

Shree Mahalakshmi Enterprises

July 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	12.00	CARE B+; Stable	Assigned
Long-term / Short-term bank facilities	10.00	CARE B+; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has taken a combined view of Shree Mahalakshmi Enterprises (SME), and Shree Shree Mahalakshmi Enterprises (SSME) (referred to as the Shree Mahalakshmi group) while assessing credit risk profile, as both entities are in similar lines of business, operate under the same management, and demonstrate financial and operational linkages. Ratings assigned to bank facilities of Shree Mahalakshmi Enterprises (SME) remain tempered by thin profitability margins given the trading nature of business in a highly fragmented and competitive industry, leveraged capital structure marked by the company's low net worth base and moderate debt coverage indicators, exposure to commodity price and foreign currency fluctuation risks, and constitution of SME as a proprietorship firm. However, ratings derive comfort from experienced promoters, growing scale of operations, and the company's long-standing and diversified client base.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving profitability margins marked by operating margins of above 5% and profit after tax (PAT) margins of above 3%.
- Improving capital structure with overall gearing of below 1.5x and improving debt coverage metrics with interest coverage of above 4x.

Negative factors

- Declining scale of operations with total operating income (TOI) below ₹70 crore or declining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin below 2% on sustained basis.
- Deteriorating capital structure with overall gearing above 6.00x on a sustained basis.
- Deteriorating collection and inventory holding period with operating cycle above 100 days on a sustained basis.

Analytical approach: Combined

CARE Ratings combined financials of two entities of the Shree Mahalakshmi group, SME, and SSME (referred to as the Shree Mahalakshmi group), since these entities are engaged in similar lines of activity, have common promoters, and demonstrate financial and operational linkages.

Outlook: Stable

CARE Ratings believes that the group will continue to benefit from the extensive experience of promoters and management in the industry.

Detailed description of key rating drivers:

Key weaknesses

Thin profitability margins

Margins continue to remain thin owing to trading nature of business. The group's PBILDT margins stood at 2.36% in FY24 (PY: 0.73%). PAT margins improved marginally by 77 bps from 0.37% in FY23 to 1.14% in FY24 due to better PBILDT.

Leveraged capital structure and moderate debt coverage ratios

The Shree Mahalakshmi group's financial risk profile is marked by leveraged capital structure and moderate debt coverage indicators. The group mainly depends on bank borrowings to fund its working capital requirements. Overall gearing ratio is moderate and continues to remain high at 9.62x as on March 31, 2024, as against 8.08x as on March 31, 2023, primarily due to low net worth base and funds of around ₹9.38 crore brought in by promoters to support operations through unsecured loans in FY24 despite increased working capital borrowings. Interest coverage ratio deteriorated to 1.94x in FY24 (PY: 2.01x) led by higher interest costs on increased bank borrowings while total debt to gross cash accruals (TD/GCA) also remained high at 20.97x as on March 31, 2024, as compared to 40.57x as on March 31, 2023, considering increase in GCA level. The group is also supported by its partners through infusion of fund from promoters by capital or unsecured loans to support working capital requirements.

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

Exposure to government policies and foreign exchange fluctuation risk

Regulatory decisions play a crucial role in the sugar industry. Government policies regarding sugar trade, pricing of sugarcane, and sugar realisation (the price at which sugar is sold) can significantly impact profitability for sugar businesses. For instance, policies that fix higher cane prices can squeeze margins, while export incentives can boost profitability.

Government regulations on land use, including restrictions on deforestation and land conversion, can impact land availability for palm oil cultivation. Policies promoting sustainable practices can influence production costs and supply. Government policies on export taxes and subsidies can affect profitability of palm oil businesses. High export taxes can reduce competitiveness in the global market, while subsidies can provide financial support and enhance profitability. Regulations aimed at reducing environmental impact, such as limits on greenhouse gas emissions and requirements for sustainable certification can influence production practices and costs.

Profitability susceptible to cyclical industry

Profitability of the sugar and palm oil business is significantly influenced by the cyclical nature of both industries. This cyclical nature can be attributed to several key factors such as agro-climatic conditions, where sugarcane production highly depends on favourable climatic conditions, variations in weather patterns, such as droughts or excessive rainfall, can adversely affect crop yields, leading to fluctuations in sugar supply. Similarly, palm oil production is highly sensitive to weather conditions. Favourable weather, with adequate rainfall and sunshine, promotes healthy palm tree growth and high yields. Conversely, adverse weather conditions such as droughts or excessive rainfall can lead to reduced yields.

Proprietorship nature of firm

The firm has inherent risk of withdrawal of capital by the proprietor for personal contingencies. Moreover, it restricts access to external borrowings where net worth and creditworthiness of the promoter are key factors affecting credit decision of lenders. Hence, limited funding avenues and limited financial flexibility restricts growth in the firm's scale of operations.

Key strengths

Growing scale of operations

Scale of operations of the Shree Mahalakshmi group improved and remained comfortable with TOI of ₹97.46 crore in FY24, owing to improvement of 26.38% from ₹76.88 crore in FY23. Improvement was primarily led by increase in volume of sales for sugar and better realisation.

Experienced promoters

The group is a closely held family business. The promoter family has been in wholesale and retail trading sugar and edible oils for nearly two decades. The group's current promoter, P Krishna has more than a decade of experience in the trading of sugar and edible oils, who is ably assisted by P Sudhakar and D Sandeep. The group's operations and strategic decisions are entirely overseen by the promoter and other management persons, P Sudhakar and D Sandeep, who have experience of more than a decade in sugar and oil trading, logistics, quality control, and customer service and have been associated with the business since 2022.

Established relationship with customers and suppliers with a diversified procurement network

Over the years, the Shree Mahalakshmi Group has established a diversified procurement network, engaging with over 327 distributors of sugar and edible oils across key regions, such as Karnataka, Maharashtra, Andhra Pradesh, and Tamil Nadu. Notably, top 10 suppliers collectively contribute more than 50% to the overall procurement. Top 10 customers of SME contribute 65.08% of total sales amounting to ₹29.73 crore, which was 11.92% more than FY23 (PY: ₹33.55 crore). The group has also established overseas supplier base spanning Southeast Asian countries.

Liquidity: Stretched

The group's liquidity profile is stretched marked by modest GCA of ₹1.11 crore for the last year with no major scheduled repayment obligations. Promoters continue to provide liquidity support to the firm when required, through unsecured loans that stood at ₹9.38 crore in March 31, 2024. The current ratio stood at a satisfactory level of 1.74x, as on March 31, 2024 (PY:1.37x). Unencumbered cash and bank balance stood at ₹0.47 crore on March 31, 2024. Average monthly utilisation of its fund-based working capital limits remained moderate at around 90% for 12-months ended March 31, 2024.

Assumptions/Covenants: Not applicable

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](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

[Consolidation](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services & supplies	Trading & distributors

About the Shree Mahalakshmi group

Shree Mahalakshmi group was incorporated in 2022 and is engaged in trading sugar and oil products. It is headquartered in Anantapur, Andhra Pradesh and offers a diverse range of sugar and oil products, including raw and refined sugars, cooking oils, and specialty oils. It is also engaged in procurement, logistics, quality control, and timely delivery to meet client needs. The group's primary clients include food and beverage manufacturers, culinary businesses, confectionery producers, retailers, and distributors in Andhra Pradesh, Karnataka and Tamil Nadu.

Brief Combined Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	76.88	97.36
PBILDT	0.56	2.30
PAT	0.28	1.11
Overall gearing (times)	8.08	9.62
Interest coverage (times)	2.01	1.94

A: Audited UA: Unaudited; Note: these are latest available financial results

About Shree Mahalakshmi Enterprises

SME is a proprietorship firm incorporated in 2022. The firm is engaged in trading sugar and oil products and is headquartered in Anantapur, Andhra Pradesh. SME's primary clients include food and beverage manufacturers, culinary businesses, confectionery producers, retailers, and distributors in Andhra Pradesh, Karnataka and Tamil Nadu.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	63.10	45.68
PBILDT	0.47	1.06
PAT	0.28	0.57
Overall gearing (times)	3.78	7.12
Interest coverage (times)	2.42	2.15

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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-Cash Credit		-	-	-	12.00	CARE B+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	10.00	CARE B+; Stable / CARE A4

Annexure-2: Rating history for 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-Cash Credit	LT	12.00	CARE B+; Stable	-	-	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	10.00	CARE B+; Stable / CARE A4	-	-	-	-

LT: Long term; LT/ST: Long term/Short term

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

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

Annexure-5: Lender details

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

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

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91-80-46625555 E-mail: karthik.raj@careedge.in Niraj Thorat Assistant Director CARE Ratings Limited Phone: 914040102030 E-mail: Niraj.Thorat@careedge.in Mou Ghanty Analyst CARE Ratings Limited E-mail:
--	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**