

Press Release

Sapthami Cashew Industries

June 12, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.14.92 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Erratum: In the original PR dated 5th November, 2019, the hyperlinks to the relevant rating criteria referred to an earlier version, which have now been updated in this version.

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B' (read as ACUITE B)**' on the Rs.14.92 crore bank facilities of Sapthami Cashew Industries (SCI). The outlook is '**Stable**'.

Established in 1993, Sapthami Cashew Industries (SCI) is a partnership firm engaged in processing of raw cashew. It has manufacturing unit in Udupi, Karnataka with a capacity of 9000 kg per day. The day to day operations are managed by its partners Mr. Ramaraya Kamath and Mr. Laxmanraya Kamath. The firm has started its own production since July 2019. Earlier, it used to carry out job work for its sister concern, Mangalore Cashew Industries (MCI).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SCI to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience Management**

SCI commenced operations from 1993. The firm is promoted by its partners Mr. Ramaraya Kamath and Mr. Laxmanraya Kamath who possess experience of over two decades in cashew industry. The extensive experience has enabled the firm forge healthy relationships with customers and suppliers. Acuité believes that SCI will continue to benefit from its experienced management and established relationships with customers.

Weaknesses

- **Modest scale of operations**

The firm has reported operating income of Rs.2.87 crore in FY2019 (Provisional) as against Rs.2.58 crore in FY2018. Further, since the firm is selling cashew to its sister concern, Mangalore Cashew Industries who has established position in the market, the firm will be able to improve its scale of operations. However, due to its significant dependency on sister concern,

- **Average financial risk profile**

The financial risk profile is average marked by low net worth and debt protection measures and moderate gearing. The net worth of the firm is low at Rs.0.51 crore as on 31 March 2019 (Provisional) as against Rs.0.47 crore as on 31 March 2018. The gearing of the firm has stood comfortable at 0.10 times as on March 31, 2019 (Provisional) as against 1.09 times as on 31 March, 2018. However, in current FY2020, the firm has availed term loan of Rs.0.50 crore for purchase of new machineries. Hence the gearing of the firm is expected to deteriorate in FY2020. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.50 times as on 31 March 2019 (Provisional) as against 4.77 times as on 31 March 2018.

Rating Sensitivity

- Increase in scale of operations to around Rs.35.00 to 50.00 crore.
- Decline in operating profitability of the company to around 5.00 per cent.

Material Covenants

None.

Liquidity Position: Stretched

SCI has stretched liquidity marked by modest net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.35 crore in FY2019 (provisional) and Rs.0.33 crore in FY2018. The firm's working capital operations are efficient as marked by gross current asset (GCA) days of 47 days in FY2019 (Provisional). Further, the reliance on working capital borrowings is high, the cash credit limit in the firm remains fully utilised during the last 4 months' period ended September, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.02 crore as on 31 March, 2019 (Provisional). The current ratio of the firm stood at 0.22 times as on 31 March, 2019 (Provisional).

Outlook: Stable

Acuité believes that SCI will continue to benefit over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in SCI's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	2.87	2.58	2.42
EBITDA	Rs. Cr.	0.33	0.33	0.21
PAT	Rs. Cr.	0.12	0.11	0.01
EBITDA Margin (%)	(%)	11.58	12.81	8.47
PAT Margin (%)	(%)	4.21	4.10	0.42
ROCE (%)	(%)	15.74	17.04	6.81
Total Debt/Tangible Net Worth	Times	0.10	1.09	1.33
PBDIT/Interest	Times	-	5.50	3.92
Total Debt/PBDIT	Times	0.15	1.55	2.68
Gross Current Assets (Days)	Days	47	58	63

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

None.

*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	14.50	ACUITE B/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE B/Stable

*sublimit of ODBD of Rs.2.00 crore, PC/PCFC/FDB/FBE of Rs.2.40 crore, import trust limit of Rs.2.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 02249294044 saurabh.rane@acuite.in	

About Acuité Ratings & Research:

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