

## Press Release

Nikhil Mercantile Private Limited

January 23, 2023



### Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	55.00	ACUITE BB+   Stable   Assigned	-
Bank Loan Ratings	35.00	ACUITE BB+   Stable   Downgraded	-
Bank Loan Ratings	10.00	-	ACUITE A4+   Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.35.00 Cr bank facilities and has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.65.00 Cr bank facilities of Nikhil Mercantile Private Limited (NMPL). The outlook remains '**Stable**'.

#### Rationale for the rating

The rating downgrade factors the subdued performance in the 8M of FY2023 coupled with losses incurred due to dip in the operations of the company over the period. The rating is further constrained by the moderate financial risk profile of the company and the susceptibility to climatic conditions amidst existing intense competition in the cashew processing industry.

However, the rating takes into account the experienced management, the support from the parent company and the efficient working capital management of the company.

#### About the Company

Incorporated in 2007, Nikhil Mercantile Private Limited (NMPL) is based in Udupi, Karnataka and is engaged in the processing of cashew nuts along with the trading of raw cashew nuts (RCN), soy beans and other agro products. The company has an installed capacity of 40 metric tonne per day. NMPL is 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

Acuite has considered the standalone business and financial risk profile of NMPL to arrive at the rating.

#### Key Rating Drivers

## Strengths

- **Experienced promoters**

The management of NMPL possesses over a decade's experience in the processing and trading of agro based products. 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 the established relationship with customers and suppliers has helped the company in scaling up of its operations in the last two years. Acuité believes that the long standing operations of the parent company along with the experience of the management will continue to support the company's growth plans going forward.

- **Efficient working capital cycle**

The efficient working capital cycle of NMPL is marked by Gross Current Assets (GCA) of 69 days in FY2022 as compared to 56 days in FY2021. The comfortable GCA days are mainly on account of low inventory levels and efficient debtor cycle. The debtor period stood at 17 days as on March 31, 2022 as compared to 3 days as on 31st March 2021. The company offers 15-30 days of credit to wholesalers and institutional customers and for the rest, goods are supplied against advance. Further, the inventory period stood at 39 days in FY2022 as compared to 37 days in FY2021. The company usually maintains a buffer stock of 1-1.5 months excluding the period of Mar-Jun as good quality fresh RCN is available domestically during that time. Going forward, Acuité believes that the working capital management of the company will remain around the similar levels on account of the efficient collection mechanism and low inventory holding period.

## Weaknesses

- **Subdued performance in 8M of FY2023**

NMPL has reported revenues of Rs.142.76 Cr till November, 2022 (provisional). The performance remained constrained due to reduction in the operations of the company owing to dip in the commodity prices over the period. However, the company has achieved revenues of Rs.302.21 Cr in FY2022 as against Rs.198.21 Cr in FY2021 on account of significant rise in the trading of sesame, other pulses and raw cashew nut over the period.

The company incurred losses in 8MFY2023 due to the fixed overhead expenditure along with rise in the raw material cost as against the subdued revenues over the period. However, in FY2022, the operating margin of the company rose to 2.92 per cent as compared to 2.04 per cent in FY2021 on account of better price realizations. Acuité believes that, going forward, the ability of the company to overcome the losses and increase the scale of operations by expanding further will be a key sensitivity factor.

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked by moderately rising networth, modest gearing and healthy debt protection metrics. The tangible net worth of the company increased to Rs.18.81 Cr as on 31st March, 2022 as compared to Rs.12.55 Cr as on 31st March, 2021 due to accretion of reserves and infusion of capital to the tune of Rs.0.73 Cr by Valency International Pte Limited. Acuité has considered unsecured loans of Rs.5.51 Cr as a part of networth as the management has undertaken to maintain the same in the business over the medium term. Gearing stood at 0.69 times as on 31st March, 2022 as compared to 0.33 times as on 31st March, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.13 times as on 31st March, 2022 as compared to 2.48 times in the previous year. However, the healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 5.32 times and Debt Service coverage ratio at 3.78 times as on 31st March, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.42 times as on 31st March, 2022. Acuité believes that going forward the leverage ratios would witness moderations on account of debt funded capex plans.

- **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 85 – 90 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 Sensitivities**

- Growth in the scale of operations while achieving profits
- 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.5.47 Cr in FY2022 as against long term debt repayment of only Rs.0.23 Cr over the same period. The fund based limit is moderately utilised at about 50 percent over the six months ended September, 2022. The current ratio is moderate at 1.03 times as on 31st March, 2022 as compared to 1.06 times as on 31 st March, 2021. The cash and bank balances of the company stood at Rs.2.02 Cr in FY2022 as compared to Rs.0.11 Cr in FY2021. Moreover, the company's working capital cycle is efficient as reflected from Gross Current Assets (GCA) of 69 days in FY2022 as compared to 56 days in FY2021. Acuité believes that going forward the liquidity position of the company will improve due to gradually improving cash accruals.

### **Outlook: Stable**

Acuité believes the outlook on NMPL will remain 'Stable' over the medium term backed by its experienced management, support from the parent company, established clientele base and the efficient working capital cycle. The outlook may be revised to 'Positive' in case of significant growth in revenues while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins or deterioration in the financial risk profile or elongation in the working capital cycle.

### **Other Factors affecting Rating**

None

### **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	302.21	198.21
PAT	Rs. Cr.	4.42	2.28
PAT Margin	(%)	1.46	1.15
Total Debt/Tangible Net Worth	Times	0.69	0.33
PBDIT/Interest	Times	5.32	11.05

### **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 Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Nov 2021	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
	Warehouse Receipt Financing	Long Term	15.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+   Assigned
State Bank of Mauritius Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+   Stable   Downgraded ( from ACUITE BBB- )
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BB+   Stable   Downgraded ( from ACUITE BBB- )
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE BB+   Stable   Assigned
Tata Capital Limited	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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