

## **A STAR TRADING LIMITED**

### **Brief History of the Company :**

The company was established in 1954 and engaged in the trading activity. The company has the strong network world wide and also enjoying the good reputation in the industry.

The company is engaged in importing the material and selling the same on domestic market as well as exporting the same to different part of the world. In the last few years the company has received the Private equity Participator, who has invested in the equity of the company. Company has diversified its trading activity in some other business segments also, through establishment of its subsidiaries.

The company is also the owner of the mining machineries, which he has given on the operating lease and the earning the Leasing Income as other Income, which is reducing year on year due to decrease in the depreciated value of the machinery and capacity of the machinery to perform. The 80% of the Fixed assets of the company compromise the above machineries and the balance 20% are the building, computers, cars, office equipments etc. to support the trading activities. The company is charging the depreciation on the straight line method.

The company is majorly depended on the working capital limit available with bankers as in the trading business, he can route the more transaction depending on the availability of the limits. The company is enjoying the consortium banking arrangement, where he is utilizing the fund based facility of Cash Credit / Working Capital Demand Loan (WC DL) and non fund based facility of Letter of Credit and Bank Guarantee.

The company is utilizing the limits from 4 banks under the consortium arrangement, with the following conditions.

1. The cash credit limit with the interest rate of 10.5% p.a.
2. The letter of credit / Bank credit with the commission of 1.25% p.a.
3. The cash margin for the LC/BG is 10%.
4. The margin for the Cash Credit limit is 25% for Stock and 35% for debtors (within 90 days of receivables only).

The company has given its enhancement proposal to bank on the basis of the last 3 years of the Audited financials. The banker has raised the following observation:

1. The company has shown the increase in the PBT/Sales ratio to 2.12% in FY 2008, which has been come down to 0.86% in FY 2009. Justification for the same, whether the

company is not able to earn the require margin of the trading business as in past. As the trading activity is the main activity of the company.

2. Whether the company will be able to service its debt and interest in future or not.
3. The investment in subsidiaries and advance to subsidiaries (under the head of Loan and Advances) is increasing every year. The company is also increasing the working capital limit. Thus its shows the diversion of the short term fund (working capital) for Long Term purpose (investment and advance to subsidiaries). Please justify the same.
4. Justification for the over utilization of the limit and computation of the Maximum Permissible Bank Finance (MPBF). Whether the company is availing the limit within the MPBF and drawing power or not.