

July 18, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	5.00*	SMERA B+/Stable (Assigned)
Term Loan	0.61	SMERA B+/Stable (Assigned)
Letter of Credit/Buyer's Credit	4.00	SMERA A4 (Assigned)

*Includes EPC/PCFC as a sublimit to the extent of Rs.5.00 crore

*Includes FBN/FBP/FBD as a sublimit to the extent of Rs.5.00 crore

SMERA has assigned ratings of **'SMERA B+' (read as SMERA single B plus)** and **'SMERA A4' (read as SMERA A four)** to the Rs.9.61 crore bank facilities of Parshva Food International (PFI). The outlook is **'Stable'**. For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of PFI, Parshvanath Overseas, Navkar Processors and Nakoda Agro Commodities Private Limited, together referred to as the 'Nakodas Group'. The consolidation is in view of the common ownership and similar business model of the entities. The consolidation is also on account of strong operational linkages between the entities. The ratings are constrained by the decline in the group's operating profit margin. 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 healthy revenue growth and experienced management.

PFI, established in 2009, is a Nagpur-based company engaged in processing of cashew nuts and manufacturing of candied fruit cubes. PFI's operating profit margin declined from 17.80 per cent in FY2012-13 (refers to financial year, April 01 to March 31) to 9.65 per cent (provisional) in FY2013-14 on account of decline in revenue share (from 60 per cent in FY2012-13 to 45 per cent in FY2013-14) of candied fruit cubes, which command higher profit margin compared to cashew nuts. Similarly, the Nakodas Group's operating profit margin declined from ~18 per cent in FY2010-11 to ~11 per cent (provisional) in FY2013-14.

The Nakodas Group maintains high inventory of raw materials due to seasonal availability of raw cashews and almonds. The group's working capital cycle is stretched at ~200 days in FY2013-14. The Nakodas Group's weak consolidated 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's revenues increased at a healthy compound annual growth rate (CAGR) of 47.41 per cent during FY2009-10 to FY2013-14 on account of new product launches and increase in sales volumes of cashew nuts. Moreover, PFI's quarterly revenues increased from Rs.0.70 crore in Q1FY2013-14 (refers to period, April 01 to June 30) to Rs.3.47 crore in Q1FY2014-15 on account of

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increase in cashew nut sales (which were mainly supported by increase in working capital limit from Rs.2.00 crore to Rs.9.00 crore).

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 PFI will maintain a stable business risk profile over the 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 and profitability while achieving improvement in financial risk profile. The outlook may be revised to 'Negative' in case the firm registers significant decline in operating profit margin, or in case of deterioration in the firm's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the group

The Nakodas Group (based in Nagpur) comprises four entities (PFI, Parshvanath Overseas, Navkar Processors and Nakoda Agro Commodities Private Limited) engaged in trading and processing of dry fruits (cashews and almonds) and manufacturing of candied fruit cubes (tutti-frutti) and sweet pickle (*murabba*). Parshvanath Overseas imports in-shell almonds and cashew nuts, which are sold to the other group entities.

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 for FY2012-13. The group's net worth stood at Rs.10.96 crore as on March 31, 2014, as compared with Rs.9.80 crore a year earlier.

About the firm

PFI, established in 2009, is a Nagpur-based proprietorship concern promoted by Ms. Manju Pravin Choudhary. PFI is engaged in processing of cashew nuts and manufacturing of candied fruit cubes.

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