

Press Release

Gayathri Exports

July 28, 2021

Rating Upgraded and Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long term rating to '**ACUITE BB+**' (read as **ACUITE double 'B plus'**) from '**ACUITE BB**' (read as **ACUITE double 'B'**) and has reaffirmed its short term rating of '**ACUITE A4+**' (read as **ACUITE A four 'plus'**) on the Rs.57.00 crore bank facilities of Gayathri Exports (GE). The outlook is '**Stable**'.

Reason for rating upgradation

The rating upgrade is primarily driven by the sustained scale of operations marked by the improvement in the profitability margins and financial risk profile of the firm. GE has been able to sustain its operations in the FY2021 on the back of continuous and repetitive orders from domestic and international customers and has recorded operating income of Rs.95.28 Cr in FY2021 (Prov) as against Rs.92.45 Cr in FY2020. Despite the slowdown in economy during the FY2021 due to the outbreak of Covid-19 pandemic, GE has remained resilient and demonstrated improvement in its profitability margins and recorded operating profit (EBITDA) margin and net profit margin of 6.67 per cent and 1.30 per cent respectively in FY2021 (Prov) as against 4.17 percent and 0.81 per cent, respectively, in FY2020. Besides, there is an improvement in the debt-coverage indicators. The interest coverage ratio has improved to 2.28 times as on March 31, 2021 (Prov) as against 1.93 times as on March 31, 2020 and debt service coverage ratio has improved to 1.80 times as on March 31, 2021 (Prov) as against 1.58 times as on March 31, 2020. The working capital management of the firm is moderate in nature as evident from GCA days of 120 days, thereby, resulting in moderate dependence on working capital limits with average utilization being around ~52 percent. The firm has incurred capital expenditure leading to capacity increase of the cashew processing plant to 32.0 MT of Raw Cashew Nuts (RCNs) per day from 19.2 MT of RCNs per day. However, the leverage position of the firm has deteriorated as evident from the deterioration in the gearing to 1.76 times as on March 31, 2021 (Prov) from 1.36 times as on March 31, 2020 on account of increase in long term debt on account of availing covid-19 loan of Rs.4.70 Cr. Net worth of the firm has marginally deteriorated and stood at Rs.17.79 Cr as on March 31, 2021 (Prov) as against Rs.17.24 Cr as on March 31, 2020 on account of withdrawal of profits by the partners from the respective capital accounts during the period.

About the firm

Gayathri Exports (GE), established in the year 1995, is an Udupi (Karnataka) based partnership firm primarily engaged in the processing of raw cashew nuts into cashew kernels as well as trading of raw cashew nuts and cashew kernels. GE is promoted by Mr. B. Prabhakar Kamath, along with his sons- Mr. Srinivas Kamath and Mr. Prashanth Kamath. In FY2021, the firm has expanded its capacity of cashew processing unit from existing 19.2 MT of Raw Cashew Nuts (RCNs) per day to 32.00 MT of RCNs per day.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive industry experience of the partners, established track record, and decent order book providing near term revenue visibility**

Gayathri Exports is a Karnataka-based partnership firm established in 1995. The firm is 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 top management is ably supported by a well-qualified and experienced second line of management. 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 Singapore, Bahrain, Dubai, Ivory Coast, Benin, Tanzania, etc. It exports about ~25 percent of its products to countries like USA, UAE, Singapore amongst others. The firm has registered an operating income of Rs.95.28 Cr for FY2021 (Prov) with an increased processing capacity of 32.0 MT/RCNs per day from earlier processing capacity of 19.2 MT/RCNs per day. GE's revenue visibility is further accentuated by a moderate unexecuted order book from its one of the major customer of about Rs.22.18 Cr as on June 30, 2021 to be executed in FY2022, thereby, providing near term revenue visibility. However, majority of the orders received are spot orders and are executed within the same period. Acuite believes that the partner's extensive industry experience in cashew industry, established relationships with its customers and suppliers, increased capacity of processing plant and moderate unexecuted order book will aid GE's business risk profile over the medium term.

• **Capex incurred for increase in processing capacity; resilient amidst covid-19 pandemic**

The firm has incurred capital expenditure of around Rs.7.81 Cr in FY2021 and FY2020, leading to increase in the cashew processing plant capacity to 32.0 MT of Raw Cashew Nuts (RCNs) per day from 19.2 MT of RCNs per day. The firm was unable to cater the demand in past years on account of 100 percent utilization of 19.2MT/RCNs processing plant. GE is witnessing increase in demand from North-West part of India, specifically from Jaipur (Rajasthan) market, where the firm has been receiving orders from customers engaged in sweets & confectionery, ice-cream and restaurants business. The additional plant was partially operational in FY2021 leading to increase in sales from processing activity to Rs.30.92 Cr in FY2021 (Prov) against Rs.12.09 Cr in previous year. The plant is fully operational from April 2021 and the capacity utilization stands at 80 percent of total installed capacity of 32.00 MT of RCNs per day.

GE has stayed resilient during the covid-19 pandemic and recorded stable and sustainable revenue in FY2021. The operating income increased to Rs.95.28 Cr in FY2021 (Prov) from Rs.92.45 Cr in FY2020. In FY2021, on account of pandemic, less than 10 percent of total sales was realized in Q1 of FY2021. However, the firm aims to rebound with improved realizations in FY2022 and has recorded operating income of Rs.23.63 Cr in Q1 of FY2022 compared to Rs.9.54 Cr in Q1 of FY2021. Acuite believes that with an ongoing growth in demand in the industry backed by reputed clientele profile, increase in capacity and improvement demonstrated in Q1 of FY2022, the business risk profile of the firm is expected to improve over the medium term.

• **Moderate debt protection metrics and capital structure**

GE's financial risk profile is moderate, marked by a moderate networth and gearing along with moderate debt protection metrics. The EBITDA margins of the firm improved to 6.67 per cent in FY2021 (Prov) against 4.17 in FY2020. The improvement is attributable to decrease in operational overheads of the firm such as job work expenses, labour cost and selling expenses during the period. The PAT margins of the firm has improved to 1.30 per cent in FY2021 (Prov) against 0.81 per cent in FY2020 on account of improvement in operational metrics and increase in revenue from raw cashew processing activity. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.28 times and 1.80 times respectively in FY2021 (Prov) as against 1.93 and 1.58 times respectively in the previous year.

The net worth of the firm stood at Rs.17.39 Cr as on 31 March, 2021 (Prov) as against Rs.17.86 Cr as on 31 March, 2020. This deterioration is on the account of withdrawal of net profit and marginal capital by the partners from their respective capital accounts during the period. The gearing level (debt-equity) stands deteriorated at 1.76 times as on 31 March, 2021 (Prov) as against 1.36 times as on 31 March, 2020, the deterioration is on the significant increase in long term debt due to the firm availing working capital term loans during the same period of amount Rs.4.70 Cr. TOL/TNW (Total outside liabilities/Total net worth) has deteriorated and stands high at 1.78 times as on 31 March, 2021 (Prov) against 1.45 times in previous year. High TOL/TNW is on account of presence of high long term and short term debt levels during the period against previous year.

The total debt of Rs.30.55 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.6.79 Cr, USL from partners and family members of Rs.0.05 Cr, short term debt of Rs.22.12 Cr and maturing portion of long term borrowings of Rs.1.60 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.11 times in FY2021 (Prov) as against 0.06 times in FY2020. Acuite expects the financial risk profile to remain moderate over the medium to long term period on account of improvement in scale of operations and moderately leveraged capital structure.

- **Working capital operations marked by moderate GCA days**

GE's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 105-158 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by moderate inventory and debtor days. The elevated GCA days of 120 days as on March 31, 2021 (Provisional) is on account of presence of high debtors amounting to nearly Rs.9.21 Cr on account of 2nd wave of covid-19 pandemic leading to delays in receivables collections. These are further supported by low creditor days at 1 day as on March 31, 2021 (provisional). The moderate GCA cycle has led to moderate utilization of around 52 per cent of working capital requirement bank lines of Rs.48.00 Cr over the past 12 months ending May, 2021. Acuite believes that the operations of the firm will remain moderately working capital intensive on account of presence of low level of credit period from suppliers due to the firm's nature of business line.

Weaknesses

- **Moderate customer and supplier concentration risk in revenue profile**

GE has been successfully able to diversify its geographical coverage by catering to the needs of domestic as well international customers across various countries. None of the single customer out of has contributed more than 20 percent to the total sales of the firm in FY2021 (Prov). However, over the past years, Indian Army, one of the top customer of GE, has contributed towards more than 20 percent of total sales. In FY2021, the firm was unable to win the primary tender from the Indian army for the supply of cashew on account of high bid quoted in comparison with other player, leading to comparatively lower sales from Indian army in FY2021. Top 10 customers of the firm has been contributing nearly 50 percent of the total sales in a given financial year. The current suppliers are associated with the operations of the firm for nearly 10-15 years now. It can be observed that a single supplier of GE has contributed more than 20 percent to the total purchases of the firm. Top 10 suppliers of the firm has been contributing nearly 80 percent of the total purchases in a given financial year. Acuite believes that GE has moderate risk towards its revenue profile in terms of customer and supplier concentration and will be monitorable over the medium term.

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

GE is a partnership firm and is exposed to the likeliness of the partners withdrawing capital from the business. It can be observed that the Net worth of the firm has not witnessed any growth over the last 3 financial years through FY2021 on account of capital withdrawal by the partners. Acuite believes that 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. It can be observed that the realizations per kg of all the major offerings by the firm are deteriorating over the last 2 years on account of impact of covid-19 pandemic on global scale leading to fluctuations in the demand and supply side. The realization per kg from cashew kernels have declined to Rs.503 per kg in FY2021 (Prov) from Rs.668 per kg in FY2019. However, impact of lower realizations was compensated by the increase in volume of the cashews sold by the firm. Acuite believes that any substantial fluctuations in the raw material price is likely to have an adverse impact on the revenue profile of the firm.

Liquidity Position: Adequate

GE's liquidity is adequate marked by modest generation of net cash accruals in FY2021 (Prov) to its maturing debt obligations, moderate level of unencumbered cash and bank balance and moderate bank limit utilization. The firm has generated cash accruals in the range of Rs.1.55-3.30 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.0.20-0.53 Cr for the same period. The firm's working capital is moderately managed as evident from Gross Current Asset (GCA) of 120 days as on March, 2021 (Prov) as compared to 105 days as on March, 2020. The elevated GCA days as on March 31, 2021 (Provisional) is on account of presence of debtors amounting to nearly Rs.9.21 Cr. The current ratio stood at 1.42 times as on 31 March 31 2021 (Prov) against 1.38 in previous year and the fund based limit remains utilized at nearly 52.0 percent over the 12 months ended May, 2021. The firm maintained unencumbered cash and bank balances of Rs.4.15 Cr as on 31 March 31 2021 (Prov) against Rs.0.97 Cr in previous year. GE in FY2021 has to avail working capital term loan of Rs.4.70 Cr to meet its working capital requirement during the pandemic period. Acuite believes that the liquidity of the firm is likely to improve over the medium term on account of increasing scale of operations and expected improvement in demand in the industry. However, the debtors level, sales volume of cashew kernels, realization per kg and dependence on working capital

bank lines will be key monitorables over the medium term for the assessment of liquidity position of the firm. The firm is expected to generate NCA in range of Rs.3.47-4.57 Cr against maturing debt obligations in range of Rs.1.60-2.45 Cr over the medium term.

Rating Sensitivities

Positive

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the firm.
- Sustainable improvement in realization per unit of the products offered by the firm.

Negative

- Any deterioration in working capital cycle and liquidity profile of the firm.
- Any deterioration in Revenue profile and leverage position of the firm.
- Any deterioration in volume and realization per unit of the products offered by the firm.
- Any weakening of financial risk profile of the firm.

Outlook: Stable

Acuite believes that GE will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, decent unexecuted order book and capacity expansion of the processing plant. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and improvement in per unit realizations of the products offered by the firm leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case GE registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	95.28	92.45
PAT	Rs. Cr.	1.24	0.75
PAT Margin	(%)	1.30	0.81
Total Debt/Tangible Net Worth	Times	1.76	1.36
PBDIT/Interest	Times	2.28	1.93

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

Not Applicable

Any other information

None

Material Covenants

None

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
14 May, 2020	Cash Credit	Long Term	5.00	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB/Stable (Assigned)
	Pledge Loan	Long Term	10.00	ACUITE BB/Stable (Assigned)
	PCL/PCFC	Short Term	**30.00	ACUITE A4+ (Assigned)
	FDBN/FDBP/FDBD /PSCFC	Short Term	#3.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Assigned)

**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

*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	#15.00	ACUITE BB+/Stable (Upgraded)
Term Loan	20-08-2019	8.35%	30-11-2027	2.46	ACUITE BB+/Stable (Upgraded)
PCL/PCFC	Not Applicable	Not Applicable	Not Applicable	**30.00	ACUITE A4+ (Reaffirmed)
FDBN/FDBP/FDBD /PSCFC	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BB+/Stable (Upgraded)

#CC pledge loan limit of Rs.10 Cr has been converted into CC(H) limit.

**Import LC of Rs. 2.00 Cr by way of sub-limit under PCL/PCFC limit

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Shivam Agarwal Analyst - Rating Operations Tel: 040-4004 2327 shivam.agarwal@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research 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 8,000 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.*