under the brand name of Kalbavi Cashews with the brand mascot being Kajooman.

Analytical Approach

Acuité has considered the standalone business and financial profiles of KC to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

KC was established in 1987 by Mr. Prakash Rao Kalbavi. He is the managing partner and has experience of more than three decades in the cashew industry. During this period, he has developed strong relations with the customers which include top supermarkets of the country. Acuité believes KC will benefit from extensive experience and expertise of partner that will help the firm to maintain strong relations with its customers and suppliers.

• Reputed clientele

KC's clientele include reputed supermarkets such as Walmart India Private Limited, Avenue Supermarkets Limited (Dmart), Aditya Birla Retail Limited, Future Retail Limited, Reliance Retail Limited and Metro Cash and Carry Private Limited. These stores have a PAN India presence which enables the firm to sell its products on a PAN India basis. Acuité believes the firm will be able to sustain and gradually increase its revenue due to good relations with these customers and expansion of their chain of stores in the country.

• Comfortable financial risk profile

The firm has a comfortable financial risk profile which is marked by comfortable gearing (debt to equity ratio), low total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. Gearing is comfortable at 0.13 times as on 31 March 2019 (Estimated) as against 1.22 times as on 31 March 2018 due to low year end balance in the overdraft account. TOL/TNW is comfortable at 0.37 times as on 31 March 2019 (Estimated) as against 1.33 times as on 31 March 2018. Debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratio (DSCR) are moderate at 3.19 times and 2.51 times respectively in FY2019 (Estimated). Acuité believes that, financial risk profile is expected to be moderate owing to improving profitability and absence of major debt funded capital expenditure.

• Well managed working capital operations

The working capital operations are well managed as evident by GCA days of 65 in FY2019 (Est.) against 102 days in FY2018. The firm's inventory management policy has improved drastically as evident from inventory days of 23 in FY2019 against 50 in FY2018. Debtors are also collected on time within the credit period. Going forward, the firm expects faster collection of receivables as sales to supermarkets are increasing which generally release payments earlier than most of the other existing

customers.

Weaknesses

• Declining scale of operations

The operating revenues of the firm have been declining since last three years. Revenues stood at Rs. 129.59 crores in FY2019 (Estimated) against Rs. 154.01 crores in FY2018 and Rs. 165.34 crores in FY2017. The firm sources majority of raw cashews from Africa. Revenues have declined on account of African government's decision to halt raw cashew exports and opt for domestic processing of the crop. However, Acuité believes the firm is able to source its supplies from domestic and other overseas suppliers.

• Presence in the competitive industry

KC 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.

• Partnership constitution of business

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

Liquidity Position:

The firm has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. KC generated cash accruals of Rs.2.00-4.00 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs.0.20 crore over the same period. The cash accruals are expected to increase and remain around Rs.3.00-4.00 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.20-0.30 crore. Further, the cash credit limit of the firm remained utilized upto 34 per cent for last six months ended June 2019. KC maintains cash and bank balances of Rs.0.40 crore as on March 31, 2019. The current ratio stood moderate at 2.81 times as on March 31, 2019. Acuité believes that the liquidity of the firm will remain adequate and likely to improve further over the near to medium term on account of improving profitability and no major debt funded capex plans.

Outlook: Stable

Acuité believes that KC's outlook will remain 'Stable' over the medium term from its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues and profitability along with improvement in the financial risk profile and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	154.01	165.34	113.49
EBITDA	Rs. Cr.	5.81	6.92	4.73
PAT	Rs. Cr.	2.09	3.27	2.28
EBITDA Margin	(%)	3.77	4.19	4.17
PAT Margin	(%)	1.36	1.98	2.01
ROCE	(%)	11.25	20.56	33.82
Total Debt/Tangible Net Worth	Times	1.22	0.76	0.40
PBDIT/Interest	Times	3.56	5.45	7.42
Total Debt/PBDIT	Times	4.86	2.30	1.48
Gross Current Assets (Days)	Days	102	73	69

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
Bank Overdraft	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- / Stable (Assigned)

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About Acuité Ratings & Research:

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