

Durgashree Cashews

December 23, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	6.00	CARE D; ISSUER NOT COOPERATING* (Single D Issuer not cooperating)	Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information
Total Facilities	6.00 (Rs. Six crores only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Durgashree Cashews (DC) to monitor the rating vide e-mail communications/ letters dated November 12, 2019, November 13, 2019, November 14, 2019, November 15, 2019 and November 19, 2019 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **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.**

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

Detailed description of the key rating drivers

The revision in the rating assigned to the bank facilities of DC takes into account the delays in servicing the interest on working capital facility. The client has undergone restructuring and availed WCTL.

Key Rating Weaknesses

Delays in debt servicing obligations

The client has undergone restructuring of debt facilities in October, 2019 and availed WCTL. There are on-going delays in servicing of interest.

Small scale of operations with low network

The firm has a track record of nine years, however, the total operating income (TOI) of the firm remained low at Rs.8.95 crore in FY17 with a low net worth base of Rs.1.49 crore as on March 31, 2017 as compared to other peers in the industry.

Declining PBILDT margins

The PBILDT margins of the firm are seen declining during the review period. The PBILDT margin of the firm has decreased from 11.05% in FY15 to 8.41% in FY17, as although sales realizations increased, the firm could not pass on the increase in raw material cost to its customers. The firm follows the strategy of purchasing high quantities of stocks of raw cashew when the price is relatively low which could cause fluctuations in the profitability margins in the future. Furthermore, PAT margin of the firm stood in the range of 1.57%-2.06% due to y-o-y increase in interest and financial expenses.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the firm stood leveraged as on March 31, 2017. The debt equity ratio has improved from 1.06x as on March 31, 2015 to 0.38x as on March 31, 2017 due to repayment of term loans and vehicle loans. However, the overall gearing ratio of the firm deteriorated from 1.67x as on March 31, 2015 to 3.12x as on March 31, 2017 due to high utilization of working capital limits.

The debt coverage indicators of the firm stood weak during the review period. The total debt/GCA though deteriorated from 7.03x in FY15 to 15.36x in FY17 due to increase in debt levels at the back of high utilization of working capital limits. The PBILDT interest coverage ratio improved marginally from 2.09x in FY15 to 2.30x in FY17 due to increase in PBILDT levels. However, it deteriorated to 2.04x in FY17 due to increase in interest cost at the back of high utilization of working capital limits.

Working Capital intensive as well as labour intensive nature of operations

The operating cycle of the firm stood between 60-161 days due to high average inventory period during review period. The firm imports 3-4 times in a year from the foreign countries in the months of April or May and December or January. The average inventory period stood high during the review period as the firm purchases high quantities of stocks of raw cashew

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

when the price is relatively low and also seasonal availability of raw cashews. The firm also purchases raw cashews locally from farmers. The firm receives the payment from its customers within 30 days from the date of invoice. The firm makes payment to the foreign suppliers within 7 days once the raw material reaches at the customs port. Further, the firm makes purchases from the local farmers and traders on cash basis. The average utilization of CC facility was 80% for the last 12 months ended August 31, 2018. The processing of raw cashew into graded cashew involves both working capital and labour requirements. The First three processes of roasting shelling and drying involves machines and the next levels of peeling, grading and packing involve labour. Hence, DC's operations are not only working capital intensive but it is also labour intensive.

Exposure to foreign exchange fluctuation risk

As imports constitute around 90% of the total purchases of the firm, the firm is exposed to foreign exchange fluctuation risk. The imports exports raw cashew nuts from Dubai, Singapore, Indonesia, African countries like Benin, Togo, Ivory Coast, and Tanzania etc. The firm enters into contract with the supplier for purchase of raw material and the firm receives them at the customs port within 45 days from the date of contract. The firm makes payment in foreign currency (USD) within 7 days once the raw material reaches the port. The firm has no hedging policy there by exposing the payables to foreign exchange fluctuation 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.

Constitution of the entity as partnership firm

Constitution as a partnership has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which can adversely affect its capital structure. Furthermore, partnership firms have restricted access to external borrowings as credit worthiness of the partners would be key factors affecting credit decision for the lenders. The partners of the firm have withdrawn capital to the tune of Rs.0.33 crore in FY17.

Key Rating Strengths**Reasonable track record and experience of the promoters for more than a decade in cashew industry**

Durgashree Cashews (DC) was established in 2009 as a partnership firm by Mr.B. Satish Shetty and Mrs.Suhasini S Shetty. Mr.B. Satish Shetty has around 25 years of experience in cashew processing business. Further, Mrs.Suhasini S Shetty has experience of more than 10 years of experience in cashew processing business. Due to long experience of the partners, they were able to establish long term relationship with clientele. The same is expected to help the partners in developing their business in near future.

Growth in total operating income

The total operating income of the firm increased y-o-y at a CAGR of 28.27% i.e., from Rs.5.44 crore in FY15 to Rs.8.95 crore in FY17, at back of increase in sales volume and sale price per tin coupled with repetitive orders from existing customers. Furthermore the firm has achieved turnover of Rs.9.95 crore in FY18 (Provisional).

Stable outlook of 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.

Analytical approach: Standalone**Applicable criteria**

[Criteria on assigning Outlook to Credit ratings](#)

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

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

[Rating Methodology-Manufacturing Companies](#)

About the Firm

Durgashree Cashews (DC) was established in 2009 as a partnership firm by Mr.B. Satish Shetty and Mrs.Suhasini S Shetty. The firm is engaged in processing of raw cashew nut into cashew kernels, the process involves steam roasting, shell cutting, peeling and grading. The firm majorly procures raw material (raw cashew nuts) through imports from Dubai, Singapore, Indonesia, African countries like Benin, Togo, Ivory Coast, and Tanzania etc. The firm also purchases raw cashews locally from farmers. Imports constitute 90% of the total purchases. The firm sells the cashew kernels throughout India through agents. Goa, Karnataka, Maharashtra, Punjab and Rajasthan are the major states covered by the firm. The firm also generates income from sale of by-products cashew shells, cashew husk and rejections.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	7.31	8.95
PBILDT	0.68	0.75
PAT	0.15	0.16
Overall gearing (times)	2.13	3.12
Interest coverage (times)	2.30	2.04

A: Audited

Status of non-cooperation with previous CRA: Not applicable

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	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	6.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable on the basis of 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information	-	1)CARE B+; Stable (25-Sep-18)	-	-

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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