Press Release

Laxmi Pipes Limited

February 14, 2020

Rating Downgraded

Total Bank Facilities Rated*	Rs. 23.50 Cr.
Long Term Rating	ACUITE BB+/Outlook: Negative

** Refer Annexure for details*

***Pls note:** In the Press Release of Laxmi Pipes Limited published on 24th December, 2019, the 'Debtor collection period' mentioned was incorrect. The corrected one is incorporated in this press release.*

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to '**ACUITE BB+**' **(read as ACUITE double B plus)** on the Rs. 23.50 crores bank facilities of LAXMI PIPES LIMITED (LPL).

Rating downgrade reflects sharp decline in working capital operations and net cash accruals. The revenues have remained stagnant marked by operating revenues of Rs.113.61 crore in FY2019 as against Rs.112.67 crore in FY2018. Further, the net cash accruals have declined to Rs.1.74 crore as on 31 March 2019 from Rs.2.25 crore in FY2018 against the debt obligations of Rs. 2.45 crores. This has led to higher reliance on external borrowings, evident from ~99 per cent utilisation of working capital limits on an average for the past 6 months ending November, 2019.

Outlook Revised to Negative

The revision of outlook is on the account of deterioration in working capital operations coupled with deterioration in liquidity position of the company.

Haryana-based LPL was incorporated in 1984 by Singla family and is currently headed by Mr. Pawan Kumar Singla, Mr. Sandeep Singla and Mrs. Kamlesh Rani Singla. LPL is engaged in the manufacturing of Black and Galvanized Tubes and Pipes and sell the same under the brand named as "Singal India". Further, the company has recently ventured into the new product line by manufacturing of tubular poles for electric street lights. LPL has an installed capacity of around 30 thousand metric tonnes per annum and around 125 employees.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
  Incorporated in 1984, Laxmi Pipes Limited has a long track record of operations of more than three decades in the business of manufacturing different types of pipes. The company also benefits from the extensive experience of its promoters i.e. Singla family. Currently, the company is being promoted by Mr. Pawan Kumar Singla, Mr. Sandeep Singla and Mrs. Kamlesh Rani Singla all of them having more than 3 decades of experience in the aforementioned industry. Going forward, Acuité expects the company will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Above average financial risk profile**
  The company has above average financial risk profile marked by above average net worth, high gearing and above average debt protection metrics. The tangible net worth stood at Rs 11.86 crore as on 31st

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March, 2019 as against Rs 11.14 crore as on 31st March, 2018. However, the gearing stood high at 2.28 times as on 31st March, 2019 as against 2.03 times as on 31st March, 2018. The Total Outside Liabilities/ Tangible net worth (TOL/TNW) stood at 3.06 times as on 31st March, 2019 as against 2.84 times as on 31st March, 2018. Total debt of Rs 27.06 crore as on 31st March, 2019 includes long term debt of Rs 6.54 crore and short term debt of Rs 20.52 crore. Interest Coverage Ratio (ICR) stood at 1.70 times for FY 19 as against 1.77 times in the previous year. Debt Service Coverage Ratio (DSCR) stood at 1.17 times for FY 19 as against 1.32 times in FY 18. Net Cash Accruals/ Total Debt (NCA/TD) stood low at 0.07 times in FY 19 as compared to 0.10 times in FY 18. The financial risk profile of the company is expected to remain above average over the medium term in the absence of any major debt funded capex plans.

Weaknesses

- **Deterioration in working capital operations**
  The working capital operations of the company depicted a deterioration in FY2019 marked by high Gross Current Assets (GCA) of 130 days in FY2019 as compared to 113 days in FY2018. The GCA days have increased due to rise in debtor collection period which stood at 87 days in FY2019 as compared to 71 days in FY2018. The debtor days are high due to longer realization period from customers. Further inventory levels stood at 22 days in FY2019 as compared to 24 days as on FY2018. As a result, the reliance on working capital limits has increased, leading to higher utilization of its bank lines at an average of 99 per cent over the last six months through November 2019. While the peak utilization is high at around 100 per cent during the same period. Acuité believes that the company's ability to manage the working capital will be key rating sensitivity.

- **Stagnation in revenues and stretch in liquidity position:**
  LPL's operating income has remained stagnant marked by the operating income of Rs.113.61 crore in FY2019 as against Rs. 112.67 crore in FY2018. Further the company has reported low operating margins (EBITDA) of 4.31 percent in FY2019 and 4.19 percent in FY2018 respectively.

  The net cash accruals (NCA) stood at Rs. 1.74 crore in FY2019 against repayment obligations of Rs. 2.45 crore in FY2019. Going forward, the yearly repayments are expected to be around Rs. 2.00 crore. Hence, the buffer available to LPL in its net cash accruals to absorb any future capital expenditure plan and/or any other debt obligation will not be sufficient.

Rating Sensitivity Factor

- Growth in revenue, while improvement in the profitability margins
- Expected growth in business
- Elongation of working capital operations leading deterioration in financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Stretched

LPL has stretched liquidity marked by average net cash accruals to its maturing debt obligations. The company generated cash accruals of around Rs.1.74 crore in FY2019, while it's maturing debt obligations were Rs.2.45 crore over the same period. The company's working capital operations are intensive in nature marked by high gross current asset (GCA) days of 130 in FY 2019. Further the cash credit limit of the company remains utilized at 99 percent during the last 6 months period ended Nov 2019. The company maintains unencumbered cash and bank balances of Rs.0.14 crore as on March 31, 2019. The current ratio of the company stood at 1.30 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of average net cash accruals against maturing debt obligations.

Outlook: Negative

Acuité has revised LPL's outlook to 'Negative' over the medium term on account of deterioration in liquidity position and working capital cycle. The rating may be downgraded in case there is further deterioration in liquidity position and working capital cycle. Conversely, the outlook may be revised to 'Stable' if company is able to achieve significant growth in operating income coupled with improvement in its working capital cycle while maintaining operating margins.

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About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	113.61	112.67
PAT	Rs. Cr.	0.96	1.47
PAT Margin	(%)	0.84	1.31
Total Debt/Tangible Net Worth	Times	2.28	2.03
PBDIT/Interest	Times	1.70	1.77

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-4.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Oct-2018	Cash Credit	Long Term	18.50	ACUITE BBB-/ Stable (Upgraded from BB+/Stable)
	Term Loan	Long Term	3.24	ACUITE BBB-/ Stable (Upgraded from BB+/Stable)
	Proposed Long Term Loan	Long Term	1.76	ACUITE BBB-/ Stable (Upgraded from BB+/Stable)
13-Oct-2017	Cash Credit	Long Term	18.50 (Enhanced from Rs. 15.00 cr.)	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)

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***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	21.25	ACUITE BB+/Negative (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BB+/Negative (Downgraded from ACUITE BBB-/Stable)

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About Acuité Ratings & Research:

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