

Fox Cashew Industries

January 22, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Facilities	6.00 (Rs. Six Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Fox Cashew Industries (FCI) to monitor the rating(s) vide e-mail communications dated September 10, 2020 to January 16, 2021 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 Fox 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 takes into account decline in the scale of operations and low net worth base, leveraged capital structure and weak debt coverage indicators, working capital and labor intensive nature of operations, geographic concentration risk, highly fragmented and competitive industry, susceptibility of profits to volatile price fluctuation of cashew kernel and exposure to foreign exchange fluctuation risk and constitution of the entity as proprietorship firm with inherent risk of withdrawal of capital. The rating continues to derive strength from reasonable track record and moderate experience of the proprietor in cashew processing business, satisfactory profitability margin during the review period and stable demand for cashew industry.

Detailed description of the key rating drivers

At the time of last press release dated January 20, 2020, the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Decline in the scale of operations and low net worth base

The scale of operations marked by total operating income (TOI) declined from Rs. 26.30 crores in FY18 to Rs. 19.19 crores in FY19 due to decline in orders from customers and coupled with competitive nature of business operations. Further, the net worth base stood low at Rs. 1.38 crores as on March 31, 2019 as compared to peers in the industry

Leveraged capital structure and weak debt coverage indicators

The capital structure marked by the overall gearing has improved on account of repayment of term loans during FY19, however, stood leveraged at 3.97x as on March 31, 2019 as compared to 5.45x as on March 31, 2018. The debt coverage indicators marked by interest coverage ratio has declined and stood at 1.86x in FY19 as compared to 1.95x in FY18 due to increase in finance cost on back of higher average utilization of working capital limits during the year. Further, the total debt to GCA stood weak at 10.42x as on March 31, 2019, though improved from 11.79x as on March 31, 2018 due to decline in total debt levels on back of repayment during year.

Working Capital and labor intensive nature of operations

The operating cycle of the firm stood at 77 days due to high average inventory period during review period. The major portion of raw cashew nuts are imported from the African countries. In general, firm maintains inventory levels for 30-45 days to avoid price fluctuations and to meet ongoing demand. The firm also purchases cashew kernels from local traders. The firm receives the payment from its customers within 10 days from the date of invoice and makes payment to the foreign suppliers once the raw material reaches at the customs. Further, the firm makes purchases from the local traders on cash basis. The average utilization of CC facility was 90% for the last 12 months ended December 31, 2019. The raw cashew kernels under goes into stage wise processing like roasting, shelling, drying through machines and followed by peeling, grading and final stage of packing which involves more labour intensity in the nature of operations.

Geographic concentration risk

The firm has customer base only in the state of Karnataka (90%) and Gujarat (10%) which reflects the geographic concentration risk.

Highly fragmented and competitive industry

The cashew processing business is highly fragmented with presence of large number of organized and unorganized players in India as well abroad. There is a high competition within the industry due to low entry barriers and low product differentiation, thus limiting the pricing flexibility. Raw cashew being an agro-commodity, the availability of the same depends upon the climatic conditions.

Susceptibility of profits to volatile price fluctuation of cashew kernel and exposure to foreign exchange fluctuation risk

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 fluctuating cost of the cashew kernel is passed on to the customers to a larger extent. As imports constitute around 70% of the total purchases of the firm, the firm is exposed to foreign exchange fluctuation risk. The firm imports raw cashew nuts from African countries like Benin, Togo, Ivory Coast etc. The firm has no hedging policy there by exposing the payables to foreign exchange fluctuation risk.

Constitution of the entity as proprietorship firm with inherent risk of withdrawal of capital

The sole proprietor typically makes all the decisions and runs the entire business operation. If he becomes ill or disabled, there may be nobody else who can step in and keep the business going. Running a business single-handedly can also pose a risk due to heavy burden. Constitution as a proprietorship has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which can adversely affect its capital structure. The proprietor have withdrawn capital to the tune of Rs. 0.08 crore in FY19.

Key Rating Strengths**Reasonable track record and moderate experience of the proprietor in cashew processing business**

Fox Cashew Industries (FCI) was established as a proprietorship firm by Mrs. Janet Pais. Mrs. Janet Pais has around 10 years of experience in cashew processing business. The business operations of the firm are actively managed by the proprietor who is also supported by Mr. Ronald Pais (Spouse of Mrs. Janet Pais). Mr. Ronald Pais has more than 12 years of experience in cashew processing business.

Satisfactory profitability margins during the review period

The PBILDT margin has increased by 154 bps and stood satisfactory at 5.91% in FY19 as compared to 4.37% in FY18 due to the decrease in employee costs and manufacturing expenses. Further, the PAT margin increased by 40 bps and stood at 1.85% in FY19 as compared to 1.45% in FY18 due to the decrease in depreciation and finance costs.

Stable demand for cashew industry

The production of inshell raw cashew in India was 758,410 metric ton in 2018 and is expected to register a CAGR of 1.8% during the forecast period, 2019-2024. India is the major cashew growing country in the Asia-Pacific, positioned as the largest producer of raw cashew nut (RCN) globally with 5.5 lakh metric tons per annum. In India, cashew is grown in the peninsular areas of Kerala, Karnataka, Goa and Maharashtra, Tamil Nadu, Andhra Pradesh, Orissa and West Bengal.

Moratorium status: The firm had availed for the moratorium on its debt obligations for the period of March 01, 2020 to August 31, 2020

Analytical Approach: Standalone

Applicable Criteria

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

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating methodology-Manufacturing sector](#)

About the Firm

Fox Cashew Industries (FCI) was established in the year 2009 as proprietorship firm by Mrs. Janet Pais. The firm is engaged in processing of raw cashew nut into cashew kernels with installed capacity of 4 tons per day at Valpady, Karnataka. The

process involves steam roasting, shell cutting, peeling and grading. The firm majorly procures raw material (raw cashew nuts) from African countries like Benin, Togo, Ivory Coast, and Tanzania etc. The firm imports 100% of the raw cashew nut (70% of total purchases) owing to better quality and relatively lower prices as compared to the domestic market. The firm is also engaged in trading of cashew kernels. The firm purchases the cashew kernels for trading from the local traders in Karnataka. The firm sells the cashew kernels to wholesalers in the state of Karnataka and Gujarat. The firm also generates income from sale of by-products cashew shells, cashew husk and rejections.

Brief Financials (Rs. crore)	FY18	FY19
	A	A
Total operating income	26.30	19.19
PBILDT	1.15	1.13
PAT	0.38	0.35
Overall gearing (times)	5.45	3.97
Interest coverage (times)	1.95	1.86

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Cash Credit	-	-	-	6.00	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-Cash Credit	LT	6.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (20-Jan-20)	1)CARE B+; Stable (20-Dec-18)	-

*Issuer did not cooperate; based on best available information

Annexure-3: Detailed explanation of covenants of the rated instruments/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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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