

January 06, 2022

Laljee Godhoo and Co.: [ICRA]BBB+ (Stable)/ [ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	23.00	[ICRA]BBB+ (Stable); assigned
Long-term / Short-term – Working Capital Limits	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Long-term Fund-based – Term Loan	7.50	[ICRA]BBB+ (Stable); assigned
Total	40.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in Laljee Godhoo & Co.'s (LGC) established brand and extensive experience of the promoters in the asafoetida processing industry. The promoter family's long vintage of over 127 years in the industry has enabled LGC to maintain a dominant market position, primarily in the southern states of India. ICRA considers LGC's comfortable credit metrics, characterised by a healthy profitability, moderate funding requirements and consequent low reliance on external borrowings.

The ratings, however, remain constrained by LGC's exposure to raw material procurement risk as it sources its key raw material, (raw asafoetida) primarily from Middle East region, which is prone to frequent political turmoil. Hence, shortage/significant delay in the raw material procurement lead time may adversely impact the firm's operations. However, this risk is partly mitigated by its long-standing relationship with the suppliers and adequate availability of raw material stock. Further, LGC remains susceptible to risks associated with its constitution as a partnership firm, including the capital withdrawal risk as witnessed in the past, resulting in modest cash accruals. Moreover, the ratings factor in the competition from other branded players and the firm's dependence on a single product. The ratings also note LGC's modest scale of operations, restricting its operating flexibility.

The Stable outlook reflects ICRA's opinion that LGC will continue to benefit from its established brand and extensive vintage of its promoters.

Key rating drivers and their description

Credit strengths

Established brand presence backed by extensive experience of promoters – The promoter family has been involved in processing of compounded asafoetida since the last 127 years with the current operations being governed by the sixth generation of the founding partners. The firm's key personnel, Mr. Bimal Merchant, has extensive experience of more than 25 years in asafoetida processing. Owing to the long operational vintage, it has become an established brand in the asafoetida segment and enjoys good brand recognition as well as customer acceptance particularly in South India.

Healthy financial risk profile – LGC’s financial risk profile remains healthy with comfortable coverage indicators on the back of healthy profitability and low debt levels. The firm has moderate capex and working capital requirements resulting in limited dependence on debt. Shift in the selling arrangements in the current fiscal, with most of the sales being made against immediate/advance payment terms is expected to limit funding requirements and support its liquidity position. LGC reported a comfortable capital structure and debt coverage indicators as reflected by a gearing of 0.25 times, interest coverage at 3.37 times and Total Debt/ OPBITDA of 0.85 times as on March 31, 2021.

In FY2021, the operating income (OI) declined by 10% to Rs. 271.55 crore from Rs. 302.80 crore in the previous fiscal owing to the prevailing pandemic and migration of workforce impacting operations. However, In the current fiscal, LGC has booked sales worth ~Rs. 170 crore in 7M FY2022 against ~Rs. 138 crore in the corresponding period of the previous fiscal.

Credit challenges

Exposure to raw material pricing and procurement risk – LGC’s operations remain vulnerable to the availability of raw asafoetida and volatility in its prices, which are influenced by external factors such as climatic conditions, import volumes, demand-supply mismatch, etc. The firm’s selling prices are relatively fixed on account of intense competition in the branded asafoetida segment, resulting in susceptibility of margins to raw material price fluctuation risk.

Further, LGC procures a sizeable proportion of raw asafoetida from Afghanistan, Uzbekistan and Kazakhstan, while the edible gum is imported from Sudan. These geographies are subject to frequent political and social turmoil, which exposes the firm’s operations to timely and adequate availability of raw materials. However, this risk is partially mitigated by LGC’s diverse supplier base and long association of the promoters with suppliers.

Risks associated with partnership constitution – Given LGC’s constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of capital withdrawal by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners. The partners withdrew capital in FY2021 to settle dues upon the demise of one of the partners. Though LGC’s policy of partial withdrawal of generated profits has led to modest cash accruals, it enjoys adequate net worth built over the years.

Competition from other players – The spice industry is typically categorised by the presence of many unorganised players and dominated by a small number of organised players like Everest Masala, MTR Foods, MDH Masala and other south region players such as Aachi Masala, Sakthi Masala, etc. However, given its established market presence and good brand recall in the southern states, LGC has a better competitive advantage over other players, inclusive of unorganised players. Further, it also faces threat from counterfeit and fake products.

Liquidity position: Adequate

LGC’s liquidity position is supported by operational cash flows, cash and bank balances of Rs. 15.50 crore, along with liquid investments of Rs. 28.33 crore as on March 31, 2021. Low utilisation of WC limits over the last 12-month period ending in October 2021 provides additional comfort to its liquidity position. The average limit utilisation stood at 29% over the said period. The new selling arrangement is also likely to keep working capital requirements low.

Rating sensitivities

Positive factors – The ratings may be revised upwards if the company demonstrates sizeable scale-up in operations, along with a sustained improvement in its profitability, while maintaining healthy debt coverage and liquidity.

Negative factors – Downward pressure on LGC’s ratings could arise if there is a substantial decline in revenues and operating margins resulting in subdued cash accruals. Significant withdrawal of funds by the partners, resulting in weakening of the financial risk profile and liquidity, could also lead to negative rating action. Interest coverage below 3.2 times, on a sustained basis, could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of the entity

About the company

Incorporated in 1894 as a partnership firm, LGC is involved in manufacturing compounded asafoetida, which is sold under the in-house brand of LG Hing. Given its long track record of operations, the firm enjoys a strong reputation as the largest organised player in the asafoetida segment in the country. Its operations are carried out through its sole processing plant in Mumbai and three packaging units in Mumbai, Chennai and Kumbakonam. LGC is in the process of developing an additional manufacturing unit in Chennai, which is expected to commence operations from April 2022.

Mr. Bimal Merchant, Ms. Heena Merchant, Ms. Jyoti Merchant, Mr. Karna Vahalia, Mr. Pallav Bhatt, and Ms. Riddhi Merchant are the current partners of the firm.

Key financial indicators

LGC Standalone	FY2020	FY2021
Operating Income (Rs. crore)	302.80	271.55
PAT (Rs. crore)	21.36	14.93
OPBDIT/OI (%)	13.49%	12.26%
PAT/OI (%)	7.1%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.41	0.28
Total Debt/OPBDIT (times)	1.00	0.85
Interest Coverage (times)	4.09	3.37

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 6, 2022	-	-	-
1	Fund-based – Cash credit	Long-term	23.00	-	[ICRA]BBB+ (Stable)	-	-	-
2.	Working Capital Limits	Long-term / Short term	10.00	-	[ICRA]BBB+ (Stable) / [ICRA] A2	-	-	-
3.	Fund-based – Term Loan	Long-term	7.50	6.36	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term / Short-term – Working Capital Limits	Simple
Long-term Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Kotak Mahindra Bank	Cash credit	-	NA	-	23.00	[ICRA]BBB+ (Stable)
HSBC	Working capital limits	-	NA	-	10.00	[ICRA]BBB+ (Stable) / [ICRA] A2
Kotak Mahindra Bank	Term Loan	FY2020	NA	FY2025	7.50	[ICRA]BBB+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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