

Rating Advisory

July 21, 2022 | Mumbai

M Lakhamsi Industries Limited

Update as on July 21, 2022

This rating advisory is provided in relation to the rating of M Lakhamsi Industries Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Growth in scale of operations and improved profit margins, resulting in cash accrual of above Rs 1 crore per annum on sustained basis
- Significant improvement in liquidity and financial risk profile, driven by substantial increase in networth

Downward factors

- Decline in revenue or operating margin dropping below 2.5% resulting in much lower cash accruals
- Stretch in the working capital cycle, further large capital withdrawals or any large, debt-funded capex or incremental investments or loans and advances to group entities.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from M Lakhamsi Industries Limited (MLC) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If MLC continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the firm

Incorporated in 1998, MLC is a partnership firm engaged in trading of agro commodities such as peanuts, sesame seeds, spices and vegetable oils, both edible and non-edible while other products include chick peas, raisins, wheat flour, oil cakes, maize, coarse grains and cereals. Mr Sanjiv Sawla currently manages the business.

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Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

May 31, 2021 | Mumbai

M.Lakhamsi and Co.

Ratings reaffirmed at 'CRISIL BB- / Stable / CRISIL A4+ '

Rating Action

| | |
|---|---------------------------------------|
| Total Bank Loan Facilities Rated | Rs.11.5 Crore |
| Long Term Rating | CRISIL BB-/Stable (Reaffirmed) |
| Short Term Rating | CRISIL A4+ (Reaffirmed) |

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BB-/Stable/CRISIL A4+' ratings on the bank facilities of M.Lakhamsi and Co. (MLC).

The ratings continue to reflect the extensive experience of the partners in the agricultural (agro) commodities trading and moderate financial risk profile of MLC. These strengths are partially offset by susceptibility of operating performance to volatile agro commodity prices and changes in regulation, and large working capital requirement.

Analytical Approach

Of the unsecured loan (Rs 6.55 crore as on March 31, 2020) extended by the partners, up to Rs 6.35 crore has been treated as neither debt nor equity owing to track record of non-withdrawal of this loan by the partners; remaining has been treated as debt.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of partners

MLC has established a strong position in domestic and international agro commodity markets as a trader for around four decades, supported by the extensive experience of the partners and their longstanding relation with customers while successfully navigating through several business cycles over the years.

Moderate financial risk profile

Financial risk profile is expected to remain supported by the absence of any large, debt-funded capital expenditure (capex) and no further large capital withdrawal by the partners. Despite modest networth of Rs 9.3 crore as on March 31, 2021, total outside liabilities to total networth ratio was comfortable at 1.48 times. Debt protection metrics were moderate, with interest coverage ratio of 1.34 times in fiscal 2021. Return on capital employed ratio is around 14% in fiscal 2021.

Weakness:

Susceptibility of operating performance to changes in regulation and volatile agro commodity prices

As an agro commodities trader, MLC is exposed to risks relating to volatility in commodity prices. Moreover, the domestic agro commodity industry is highly regulated in terms of minimum selling price, export/import policies and other relevant policies, all of which will continue to affect operating performance of the firm.

Working capital intensive nature of operations

Operations remain moderately working capital intensive as reflected in Gross Current Assets (GCA) of around 110 days estimated as on March 31, 2021 primarily on account of sizeable inventory of 44 days and debtors of 44 days. However, working capital cycle has reduced gradually in past five fiscals (from GCA of 193 days in fiscal 2016).

Liquidity: Stretched

Cash accrual is expected at Rs 0.9-1.1 crore per annum over the medium term, should be sufficient to meet the yearly debt obligation of Rs 0.5 crore. Bank limit utilisation has been high and averaged 90% during the 12 months through April 2021. Current ratio was healthy at 1.61 times as on March 31, 2021, and cash and bank balance were Rs 0.21 crore. Although, partners have withdrawn Rs 1.5-2.0 crore during the three fiscals ended March 31, 2020, leading to a steep decline in networth; the partners are likely to extend funds (equity and unsecured loans) to meet incremental working capital requirement and for timely servicing of repayment obligations.

Outlook Stable

MLC will continue to benefit from the extensive experience of the partners.

Rating Sensitivity factors**Upward factors**

- Growth in scale of operations and improved profit margins, resulting in cash accrual of above Rs 1 crore per annum on sustained basis
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Downward factors

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Key Financial Indicators

| As on / for the period ended March 31 | | 2020 | 2019 |
|---------------------------------------|----------|-------|-------|
| Operating income | Rs crore | 97.65 | 92.67 |
| Reported profit after tax (PAT) | Rs crore | 0.11 | 1.52 |
| PAT margins | % | 0.12 | 1.64 |
| Adjusted debt/adjusted networkth | Times | 1.87 | 1.31 |
| Interest coverage | Times | 0.96 | 1.67 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of Allotment | Coupon Rate (%) | Maturity date | Issue Size (Rs.Cr) | Complexity levels | Rating Assigned with Outlook |
|------|---------------------------------------|-------------------|-----------------|---------------|--------------------|-------------------|------------------------------|
| NA | Bill Purchase | NA | NA | NA | 2.5 | NA | CRISIL A4+ |
| NA | Letter of Credit | NA | NA | NA | 1 | NA | CRISIL A4+ |
| NA | Packing Credit | NA | NA | NA | 6 | NA | CRISIL BB-/Stable |
| NA | Proposed Long Term Bank Loan Facility | NA | NA | NA | 2 | NA | CRISIL BB-/Stable |

Annexure - Rating History for last 3 Years

| | | Current | | 2021 (History) | | 2020 | | 2019 | | 2018 | | Start of 2018 |
|---------------------------|-------|--------------------|--------------------------------|----------------|--------|----------|--------------------------------|----------|--------------------------------|------|--------|------------------------------|
| Instrument | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT/ST | 10.5 | CRISIL BB-/Stable / CRISIL A4+ | | -- | 12-02-20 | CRISIL BB-/Stable / CRISIL A4+ | 25-03-19 | CRISIL BB-/Stable / CRISIL A4+ | | -- | CRISIL B+/Stable / CRISIL A4 |
| Non-Fund Based Facilities | ST | 1.0 | CRISIL A4+ | | -- | 12-02-20 | CRISIL A4+ | 25-03-19 | CRISIL A4+ | | -- | CRISIL A4 |

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

| Current facilities | | | Previous facilities | | |
|--------------------|--------|--------|---------------------|--------|--------|
| Facility | Amount | Rating | Facility | Amount | Rating |

| | (Rs.Crore) | | | (Rs.Crore) | |
|---------------------------------------|-------------|-------------------|---------------------------------------|-------------|-------------------|
| Bill Purchase | 2.5 | CRISIL A4+ | Bill Purchase | 2.5 | CRISIL A4+ |
| Letter of Credit | 1 | CRISIL A4+ | Letter of Credit | 2 | CRISIL A4+ |
| Packing Credit | 6 | CRISIL BB-/Stable | Packing Credit | 6 | CRISIL BB-/Stable |
| Proposed Long Term Bank Loan Facility | 2 | CRISIL BB-/Stable | Proposed Long Term Bank Loan Facility | 1 | CRISIL BB-/Stable |
| Total | 11.5 | - | Total | 11.5 | - |

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Criteria for rating trading companies](#)

[Understanding CRISILs Ratings and Rating Scales](#)

[CRISILs Bank Loan Ratings](#)

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