

June 30, 2020

Sanoor Cashews: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based – CC	2.00	2.00	[ICRA]B (Stable); reaffirmed
Short term – Fund Based	5.00	5.00	[ICRA]A4; reaffirmed
Total	7.00	7.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of Sanoor Cashews (SC) continues to derive comfort from the extensive experience of the partners in the cashew processing industry and the established distribution channel across domestic and export markets. The ratings also factor in the firm's long relationship with its clients as well as suppliers for the procurement of raw cashew nuts (RCNs). ICRA also notes the favourable domestic demand prospects for cashew in India. However, the ratings continue to be constrained by the small scale of operations, low value additive nature of the business and intense competition owing to the fragmented nature of the cashew industry. The risk arising due to the partnership nature of operations, including the risk of capital withdrawal, also remains a concern. Like other players in the industry, the firm's margins are vulnerable to volatility in cashew price movements and forex fluctuations, although the latter is mitigated to an extent by the hedging mechanisms adopted.

The Stable outlook on the [ICRA]B rating reflects ICRA's opinion that SC will continue to benefit from the extensive experience of the partners in the cashew processing industry.

Key rating drivers and their description

Credit strengths

Significant experience of partners in the cashew processing industry - The firm is involved in processing RCN to kernels since 1981 and the partners have extensive experience in the cashew processing industry, which aids in the business.

Established relationship with suppliers - The partners have established strong relationship with suppliers, both in the international and domestic markets, ensuring timely receipt of materials.

Favourable domestic demand prospects - The consumption of cashew is on the rise in the country, particularly as an ingredient in various food products, supporting the long-term demand prospects for cashew. In the domestic market, cashew kernels are fetching higher prices than the international markets.

Credit challenges

Modest scale of operations – The firm has a small scale of operations in the highly fragmented cashew industry, which restricts the benefits arising from economies of scale. Net sales improved to Rs. 20.0 crore in FY2020 from Rs. 18.7 crore in FY2019.

Revenues and margins remain susceptible to volatilities in raw material prices and foreign exchange rates - The procurement of raw cashew nuts is seasonal. The prices of cashew kernels and RCNs vary on a daily basis, depending on the international demand-supply scenario, exposing the margins of the entity to price fluctuations. Also, the availability of RCNs is subject to agro-climatic risks. As the firm engages in import of RCN, it remains exposed to volatilities in foreign exchange rates as well.

Intense competition and lack of product differentiation limit pricing flexibility - The domestic cashew industry is fragmented with the presence of a large number of small-scale units. Lack of product differentiation and intense competition restrict the bargaining position and pricing flexibility of the firm, given the moderate scale of operations.

Inherent risk associated with a partnership firm - SC is exposed to the risks associated with a partnership firm, including the risk of capital withdrawal, as witnessed in FY2020, which can adversely impact its capital structure.

Liquidity position: Stretched

The liquidity position of Sanoor Cashews remains stretched with the firm's high utilisation of working capital facility, at an average of 81%, for 18- month period from December 2018 to May 2020. With negative cash flows from operations and further capex of Rs. 0.70 crore, there is limited buffer to meet any contingencies, leading to a tight liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings of the firm if it is able to scale up the operations, while improving its profitability and coverage indicators. Sizeable accretion to reserves, leading to an improvement in the net worth position can also lead to an upgrade. Specific credit metrics would be total debt/ OPBITDA of less than 5.0 times and interest cover of more than 2.0 times.

Negative triggers –Pressure on the rating could arise if the company makes losses and the net cash accruals turn negative. Any sizeable capital withdrawals, leading to a deterioration in the net worth position or liquidity can also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Established in 1981, Sanoor Cashews (SC) is a partnership firm managed by Mr. Ganesh N Kamath. SC processes RCNs and converts the same into kernels and allied products like cashew nut shell liquid (CNSL), cashew shell cakes etc. The firm imports RCN from Africa and Indonesia, in addition to domestic purchases from Kerala, Maharashtra and Goa. It also produces and exports desiccated coconut powder and flakes. The firm's manufacturing facility is located in Karkala and has an aggregate installed capacity to process ~8 tonnes per day of RCN. The firm is ISO 9001:2015 certified.

In FY2020, on a provisional basis, the firm reported a net profit of Rs. 0.6 crore on an operating income of Rs. 20.0 crore compared to a net loss of Rs. 2.0 crore on an operating income of Rs. 18.7 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	18.7	20.0
PAT (Rs. crore)	-2.0	0.6
OPBDIT/OI (%)	-8.9%	-2.5%
RoCE (%)	-23.9%	22.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.6
Total Debt/OPBDIT (times)	-1.8	-4.2
Interest Coverage (times)	-2.5	-0.7
DSCR	-1.7	2.1

Source: Firm and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating 30-June-2020	FY2020	FY2019 31-Dec-2018	FY2018 20-June-2017
1	Cash Credit	Long Term	2.0	-	[ICRA]B (Stable)	-	[ICRA]B (Stable)	[ICRA]B+ (Stable)
2	Pledge Loan	Short Term	5.0	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	2.0	[ICRA]B (Stable)
NA	Pledge Loan	NA	NA	NA	5.0	[ICRA]A4

Source: Sanoor Cashews

Analyst Contacts

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Sheetal Sharad

+91 8178384927

sheetal.sharad@icraindia.com

Shikha Bapna

+91 8790499284

shikha.bapna@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

communications@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) 2556 0194/ 6606 9999

© Copyright, 2020 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