

## Press Release

Laxmi Enterprises

May 27, 2022



## Rating Upgraded

| Product                            | Quantum<br>(Rs. Cr) | Long Term Rating               | Short Term Rating     |
|------------------------------------|---------------------|--------------------------------|-----------------------|
| Bank Loan Ratings                  | 18.50               | -                              | ACUITE A3+   Upgraded |
| Bank Loan Ratings                  | 7.83                | ACUITE BBB   Stable   Upgraded | -                     |
| Total Outstanding Quantum (Rs. Cr) | 26.33               | -                              | -                     |
| Total Withdrawn Quantum (Rs. Cr)   | 0.00                | -                              | -                     |

## Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as ACUITE triple B) from 'ACUITE BBB-' (read as ACUITE triple B minus) and the short term rating to '**ACUITE A3+**' (read as ACUITE A three plus) from 'ACUITE A3' (read as ACUITE A three) on the Rs.26.33 crore bank facilities of Laxmi Enterprises. The outlook is '**Stable**'.

The rating upgrade is on account of overall improvement in business risk profile of the firm marked by improvement in top-line, while maintain the healthy profitability margin in FY2022 (Prov.). The revenue of the firm has improved to Rs.75.74 crore in FY2022 (Prov.) as compared to Rs.59.52 crore in FY2021. The operating profitability margin has also improved to 15.11 per cent in FY2022 (Prov.) as compared to 14.96 per cent in the previous. Further, the rating upgrade is also due to the improvement in the overall financial risk profile of the firm, which is marked by improvement in networth, gearing and debt protection metrics in FY2022 (Prov.) over FY2021 along with adequate liquidity position of the firm during FY2022 (Prov.).

## About the Company

Laxmi Enterprises; a Jharkhand based partnership firm was established in the year 2002, by Mr. Vikas Kumar Saw, Mr. Ashish Kumar Saw, Mrs. Lakhi Devi and Mrs. Sangeeta Devi. The firm is mainly into construction business related to railway track installation, approach roads, level crossings, staff quarters, and supply of ballast etc. The firm is a registered government contractor for South Eastern Railways, East Coast Railways, Steel Authority of India Limited, Ircn International Limited, among others.

## Analytical Approach

Acuite has considered the standalone business and financial risk profile of LE while arriving at the rating.

## Key Rating Drivers

### Strengths

#### **Long track record of operation and experienced management-**

Established in 2002 as a partnership firm and has a long track record of almost two decades in the railway infrastructure and construction business. The partners of the firm Mr. Vikas Kumar Saw, Mr. Ashish Kumar Saw, Mrs. Lakhi Devi and Mrs. Sangeeta Devi, possess two decades of experience in the business of construction. The firm has a long presence in this sector and has established a healthy relationship with customers for more than a decade.

#### **Moderate scale of operation coupled with healthy profitability margin**

The revenue of the firm stood moderate at Rs.75.74 crore in FY2022 (Prov.) as compared to Rs.59.52 crore in the previous year. This improvement in revenue of the firm is mainly on account of increase in project execution during the period backed by high focus of Indian Govt. on railway infrastructure. Going forward, Acuité believes that the revenue of the company will increase over the near term on account of healthy un-executed order book of Rs.219.59 crore as on 31st March 2022.

The operating profitability margin of the firm stood healthy at 15.11 per cent in FY2022 (Prov.) as compared to 14.96 per cent in the previous year. This improvement in operating profitability margin is on account of decrease in cost of the construction material during the period. Acuité believes the profitability margin of the firm will increase and sustained at the healthy level over the medium term backed by their focus on the bottom line and bid in project accordingly.

The net profitability margin of the firm stood healthy at 6.10 per cent in FY2022 (Prov.) as compared to 5.53 per cent in the previous year.

#### **Healthy financial risk profile**

The financial risk profile of the firm is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the firm stood moderate at Rs.28.11 crore in FY 2022 (Prov.) as compared to Rs 22.53 crore in FY2020. This improvement in networth is mainly due to the retention of profit. Acuité has considered Rs.4.27 Cr. of unsecured loan as quasi capital as the same amount is subordinated to bank debt. The gearing of the firm stood low at 0.53 times as on March 31, 2022 (Prov.) when compared to 0.72 times as on March 31, 2021. This improvement in gearing is mainly on account of lower utilization of short term debt and improvement in networth of the firm during the period. Interest coverage ratio (ICR) is strong and stood 5.28 times in FY2022 (Prov.) as against 6.18times in FY 2021. The debt service coverage ratio (DSCR) of the firm also stood healthy at 1.83 times in FY2022 (Prov.) as compared to 1.63 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.51 times in FY2022 (Prov.) as compared to 0.37 times in the previous year. Going forward, Acuité believes the financial risk profile of the firm will remain healthy on account of steady net cash accruals and no major debt funded capex plan.

### Weaknesses

#### **Working capital intensive nature of operation**

The working capital management of the firm is marked by high gross current (GCA) days of 145 days in FY2022 (Prov.) as compared to 184 days in FY2021. This high GCA day is mainly on account of the relatively high debtor days of the firm of 84 days in FY2022 (Prov.) as compared to 115 days in the previous year. However, this improvement in collection period during FY2022 (Prov.), has led the firm to improve GCA days during the period. Moreover, the inventory days of the firm stood comfortable at 02 days in FY2022 (Prov.) and FY2021 respectively. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

## Competitive and fragmented nature of industry coupled with tender based business

The firm is engaged as a civil contractor and the particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts and hence the firm has to make bid for such tenders on competitive prices; which may affect the profitability of the firm. However, this risk is mitigated to an extent as the firm is operating in this environment for the last twenty years.

### Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

### Material covenants

None

### Liquidity Position: Adequate

The financial risk profile of the firm is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the firm stood moderate at Rs.28.11 crore in FY 2022 (Prov.) as compared to Rs 22.53 crore in FY2020. This improvement in networth is mainly due to the retention of profit. Acuité has considered Rs.4.27 Cr. of unsecured loan as quasi capital as the same amount is subordinated to bank debt. The gearing of the firm stood low at 0.53 times as on March 31, 2022 (Prov.) when compared to 0.72 times as on March 31, 2021. This improvement in gearing is mainly on account of lower utilization of short term debt and improvement in networth of the firm during the period. Interest coverage ratio (ICR) is strong and stood 5.28 times in FY2022 (Prov.) as against 6.18times in FY 2021. The debt service coverage ratio (DSCR) of the firm also stood healthy at 1.83 times in FY2022 (Prov.) as compared to 1.63 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.51 times in FY2022 (Prov.) as compared to 0.37 times in the previous year. Going forward, Acuité believes the financial risk profile of the firm will remain healthy on account of steady net cash accruals and no major debt funded capex plan.

### Outlook- Stable

Acuité believes the firm will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management and established association with customers and suppliers along with healthy financial risk profile. The outlook may be revised to "Positive" in case the firm registers significant improvement in scale of operations while sustaining their profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the firm's scale of operations and profitability or capital structure, or in case of further elongation of the working capital cycle.

### Key Financials

| Particulars                   | Unit    | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income              | Rs. Cr. | 75.74               | 59.52          |
| PAT                           | Rs. Cr. | 4.62                | 3.29           |
| PAT Margin                    | (%)     | 6.10                | 5.53           |
| Total Debt/Tangible Net Worth | Times   | 0.53                | 0.72           |
| PBDIT/Interest                | Times   | 5.28                | 6.18           |

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History**

| Date        | Name of Instruments/Facilities | Term       | Amount (Rs. Cr) | Rating/Outlook                  |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 11 Mar 2021 | Proposed Bank Facility         | Long Term  | 0.33            | ACUITE BBB-   Stable (Assigned) |
|             | Cash Credit                    | Long Term  | 6.00            | ACUITE BBB-   Stable (Assigned) |
|             | Working Capital Demand Loan    | Long Term  | 1.50            | ACUITE BBB-   Stable (Assigned) |
|             | Bank Guarantee                 | Short Term | 18.50           | ACUITE A3 (Assigned)            |

## Annexure - Details of instruments rated

| Lender's Name | ISIN           | Facilities                          | Date Of Issuance | Coupon Rate    | Maturity Date  | Quantum (Rs. Cr.) | Rating                         |
|---------------|----------------|-------------------------------------|------------------|----------------|----------------|-------------------|--------------------------------|
| Canara Bank   | Not Applicable | Bank Guarantee (BLR)                | Not Applicable   | Not Applicable | Not Applicable | 18.50             | ACUITE A3+   Upgraded          |
| Canara Bank   | Not Applicable | Cash Credit                         | Not Applicable   | Not Applicable | Not Applicable | 6.00              | ACUITE BBB   Stable   Upgraded |
| Canara Bank   | Not Applicable | Term Loan                           | Not available    | Not available  | Not available  | 1.10              | ACUITE BBB   Stable   Upgraded |
| Canara Bank   | Not Applicable | Working Capital Demand Loan (WC DL) | Not available    | Not available  | Not available  | 0.73              | ACUITE BBB   Stable   Upgraded |

## Contacts

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|---|--|
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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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