

Shree Lalita

March 10, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3.50	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	4.00	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable / A Four Plus)	Reaffirmed
Total Facilities	7.50 (Rs. Seven Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shree Lalita (SL) continue to be constrained by its fluctuating and small scale of operations with low capitalization, working capital intensive nature of operations, presence in highly competitive & fragmented industry with tender driven nature of operations, foreign exchange fluctuation risk and partnership nature of constitution of the firm.

The ratings, however, continues to derive strength from the firm's established track record of operations coupled with highly experienced promoters, sole distributorships with large product portfolio and established relationship with diversified customers and healthy financial risk profile of the firm.

Key Rating Sensitivities

Positive Factors

- Increase in scale of operations with total operating income exceeding Rs.50 crore and tangible net-worth base exceeding Rs.15 crore on a sustained basis
- Improvement in the collection period reaching below 80 days on a sustained basis

Negative Factors

- Deterioration in the profit margins with PBILDT and PAT margin reaching below 10% and 6% on a sustained basis
- Deterioration in capital structure with overall gearing exceeding a unity level on a sustained basis
- Deterioration in debt coverage indicators with total debt/GCA exceeding 4x and interest coverage ratio reaching below 4x on a sustained basis
- Deterioration in liquidity position with utilization level exceeding 80% on a sustained basis

Detailed description of Key rating drivers

Key rating Weakness

Fluctuating and small scale of operations with low capitalization: Total operating income declined by 20.85% in FY20 and stood at Rs.20.61 crore in FY20 (vis-à-vis of Rs.26.04 crore in FY19). The firm had a practice to show gross sales including VAT and GST for earlier years however from FY20 it has started showing net sales due to which there was decline in turnover. However the gross sales stood at Rs. 24 crore in FY20 (vis-à-vis of Rs.26.04 crore in FY19). Nevertheless considering long track record of the firm the scale of operations of the firm remained small. During 11MFY21(from April 1, 2020 till February 28, 2021), the firm has achieved TOI of Rs.10.12 crore due to reduced demand owing to outbreak of Covid-19.

Working capital intensive nature of operations: The operations of SL are working capital intensive in nature on account of funds being blocked in inventory and receivables. The average inventory holding period stood moderate at 14 days in FY20, since the firm maintains adequate level of inventory to fulfil the regular demand flow. The collection period remained high at 134 days in FY20 (vis-à-vis 98 days FY19) due to averaging effect however in absolute term total debtors outstanding have improved to Rs. 7.53 crore as on March 31, 2020 from Rs. 7.81 crore as on March 31, 2019. Out of total debtors outstanding as on March 31, 2020 of Rs. 7.53 crore about 90% debtors have recovered till March 3, 2021. Owing to stretched collection period, the working capital cycle remained moderately high at 79 days in FY20(Vis-à-vis 43 days FY19). Creditors period remains stable at 69 days in FY20. However, the average utilization of the working capital limit stood low at 2% with maximum utilization at 6% during past 12 months ended December 2020.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Presence in competitive & fragmented industry along with tender driven nature of operations: SL operates in a competitive & fragmented industry driven largely by the unorganized and organized players. Further, the firm also deals with various government bodies viz. municipal corporations, fire brigade forces, state disaster management corporations for which it has to participate in the tenders and hence has to face the risk of successful bidding for the same. Moreover, the tenders from the government bodies are mainly dependent on the budgetary fund allocations and hence remained cyclical in nature.

Foreign exchange fluctuation risk: SL is exposed to significant foreign exchange fluctuation risk; given the firm imports about 25% in FY20 of the purchases from Singapore, USA, Germany and UK etc. However, the company undertakes hedging by way of a derivative limit worth Rs.4 crore from the bank. Nevertheless, the foreign exchange fluctuation risk continues to persist due to timing differences. During FY20, the firm posted a foreign exchange profit of Rs.0.03 crore (vis-à-vis a foreign exchange profit of Rs.0.21 crore in FY19).

Partnership nature of its constitution: SL is a partnership firm; hence the risks associated with withdrawal of partners' capital exist. The firm is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency. Due to the partnership nature of constitution, it has restricted access to external borrowing where net-worth as well as credit worthiness of the partners are the key factors affecting credit decision of lenders.

Key Rating Strengths

Established track record of operations coupled with highly experienced promoters dealing in safety products: SL possesses an established track record of over two decades in the activities of trading of various safety products in India and acts as a sole distributor for more than 12 MNCs across the globe. Over the years of existence the firm has established long standing relationships with its customers and suppliers and hence possesses regular orders from the same. Furthermore, the promoters Mr. Pranav N. Lalaji and Mr. Harshil N. Lalaji have long standing experience more than 25 years in the trading of industrial safety products through its association with the firm.

Sole distributorships with large product portfolio and established relations with customers and suppliers: The firm is a sole and authorized distributor of various MNCs across the world for the Indian Market. The product portfolio is widely diversified amongst the industrial safety products primarily includes safety eye wears, safety shoes, work wears, portable gas monitors, hard hats, gloves, vertimax ladders, positive isolation (lockout tagout), water rescue boats etc. which finds its applications / uses across various industries such as Oil & Gas, Fire & Safety, Disaster Management, Construction, Mining, Utility, Telecom, Wind Energy and Transportation etc. Furthermore, over the years of existence in the market the firm has developed strong relationships with its suppliers and customers through them it garnered regular orders from the customers.

Healthy financial risk profile: The PBILDT margin has improved significantly during FY20 by 166bps and stood at 17.59% (vis-à-vis 15.93% in FY19) due to decline in cost of traded good from 64.86% to 58.31% in FY20 on account of better realization garnered from its customers coupled with reduction in selling cost and labour charges since firm is concentrating more on profits by taking cost cutting measures. Furthermore, PAT margin has also remained in line with improvement in PBILDT margin and stood at 15.30% in FY20 over 14% in FY19 and due to low interest and depreciation cost.

Capital structure of the firm continues to remain comfortable with overall gearing of 0.18x as on March 31, 2020 and (vis-à-vis 0.37x as on March 31, 2019) due to reduction in debt owing to lower utilization in working capital utilization as on balance sheet date. Moreover the tangible net-worth base of the firm has remained moderate with relatively lower accretion of profits to the business. Furthermore, the debt coverage indicators also remained comfortable during the period FY17-FY20 with total debt/GCA at 0.62 times in FY20 (vis-à-vis 0.99 times in FY19) and interest coverage ratio also stood comfortable at 11.09 times in FY20 (vis-à-vis 10.59 times in FY19) owing to increased profitability.

Liquidity Analysis: Strong

The liquidity position remained strong marked by strong accruals against negligible repayment obligations and cash and bank balance stood at Rs.0.46 crore as on March 31, 2020. With a gearing of 0.18 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt. However, the firm has not planned any additional funding from bank/FI in the near future. Its fund based working capital limit utilization remained comfortable marked by maximum utilization at 6% with average utilization at 2% during past 12 months ended December 31, 2020.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Wholesale Trading](#)

Financial Ratios (Non-Financial Sector)
Criteria for Short Term Instruments
About the Company

Shree Lalita (SL) was originally established in 1991 by Mr. Pranav N. Lalaji as a proprietary Concern which converted to partnership firm in the year 1997. Presently Mr. Pranav N. Lalaji, Mr. Harshil N. Lalaji and Mrs. Bharti N. Lalaji are managing the firm as partners. The firm is engaged in trading of industrial safety products viz. Safety eye wear, Safety Shoes, Work Wears, Portable Gas Monitors, Hard Hats, Gloves, Vertimax ladder, Positive Isolation (Lockout Tagout), water rescue boats etc. which find its applications in industries such as Oil & Gas, Fire & Safety, Disaster Management, Construction, Mining, Utility, Telecom, Wind Energy and Transportation etc. The firm also provides technical support, logistics, installation, after sales support and training services related to the products sold. SL has a sole distributorship for various companies from across the globe. The firm procures ~25% of its purchases through imports from Singapore, USA, Germany and UK etc.) and 75% from domestic marketing FY20 which is in similar line with previous year. About 50% of its revenue is generated from Govt. bodies (includes municipal corporations, fire brigade forces, state disaster management corporations etc.) and 50% from others including various private and public companies across various industries. SL operates through its registered office in Andheri, Mumbai.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	26.04	20.61
PBILD	4.15	3.62
PAT	3.65	3.15
Overall gearing (times)	0.37	0.18
Interest coverage (times)	10.90	11.60

A: Audited

Any other information: Nil

Status of non-cooperation with previous CRA: Nil

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-Cash Credit	-	-	-	3.50	CARE BB+; Stable
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	2.00	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ST-BG/LC	-	-	-	2.00	CARE BB+; Stable / CARE A4+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	3.50	CARE BB+; Stable	-	1)CARE BB+; Stable (03-Feb-20)	1)CARE BB+; Stable (05-Dec-18)	1)CARE BB+ (18-Sep-17)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (03-Feb-20)	1)CARE BB+; Stable / CARE A4+ (05-Dec-18)	1)CARE BB+ / CARE A4+ (18-Sep-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	2.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (03-Feb-20)	1)CARE BB+; Stable / CARE A4+ (05-Dec-18)	1)CARE BB+ / CARE A4+ (18-Sep-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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