

## Laxmi Agroils Private Limited

### February 15, 2022

#### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	92.00 (Enhanced from 30.50)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	58.00 (Enhanced from 19.50)	CARE A3 (A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>150.00</b> <b>(Rs. One Hundred Fifty Crore Only)</b>		

Details of instruments/facilities in Annexure-1

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the enhanced bank facilities of Laxmi Agroils Private Limited (Laxmi) derive strength from experienced promoters with long track record of operations, its diverse product portfolio and growing scale of operations. The ratings further derive comfort from company's comfortable financial risk profile marked by low overall gearing, healthy debt coverage indicators and efficient working capital management. However, the ratings are constrained by low profitability margins, volatility in raw material price with foreign currency fluctuation risk, intense competition in edible oil sector along with susceptibility to changing government regulations.

#### Rating Sensitivities

##### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in the total operating income with PBILDT margin of more than 2%.
- Efficient working capital management on sustained basis while maintaining debt metrics on current levels.

##### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in the scale of operations, thereby leading to PBILDT margin of less than 1%
- Substantial increase in the operating cycle days, thereby leading to stretch in the liquidity with current ratio less than 1x.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

**Experienced promoters:** Promoters of the company have been in the business of edible oil since 1993 and established various brands across grades and quality of the Edible Oil. Flagship company of group, B L Agro Industries Limited processes, and packages edible oils such as mustard, soya, rice bran, and refined palmolein oil. Group maintains its established market position in North India on the back of extensive experience of promoters and established brand presence.

**Diverse Product Portfolio:** The company derives a major part of its revenue from trading of various edible oils. These primarily include Crude Degummed Soya bean oil, Crude Degummed Rapeseed Oil, mustard oil and Rice Bran oil which contributed ~71% to the total sales during FY21. Further, the company has a diversified product profile with sales accruing from various kind of edible oils. The company also deals in crude palm oil and Palmolein Oils which contributes to around 20% of total sales during FY21. The sales mix of company keeps on changing basis demand scenario in the market. The company also deals in pulses, oleo chemicals (mainly glycerine, fatty acids etc.), however, contribution of same remains miniscule in the total sales mix.

**Growing scale of operations:** The total operating income of the company grew substantially and stood at Rs.778.83 crore during FY21 as against Rs. 308.04 crore during FY20. The same has been primarily driven by substantial increase in the sales of edible oils. During H1F22, company booked a total operating income of Rs. 421.84 crore.

**Comfortable financial risk profile:** The overall gearing of company of company stood at 0.48x as on March 31, 2021 as against nil debt as on March 31, 2020. Moderation in gearing was mainly due to utilisation of working capital limits from FY21, prior to which, company was using internal funds and customers' advances/ creditors to fund the working capital requirements. Company receives part of advances from BL Agro Industries Limited against sales resulting in low reliance of working capital borrowings. However, going forward as customer and product mix changes there can be an increase in gearing and shall remain a key monitorable. The interest coverage ratio stood healthy at 5.85x during FY21 (PY: 95.41x). However, owing to increase in total debt, total debt to GCA moderated and stood at 1.69x as on March 31, 2021, as against 0.00x as on March 31, 2020.

#### Key Rating Weaknesses

**Low profitability margins:** On account of trading nature of Laxmi and intense market competition due to limited entry barriers and highly fragmented nature of industry, company's profitability margins have traditionally remained low. PBILDT

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

margin of company moderated to 1.22% in FY21 (P.Y. 1.71%) on account of increase in cost of procuring edible oils during FY21. Resultantly, PAT margin has also moderated to 0.69% for FY21 as against 1.16% for FY20 pertaining to the increase in interest cost in line with higher utilization of working capital limits to support the growth in scale of operations. During H1F22, company reported PBILDT margin of 1.35% and a PAT Margin of 0.78%.

**Presence in highly competitive and fragmented industry:** Laxmi operates in highly fragmented and competitive market by the presence of numerous players in India as well overseas. Low entry barriers and low investment requirement makes the industry highly lucrative and thus competitive. The edible oil industry is highly competitive with presence of large national players and multiple regional players. Smaller companies in general are more vulnerable to intense competition due to their limited pricing flexibility, which constrains their profitability as compared to larger companies who have better efficiencies and pricing power considering its scale of operations.

**Commodity price volatility and foreign exchange fluctuation risk:** The prices of edible oil seeds highly fluctuating as India imports 70% of its oil requirements from imports thus fluctuations in international market impacts the prices of commodity in India. Palm oil prices are majorly influenced by demand and supply situation in Indonesia and Malaysia and regulation in those countries. However, management's long-term associations with customers allows it to pass on a portion of the increased raw material costs to its customers. Company also imports edible oils exposing it to foreign exchange fluctuation risk. During FY21, company booked a forex gain of Rs. 0.68 crore as against a nil forex gain or loss crore during FY20.

### Industry Prospects

As per CARE Research Report, the domestic production of edible oils is able to meet only a part of the country's edible oil demand and hence India is dependent on imports for around 2/3rd of the demand. Amongst edible oil imports, palm oil accounts for a substantial share of around 60% to 65% and is mostly imported from the South-East Asian countries of Malaysia and Indonesia. For instance, during FY21 (refers to financial year 2020-21), India imported crude palm oil (CPO) of about 74 lakh tonnes worth around Rs.420 Billion. India also imports other varieties of palm oil such as crude palm kernel oil (CPKO) and refined palm oil. In terms of volume, for the current oil year starting November 2020, the total palm related import volume was 56 lakh tonnes till July 2021 as per the Solvent Extractors' Association of India (SEA).

### Liquidity: Adequate

Since company is into trading, there are no capex requirements for company. The current ratio of company stood at moderate level of 1.12x as on March 31, 2021 (PY: 1.02x as on March 31, 2020) since company mainly relies on suppliers advances and creditors to fund the working capital requirements. The operating cycle of company stood negative as on March 31, 2021 (PY: 1 day). Average utilisation of working capital limits also remains low at around 70%. Further, company does not have any fixed repayment obligations since company only has no long-term debt.

**Analytical approach:** Standalone after factoring in operational and financial linkages with B L Agro Industries Limited

### Applicable Criteria

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

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

[Criteria for Short-term Instruments](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[Liquidity analysis-Non-financial sector entities](#)

[Rating Methodology - Wholesale Trading](#)

[CARE's Policy for Factoring Linkages Parent Sub JV Group](#)

### About the Company

Laxmi Agroils Private Limited (Laxmi) was incorporated on May 26, 2011 and is engaged in the wholesale trading of edible oils mainly soyabean oil, rapeseed oil, mustard oil, crude palm oil etc. The company is a part of B L Agro Industries Limited. Laxmi sells mainly to its group entity, B L Agro Industries Limited (about 70% of total sales and balance 30% to other domestic customers). The company also sells under brand name 'Mohan Dhara' which belongs to group entity BL Agro Industries Limited (BLAIL) and Laxmi pays royalty fees to BLAIL. Further, company is in process to acquire the brand from BLAIL.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	308.04	778.83	421.84
PBILDT	5.28	9.50	5.72
PAT	3.58	5.41	3.30
Overall gearing (times)	0.00	0.48	-
Interest coverage (times)	95.41	5.85	4.43

A: Audited; Prov.: Provisional

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bill Discounting/ Bills Purchasing		-	-	-	77.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE BBB-; Stable
Non-fund-based - ST-LC/BG/LOU(Letter of Undertaking) (Short term)		-	-	-	58.00	CARE A3

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	77.00	CARE BBB-; Stable	1)CARE BBB-; Stable (02-Feb-22)	-	-	-
2	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	1)CARE BBB-; Stable (02-Feb-22)	-	-	-
3	Non-fund-based - ST-LC/BG/LOU(Letter of Undertaking) (Short term)	ST	58.00	CARE A3	1)CARE A3 (02-Feb-22)	-	-	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bill Discounting/ Bills Purchasing	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-LC/BG/LOU (Letter of Undertaking) (Short term)	Simple

**Annexure 5: Bank Lender Details for this Company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: mradul.mishra@careedge.in

### Analyst Contact

Name: Sachin Mathur  
Contact no.: +91-11-4533 3206  
Email ID: sachin.mathur@careedge.in

### Relationship Contact

Name: Swati Agrawal  
Contact no.: +91-11-4533 3200  
Email ID: swati.agrawal@careedge.in

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