

Press Release

L P F Systems Private Limited

August 07, 2019

Rating Downgraded & Reaffirmed



Total Bank Facilities Rated*	Rs. 50.25 Cr. (Enhanced from Rs.36.75 crore)
Long Term Rating	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating from '**ACUITE BB+**' (read as **ACUITE double B plus**) to '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 50.25 crore bank facilities of L P F SYSTEMS PRIVATE LIMITED (LSPL). The outlook is '**Stable**'.

Rating downgrade reflects continuous marginal decline in scale of operations and net cash accruals, less than expected profitability and below average financial risk profile. Revenues have declined y-o-y marked by Rs.102.06 crore in FY2019 (Provisional), Rs.104.26 crore in FY2018, Rs.107.81 crore in FY2017 and Rs.108.43 crore in FY2016. Net cash accruals have declined to Rs.1.35 crore in FY2019 (Provisional), Rs.1.42 crore in FY2018, Rs.1.55 crore in FY2017 and Rs.2.01 crore in FY2016. Further, the financial risk profile has also stood below average. However, the rating is supported by experienced management and reputed clientele.

LSPL, based at Hyderabad, was incorporated as a partnership firm in 1982. Later in 1997, it was converted into private limited company. It is promoted and managed by Mr. Venu Vinod. The company is engaged in trading of engineering products, automotive spares, welding alloys, passenger car spare parts for TATA passenger cars, Greaves cotton limited, M/ s. L & T Ltd. and Shell lubricants.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the LSPL to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record and experienced management

LSPL was incorporated in 1982 by Mr. Venu Vinod (Managing Director) who has an experience of more than three decades in different fields like trading, manufacturing and real estate. The company has more than 1000 retailer network to market the spares for the brands. Mr. Venu Vinod is also the promoter of Recon Technologies Pvt. Ltd, Srivilas Hydrotech Pvt. Ltd. and Cyber City Builders & Developers Pvt. Ltd. These companies, which are in different line of businesses including manufacturing and real estate, are being managed independently.

• Reputed dealership contracts resulting in diversified revenue profile

LSPL is engaged in trading of engineering products and automobile spares for TATA passenger cars, Greaves cotton limited and Shell lubricants and also in the service of LCVs of VE commercial vehicles limited. The company was an authorised stockiest of M/s. L & T Ltd for welding alloys and accessories. Thus, the company has exposure to wide customer base and is partially safeguarded from downturn in any oneseegment.

Weaknesses

• Decline in scale of operations and profitability

The company has reported decline in revenue with negative compounded annual growth rate (CAGR) of around ~2.00 per cent through the last four years ended 31 March, 2019 (Provisional). The company reported marginal decline in revenue by ~2.00 percent with operating income of Rs.102.06 crore in FY2019 (Provisional) as against operating income of Rs.104.26 crore in FY2018. Further, profit after tax (PAT) margin stood at 1.03 per cent in FY2019 (Provisional) as against 1.08 per cent in FY2018. However, the operating margin of the company has increased marked by 6.02 per cent in FY2019 (Provisional) and 5.48 per cent in FY2018.

• Below-average financial risk profile

The financial risk profile is below average marked by low net worth and debt protection measures and high gearing. The net worth of the company is low at Rs.14.13 crore as on 31 March, 2019 (Provisional) as against Rs.13.07 crore as on 31 March, 2018. The gearing of the company stood high at 1.50 times as on 31 March, 2019 (Provisional) as against 1.53 times as on 31 March, 2018. Total debt of Rs.46.54 crore consists of term loan of Rs.6.50 crore, unsecured loans from promoters of Rs.1.10 crore and working capital facility of Rs.38.94 crore as on 31 March, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 3.59 times as on 31 March, 2019 (Provisional) as against 3.70 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 1.44 times in FY2019 (Provisional) as against 1.54 times in FY2018. Net Cash Accruals/Total Debt (NCA/ TD) stood at 0.03 times as on 31 March, 2019 (Provisional) and as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 1.16 times in FY2019 (Provisional) as against 1.22 times in FY2018.

• Intensive working capital operations

The company has intensive working capital operations marked by high Gross Current Assets (GCA) of 178 days in FY2019 (Provisional) as against 177 days in FY2018. This is because the inventory and debtor levels stood at 95 and 72 days in FY2019 (Provisional) as against 82 and 77 days in FY2018, respectively. As a result, the average utilisation of bank limits stood at ~90 per cent in the last six months ending July, 2019.

Acuite believes that the working capital requirements will continue to remain intensive over the medium term on account of the inventory which is to be maintained to cater to the spot orders.

• Competitive nature of the industry

The rating continues to reflect highly competitive and fragmented nature of the automotive components industry. Consequently, the company faces stiff competition from other dealers and automobile companies like Mahindra & Mahindra, Ashok Leylands, Hyundai Motors Limited among others.

Liquidity Position:

LSPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. However, it is on a declining trend marked by Rs.2.01 crore in FY2016, Rs.1.55 crore in FY2017, Rs.1.42 crore in FY2018, and Rs.1.35 crore in FY2019 (Provisional). Its maturing debt obligations stood at Rs.1.70 crore in FY2016, Rs.0.48 crore in FY2017, Rs.0.57 crore in FY2018, and Rs.0.76 crore in FY2019 (Provisional). The company's working capital operations are intensive as marked by gross current asset (GCA) days of 178 in FY2019 (Provisional). Further, the reliance on working capital borrowings is high, which is marked by the cash credit limit of the company remaining utilised at ~90 percent during the last 6 months' period ended July, 2019. The company maintains unencumbered cash and bank balances of Rs.1.58 crore as on March 31, 2019 (Provisional). The current ratio of the company stood at 1.15 times as on 31 March, 2019 (Provisional).

Outlook: Stable

Acuite believes that LSPL will maintain a 'Stable' business risk profile over the medium term. The concern will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the concern registers healthy growth in revenues, while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	102.06	104.26	107.81
EBITDA	Rs. Cr.	6.15	5.71	5.83
PAT	Rs. Cr.	1.05	1.13	1.15
EBITDA Margin	(%)	6.02	5.48	5.41
PAT Margin	(%)	1.03	1.08	1.07
ROCE	(%)	10.26	10.76	11.78
Total Debt/Tangible Net Worth	Times	3.29	3.30	3.02
PBDIT/Interest	Times	1.44	1.54	1.61
Total Debt/PBDIT	Times	7.40	7.31	6.18
Gross Current Assets (Days)	Days	178	177	131

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-17.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
01-Jun-2018	Cash Credit	Long Term	12.00	ACUITE BB+ / Stable (Assigned)
	Channel/Dealer/Vendor Financing	Short Term	19.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	4.25	ACUITE BB+ / Stable (Assigned)
	Bank guarantee/ Letter of Guarantee	Long Term	1.50	ACUITE A4+ (Assigned)

***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	13.50*	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	4.85	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	7.65	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Reaffirmed)

*sublimit of cheque purchase limit of Rs.1.50 crore.

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About Acuité Ratings & Research:

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