

**RATING RATIONALE**

**Shanti Agro Industries**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 7.86 Crores of Shanti Agro Industries (or ‘the firm’)**

**Particulars:**

Facility**	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (Oct 2019)	Present
<b>Fund Based</b>	<b>6.59</b>	<b>7.86</b>	<b>Long Term</b>	<b>BWR B+/Stable</b>	<b>BWR B+/Stable (Reaffirmed)</b>
<b>Total</b>	<b>6.59</b>	<b>7.86</b>	<b>Rupees Seven Crores and Eighty Six Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

**Rating Action/Outlook**

The rating reaffirmation has factored the improved revenue of the firm and its resultant effect on its net profit margin. The rating has also factored the long standing experience of the partners in the cashew nut industry and favourable demand prospects for cashew in India. The rating, however, is constrained by the small scale of operations and moderate financial risk profile of the firm as indicated by its leveraged capital structure, moderate coverage indicators, low cash accruals to total debt and stretched cash conversion cycle. The rating is also constrained by the intense competition due to the fragmented nature of the cashew industry, susceptibility of the firm’s profit margins to the volatility in cashew prices, and the risk associated with the partnership constitution.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that the business risk profile of the Company will be maintained over the medium term. The rating outlook may be revised to ‘Positive’ in case the revenues and profit show sustained improvement. The rating outlook may be revised to ‘Negative’ if the revenues go down and profit margins show lower than the expected figure.

**Key Rating Drivers**

BWR has principally relied upon the audited financial results up to FY19, provisional financials of FY20, publicly available information and information/clarification provided by the firm’s management.

### Credit Strengths:

- **Experienced promoters and their financial support:** The key promoter of the firm, Mr. A Surendra Kamath has been in the business of cashew nuts processing since 1982 by virtue of his proprietorship firm 'ajanta Industries' and thereby has more than three decades of business experience in the industry. His in-depth knowledge of quality of raw materials, market potential, financing opportunities, suppliers and customers has supported the firm in establishing itself.
- **Improved revenue:** As per provisional FY20, the firm has registered a healthy revenue growth from Rs. 6.13 Cr in FY19 to Rs. 15.22 in FY20 upon stabilizing its business operations. With improved revenue, the firm has registered a net profit of Rs. 0.23 Cr in FY20 against the net loss of Rs. 0.16 Cr in FY19.
- **Favourable demand prospects:** The consumption of cashew is on the rise in the country, particularly as an ingredient in various food products, supporting the long term demand prospects for cashew.

### Credit Risks:

- **Modest scale of operations and moderate financial profile:** The firm has a small scale of operations with its average revenue scale of Rs. 8.69 Cr in the last three financial years. Capital structure of the firm is leveraged with its debt equity of 3.71 times in FY19 and 2.55 times in FY20 (provisional). On account of net level loss in FY19 and thin net profit margin of 1.53% in FY20 (provisional), the net cash accruals to total debt remained low at 0.02 times in FY19 and 0.10 times in FY20 (provisional). Thereby, the debt coverage indicators stood average at ISCR of 1.16 times in FY19 and 1.90 times in FY20 (provisional), and DSCR of 0.80 times in FY19 and 1.26 times in FY20. The working capital cycle of the firm, though improved significantly from more than nine months in FY19, is stressed as indicated by its cash conversion cycle of more than four months in FY20 (provisional).
- **Profit margins are susceptible to volatility in cashew prices:** The firm's profitability is susceptible to volatility in cashew prices as evident from its fluctuating profit margins in the last three years. Further, the procurement of raw cashew nuts is seasonal and not backed by confirmed orders, which, with intense competition from several unorganised players, limits the pricing flexibility of the firm.
- **Limitation of partnership concern:** Being a partnership firm, it is exposed to inherent risk of withdrawal of capital by the partners which may impact the overall capital structure and debt metrics of the firm.

### Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has considered the standalone performance of Shanti Agro Industries and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

## Rating Sensitivities

### Positive:

- Further improvement in revenue scale and thereby the overall financial risk profile.
- Strengthen the capital structure by improving the tangible net worth.
- Improvement in working capital cycle.

### Negative:

- Decline in revenues and profit margins.
- Deterioration of overall liquidity position.

## Liquidity Position

The liquidity position of the firm is stressed as reflected from 100% utilisation of its working capital facility (as per banker feedback). Small revenue scale and low profit margins, resulting in low cash accruals, and inventory level of 3-4 months to secure the raw material availability has further stressed the working capital requirement of the firm. Net cash accruals to total debt stood low at Rs. 0.10 times in FY20. The firm has cash and cash equivalents of Rs. 0.07 Cr and current ratio of 1.20 times in FY20.

## Profile of the Firm

Shanti Agro Industries is a partnership firm engaged in the processing of raw cashew nuts to cashew kernels. The firm is based in Sindhudurg district in Maharashtra. The partners of the firm are Mrs. Shanti Surendra Kamath, Mr, A Surendra Kamath, Mr. Aashish S Kamath and Ms. Maitri S Kamath. The firm was established in January 2016.

## Key Financial Indicators

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Total Operating Income	Rs Crs	4.72	6.13
EBITDA	Rs Crs	0.43	0.91
PAT	Rs Crs	-0.16	0.23
Tangible Net worth	Rs Crs	2.25	1.87
Total Debt/Tangible Net worth	Times	1.11	3.71
Current Ratio	Times	5.99	1.39

**Key Covenants Of The Instrument/Facility Rated: None**

**Non-cooperation With Previous Rating Agency: None**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	22.10.2019	12.09.2018	2017
Fund Based	Long Term	7.86	<b>BWR B+/Stable (Reaffirmed)</b>	<b>BWR B+/Stable</b>	<b>BWR B+/Stable</b>	-
Total		7.86	Rupees Seven Crores and Eighty Six Lakhs Only			

*Note: The rating was moved under 'Rating Not Reviewed' in Oct 2020 and Sep 2019.*

**Complexity Levels of the Instruments**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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**Shanti Agro Industries**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>S. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (Rs Crs)</b>	<b>Short Term (Rs Crs)</b>	<b>Total (Rs Crs)</b>
1.	Canara Bank	Overdraft	4.00	-	4.00
2.		Term Loan	2.46	-	2.46
3.		WCTL - CCS Covid 19	1.40	-	1.40
<b>TOTAL</b>					<b>7.86</b>

**Total Rupees Seven Crores and Eighty Six Lakhs Only**

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