

Press Release

T R V Cashew Company

December 08, 2021



Rating Assigned

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.20	9.20	ACUITE BB- Stable Assigned	
Total	-	9.20	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE Double B minus**) on the Rs.9.20 Cr. bank facilities of TRV Cashew Company (TRV). The outlook is '**Stable**'.

Rationale for Rating Assignment

The rating assigned reflects the established track record of operations of the TRV Group, experienced management, and improving operating revenue. These rating strengths are partly offset by the Group's highly leveraged capital structure & moderately weak debt coverage indicators. Further, the rating is also constrained by susceptibility of the Group's operating performance to competitive pressures in the fragmented industry, coupled with volatile agro-commodity prices and TRV's proprietorship nature of constitution.

About the Entity

Established in 2006 in Tamil Nadu as a proprietorship entity by Mr. B. Yuvaraj, TRV Cashew Company (TRV) is primarily engaged in processing of raw cashew nuts into kernels, and is also engaged in trading of raw cashew nuts and other types of nuts in a smaller proportion. The entity sells its products by way of retail sales through its retail outlets (4 of which are located in Chennai and 5 in other cities of Tamil Nadu) and to other wholesalers majorly in Southern India. On the other hand, the primary raw material viz. raw cashew nuts are majorly procured from its Group entity viz. Ronald Leeman Commodities (RLC).

About the Group

TRV Group comprises TRV and Ronald Leeman Commodities (RLC). Both the entities are promoted by the same management which is managed by the promoter – Mr. B. Yuvaraj. The two entities in the Group share operational & financial linkages with each other as RLC deals in a product which the primary raw material for TRV. RLC is primarily engaged in trading of raw cashew nuts, which are majorly sold to TRV, which in turn processes them into kernels and sells them to the retail customers as well as wholesale customers.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of TRV and RLC to arrive at the rating. The consolidation is in the view of the similarities in the lines of business, operational & financial synergies and common management. Extent of consolidation: Full.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

TRV possesses an established track record of operations of over 15 years in the business of processing & trading of cashew nuts. Although RLC was established in 2016, its operations are backed by the support from TRV through its established presence in the cashew market since 2006. Further, the promoter's family has been in this business since 1945. RLC is primarily engaged in trading of raw cashew nuts, which are majorly sold to TRV, which in turn processes them into kernels and sells them to the retail customers as well as wholesale customers.

The overall operations of TRV and RLC are looked after by the promoter – Mr. B. Yuvaraj, who is the proprietor in TRV and a partner in RLC (through TRV) along with his wife – Mrs. Y. Nithyeswari who is also a partner in RLC. Mr. B. Yuvaraj has done his Mechanical & Industrial Production Engineering, and possesses a total experience of over 18 years in the business of processing & trading of cashew nuts. Prior to the inception of TRV and RLC, he was engaged in his family business since 2003. On the other hand, Mrs. Y. Nithyeswari looks after the retail business of TRV since last 7 years.

Acuité expects the Group to benefit from its established presence in the industry and extensive experience of the management.

Improving scale of operations albeit low operating profit margins

TRV Group's operating income stood at Rs.100.89 crore in FY21 (Prov.), as against Rs.96.22 crore in FY20 and Rs.50.28 crore in FY19. The Group's revenue has grown at a CAGR of ~41 per cent since FY19. The growth has slowed down in FY21 (Prov.), however this is primarily on account of the restrictions on account of COVID 19 induced lockdowns. However, the operating profit margin stood low at 2.79 per cent in FY21 (Prov.) against 2.86 per cent in FY20. This is primarily on account of processing nature of operations are expected remain range bound going forward over the medium term.

Acuité expects the Group's ability to improve its scale of operations and maintain its profitability will continue to remain a key rating sensitivity.

Weaknesses

Highly leveraged capital structure & moderately weak debt coverage indicators

The capital structure of TRV Group stood highly leveraged with an overall gearing of 3.87 times and TOL/TNW of 5.38 times respectively as on March 31, 2021 (Prov.) as against 2.50 times and 4.70 times respectively as on March 31, 2020, given the high reliance on external debt to fund their working capital requirements. The overall gearing deteriorated in FY21 (Prov.) owing to increase in debt levels owing to COVID-19 loans availed during that year. The total debt stood at Rs.14.08 crore and Rs.25.13 crore as on March 31, 2020 and March 31, 2021 (Prov.) respectively, comprising vehicle loans, COVID-19 loans, working capital bank borrowings, and unsecured loans from promoters. Further, given the low profitability, the debt coverage indicators also stood moderately weak with interest coverage and DSCR of 1.86 times in FY21 (Prov.) as against 1.55 times in FY20.

Acuité believes any further deterioration in the Group's financial risk profile remain a key rating sensitivity.

Presence in highly competitive & fragmented industry with volatile raw material price environment

TRV Group are present in highly competitive & fragmented nuts processing industry with a number of small-sized & large-sized players engaged in processing & trading of cashew nuts. Moreover, there are also a number of players engaged in the processing of other types of nuts and other agricultural products, which intensifies the already prevailing competition in the industry. This is evident from low profit margins and moderately elongated collection period. Furthermore, the prices of agro-commodities are highly volatile in nature, thereby having a direct bearing on the profitability and profit margins of the Group.

Proprietorship nature of constitution

TRV is exposed to inherent risk of proprietor's capital being withdrawn at the time of personal contingency. Due to the proprietorship nature of constitution, it has restricted access to external borrowing where net-worth as well as credit worthiness of the proprietor are the key factors affecting credit decision of lenders.

Liquidity Position: Stretched

The operations of the Group are moderately working capital intensive in nature with GCA days and working capital cycle of 108 days and 69 days respectively in FY21 (Prov.) as against 84 days and 30 days respectively in FY20. Given this, the average WC utilization in the last 7 months ended October 2021 stood high at 90-97 per cent. On the other hand, the Group generated moderately low net cash accruals worth 0.99 crore and Rs.1.31 crore in FY20 and FY21 (Prov.) respectively as against debt repayment obligations worth Rs.0.31 crore and Rs.0.37 crore respectively in those years. The Group is expected to generate net cash accruals in the range of Rs.1.50-2 crore over FY22-FY23, as against the debt repayment obligations worth Rs.0.45-0.75 crore in RLC and Rs.0.60-0.65 crore in TRV over the same period. However, the current ratio stood moderate at 1.34 times as on March 31, 2021 (Prov.) as against 0.87 times as on March 31, 2020. The liquidity profile of the Group is expected to remain stretched on account of low net cash accruals and low unutilized bank limits.

Rating Sensitivities

- Slower-than-expected scale up of operations or deterioration in profitability
- Significant deterioration in the liquidity position or the overall financial risk profile

Material Covenants

None

Outlook: Stable

Acuité believes that TRV will maintain a 'Stable' outlook on the back of its management's extensive experience and established position in processing & trading of cashew nuts. The outlook may be revised to 'Positive' if there is a significant increase in the Group's revenues without deterioration in the profitability. Conversely, the outlook may be revised to 'Negative' in case of a decline in the revenues, or significant deterioration in its capital structure or liquidity position.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	100.89	96.35
PAT	Rs. Cr.	1.11	0.82
PAT Margin	(%)	1.10	0.85
Total Debt/Tangible Net Worth	Times	3.87	2.50
PBDIT/Interest	Times	1.86	1.55

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

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:
 Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	1.50	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	6.50	6.50	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	31-10-2024	1.20	1.20	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

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