

LGW Industries Limited

June 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	4.00	CARE B; Stable	Assigned
Long Term Bank Facilities	25.00 (Reduced from 27.00)	CARE B; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the rating assigned to bank facilities of LGW Industries Limited (LGW) constrained by relatively small scale of operations, vulnerability of margins to volatility in prices of traded goods, weak financial risk profile characterized by thin profitability margins, low net worth and working capital intensive nature of operations, highly fragmented trading industry and intense competition.

However, the rating derives strength from experienced promoters with satisfactory operational track record and satisfactory order book position.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sharp improvement in scale of operation (above 120 crores) and profitability margin.
- Efficient management of working capital leading to improvement in capital structure and debt protection metrics.

Negative factors

- Decline in profitability margin on a sustained basis
- Elongation in working capital cycle

Analytical approach: Standalone

Outlook: Stable

The company is expected to improve its operational and financial performance on account of its presence in the export market and long-established relationship with its customers

Detailed description of the key rating drivers:

Key weaknesses

Highly fragmented trading industry categorised by intense competition: The trading industry is characterized by its high fragmentation and intense competition, primarily due to low barriers to entry and a large number of unorganized participants. Moreover, the number of entrants into this sector is anticipated to rise, with existing players becoming increasingly aggressive. Significant fluctuations in raw material prices pose a challenge, as fierce competition may prevent firms from passing on these costs, potentially leading to further erosion of margins.

Relatively small scale of operations: LGW, a small-sized player in the trading industry, reported a profit after tax (PAT) of Rs. 2.99 crore during FY24, with a total income of Rs. 58.79 crore. TOI has moderated by 13% to Rs.57.49 crore in FY24 on the back of lower demand of FMCG products/imitation jewellery due to elections in Bangladesh which impacted sales for around 2 months. Moreover, the export incentive for FY24 stood at Rs.1.30 crore in FY24 vis-à-vis Rs.3.99 crore in FY23 (includes an incentive of Rs.2.50 crore for the year 2006-2008).

The company's small scale prevents it from benefiting from economies of scale. Additionally, the highly competitive and fragmented nature of the trading industry limits LGW's bargaining power with customers.

Vulnerability of margins to volatility in prices of traded goods: LGW sources miscellaneous items such as imitation jewellery, machinery, FMCG products and other goods from domestic players. These items are then exported directly to customers in Bangladesh or through intermediaries on a commission basis. The prices of these goods are inherently volatile.

Weak financial risk profile characterized by low net worth, low profitability margins and working capital intensive nature of operations: The firm's net worth turned negative in FY16 on account of non-realization of export of cotton yarn receivables and write off the same. The firm stopped export of cotton yarn and focused on export of imitation jewellery. The

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

negative net worth improved from negative Rs.11.56 crore as on Mar 31, 2016 to negative net worth of Rs.2.65 crore as on Mar 31, 2023 (Prov) due to accretion of profit over the years.

On account of PAT of Rs.2.81 crore coupled with equity infusion of Rs.0.73 crore, in FY24 the company's net worth turned positive to Rs.1.36 crore as on Mar 31, 2024. However, capital structure continues to remain leveraged with overall gearing of 14.48x as on Mar 31, 2024.

Debt profile of the firm primarily comprised of LAP loan, home loan and unsecured loan from corporate body, promoter, and relatives.

The company leased out its property in 'Godrej Waterside' having Built up area of 19,787 sqft to Digitech Call System Pvt Ltd for a period of 11 months starting from Feb 01, 2024 at a monthly lease rent of Rs.4,00,000 between Feb and August 2024 and monthly lease rent of Rs.7,91,480 between Sep and Dec 2024. The company has availed LAP loan from Axis bank mortgaging the said property (o/s LAP loan amounts to Rs.7.69 crore) wherein monthly EMI payment is Rs.10,00,500. Before leasing out this property in Feb 2024, the property was leased out to I-pac for the period between April and Jun 2023 at a monthly rental of Rs.0.13 crore.

The company is making part payment for the loan through its other businesses. Axis Bank has also sanctioned Rs.4 crore OD facility to fund its working capital requirement.

Apart from the same, the firm has o/s home loan of Rs.6.95 crore from HDFC Bank and PNB Housing Finance to fund working capital requirement.

Although the firm's business is working capital intensive in nature, the firm takes advance from customers to execute the orders and had received Rs.23.49 crore in advance as on Mar 31, 2024. Moreover, the firm has optimized its inventory holding over the last few years to reduce the working capital intensity of operations. Out of Rs.2.86 crore of o/s debtors for more than 6 months as on Mar 31, 2024, Rs.2.79 crore pertain to Met Technologies Pvt Ltd which are o/s for more than 3 years.

Since the firm has limited working capital facility of Rs.4 crore, its working capital requirements are met by a combination of creditors, secured and unsecured loans.

Key strengths

Experienced promoters and satisfactory operational track record: Shri Abhay Kumar Gupta (aged 59 years), the promoter of the LGW, has been in same line of business for more than last 26 years and has immense knowledge of the raw cotton trading business in domestic as well as international market. He is supported by his son Shri Bharat Gupta who also has around 11 years of experience in the same line of business.

Satisfactory order book: The company has order book of Rs.44.5 crore from clients based out of Bangladesh as on Mar 31, 2024, vis-à-vis Rs.35 crore as on Jul 18, 2023. The company supplies to its export customers only after receiving advances. As on Mar 31, 2024, the company had customer advance of Rs.23.5 crores.

Liquidity: Stretched

The liquidity position of company is stretched due to tightly matched cash accrual and term debt obligation over the medium term. In FY25, the firm's debt repayment obligation stands at Rs.1.12 crore. The same would be met through cash accruals or unsecured loan from promoters. The company has received sanction of Overdraft limit of Rs.4.0 crore in current FY and utilization for the same stood between 70-80% as articulated by lender.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Distributors

LGW Industries Ltd. (LGW), a public limited company, formed in 1998 by Shri Abhay Kumar Gupta of Kolkata, West Bengal is engaged in merchant trading of miscellaneous item like, imitation Jewelleries, machineries, FMGC products and other items to the international market majorly Bangladesh. Previously, the firm was involved in merchant trade of raw cotton, which was later

terminated in 2016 owing to unanticipated losses in the past. Over the period, it has established its position as a quality driven export house and is recognized as a 'Star export house'.

LGW is a closely held company. The day-to-day affairs of the firm are looked after by Shri Abhay Kumar Gupta, with support from his son Shri Bharat Gupta.

Apart this, LGW derives income from sales of land and flats. The company had JV with Prajapati Properties Pvt Ltd, and JV partner had developed a standalone residential project in Rajarhat, Kolkata and land is owned by LGW. The project has already been completed and LGW received 6 flats (3 2BHK and 3 3 BHK) as against its land (valued at Rs.0.14 crore in its books as on Mar 31, 2024). As per the management, LGW has already sold 4 flats and remaining 2 flats remain unsold. The company has mortgaged the said 2 flats to PNB for LAP.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	57.17	66.08	57.49
PBILDT	-0.28	3.88	-0.03
PAT	1.88	3.61	3.00
Overall gearing (times)	-2.84	-7.25	14.48
Interest coverage (times)	-0.16	1.85	-0.02

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	4.00	CARE B; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	10.47	CARE B; Stable
Fund-based - LT-Term Loan		-	-	July-2031	14.53	CARE B; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Proposed fund-based limits	LT	10.47	CARE B; Stable	-	1)CARE B; Stable (02-Aug-23)	1)CARE B; Stable (03-Aug-22)	1)CARE B; Stable (17-Nov-21)
2	Fund-based - LT-Term Loan	LT	14.53	CARE B; Stable	-	1)CARE B; Stable (02-Aug-23)	1)CARE B; Stable (03-Aug-22)	1)CARE B; Stable (17-Nov-21)
3	Fund-based - LT-Bank Overdraft	LT	4.00	CARE B; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Proposed fund-based limits	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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