

Press Release

Kalbavi Cashews

October 20, 2020



Rating Upgraded and Withdrawn

Total Bank Facilities Rated*	Rs.35.00 Cr. (Reduced from Rs. 36.00 Cr.)
Long Term Rating	ACUITE BBB/ Outlook:Stable (Upgraded and Withdrawn)

*Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.35.00crore bank facilities of Kalbavi Cashews (KC). The outlook is '**Stable**'.

Further, Acuité has upgraded and withdrawn the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.1.00 crore bank facilities of Kalbavi Cashews (KC).

Reason for rating upgrade

The rating upgrade takes into account the improvement in the business and financial risk profile of the firm. The revenues of the firm have improved to Rs.174.75 crore in FY2020 (Provisional) as compared to Rs.134.94 crore in FY2019, registering a growth of ~40 percent. The increase in revenue is on account of automation in production and increased demand from customers, which is expected to sustain over the medium term. Also, there is a year-on-year growth in the profitability margins as reflected from EBITDA margins of 4.34 per cent in FY2020(Provisional) as compared to 3.77 per cent in FY2018 and PAT margins of 2.16 per cent in FY2020(Provisional) and 1.36 per cent in FY2018. The debtor collection period has reduced to 20 days in FY2020 (Provisional) as compared to 36 days in FY2019. The rating continues to draw comfort from the long standing experience of the management and reputed customer profile.

Mangalore based, Kalbavi Cashews is a partnership firm established in the year 1987. The partners of the firm are Mr. Kalbavi Prakash Rao and Mrs. Gowri P. Rao, sharing profits in the ratio of 3:1. The firm is engaged in the processing and trading of varieties of cashew nuts. 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 risk profiles of KC to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

KC was established in 1987; thus, the firm has an operational track record of over three decades in the aforementioned industry. Mr. Kalbavi Prakash Rao (Managing Partner) has an experience of over three decades in the aforementioned line of business. The long track record of operations and experience of management have helped the firm to maintain a healthy relationship with its customers and suppliers. The key customers of the company include Walmart, DMart, Future Group, to name a few. Acuité believes that KC will sustain its existing business profile on the back of an established track record of operations and experienced management.

• Healthy Financial Risk Profile

The firm has a healthy financial risk profile marked by moderate net worth, low gearing and robust debt protection metrics. The net worth stood at Rs.30.43 crore (Provisional) as on 31 March, 2020 as against Rs.26.03 crore on 31 March, 2019.

The firm has followed a conservative financial policy in the past; the same is reflected through its gearing levels of 0.23 times as on March 31, 2019. The gearing increased marginally to 0.64 times (Provisional) as on March 31, 2020 on account of an increase in working capital requirement. Total outside liabilities to tangible net worth (TOL/TNW) stood low at 0.90 times (Provisional) as on 31 March 2020 as against 0.46 times as on 31 March 2019.

The firm, on the other hand, generated cash accruals of Rs.5.57 crore (Provisional) in FY2020 as against Rs.4.33 crore in FY2019. The profitability levels, coupled with debt levels, have led to robust debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were healthy at 0.28 times (Provisional) and 7.19 times (Provisional), respectively.

Acuite believes that the financial risk profile of the firm is likely to remain healthy over the medium term, on account of low gearing and robust debt protection metrics.

• **Efficient working capital cycle**

The firm's working capital management is efficient, marked by its Gross Current Asset (GCA) days of around 91 days (Provisional) in FY2020 as against 74 days in FY2019. The company has maintained an inventory holding period of 66 days (Provisional) as on 31 March, 2020 as against 29 days as on 31 March, 2019. The debtor days remained around 20 (Provisional) in FY2020 as against 36 days in FY2019. Acuite expects the working capital management of the firm to remain efficient over the medium term on account of its debtor collection period.

Weaknesses

• **Constitution of business as a partnership firm**

There is a risk of capital withdrawal owing to partnership constitution of the business following which the firm may have to rely more on external funding. However, there were no instances of withdrawal of capital for the period under study.

• **Highly competitive and fragmented nature of industry**

KC is exposed to intense competition as the cashew processing industry is highly fragmented and competitive in nature that also limits the pricing flexibility of the players. However, the risk is mitigated to an extent due to the established track record of operations.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Stretch in the working capital cycle leading to an increase in reliance on working capital borrowings

Any Material Covenants

None

Liquidity position: Strong

KC has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.5.57 crore (Provisional) for FY2020, with debt repayment obligations of Rs.0.74 crore (Provisional) for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.5.67 crore to Rs.6.92 crore during FY2021-23 against debt repayment obligations of Rs.0.19 crore in the same period. The firm's working capital operations are efficient, marked by GCA of 91 days (Provisional) for FY2020. The average bank limit utilization over the past six months ended August 2020 remained at around ~53.69 percent. The current ratio stood at 1.80 times (Provisional) as on 31 March, 2020. Acuite believes that the liquidity of the firm is likely to remain strong over the medium term on account of healthy cash accruals and no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that KC will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating

margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	174.75	134.94
PAT	Rs. Cr.	3.78	3.09
PAT Margin	(%)	2.16	2.29
Total Debt/Tangible Net Worth	Times	0.64	0.23
PBDIT/Interest	Times	7.19	4.47

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Aug-2019	Term Loan	Long Term	1.00	ACUITE BBB-/ Stable (Assigned)
	Secured Overdraft	Long Term	35.00	ACUITE BBB-/ 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	35.00	ACUITE BBB/Stable (Upgraded)
Term Loan	08- Jan-2018	Not Applicable	10-Jul-2020	1.00	ACUITE BBB (Upgraded and Withdrawn)

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About Acuité Ratings & Research:

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