

Press Release

Gayathri Exports

May 14, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 57.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.57.00 Cr bank facilities of GAYATHRI EXPORTS (GE). The outlook is '**Stable**'.

Gayathri Exports (GE), established in the year 1995, is a Karnataka based partnership firm engaged in the processing of raw cashew nuts into cashew kernels as well as trades raw cashew nuts and cashew kernels. It is promoted by Mr. B. Prabhakar Kamath, along with his sons Mr. Srinivas Kamath and Mr. Prashanth Kamath, and the promoters have extensive experience in cashew processing industry.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of GE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced team of management**

Gayathri Exports is a Karnataka-based partnership firm established in 1995. The firm engaged in the processing of raw cashew nuts into cashew kernels as well as trades raw cashew nuts and cashew kernels and other cashew allied products. Mr. Bola Prabhakar Kamath, has an extensive experience in the cashew processing industry for more than five decades. The firm is managed by Mr. Bola Prabhakar Kamath and his sons Mr. Bola Srinivas Kamath and Mr. Bola Prashanth Kamath. The extensive experience of all the partners and its long-standing presence of the firm has enabled it in establishing strong ties with its key customers which also includes the Indian Army, which has resulted in repeat orders. The firm majorly imports the raw cashew nuts and also has established ties with its suppliers from Ivory Coast, Benin, Tanzania, etc. It also exports about ~25 percent of its products to countries like USA, UAE, etc. The firm registered an operating income of Rs.95 Cr for FY2019 with a processing capacity of 19.2 MT/RCNs per day. The revenue has grown at a CAGR of ~8 percent through three years from FY2017.

Acuité believes that GE will continue to benefit from its experienced management and healthy relations with customers and suppliers should continue to support the business over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the firm is moderate marked by high gearing, total outside liabilities to total net worth TOL/TNW) as well as moderate debt protection metrics. The gearing and TOL/TNW are moderate at 1.73 and 1.96 times as on 31 March, 2019 as against 1.08 and 1.27 times respectively as on 31 March, 2018. Net worth is modest at Rs.17.84 Cr as on 31 March, 2019 as against Rs.17.95 Cr as on 31 March, 2018. The total debt includes Rs.0.32 Cr of long-term debt and Rs.30.46 Cr of short-term debt as on March, 2019. The firm has undergone a capital expenditure to increase the processing capacity with a total project cost of Rs. 4.90 Cr which was funded by Rs.3 Cr of term loans and remaining by internal accruals. Debt-protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.76 times and 0.06 times respectively in FY2019. The firm reported cash accruals of Rs.1.74 Cr for FY2019 against nil repayment obligations. Further, repayment obligations are expected to be at Rs.0.43 Cr against annual cash accruals of about Rs.1.80 Cr to Rs. 2.00 Cr.

Acuité believes that financial risk profile is expected to remain moderate in the absence of major debt funded capital expenditure plans.

Weaknesses

- **Working capital intensive operations**

Operations of the firm are working capital intensive marked by gross current assets (GCA) days at 56 days in FY2019 as against 37 days in FY2018. Inventory days stood at 158 days in FY2019 against 126 days in FY2018. The deterioration in GCA days are majorly driven due to high inventory holding period of 104 days in FY2019 against 96 days in FY2018. The firm holds an inventory of 85 to 90 days of raw materials and 60 to 90 days of finished goods considering the seasonal nature of the cashew crop. Debtor's cycle stood at 51 days as against 29 days in the previous year. Debtors profile majorly consist of receivable from Indian Army. The bank limits are utilized moderately at ~65 percent over last FY2020. Acuité believes that GE's working capital cycle continues to be at similar levels over the medium term on account of the high inventory levels maintained by the firm to cater to spot orders.

- **Risk of withdrawal associated with the partnership nature**

GE is exposed to risks associated with partnership firms. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

- **Highly fragmented and intensely competitive cashew industry**

The domestic cashew industry is highly fragmented with the presence of many unorganized players, owing to low entry barriers. Intense price competition, along with low product differentiation, limits the firm's pricing flexibility. Further the firm's margins have fluctuated over the years due to variations in RCN and cashew kernel prices. Cashew prices are highly volatile. Kernel prices are determined by buyers and brokers, in line with the prevailing demand-supply scenario.

Rating Sensitivities

- Modest scale of operations with improvement in revenue growth and profitability margins
- Stretch in working capital or significant withdrawal of capital leading to deterioration of its financial risk profile

Material Covenants

None

Liquidity: Adequate

Liquidity profile of GE is adequate reflected by moderate bank line utilization. It has reported cash accruals of Rs.1.74 Cr in FY2019 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.1.50-2.00 Cr over the medium term, against which its repayment obligations are about Rs.0.43 Cr. Its working capital limits are utilized at about 65 per cent for the last 12 months through March 2020. Its current ratio is comfortable at about 1.34 times as of March 31, 2019. Acuité believes that efficient working capital management with enhanced working capital facilities keeps the liquidity profile of GE's adequate over the medium term.

Outlook: Stable

Acuité believes that GE 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.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	94.73	83.87
PAT	Rs. Cr.	0.96	2.63
PAT Margin	(%)	1.01	3.14
Total Debt/Tangible Net Worth	Times	1.73	1.08
PBDIT/Interest	Times	1.76	2.94

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable
Term Loan	28-08-2019	Not Applicable	30-Nov-2027	3.00	ACUITE BB/Stable
Pledge Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB/Stable
PCL/PCFC	Not Applicable	Not Applicable	Not Applicable	**30.00	ACUITE A4+
FDBN/FDBP/FDBD /PSCFC	Not Applicable	Not Applicable	Not Applicable	#3.00	ACUITE A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+

** Import LC of Rs. 2.00 Cr by way of sub-limit under PCL/PCFC limit; Pledge Loan of Rs. 3.00 Cr by way of sub-limit under PCL/PCFC limit,

Sublimit: BE/DBS/LRDS of Rs.0.10 Cr

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care

has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.