



Rating Rationale

17 December 2020

Laxmi Industries

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 7.00 Crores of Laxmi Industries.

Particulars

Facility	Amount (₹ Crs)	Tenure	BWR Rating History (25 Oct 2019)	Rating*
Fund based	7.00	Long Term	BWR B- (Stable)	BWR B- (Stable) (Reaffirmed)
Total	7.00	INR Seven Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings:Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the firm's audited statements upto FY20, projected numbers for FY21 and publicly available information and the information/clarifications provided by the company's management.

The ability of the firm to achieve the projections, to improve the profitability, to maintain its working capital efficiently and to improve its overall financial risk profile shall be the key rating sensitivity.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced promoters :** The firm is promoted by Mr. Potallal Patel and other two partners, having an experience of more than three decades in the cotton ginning & pressing industry. Promoters have very strong relationship with farmers and cotton traders across Gujarat



- **Comfortable Working Capital Cycle:** Working Capital Cycle in FY20 stood at 70 days. Firm's current ratio stands at 1.55x in FY20 as compared to 1.30x for FY18.

Credit Risks:

- **Weak financial risk profile:** TNW is low at Rs. 2.15 Crs in FY20 in spite of additional infusion of the capital. Firm's financial profile is average with improved yet high Debt/TNW at 2.01x in FY20 as compared to 3.87x in FY19.
- **Weak debt protection metrics due to thin profit margins:** Operating Profit Margin was - 0.69% & 0.33% in FY20 & FY19 respectively due to high operating cost and fluctuation in the prices of raw material. The firm incurred losses during FY18 and there was no profit /loss made during FY19 & FY20. As a result Debt protection metrics are weak with ISCR @-0.33 & DSCR @0.87 in FY20.
- **Exposure to fluctuations in raw material prices :** The operating profitability remains highly susceptible as material cost constitutes 90-95% of direct cost. Further, low bargaining power with customers limits the ability to pass on the fluctuation in raw material prices.
- **Exposure to intense competition:** The firm faces intense competition in a highly fragmented textile industry with several organised and unorganised players.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Laxmi Industries** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Laxmi Industries (LI), was established in 2006 as a partnership firm in Botad, Gujrat. Partners of the firm are Mr. Popatlal S. Patel, Mr. Dhirubhai M. Lakhani and Ms. Vasantben C. Lakhani. The firm is engaged in ginning and pressing of cotton and sells cotton bales, cotton seed, cotton seed oil and their by-products.

Company Financial Performance

Total operating income has declined to Rs. 28.98 crs in FY20 over Rs. 59.40 crs in FY19, partly due to factories being almost closed for 8 months in pandemic situation of Covid -19 from March 2020 and reopened in November 2020. The Firm has achieved a sales of Rs. 7.14 Cr. for the last six months ending Nov 2020.

Rating History for the last three years

S.No	Facility	Current Rating (Dec -2020)			Rating History		
		Type	Amount (₹ Crs)	Rating	25Oct2019	28 Dec2018	27Sep2017
1	Fund Based	Long Term	7.00	BWR B-(Stable) (Reaffirmed)	BWR B -	NA	BWR B -
	Total		7.00	INR Seven Crores Only			

Status of non-cooperation with previous CRA (if applicable)-NA

Key Financial Indicators

Key Parameters	Units	2020	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	28.98	59.40
EBITDA	₹ Cr	-0.69	0.33
PAT	₹ Cr	0.00	0.00
Tangible Net worth	₹ Cr	2.15	2.05
Total Debt/Tangible Net worth	Times	2.01	3.87
Current Ratio	Times	1.55	1.30



Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**

For any other criteria obtain hyperlinks from website

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