

October 25, 2024

Shree Krishnaprasad Cashews Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term Loan	17.25	15.00	[ICRA]BB+ (Stable); reaffirmed
Long term – Fund based – Cash Credit	35.00	40.00	[ICRA]BB+ (Stable); reaffirmed and assigned for enhanced amount
Short-term – Non-fund based – Others	3.75	3.75	[ICRA]A4+; reaffirmed
Long term/Short term – Unallocated Limits	0.00	1.25	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
Total	56.00	60.00	

*Instrument details are provided in Annexure-I

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Shree Krishnaprasad Cashews Private Limited (SKC) and Shree Krishnaprasad Agro Private Limited (SKA), considering the operational and business linkages as well as the common promoter group for the two companies.

The reaffirmed ratings take into consideration the extensive and long experience of Shree Krishnaprasad Cashews' (SKC) promoters in the cashew processing industry, which is reflected in sustained growth in the company's scale in the last two years. As per ICRA's estimates, the company's scale is likely to grow further in FY2025, with an improvement in profitability owing to increased realisations of raw cashew nuts (RCNs). The company has a diversified customer base, with which it has an established and long track record. Further, the ratings continue to derive comfort from its established relationship with suppliers for the procurement of RCNs.

The ratings, however, are constrained by the company's leveraged financial profile with a gearing of 3.0 times on a consolidated basis over a low net worth base of Rs. 19.5 crore as on March 31, 2024. Nevertheless, the company's scale has increased sharply in recent years, which has increased its cash accruals in absolute value. The company's leverage indicators had increased in FY2024 due to a higher debt-funded capex and ICRA expects the leverage to remain relatively higher in FY2025 due to the additional debt-funded capex (marginally mitigated by higher cash profits expected in FY2025 due to higher cashew kernel prices). The working capital intensity of the company continues to remain moderately high, especially during the peak season of RCN purchase. The company's revenue and profitability would remain vulnerable to intense competition owing to the fragmented nature of the cashew industry. Additionally, the entity's margins are vulnerable to volatility in cashew price movements and forex fluctuations like other industry players.

The Stable outlook reflects ICRA's expectation that both SKC and SKA would be able to register steady revenue growth, along with stable profitability, on the back of the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Experienced promoters in cashew processing industry – SKC’s promoters have a decade of experience in the cashew processing industry. Further, the company has established relationships with its suppliers, resulting in the ease of RCN procurements.

Established track record with suppliers/customers and a diversified customer base – The company sells processed cashew kernels mainly to a large and diversified base of wholesalers in the domestic market. Over the past years, it has developed a long-term relationship with several wholesale buyers in the domestic market, which is reflected in regular orders in the past and increasing scale.

Credit challenges

Leveraged financial risk profile against low net worth – The company’s total debt stood at Rs. 59.4 crore as on March 31, 2024, on a consolidated basis, which would increase further in FY2025 due to large fresh terms loans (~Rs. 22.0 crore) towards capex in Shree Krishnaprasad Agro Private Limited, leading to large repayments FY2025 onwards. As on March 31, 2024, the total debt includes the unsecured loan of Rs. 6.5 crore from the promoters, working capital borrowing of Rs. 37.6 crore and term loan of Rs. 11.4 crore. Further, the net worth remains low on account of volatility in profitability in the past with losses in some years and promoter’s support, mainly in the form of unsecured loans. While the coverage indicators remained comfortable (though volatile) in the past, its capital structure remained leveraged, as reflected by a gearing of 3.0 times as on March 31, 2024.

High working capital intensity and stretched liquidity – The company’s working capital intensity remains high on account of its large inventory, which includes RCNs as well as processed cashews. The entity’s utilisation of its bank limits is generally over 90%, with a limited buffer for urgent requirements. Further, the company’s liquidity remains stretched with stable but limited cash accruals and nominal free balances. However, promoters provide regular need-based support through unsecured loans with flexible repayment terms.

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 price fluctuations as well as forex risks. Moreover, RCN availability is subject to agro-climatic risks. SKC’s operating margins improved to 10.9% in FY2024 from 10.0% in FY2023, owing to an increase in price realisation of RCNs. Considering such a significant increase in RCN price realisations in the current year, the operating margins are likely to improve at ~13-15% on a consolidated basis in FY2025.

Intense competition with low product differentiation and value addition limit pricing flexibility – The company faces stiff competition from many small units within Karnataka as well as other nearby states, which increases competition. Further, 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 low capital and technology-intensive nature of operations. It is highly dependent on labour and is periodically affected by labour shortage issues. Lack of product differentiation and intense competition restrict its bargaining position and pricing flexibility.

Liquidity position: Stretched

The liquidity position of SKC is stretched due to its high working capital intensity, as reflected by the average utilisation of its working capital limits. Further, the company has large repayments due over the next two to three years, which would keep its liquidity under pressure. ICRA expects a total debt repayment of Rs. 3.6 crore in FY2025, against which the company is expected to have net cash accruals of ~Rs. 17.0 crore to Rs. 20.0 crore. The high working capital intensity has resulted in a limited buffer in its limits for any unanticipated requirement. The utilisation of the company’s bank limits has remained over 95% in the recent past, with a high utilisation during the peak season (January-September) of RCN purchases. As per ICRA’s estimates,

future cash flows and need-based support, in the form of unsecured loans from the promoters, would be critical in meeting any cash flow mismatches.

Rating sensitivities

Positive factors – ICRA may upgrade SKC’s ratings if the company demonstrates a significant increase in its revenue and profitability, leading to an improvement in its debt protection metrics and liquidity along with the strengthening of its net worth on a sustained basis.

Negative factors – Pressure on the ratings could arise if the company’s scale and profitability decline significantly, leading to a deterioration in its debt coverage metrics on a sustained basis. Further, any significant stretch in the working capital cycle, unanticipated large debt-funded capex or capital withdrawal, resulting in a deterioration in the company’s liquidity, could also result in a rating downgrade. Specific credit metric that could result in a rating downgrade includes a DSCR of less than 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA has taken a consolidated view of SKC and SKA. Both entities are in the same line of business and have similar promoter holdings. There is a business linkage between the two, as well as a shared factory premise.
Consolidation/Standalone	Consolidation: For arriving at the ratings, ICRA has consolidated the financials of SKC and SKA. Considering the operational and managerial linkages among the two companies, ICRA has taken a consolidated view on the ratings.

About the company

Shree Krishnaprasad Cashews Private Limited

Shree Krishnaprasad Cashews Private Limited (SKC) (Erstwhile Shree Krishnaprasad Cashews) was established in 2012 with a processing facility for various cashew products. The company operates a processing unit with a capacity of 60 MT per day, located in Vandaru, Udipi district of Karnataka. It was converted to a private limited company from a partnership Firm on April 05, 2024, at which point it was renamed Shree Krishnaprasad Cashews Private Limited.

Shree Krishnaprasad Agro Private Limited

In March 2024, the promoters of Shree Krishnaprasad Cashews Private Limited inaugurated another entity, Shree Krishnaprasad Agro Private Limited (SKA), situated on the same premises as SKC, while the shareholding of both companies remains the same. SKA was established to take advantage of a lower income tax rate of ~15% and to receive subsidy benefits for machinery purchases. The two companies have business links limited to RCN purchases, while there are no inter-related transactions or financial linkages among the two companies. However, there are operational linkages, as SKC handles the cutting of RCN and bills SKA for the service. Both facilities are located on the same premises.

Key financial indicators

Shree Krishnaprasad Cashews Private Limited	Standalone			Consolidated*		
	FY2023	FY2024	6M FY2025	FY2023	FY2024	6M FY2025
Operating income	141.9	155.1	102.9	141.9	155.1	130.4
PAT	5.2	4.1	-	5.2	4.1	-
OPBDIT/OI	10.0%	10.9%	16.9%	10.0%	10.9%	16.5%
PAT/OI	3.7%	2.6%	-	3.7%	2.6%	-
Total outside liabilities/Tangible net worth (times)	2.8	3.2	1.9	2.8	3.2	1.9
Total debt/OPBDIT (times)	2.7	3.5	1.8	2.7	3.5	3.6
Interest coverage (times)	3.1	2.1	7.3	3.1	2.1	8.1

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, * Consolidated by ICRA on limited information and best effort basis.

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL	CRISIL B (Stable) ISSUER NOT COOPERATING; Revised from CRISIL BB (Stable) ISSUER NOT COOPERATING	October 09, 2024

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Oct 25, 2024	Jul 17, 2023	-	-
1 Fund based – Term loan	Long term	15.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2 Fund based – Cash credit	Long term	40.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
3 Non-fund based - Others	Short term	3.75	[ICRA]A4+	[ICRA]A4+	-	-
4 Unallocated Limits	Long term/Short term	1.25	[ICRA]BB+ (Stable)/[ICRA]A4+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Cash credit	Simple

Short-term – Non-fund based - Others	Very simple
Long-term/Short-term – Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2023	10.40%	FY2028	15.00	[ICRA]BB+(Stable)
NA	Cash Credit	FY2023	10.15%	-	40.00	[ICRA]BB+(Stable)
NA	Others - SLC	FY2023	11.15%	-	3.75	[ICRA]A4+
NA	Unallocated Limits	-	-	-	1.25	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Shree Krishnaprasad Agro Private Limited	100.0%	Full consolidation

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