Press Release

Shree Venkateshwara Processors

October 15, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 14.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** on the Rs. 14.50 crore bank facilities of SHREE VENKATESHWARA PROCESSORS (SVP). The outlook is **'Stable'**.

Established in 1993, Shree Venkateshwara Processors (SVP) is engaged in processing of raw cashews. The day-to-day operations are managed by its partners, Mr. P. Subraya Pai, Mrs. Divya Pai and Mr. Chaitanya Pai. The firm has processing unit in Karnataka with capacity of 7 tonnes per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SVP to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

  SVP commenced its operations from 1993. The company is promoted by its partners, Mr. P. Subraya Pai, Mrs. Divya Pai and Mr. Chaitanya Pai, who have an experience of more than two decades in the agriculture industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers.

  Acuité believes that the group will continue to benefit from its experienced management and established relationships with customers.

- **Efficient working capital management**

  The working capital of SVP is efficiently managed marked by Gross Current Asset (GCA) days of 89 for FY2019 as against 127 in the previous year. The debtor days stood comfortable at 21 days for FY2019 as against 43 days in FY2018. Further, inventory days stood at 59 days for FY2019 as against 83 days for FY2018. The average bank limit uitlisation stood at ~80 per cent for last six months ending August, 2019.

  Acuité believes that, going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

Weaknesses

- **Decrease in scale of operations and profitability**

  The firm has reported decline in revenue growth with negative compounded annual growth rate (CAGR) of around ~5.34 per cent through the last three years ended 31 March, 2019 (Provisional). The company reported decline in revenue by ~12.85 per cent with operating income of Rs. 42.63 crore in FY2019 from operating income of Rs. 48.92 crore in FY2018. The operating margins of the firm declined to 0.77 per cent in FY2019 from 9.48 per cent in FY2018. This is majorly due to commodity and forex losses incurred by the firm.

  Acuité believes that the profitability will improve in current financial year as the firm has booked raw materials at cheaper rate for the entire year.

- **Below average financial risk profile**

  The financial risk profile is below average marked by low net worth and debt protection measures and moderate gearing. The net worth of the firm is low at Rs.6.93 crore as on 31 March, 2019 as against Rs.8.53 crore as on 31 March, 2018. The gearing of the firm stood moderate at 1.01 times as on March 31, 2019 as against 1.15 times as on March 31, 2018. Total debt of Rs.6.97 crore consists of term loan of Rs.0.96 crore, unsecured loans of Rs.0.97 crore and working capital facility of Rs.5.03 crore as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 0.97 times as on 31 March, 2019 as against 1.46 times as on 31 March, 2018. Interest Coverage Ratio (ICR) declined to 0.22 times in FY2019 from 3.42 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) declined to negative 0.11 times as on 31 March, 2019 from 0.24 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) declined to 0.56 times in FY2019 as against 2.68 times in FY2018.

- **Susceptibility of profitability margins to fluctuations in prices of raw material and foreign exchange fluctuation**

  The basic raw material required by SVP is raw cashew. The prices of this commodity is subject to volatility in global market. Further, SVP majorly imports its raw material from African countries among others. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates. However, SVP generally enters into forward covers which partially mitigate the forex risk.

Rating Sensitivity

- Increase in scale of operations in the range of Rs.50.00 crore to Rs.60.00 crore in FY2020 along with increase in operating margins of around 9 per cent in FY2020 will be key positive sensitivity.

Material Covenants

None

Liquidity Position

SVP has stretched liquidity marked by negative net cash accruals. The firm generated negative cash accruals of Rs. 0.78 crore in FY2019 as against Rs. 2.34 crore in FY2018. The firm's working capital operations are efficient as marked by gross current asset (GCA) days of 89 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilised at ~80 per cent during the last 6 months' period ended August, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.65 crore as on March 31, 2019. The current ratio of the firm stood at 1.96 times as on March 31, 2019.

Acuité believes that the firm's ability to manage its liquidity will be key rating sensitivity as the firm has faced liquidity issues due to down fall in the cashew industry. However, the firm is expected to improve in current financial year due to purchasing of raw materials at a cheaper rate and the demand for its quality cashew kernals.

Outlook: Stable

Acuité believes that SVP will maintain a 'Stable' outlook over the medium term on the back of its experienced management and established presence in the industry. The outlook may be revised to Positive' in case the company registers higher-than-expected growth in revenues, while achieving sustained improvement in profit margins, capital structure and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue and profit margins or deterioration in the capital structure or liquidity position owing to significant debt funded capex or working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	42.63	48.92	47.58
EBITDA	Rs. Cr.	0.33	4.63	4.44
PAT	Rs. Cr.	-1.14	1.94	1.92
EBITDA Margin	(%)	0.77	9.48	9.33
PAT Margin	(%)	-2.67	3.96	4.04
ROCE	(%)	0.18	25.86	53.19
Total Debt/Tangible Net Worth	Times	1.01	1.15	1.43
PBDIT/Interest	Times	0.22	3.42	3.96
Total Debt/PBDIT	Times	17.90	2.07	2.01
Gross Current Assets (Days)	Days	89	127	95

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-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto last 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	14.50	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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