



Press Release

Reliable Cashew Company Private Limited

July 16, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long term Bank Facilities	59.47	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
Long Term /Short Term Bank Facilities	35.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)/IVR A4+ (IVR A Four Plus)	Assigned
Short Term Bank Facilities	5.50	IVR A4+ (IVR A Four Plus)	Assigned
Total	99.97		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the long term & short term facilities of Reliable Cashew Company Private Limited (RCCPL) derives comfort from its experienced promoters and its established relationship with its customers and suppliers. The ratings also factor its moderate order book position indicating moderate revenue visibility with customer diversification, its above financial risk, marked by gearing of 1.22 times and TOL/ ANW at 2.32x as on March 31, 2020 (Prov.), supported by moderate net worth of Rs.37.46 crore. These rating strengths are partially offset by its substantial fall in revenues, volatility in raw material prices, exposure to intense competition in domestic and export market, exposure to foreign exchange fluctuations and government regulations in trade policies and its working capital intensive nature operation.

Key Rating Sensitivities

Upward factors

- Significant improvement in profitability metrics with consistent growth in scale of business thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation.
- Continuous improvement in capital structure.



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Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators and liquidity.
- Further elongation of the operating cycle leading to weakening in liquidity position.
- Adverse government regulations and policies.
- Withdrawal of existing level of unsecured loans from the business.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced and resourceful promoters and long track record of operations

The promoter of the company is Mr. R. Gowthaman is a Chartered Accountant by profession and carrying over 02 decades of overall professional experience. Another director, Mr. R. Murugan is a law graduate and ex-banker. To fund various business requirements, there are fund infusion by the promoters and related parties in the form of unsecured loans of Rs.25.00 Cr in FY19. The promoters have long standing presence in the cashew industry which has helped them to build established relationship with customers' base both in the domestic and international markets as well as with suppliers. On the back of long standing experience of the promoters, the company enjoys established and healthy relationships with its customers and suppliers, which enabled the company to receive repeat orders, with a strong order book position. The company is likely to benefit from the extensive experience of its promoters going forward.

Moderate order book position indicating moderate revenue visibility with customer diversification:

The company unexecuted order book stood at ~Rs.27.00 crore which is expected to be executed in next 1-2 months. Also, the company is in process of negotiation for multiple orders which will further strengthen the order book. Presence of a moderate order book imparts comfort and indicates revenue visibility for the company. Infomerics expects improvement in sales in FY21 as compared to the last fiscal. Furthermore, RCCPL has diversified customer base of domestic customers' as well international market customer base. Infomerics believes that the company will continue to benefit from its established



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relationship with its clientele to get repeat orders as well as penetration of new geography will support to scale up its operation going forward.

Above-Average financial risk profile

Financial risk profile is above-average, marked by gearing of 1.22 times and TOL/ ANW at 2.32x as on March 31, 2020, supported by moderate net worth of Rs.37.46 crore. Infomerics has considered the amount of unsecured loans as quasi equity which results into adjusted net worth of Rs.62.46 crore. Further, debt protection metrics of the company remains moderate marked by DSCR at 1.14 times and ISCR is at 1.22 times as on March 31, 2020. As per the management, in the current fiscal, the company is in process of diluting 100% dependence on import of raw cashew nuts to 75%, which will lead to safeguard the margins as well revenue. Steady accretion to reserves and controlled reliance on external bank debt, should help the company to maintain its financial risk profile over the medium term.

Key Weaknesses

Steep decline in revenue

RCCPL has reported around ~35 percent decline in its operating income as same stood at Rs.203.39 crore for FY2020 (Provisional) as against Rs.317.74 crore in FY2019. This is on account of slowdown in demand from cashew processing countries. This is mainly due to increase in prices of raw cashew nut, however, the prices of cashew kernel have not increased correspondingly in the global market. Going forward, IVR expects the raw cashew nut and kernel trading business to remain under pressure on account of high raw cashew nut prices due unfavourable trading policies by importing countries.

Margins continue to remain vulnerable to RCN prices:

The firm imports over 80% of the raw cashew nuts (RCN) from African countries which includes Ivory Coast, Tanzania, and Mozambique etc. Prices of cashew kernels are highly volatile due to commoditised product. 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



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correction in the spread between kernel and RCN prices. However, operating profitability is expected to be in the 4.2% to 5.4% range in the next three fiscals.

Exposure to intense competition in domestic and export market

The cashew nut processing and trading industry in India is characterized by stiff competition amid presence of many organized and unorganized players. Also, this is compounded by high competition due to low value addition limited differentiation in the technology involved in processing cashew nuts.

Exposure to foreign exchange fluctuations and government regulations in trade policies:

The company derives a substantial portion of its income from exports. Also, the raw materials are being procured from imports. Further, being in export segment and dollar being is appreciated over period of time and availability of natural hedging, risk of currency fluctuation is mitigated to some extent.

Also, the company is exposed to government regulations in trade policies along with changes in the trade policies of importing as well exporting countries, which can impact the raw material purchase price as well sales realization. Further, the tightening of trade policies will lead to a decline in exports.

Working capital intensive nature of operations

The operations of the company are working capital intensive as reflected by elongated operating cycle of 128 days in the fiscal ending, 2020 as against 27 days in previous fiscal. This includes receivables of 26 days, inventory of 222 days and creditors of 121 days.

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate



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The liquidity position of the company is marked by its adequate expected gross cash accruals subject to achieving of its projected profitability against its modest debt repayment obligations. Further, the company has working capital intensive nature of business leading to modest requirement of working capital limits. The company has reported working capital facilities utilization reported at close to ~60% for past 12 months ended at March, 2020, indicating buffer capacity to meet incremental working capital requirement. Also, the Company is expected to generate adequate cash accruals as against its minimal repayment obligations over the medium term. However, the company's moderate capital structure imparts limited additional borrowing to support the business.

About the Company

Promoted by Mr. G. Ramanathan, Reliable Cashew Company Private Limited (RCCPL) was incorporated in the year 2005 and based out to Mangalore, India. The company is involved into processing of raw cashew nuts and cashew kernels and caters to both domestic and overseas markets. As on May 2020, the company operates with its own 7 manufacturing units and 2 packing units.

Financials (Standalone Basis)

For the year ended / As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	317.74	203.39
EBITDA	5.61	10.87
PAT	1.29	0.23
Total Debt	57.11	76.27
Tangible Networth (Adjusted)	62.08	62.46
EBITDA Margin (%)	1.76	5.34
PAT Margin (%)	0.40	0.11
Overall Gearing Ratio (x)	0.92	1.22

Status of non-cooperation with previous CRA: None

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/	Current Rating (Year 2020-21)	Rating History for the past 3 years
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	Facilities	Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long term – Fund Based Bank Facilities	Long Term	59.47	IVR BB+/Stable Outlook	-	-	-
2.	Long Term /Short Term- Fund Based Bank Facilities	Long Term /Short Term	35.00	IVR BB+/Stable Outlook & IVR A4+	-	-	-
3.	Short Term- Non-Fund Based Bank Facilities	Short Term	5.50	IVR A4+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Bank Facilities	-	-	-	59.47	IVR BB+/Stable Outlook
Long Term /Short Term Bank Facilities	-	-	-	35.00	IVR BB+/Stable Outlook/IVR A4+
Short Term Bank Facilities	-	-	-	5.50	IVR A4+