

## Laxmi Traders

December 05, 2017

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	10.00	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	Assigned
<b>Total Facilities</b>	<b>10.00</b> <b>(Rupees Ten crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The rating assigned to the bank facilities of Laxmi Traders (LT) is constrained by small scale coupled with short track record of operation with thin profit margins, leveraged capital structure and weak debt service coverage indicators. The rating is further constrained by working capital intensive nature of operations, its presence in highly fragmented and competitive industry and constitution of entity as a proprietorship firm limiting financial flexibility in times of stress.*

*The rating however, derives strength from long experience of the promoters, established relations with suppliers and customers and support from group with presence in related businesses*

*The ability of the entity to increase its scale of operations with improvement in profitability and capital structure along with efficient management of working capital requirement are the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Small scale of operations:** LT commenced its commercial operations in January 2013. Hence, it has short track record of about five years with FY14 being the first year of operation for the entity. The operations of the entity remained small with total operating income of Rs.52.30 crore in FY17 and low net-worth base of Rs.2.18 crore as on March 31, 2017 thus limiting financial flexibility of the entity in times of stress. Moreover, by being in the business of trading of agro products, entailing low value additions, the entity's operating margin stood low in FY17.

**Leveraged capital structure with moderate debt service coverage indicators:** The relatively low net worth base of the entity led to increased reliance on working capital borrowings and unsecured loans to support its business operations, hence resulting in leveraged capital structure. Moreover, with low profitability and high debt profile, the debt coverage indicators of the entity remained weak.

**Working capital intensive nature of business:** Operations of the entity remained working capital intensive with high gross current assets of 103 days in FY17 owing to high inventory period due to seasonal nature of the products traded. The working capital requirements are met by the cash credit facility availed by the entity; utilization of which remained high.

**Presence in highly fragmented and competitive industry:** The competitive nature of agro-product processing industry due to low entry barriers, high fragmentation and the presence of a large number of players in the organized and unorganized sector translate in inherent thin profitability margins.

**Constitution as a proprietorship firm limiting financial flexibility:** LT, being a proprietorship concern, is closely held and is subject to limited disclosure norms. Further, owing to the constitution of the entity, it is exposed to the risk of withdrawal of capital as well as long-term existence of business operations under the entity.

#### Key Rating Strengths

**Experienced proprietor:** LT is currently managed by Mr. Ramanrao Bholla. He is well-versed with the intricacies of the business on the back of about two decades of experience in agro based industries through the associate concerns. He looks after the overall function of the firm and is ably supported by a team of experienced professionals. Long experience of the proprietor has supported the business risk profile of the entity to a large extent.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Established relations with suppliers and customers:**LT has long-standing relationship with its suppliers and customers due to the experience of the proprietor in the same segment. The clients have been associated with LT over the years. However, being in a highly competitive business, customer retention is a constant challenge for the entity.

**Support from group with presence in related businesses:** The firm belongs to a group of seven entities managed by Mr.Ramanrao Bholla and Mrs. Vijayalaxmi Bholla. Furthermore, LT benefits from the marketing and distribution network of its various group entities and extensive experience and established relations of its promoters.

**Analytical Approach:** Standalone

#### Applicable criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's Policy on wholesale trading Companies](#)

[Financial ratios \(Non-Financial Sector\)](#)

#### About the Firm

Nagpur based, Laxmi Traders (LT) is a proprietorship concern promoted by Mr. Ramanarao Bholla and commenced operation in January, 2013. Since inception, the entity has been engaged in the trading of food grains i.e. rice, dal, chana, wheat etc. The traded goods are purchased from the farmers based in Nagpur and domestic suppliers situated at Andhra Pradesh, Tamil Nadu, Karnataka and further sells the same in the domestic market of Delhi, Haryana, Madhya Pradesh and Nagpur.

Brief Financials (Rs. crore)	FY16	FY17
	12M, A	12M, A
Total operating income	30.72	52.30
PBILDT	1.25	1.46
PAT	0.14	0.16
Overall gearing (times)	5.00	4.85
Interest coverage (times)	1.14	1.14

A: Audited

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

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-	10.00	CARE B+; Stable

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable	-	-	-	-

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