



Press Release

Laxmi Pipes Limited

October 15, 2018

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.23.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) to the Rs.23.50 crore bank facilities of LAXMI PIPES LIMITED (LPL). The outlook is '**Stable**'.

LPL, a Haryana-based company incorporated in 1984 is engaged in the manufacturing of galvanised tubes and pipes. The company is led by Mr. Pawan Singla and Mr. Sandeep Singla and has installed manufacturing capacity of 48000 MT.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of LPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

LPL is promoted by Mr. Pawan Singla and Mr. Sandeep Singla who also manages the day to day operations of the company. Mr. Pawan Singla has an experience of more than three decades in the same line of business. The promoter's extensive experience is also reflected through the healthy revenue growth over the last three years through FY2017-18. The company's revenue grew at a CAGR of 19.47 percent to Rs.112.67 crore over the aforementioned period. Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

- **Established network of over 100 dealers**

The company sells its products under the brand name 'Singal India' through its network of around 100 plus dealers across India.

- **Moderate financial risk profile**

The financial risk profile is marked by moderate net worth and debt protection measures. The net worth is moderate at around Rs.11.14 crore as on 31 March, 2018 as against Rs.9.49 crore as on 31 March, 2017. The improvement in net worth is on account of increase in profitability. The company has followed a moderate financial policy as reflected by peak gearing of 2.28 times over the last three years through FY2017-18. The gearing of the company has further improved to around 2.03 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.84 times as on 31 March, 2018 as against 2.78 times as on 31 March, 2017.

The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 1.77 times in FY2018 and 1.70 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on 31 March, 2018 as against 0.07 times as on 31 March, 2017. Debt Service Coverage Ratio (DS CR) stood at 1.32 times in FY2018 as against 1.41 times in FY2017. Acuité believes that the financial risk profile of LPL will continue to remain moderate over the medium term on account of its improving scale of operations.

Weaknesses

- **Working capital intensive operations**

The working capital management is marked by Gross Current Assets (GCA) of 113 days in FY2018 as against 130 days in FY2017. The company maintains inventory of around 30 days on an average and extends clean credit of around 60 days to its customers resulting in high GCA days. The inventory and debtor levels stood at 24 days and 71 days in FY2018 as against 32 days and 82 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~97 percent in the last six months. Acuité believes that the working capital requirements will continue to remain high over the medium term on account of its high debtor days due to its collection mechanism.

- **Profitability susceptible to fluctuations in raw material prices**

Major raw materials required in manufacturing galvanized pipes - Hot Rolled (HR) Coil which are volatile in nature constitutes around ~90 percent of the total cost of sales. Hence, any adverse movement in the prices can impact profitability. The company reported EBITDA margin of 4.19 percent in FY2018 as against 5.56 percent in the previous year.

- **Highly fragmented and competitive industry**

The company is exposed to intense competition in the industry from several small and large players affecting margins.

Outlook: Stable

Acuité believes that the outlook on LPL will remain 'Stable' over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	112.67	77.64	66.08
EBITDA	Rs. Cr.	4.73	4.32	3.11
PAT	Rs. Cr.	1.47	0.70	0.81
EBITDA Margin	(%)	4.19	5.56	4.71
PAT Margin	(%)	1.31	0.90	1.22
ROCE	(%)	12.42	11.87	10.93
Total Debt/Tangible Net Worth	Times	2.03	2.15	2.28
PBDIT/Interest	Times	1.77	1.70	2.16
Total Debt/PBDIT	Times	4.70	4.71	6.37
Gross Current Assets (Days)	Days	113	130	171

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Oct-2017	Cash Credit	Long Term	18.50 (enhanced from 15.00)	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	4.75	ACUITE BB+ / Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.25	ACUITE BB+ / Stable (Reaffirmed)
04-Oct-2017	Cash Credit	Long Term	15.00	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	4.75	ACUITE BB+ / Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.25	ACUITE BB+ / Stable (Reaffirmed)
25-July- 2016	Cash Credit	Long Term	15.00 (enhanced from 10.00)	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	4.75	ACUITE BB+ / Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.25	ACUITE BB+ / Stable (Assigned)
02-Nov-2015	Cash Credit	Long Term	10.00	ACUITE BB+ / Stable (Upgraded)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BBB-/ Stable (Upgraded from BB+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.24	ACUITE BBB-/ Stable (Upgraded from BB+/Stable)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.76	ACUITE BBB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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