

August 26, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.00	SMERA B+/Stable (Upgraded from SMERA B-/Stable)
Letter of Credit/Buyer's Credit	10.00	SMERA A4 (Reaffirmed)

SMERA has upgraded the rating on the long-term bank facility of Parshvanath Overseas (PO) to '**SMERA B+**' (read as **SMERA single B plus**) from 'SMERA B-' and reaffirmed the short-term rating of '**SMERA A4**' (read as **SMERA A four**). The outlook is '**Stable**'. SMERA has consolidated the business and financial risk profiles of PO, Parshva Food International, Navkar Processors and Nakoda Agro Commodities Private Limited., together referred to as the 'Nakodas Group'. The consolidation is in view of the operational and financial linkages within the group. The rating upgrade is in view of the strong revenue growth registered by the group during the past four years. .

The ratings are constrained by the decline in operating profit margin of the group. The ratings factor in risks related to the group's working capital-intensive operations and weak financial risk profile. The ratings are also constrained by the group's exposure to foreign exchange fluctuation risk. However, the ratings derive comfort from the group's experienced management.

Update

The Nakodas Group's revenues increased at a strong compound annual growth rate (CAGR) of 47.41 per cent during FY2009–10 (refers to financial year, April 01 to March 31) to FY2013–14 on account of new product launches and increase in cashew sales volume.

The Nakodas Group's operating profit margin declined from ~18 per cent in FY2010–11 to ~11 per cent (provisional) in FY2013–14. The group maintains high inventory of raw materials on account of the seasonal availability of raw cashews and almonds. The group's working capital cycle is thus stretched at ~200 days in FY2013–14. The Nakodas Group's weak financial risk profile is reflected in high leverage of 2.30 times (provisional) as on March 31, 2014 and low interest coverage ratio of 1.39 times (provisional) in FY2013–14. The group's profit margins are susceptible to foreign exchange fluctuation risk arising from un-hedged imports (financed through letter of credit, which is converted into buyer's credit).

The Nakodas Group benefits from its experienced management. The promoters of the group have around 15 years of experience in the food processing industry.

Outlook: Stable

SMERA believes the outlook on PO's rated facility will remain stable over medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues while achieving significant improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile, or in case of decline in the firm's profit margins.

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About the group

The Nakodas Group (based in Nagpur) comprises four entities viz. PO, Parshva Food International, Navkar Processors and Nakoda Agro Commodities Private Limited. The group is engaged in trading and processing of cashews and almonds. The Nakodas Group also undertakes manufacturing of candied fruit cubes (tutti-frutti) and sweet pickle (*murabba*).

For FY2013–14 (as per provisional financial statements), the Nakodas Group reported net profit before tax of Rs.0.94 crore on operating income of Rs.45.56 crore, as compared with net profit before tax of Rs.0.50 crore on operating income of Rs.32.90 crore in FY2012–13. The group's net worth stood at Rs.10.96 crore (provisional) as on March 31, 2014, as compared with Rs.9.80 crore a year earlier.

About the firm

PO, established in 2009, is a Nagpur-based proprietorship firm engaged in trading of dry fruits. PO imports almonds and cashews, which are sold to group entities and external parties.

For FY2013–14 (as per provisional financial statements), PO reported net profit after tax of Rs.0.44 crore on operating income of Rs.20.83 crore, as compared with net profit after tax of Rs.0.08 crore on operating income of Rs.20.12 crore in FY2012–13.

Contact List:

Media / Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal Vice President, SME - Sales Tel : +91-22-67141177 Cell : +91 9930074009 Email : virendra.goyal@smera.in Web: www.smera.in	Mr. Ashutosh Satsangi Vice President - Operations, Tel: +91-22-67141107 Email: ashutosh.satsangi@smera.in	Tel: +91-22-67141170 Email: ratingdesk@smera.in

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