

Press Release

L P F Systems Private Limited

November 03, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and 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 (PGCPL). The outlook is '**Stable**'.

About the company

L P F Systems Private Limited (LSPL), based in 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 financial and business risk profile of 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.

Acuite believes that the extensive experience of the management, which has resulted in a healthy relationship with its customer and suppliers will further help the company.

• Reputed dealership contracts resulting in diversified revenue profile

LSPL is engaged in trading of engineering products and automobile spares for TATA Motors, Greaves Cotton Limited, Shell lubricants and Eicher Motors 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 a wide customer base and is partially safeguarded from a downturn in any one segment.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company improved to Rs.22.78 crore as on 31 March, 2020 (Provisional) as against Rs.15.27 crore as on 31 March, 2019. This includes quasi equity of Rs.8.45 crore as on 31 March, 2020 (Provisional) as against Rs.1.07 crore as on 31 March, 2019. The gearing of the company improved to 1.66 times as on March 31, 2020 (Provisional) from 3.39 times as on March 31, 2019. Total debt of Rs.37.74 crore consists of a term loan of Rs.4.59 crore and working capital facility of Rs.33.15 crore as on 31 March, 2020 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.98 times as on 31

March, 2020 (Provisional) from 3.75 times as on 31 March, 2019. Interest Coverage Ratio (ICR) stood at 1.12 times in FY2020 (Provisional) as against 1.42 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.02 times as on 31 March, 2020 (Provisional) as against 0.03 times as on 31 March, 2019. Debt Service Coverage Ratio (DSCR) stood at 0.81 times in FY2020 (Provisional) as against 1.19 times in FY2019.

Weaknesses

- **Stagnant scale of operations and healthy profitability**

The company has reported a decline in revenue with negative compounded annual growth rate (CAGR) of around ~2.62 percent through the last three years ended 31 March, 2020 (Provisional). The company reported a marginal decline in revenue by ~0.21 percent with an operating income of Rs.98.86 crore in FY2020 (Provisional) as against operating income of Rs.99.07 crore in FY2019. The operating margin of the company declined to 1.91 per cent (Provisional) in FY2020 as against 6.66 per cent in FY2019. This is majorly because of the intense competition which forced the company to reduce the price of their products. Further, profit after tax (PAT) margin declined to 0.14 per cent in FY2020 (Provisional) as against 1.14 per cent in FY2019.

Acuite believes that the scale of operations and profitability will remain muted for FY2021 because of the COVID19 impact on business operations.

- **Intensive working capital operations**

The company has intensive working capital operations marked by high Gross Current Assets (GCA) of 203 days in FY2020 (Provisional) as against 206 days in FY2019. This is because the inventory and debtor levels stood at 132 and 57 days in FY2020 (Provisional) as against 121 and 75 days in FY2019, respectively. As a result, the average utilisation of bank limits stood at ~97 per cent in the last six months ending September, 2020.

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 the 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: Stretched

LSPL has stretched liquidity marked by adequate net cash accruals to its maturing debt obligations. Net Cash Accruals stood at Rs.0.59 crore in FY2020 (Provisional) as against Rs.1.57 crore in FY2019 and Rs.1.42 crore in FY2018. Its maturing debt obligations stood at Rs.1.18 crore in FY2020 (Provisional) as against Rs.1.98 crore in FY2019 and Rs.0.57 crore in FY2018. The company's working capital operations are intensive as marked by high Gross Current Asset (GCA) days of 203 in FY2020 (Provisional). Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~97 percent during the last 6 months period ended September, 2020. The company maintains unencumbered cash and bank balances of Rs.1.50 crore as on March 31, 2020 (Provisional). The current ratio of the company stands at 1.33 times as on March 31, 2020 (Provisional).

Acuite believes that the liquidity position was significantly impacted because of the intense competition in the market, which deteriorated the profitability of the company. Further, it will remain muted in the near medium term due to COVID19 impact.

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 a decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

Rating Sensitivities

- Significant improvement in the scale of operations along with profitability margins.
- Deterioration in financial risk profile and working capital operations of the company leading to stretched liquidity profile.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	98.86	99.07
PAT	Rs. Cr.	0.13	1.13
PAT Margin	(%)	0.14	1.14
Total Debt/Tangible Net Worth	Times	1.66	3.39
PBDIT/Interest	Times	1.12	1.42

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Aug-2019	Cash Credit	Long Term	13.50	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Channel Financing	Long Term	19.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	3.75	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Channel Financing	Long Term	4.85	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Channel Financing	Long Term	7.65	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Reaffirmed)
01-Jun-2018	Cash Credit	Long Term	12.00	ACUITE BB+/Stable (Assigned)
	Channel Financing	Short Term	19.00	ACUITE A4+ (Assigned)

	Term Loan	Long Term	4.25	ACUITE BB+/Stable (Assigned)
	Bank Guarantee	Short 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.)	Name of the Bank	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	Karur Vysya Bank	ACUITE BB/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	19.00	State Bank of India	ACUITE BB/Stable (Reaffirmed)
Term Loan	02-11-2017	11.00%	02-11-2023	3.16	TATA Capital Financial Service limited	ACUITE BB/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	4.85	TATA Capital Financial Service limited	ACUITE BB/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	7.65	TATA Capital Financial Service limited	ACUITE BB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	Karur Vysya Bank	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.59	Not Applicable	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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