

## Yaksha Krupa Cashew Industries

January 13, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	6.44	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>6.44</b> <b>(Rs. Six Crore and Forty- Four Lakhs Only)</b>		

*Details of instruments/facilities in Annexure*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from of Yaksha Krupa Cashew Industries to monitor the rating(s) vide e-mail communications dated September 07, 2020 to December 30, 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating. The rating on Yaksha Krupa Cashew Industries bank facilities will now be denoted as CARE B; Stable; ISSUER NOT COOPERATING\*

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

The rating has been revised on account of non-availability of requisite information due to non-cooperation by Yaksha Krupa Cashew Industries, with CARE'S efforts to undertake a review of the rating outstanding, as CARE views information availability risk as key factor in its assessment of credit risk profile. However, the ratings continuous to be tempered by small scale of operations and short track record of business, declining PBILDT margin, thin and fluctuating PAT margin during the review period, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations and elongated operating cycle and susceptibility of profits to volatile price fluctuation of cashew kernel along with constitution as partnership firm. The ratings, however, draw comfort from experience of the partners for more than a decade in the cashew industry and stable demand for cashew industry.

### Detailed description of the key rating drivers

*At the time of last press release dated November 05, 2019 the following were the rating strengths and weaknesses:*

#### **Key Rating Weaknesses**

##### ***Small scale of operations and short track record of business***

The firm was incorporated in August, 2016 and has a short track record of 3 years. The firm's scale of operations were small in nature as marked by a TOI of Rs.12.94 crore in FY19 with low net worth base of Rs. 1.61 crore in FY19. The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits and limits competitive position and pricing flexibility compared to larger entities However, long term presence of partners in the market is expected to benefit the business at large. Also, the firm made a total operating income of Rs.11 crore during 6MFY20

##### ***Declining PBILDT margin, thin and fluctuating PAT margin during the review period***

The PBILDT margin of the firm stood declining and remained at 7.58% during FY19 on account of under absorption of overheads due to initial year of operations. The PAT margin of the firm also decreased from 0.88% in FY18 to 0.56% in FY19 due to increase in interest cost at the back of increase in utilization of working capital bank borrowing.

##### ***Leveraged capital structure and weak debt coverage indicators***

The capital structure of the YKC stood leveraged marked by overall gearing ratio of 2.52x as on March 31, 2019 due to higher utilisation of working capital bank borrowings and availment of term loan for setting up of the business. The debt profile of the firm majorly consist of Cash Credit of Rs. 2.45 crore, term loan of Rs.1.60 crore and an unsecured loan of Rs.0.02 crore from partners as on March 31, 2019. Also, the average working capital utilization level stood at 80%-85% as of October, 2019.

The debt coverage indicators of the firm marked by TD/GCA and interest coverage stood weak at 11.81x and 1.54x respectively as on March 31, 2019 deteriorating from 15.26x and 1.59x as March 31, 2018 due to decrease in PBILDT in absolute terms due to increased material costs and other costs and also due to decrease in cash accrual.

### ***Working capital intensive nature of operations and elongated operating cycle***

The firm operates in working capital intensive nature of operations (processing of cashew kernels). hence the operating cycle of the firm remained elongated during the review period. The operating cycle of the firm as on March 31, 2019 remained elongated at 118 days improving from 258 days in FY18. The firm receives payment from its customer within 10-30 days and makes the payment to its suppliers in 01-10 days. The average inventory period remained high with 107 days, as the firm procures raw materials in the months of December – March and uses it throughout the year to meet customer’s requirements. The average utilization of the working capital facility was 80%-85% for the last 12 months ended September 2019.

### ***Susceptibility of profits to volatile price fluctuation of cashew kernel along with constitution as partnership firm***

The products dealt by the firm are cashew kernel which includes cashew and other related products etc. The products being cultivation based are highly volatile by nature and affected by regular fluctuations in the prices. However, the firm being engaged in manufacturing of the same, the profitability is subject to the fluctuating cost of the cashew kernel. The firm being a partnership firm is exposed to inherent risk of capital withdrawal by the partners, due to its nature of constitution. In Further, any substantial withdrawals from capital account would impact the net worth and thereby the financial profile of the firm.

### **Key Rating Strengths**

#### ***Experience of the partners for more than a decade in the cashew industry***

YKC is promoted by Mr. N Seetharam Shetty, the managing partner and his wife Mrs. Prema S Shetty and son Mr. Prafullaraj Shetty belonging to same family. The other working partners include Mr. Priyadarshan Shetty and Mrs. Priyadarshini A Shetty. The managing partner has more than a decade of experience in cashew business. Due to long term presence of partner in the market, the firm has established good relation with customers and suppliers.

#### ***Stable demand for cashew industry***

India is the top consumer of cashew kernels in the world by absorbing over 25 per cent of the supply, “Cashew nut demand has shot up 53 per cent since 2010. Global demand for the cashew kernel has surged 53% since 2010, surpassing production in at least four of the past seven years. In a steadily growing \$30-billion global tree nut market, the cashew nut segment will continue to lead, and it is expected to account for 28.91 per cent of the market by 2021. Global cashew production is estimated at 7.4 million tonne.

Moratorium: The firm has availed moratorium on its bank facilities from March 2020 to August 2020.

**Analytical approach:** Standalone

#### **Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology-Manufacturing Companies](#)

#### **About the Firm**

Karnataka based Yakshakrapa Cashew Industries (YKC) was established as a partnership firm in August, 2016 and promoted by Mr. N Seetharam Shetty, Mr. Prafullaraj Shetty, Mr. Priyadarshan Shetty, Mrs. Prema S Shetty and Mrs. Priyadarshini A Shetty. The managing partner is Mr. N Seetharam Shetty who has an experience of more than a decade in cashew manufacturing industry. The firm is engaged in processing of raw cashew nuts into cashew kernels. The firm sells the processed cashew kernels in Karnataka and also exports to other states.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (Prov.)</b>
Total operating income	6.23	12.94
PBILDT	0.93	0.98
PAT	0.05	0.07
Overall gearing (times)	3.48	2.52
Interest coverage (times)	1.59	1.54

A: Audited; P: Provisional.

**Status of non-cooperation with previous CRA:** ACUITE has conducted the review on the basis of best available information and has classified 'Yaksha Krupa Cashew Industries' as "Not Cooperating" vide its press release dated November 27, 2020

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May 2026	1.44	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE B; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1.44	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (05-Nov-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (05-Nov-19)	-	-

\*Issuer did not cooperate; based on best available information

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications

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### About CARE Ratings:

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