

Rating Advisory

July 30, 2022 Mumbai

Advisory as on July 30, 2022

This rating advisory is provided in relation to the rating of M.Lakhamsi and Co.

CRISIL Ratings vide its publication dated July 21, 2022 highlighted the aspect of non-co-operation by M.Lakhamsi and Co.

M.Lakhamsi and Co. has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

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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 network; 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
- Significant improvement in liquidity and financial risk profile, driven by substantial increase in network

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.

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. **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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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 (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
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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