

January 04, 2021 ^{Revised}

Achal Cashews Private Limited: Rating upgraded to [ICRA]B+(Stable)

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	2.50	2.50	[ICRA]B+ (Stable); upgraded from [ICRA]B- (Stable)
Long-term – Fund-based – Cash Credit	26.50	26.50	[ICRA]B+ (Stable); Upgraded from [ICRA]B- (Stable)
Total	29.00	29.00	

Rationale

For arriving at the rating, ICRA has taken a consolidated view of the group, comprising Achal Industries (AI), Achal Industries Private Limited (AIPL) and Achal Cashews Private Limited (ACPL), considering the common management, along with strong operational and financial linkages between them. They are collectively referred as the Achal Group.

The rating upgrade favourably factors in the improvement in the Achal Group's operating profit margins to 8.60% in FY2020 from 1.22% in FY2019 owing to decrease in raw cashew nut (RCN) prices, which is expected to continue in FY2021 on the back of soft RCN prices. The rating considers the expected equity infusion of Rs. 4.75 crore in AIPL in FY2021 to fund the company's working capital requirement and reduction in interest cost with lower utilisation of working capital limits. The rating positively notes the promoters' experience of more than three decades in the cashew processing industry, along with its established distribution channel across domestic and export markets as well as farmers for the procurement of RCNs.

The rating, however, is constrained by its weak financial risk profile with negative net worth levels, interest cover of 1.24 times and Debt/OPBIDTA of 4.89 times in FY2020. The rating is also constrained by the Group's moderate scale of operations with revenues of Rs. 89.95 crore in FY2020 and intense competition owing to the fragmented nature of the industry. The Group has achieved a revenue of Rs. 49.23 crore in 7M FY2021 compared to Rs. 48.25 crore in 7M FY2020 and is expected to achieve an operating income of more than Rs. 90 crore in FY2021. Similar to other players in the industry, the entity's margins are vulnerable to volatility in cashew price movements and forex fluctuations.

The Stable outlook reflects ICRA's expectation that the Achal Group would be able to sustain the revenues and operating margins at FY2020 levels.

Key rating drivers and their description

Credit strengths

Experienced promoters in cashew processing industry – The promoters of the Achal Group have more than three decades of experience in the cashew processing industry. Further, it has established relationship with its suppliers resulting in ease of procurement of RCNs.

Diversified customer base – The company sells processed cashew kernels to distributors, wholesalers, institutional buyers, supermarkets and dealers in the international as well as domestic markets. The Group has a network of more than 50

distributors across India. It has a long-term relationship with several of its buyers in the domestic market who deal exclusively with the Group.

Credit challenges

Weak financial risk profile – The Group’s net worth is negative owing to net losses in FY2018 and FY2019. The coverage indicators are modest with interest cover of 1.24 times and Debt/OPBIDTA of 4.89 times in FY2020 due to high debt levels and low margins. The total debt of Rs. 37.83 crore mainly includes unsecured loan of Rs. 24.89 crore and the rest includes working capital borrowing of Rs. 12.44 crore and term loan of Rs. 0.05 crore.

Margins exposed to volatility in cashew prices and foreign exchange fluctuations – The procurement of RCN is seasonal. The prices of cashew kernels and RCNs vary on a daily basis, depending on the international demand-supply scenario, exposing the company’s margins to the price fluctuations. Moreover, the availability of RCNs is subject to agro-climatic risks. The Group’s operating margins increased to 8.60% in FY2020 from 1.22% in FY2019 owing to decrease in RCN prices. The operating margins are expected to sustain at above 8% levels in FY2021.

Intense competition with low product differentiation and value addition limiting pricing flexibility – The company faces stiff competition from a large number of small units. The Indian players face competition from other countries in the export market. The industry is highly fragmented because of the low entry barriers owing to the low capital and technology intensive nature of operations. The industry is highly dependent on labour and is affected by labour shortage issues from time to time. The lack of product differentiation and intense competition restricts its bargaining position and pricing flexibility.

Liquidity position: Adequate

The Group’s liquidity profile remains **adequate** with moderate utilisation of working capital limits in the past 12 months ending October 2020. Further, modest capex plans and low repayment obligation in the near term to support its liquidity position.

Rating sensitivities

Positive triggers – ICRA may upgrade the rating if the profitability and cash accruals improve, leading to a strong net worth position. Moreover, interest coverage of more than 2.0 times on a sustained basis may trigger a rating upgrade.

Negative triggers – Negative pressure on the rating could arise if the margins decrease leading to deterioration of coverage indicators or any delay in debtors result in further weakening of the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of Achal Industries, Achal Industries Private Limited and Achal Cashews Private Limited, considering the common management and the strong operational and financial linkages between them.

About the company

Incorporated in 1982, Achal Cashews Private Limited is involved in processing organic as well as conventional RCNs to cashew kernels, apart from processing small quantity of almonds as well. In addition, the company sells cashew byproducts such as cashew shells and peels. The company is promoted by Mr. G. Giridhar Prabhu and his family. It has an established processing capacity of ~15 metric tonnes per day and generates almost its entire revenues from the domestic market. Apart from ACPL, the group comprises Achal Industries Private limited which is also involved in processing RCNs into finished cashew kernels as well as in trading RCNs; Achal Primenuts Private Limited, Achal Industries and Achal Farm Products Private Limited, which manage retail outlets in Bangalore and Mangalore, respectively.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	109.45	89.95
PAT (Rs. crore)	-5.62	0.41
OPBDIT/ OI (%)	1.22%	8.60%
RoCE (%)	-0.54%	22.39%
Total Outside Liabilities/Tangible Net Worth (times)	-5.76	-4.34
Total Debt/ OPBDIT (times)	31.32	4.82
Interest Coverage (times)	0.20	1.24

**Provisional; Note: Key financial indicators are on consolidated basis of Achal Cashew Private Limited, Achal Industries Private Limited and Achal Industries.*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)				Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating January 04, 2021	Date & Rating in FY2020 October-31-2019	Date & Rating in FY2019 05-April-2018	Date & Rating in FY2018 13-April-2017
1 Term Loan	Long Term	2.50	0.05	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB (Stable)
2 Cash Credit	Long Term	26.50	-	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2013	-	FY2021	2.50	[ICRA]B+ (Stable)
NA	Cash Credit	-	-	-	26.50	[ICRA]B+ (Stable)

Source: Achal Cashews Private Limited

Corrigendum

Document dated January 04, 2021 has been corrected with the revision as detailed below:

The Key Financial Indicator table in page 3 has been revised: The PAT for FY2020 has been revised to Rs. 0.41 crore from Rs. - 0.41 crore.

ANALYST CONTACTS

K Ravichandran

+91 44 45964301

ravichandran@icraindia.com

R Srinivasan

+91 44 45964315

r.srinivasan@icraindia.com

Mr. Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Harish Suresh

+91 80 49225555

harish.s@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2552 0194/95/96

© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents