

Mass Cashews

November 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based -Cash credit	7.50	8.50	[ICRA]BB- (Stable); Reaffirmed; Removed from Issuer not cooperating category
Long term – un allocated	1.50	0.50	[ICRA]BB- (Stable); Reaffirmed; Removed from Issuer not cooperating category
Total	9.00	9.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating to the Rs.9.00 crore bank facilities of Mass Cashews (The firm) ¹ at [ICRA]BB- (pronounced ICRA double B minus). The outlook on the long-term rating is Stable. The ratings have also been removed from the Issuer Not Cooperating category pursuant to cooperation by Mass Cashews.

Rationale

The ratings continue to factor in the long track record of the promoters in the cashew kernels processing industry and the established relationship with the customers and supplier in the cashew industry. Rating reaffirmation also takes comfort from the improvement in the company's profitability in FY2018. However, the ratings continue to remain constrained by the firm's modest scale of operations which restricts the financial flexibility and the benefits from economies of scale. The ratings consider the firm's modest financial profile as characterized by a leveraged capital structure. The ratings also factor in the vulnerability of the firm's revenues and profits to volatility in prices of cashew kernels and raw cashew nuts (RCN), and fluctuations in foreign exchange rates.

Outlook: Stable

ICRA believes that the company will continue to benefit from its established relationship with its clientele and the extensive experience of promoters in the textile industry. The outlook may be revised to Positive if the firm is able to achieve healthy growth in profitability, the scale of operations, improvement in the capital structure. The outlook may be revised to Negative if the operating margins/cash accruals are lower than expected, resulting in deterioration in the company's financial profile.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Experienced sponsors spanning over 10 years: The promoter, Mr Salim A has more than 10 years of experience in the cashew kernels processing industry. The firm has a cashew processing facility in Tamil Nadu and Kerala with the capacity to process 22.3 MT per day. Further, the company's long-standing relationship with customers supports in sustaining in volumes.

Diversified customer base with top ten customers accounting 23% of revenue in FY2018: The firm's customer base comprises of diversified players like merchant exporters, traders and direct consumers. While the revenue from the top ten customers accounts for 23% of total revenue in FY2018, indicating healthy diversification in customer base.

Credit challenges

Decline in revenue in FY2018: The firm's operating income fell by 26% to Rs.46.5 crore in FY2018, primarily due to increasing competition in the export segment and adverse market situation. Nonetheless, the company's EBITDA margins improved by to 3.2% in FY2018 from 2.7%.

Moderate capital structure, coverage metrics and working capital metrics: The firm has a moderate capital structure with gearing of 1.9 times and interest cover of 1.7 times in FY2018. The capital structure of the firm remains vulnerable to drawings by partners, which is an inherent risk to a partnership entity.

Margins continue to remain vulnerable to RCN prices: The firm imports over 90% of the raw cashew nuts (RCN) from African countries which includes Ivory Coast, Tanzania and Ghana, etc. The Indian cashew processing segment, especially the export sector, is under pressure because of high and volatile RCN prices coupled with relatively higher processing costs, resulting in lower profitability. Hence, the company's profitability, especially for Kernel processing segment, remains critically dependent on correction in the spread between kernel and RCN prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

The firm commenced operations in 2009 as a proprietorship concern founded by Mr Salim A; the proprietorship was later converted into a partnership firm in 2010. The firm is primarily engaged in the sale of cashew kernels and raw cashew nuts in the domestic market. MC has six manufacturing facilities (four in Tamil Nadu and two in Kerala).

Key financial indicators

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	63.2	46.5
PAT (Rs. crore)	0.5	0.5
OPBDIT/OI (%)	2.7%	3.2%
RoCE (%)	12.3%	9.0%
Total Debt/TNW(times)	2.0	1.9
Total debt / OPBDITA (times)	5.9	6.7
Interest coverage (times)	1.4	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2018 January 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 July 2016
1 Long-term fund-based -Cash credit	Long Term	8.50		[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BB-(Stable); upgraded
2 Long-term – unallocated	Long Term	0.50		[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BB-(Stable); upgraded

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	Cash credit	-	-	-	8.50	[ICRA]BB- (Stable)
NA	un allocated	-	-	-	0.50	[ICRA]BB- (Stable)

Source: Mass Cashews

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