

Rating Rationale

Agri Base Commodities

29 July 2019

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹ 17.13 Crores of Agri Base Commodities.

Particulars

Facilities	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Mar, 2018)	Present
Fund based:					
SODH	16.00	16.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook: stable	BWR BB- (Pronounced as BWR Double B minus) Outlook: stable (Downgraded)
Term Loan #	0.19	1.13			
EPCL	(10.00)	(12.00)			
FUBP/FDBP (sublimits of SOD)	(6.00)	(8.00)			
Total	16.19	17.13	INR Seventeen Crores and Thirteen lakhs Only		

Term loan amount outstanding as on 22.7.19

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Downgraded

Brickwork Ratings downgrades the ratings of BWR BB to BWR BB- (outlook stable) for the long term facilities of Rs. 17.13 crs of M/s. Agri Base Commodities.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the firm's audited financial results up till FY18, Provisional statements for 31.1.19, projected financials statements for FY20, publicly available information and clarifications provided by the management.

The rating has inter-alia, factored experience of the promoters in food processing industry for more than four decades, established track record in both domestic as well as international markets, modest liquidity position and ability to meet its debt obligations. However, the ratings are constrained by decline in projected sales and profitability level, reduced net worth, high gearing level, exposure to risk arising from fluctuations in foreign exchange transactions, high



competition from many small & medium players in the industry and working capital intensive nature of operations.

Going forward the ability of the firm to increase its scale of operations, to meet its projected revenue and profit level, to reduce its gearing level with infusion of capital and to manage its working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers

- **Credit Strengths:**

Vast management experience: Promoters have extensive experience in the food processing industry for more than two decades

Established long standing relationship with its domestic as well as international customers: ABC procures raw cashew majorly from Ivory Coast, Tanzania etc and rest from domestic market through agents and brokers. While, it exports to various customers in Gulf Countries, USA and Canada and rest in domestic market like Gujarat, Rajasthan, Delhi, Punjab and Karnataka

Ability to meet its long term debt obligations: The firm has been meeting its debt obligations in a timely manner

Liquidity position of the firm has been modest y-o-y: ABC's liquidity position for FY18 was comfortable with Current ratio at 1.51 times

- **Credit Risks:**

Firm's achieved operating revenue and profitability levels have been lower than its projections since last financial year: Operating revenue for FY18 stood at Rs. 60.27 crs while PAT was at Rs. 0.28 crs as against projections of Rs. 82.00 crs and Rs. 2.06 crs respectively for FY18. Further, as per Provisional statement till 31.1.19, sales revenue stood at Rs. 30.82 crs and PAT was at Rs. 0.54 crs against projections of Rs. 85.11 crs and Rs. 2.21 crs respectively for FY19.

Modest Net worth of the firm for FY18: ABC's net worth for FY18 has come down to Rs. 3.35 crs as compared to Rs. 5.21 crs in FY17; mainly due to increase in personal drawings

Gearing level of the firm has been high y-o-y: Gearing level of the firm for FY18 has further increased which is mainly due to reduced net worth of the firm during the year. Debt Equity ratio for FY18 stood at 5.03 times as against 3.39 times in FY17

Decline in Debt service coverage ratio: Debt protection matrix has come down for FY18



with ISCR at 0.75 times as compared to 1.42 times in FY17

ABC's Profitability margins have come down for FY18: Net profit margin for FY18 was at 0.46 percent while operating margin at 2.49 percent as against 1.78 percent and 5.13 percent respectively in FY17

Constant exposure to risk relating to fluctuations in foreign exchange: The firm is continuously exposed to risk arising from foreign exchange fluctuation through import/export transactions

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Agri Base Commodities** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change 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 expected figures.

About the Firm

Agri Base Commodities(ABC) was established as a partnership firm during 1997 at Mangalore, Karnataka. It is presently constituted by two partners, namely Mr. S. Umesh Kamath, Managing Partner and Mrs. S. Latha S. Kamath. The unit is ISO 9000:2001 certified. ABC is engaged in cashew processing business and wholesale trading of cashew in the domestic as well as international market.

ABC procures ~ 50 percent raw cashew majorly from Ivory Coast, Tanzania, etc., and rest from domestic market through various agents and brokers. It exports ~40 percent of processed cashew to customers in Gulf countries, USA and Canada; while, the rest is sold to customers in and around the state of Gujarat, Rajasthan, Delhi, Punjab and Karnataka. Apart from this unit, the management has been running various other businesses; under the name & style of Kamath Cashew Company (1960), Navadurga Cashew Industries (1983) and Navadurga Export (2002) for cashew processing. ABC's cashew processing unit is 80% fully automatic and 20% semi automatic which was 95% semi-automatic earlier.

During the current year the processing capacity was at 2000 M Tons ~ 83 percent. It has presently employed 60 nos workers to carry out its day to day operations.



Firm's Financial Performance

ABC's operating revenue for FY18 was at Rs. 60.27 crs (projected for FY18 at ~ Rs. 82.00 crs) as against Rs. 45.25 in FY17. Net worth of the firm for FY18 was at Rs. 3.35 crs. Debt Equity ratio for FY18 was at 5.03 times as against 3.39 times in FY17. Liquidity position of the firm was modest for FY18 at 1.51 times.

Rating History for the last three years

S.No	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating (Downgrade)	FY18	FY17	FY16
1	Fund Based:						
2	SODH		16.00	BWR BB- (Pronounced as BWR Double B minus) Outlook stable	BWR BB (Pronounced as BWR Double B) Outlook stable	BWR BB (Pronounced as BWR Double B) Outlook stable	-
3	Term loan	1.13					
4	EPCL	(12.00)					
	FUBP/FDBP (SOD sublimits)	(8.00)					
	Total Amount		17.13	₹ Seventeen Crores and Thirteen Lakhs Only			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: Not Applicable

Any other information: None

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹	60.27	45.25
EBITDA	₹	1.50	2.32
PAT	₹	0.28	0.81
Tangible Net worth	₹	3.35	5.21
Total Debt/Tangible Net worth	Times	5.03	3.39
Current Ratio	Times	1.51	1.80



Hyperlink/Reference to applicable Criteria

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

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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