

Press Release

Nikhil Mercantile Private Limited

November 01, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.35.00 Cr bank facilities of Nikhil Mercantile Private Limited (NMPL). The outlook is '**Stable**'.

The rating on NMPL takes cognizance of the experienced management, consistent revenue growth, support from the parent company and steady efforts to increase their scalability. Further, the rating also draws comfort from the efficient working capital management of the company. These strengths are however, partly offset by the modest networth, moderate profitability margins and susceptibility to climatic conditions amidst existing intense competition in the cashew processing industry.

About the company

Incorporated in 2007, NMPL is an Udupi, Karnataka based company, engaged in the processing of cashew nuts and trading of raw cashew nuts (RCN), soy beans and other agro products. The company has an installed capacity of 40 metric tonne per day. The company is currently headed by Mr. Sumit Jain, Mr. Basba Nand Balodi and Mr. Nitesh Patwari. The company has been taken over by Valency International Pte Ltd. (VIPL) with 100 per cent holding in February 2018.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long experience of the management**

NMPL's top management has an experience spanning around two decades. Mr. Sumit Jain, Mr. Basba Nand Balodi are the common directors between VIPL and NMPL and Mr. Nitesh Patwari is the CFO and additional director in NMPL. The parent company's support, management's understanding of the market dynamics and established relationship with customers and suppliers has helped the company scale up its operations in the last two years. NMPL has also recently added a number of new clients to its customer base like More Retail, Amul Union (Gujarat Division), Haldirams only to name a few. Acuité believes that the long track record of the parent company and management's extensive manufacturing experience will support the company's growth plans, going forward.

- **Steady revenue growth**

Historically, the top line of the company has witnessed a steady increase. The company has achieved revenues of Rs.198.21 Cr till March, 2021 as against Rs.69.16 Cr in FY2020 and Rs.37.24 Cr in FY2019, thereby registering a two year CAGR of 131 per cent from FY19-21. The increase in top line is due to increase in installed capacity from 7 MT per day to 40 MT per day in August, 2021, NMPL expanded its customers base by adding more institutional customers like Spencers, Udaan and more. The company also outsourced its production by collaborating with local processing units. The provisional revenue till Aug'21 stood at around Rs.64.20 Cr. Acuité believes with enhancement in the capacity and steady efforts to penetrate market and expand further, the scale of operations of the company will improve over the medium term.

- **Efficient working capital cycle**

The efficient working capital cycle is marked by Gross Current Assets (GCA) of 56 days in FY2021 as compared to 138 days in FY2020. The improved GCA days are mainly on account of reduction in advances for goods and better realisation from customers. The debtor period stood comfortable at 3 days as on March 31, 2021

as compared to 11 days as on 31st March 2020. The company offers 30-45 days of credit to wholesalers and institutional customers and for the rest, goods are supplied against advance. Further, the inventory period also stood comfortable at 37 days in FY21 as compared to 34 days in FY20. Going forward, Acuité believes that the working capital management of the company will stretch yet remain at efficient levels due to efficient collection mechanism and low inventory holding period.

Weaknesses

- **Moderately profitability margins**

The operating margin of the company decreased to 2.04 per cent in FY2021 as compared to 2.39 per cent in the previous year. The PAT margins stood at 1.15 per cent in FY2021 same as in the previous period. The EBITDA margin decreased on account of higher proportion of trading sales in FY21.

- **Susceptibility to climatic conditions and volatility in raw material prices**

Competition in the cashew processing industry is intense due to the presence of a large number of unorganised players in the market. The availability and quality of raw cashew nut is dependent on adequate and timely monsoon. Also, production may be impacted by pests or crop infection. Even though NMPL procures around 90 – 95 per cent of its raw material requirement from its Singapore based parent company, these climatic factors are associated with higher unpredictability in production and pricing of cashew.

Rating Sensitivity

- Sustainability in the growth in their scale of operations while improving its profitability margins
- Improvement in the capital structure of the company

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.2.73 Cr in FY2021 as against a long term debt repayment of Rs.0.03 Cr over the same period. The fund based limit remained utilised at about 56 percent over the six months ended August, 2021. The current ratio is moderate at 1.06 times as on 31st March, 2021 as compared to 1.05 times as on 31st March, 2020. The cash and bank balances of the company stood at Rs.0.11 Cr in FY2021 as compared to Rs.0.05 Cr in FY2020. The company did not avail any Covid loan or a loan moratorium. Acuité believes that going forward the liquidity position of the company will improve due to steady cash accruals.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of its experienced management, consistent revenue growth and support from the parent company. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while improving its operating margins. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the networth base or stretch in the liquidity profile of the company.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	198.21	69.16
PAT	Rs. Cr.	2.28	0.79
PAT Margin	(%)	1.15	1.15
Total Debt/Tangible Net Worth	Times	0.33	0.38
PBDIT/Interest	Times	11.05	16.57

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <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)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of Mauritius Limited	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
HDFC Bank	Warehouse Receipt Financing - WHR Pledge Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Canara Bank	Term Loan	25-Nov-2019	8.86%	25-Nov-2026	2.00	ACUITE BBB-/Stable (Assigned)
Not Applicable	Proposed Long Term Bank facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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