

**Yaksha Krupa Cashew Industries** (Revised)

November 05, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	6.44	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	Assigned
<b>Total Facilities</b>	<b>6.44</b> <b>(Six crore and forty four lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Yaksha Krupa Cashew Industries (YKC) are primarily constrained on account of small scale of operation, thin profitability margins during last three years ended FY19 (FY refers to the period from April 1 to March 31) coupled with susceptibility of profits to volatile price fluctuation of cashew kernel and constitution as partnership firm. The ratings further get constrained on account of leveraged capital structure and weak debt coverage indicators and working capital intensive nature of operations.

The ratings, however, favorably take into account experience of the partners for more than a decade in the cashew industry and stable demand for cashew industry.

**Key Rating Sensitivity****Positive Factors**

- Improvement in profitability or gross cash accruals beyond a certain benchmark on a sustained basis.
- Total outside liabilities to Net-worth reducing below certain threshold on a sustained basis.

**Negative Factors**

- Increasing the profitability and reducing the interest expenses will remain crucial for the overall financial risk profile of the firm

**Detailed description of the key rating drivers****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.

***Thin profitability margins***

The PBILDT margin of the firm stood thin 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 utilization of working capital bank borrowings and avilment of term loan for setting up of the business. 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 stood elongated at 118 days improving from 258 days in FY18. The firm receives payment from its customer within 10-30 days and

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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 tons.

##### ***Liquidity Analysis- stretched***

Liquidity: Stretched - Liquidity is marked by highly utilized bank limits (80%-85%) and modest cash balance of Rs. 0.10 Crore. However, the firm reported tightly matched accruals as against its repayment obligations.

**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 company**

Karnataka based Yaksha Krupa 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. The firm imports 60% of raw cashew nuts from African countries and remaining 40% from other local suppliers. The firm sells 10% of its processed kernels to Jai Traders, Mangalore one of its major customers and remaining 90% to other customers.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (Prov.)</b>
Total operating income	6.23	12.94
PBILDIT	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; Prov=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 September 19, 2019.

**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
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE B+; Stable

**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-Term Loan	LT	1.44	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE B+; Stable	-	-	-	-

**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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