

Press Release

L P F Systems Private Limited

February 08, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	49.00	ACUITE C Downgraded	-
Bank Loan Ratings	1.25	-	ACUITE A4 Downgraded
Total Outstanding Quantum (Rs. Cr)	50.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE C**' (**read as ACUITE C**) from '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating to '**ACUITE A4**' (**read as ACUITE A four**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.50.25 Cr bank facilities of L P F Systems Private Limited (LSPL).

Rationale for revision of rating

The revision of ratings takes into account the instances of delays in servicing of bank obligations of GECL term loan account (not rated by Acuité) availed by LSPL and classification of account as SMA-0 category as per the feedback from the lender.

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, VE Commercial Vehicles Limited, Greaves cotton Limited, and Shell Lubricants.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the LSPL to arrive at this rating. For the assessment of financial risk profile of the company, the unsecured loans (USL) to the extent of Rs.9.50 Cr from the promoter group have been treated as quasi equity as it is expected to remain in the business over a medium term followed by undertaking provided to lenders for non-withdrawal for medium term. The USL from related parties are non-interest bearing.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations in Indian Automobile industry**

LSPL was incorporated in 1982 by Mr. Venu Vinod (Managing Director), who has an experience of more than 3 decades in different fields like trading, manufacturing and real estate. The company has more than 2,200 retailer network to market the spares for the brands. Acuité believes that LSPL will continue to benefit from the promoter's established presence in the industry and would aid in strengthening of business risk profile over the medium term.

- **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. LSPL has exposure to a wide customer base and is partially safeguarded from a downturn in any one segment. However, the management has discontinued the distributorship of Greaves Cotton Limited (contribution around 35-40 percent of revenue) in 2021. As a result, the revenue of LSPL has deteriorated to Rs.74.06 Cr in FY2021 against Rs.98.08 Cr in FY2020. The revenue of LSPL stood at Rs.45.91 Cr in the current FY2022 (April-January). Acuité believes that ability of LSPL to scale up the business with existing suppliers or new supplier would be key monitorable over the medium term.

Weaknesses

- **Moderate financial risk profile**

LSPL's financial risk profile is moderate, marked by a moderate networth and gearing along with modest debt protection metrics. The EBITDA margins of LSPL has improved to 7.16 per cent in FY2021 against 5.57 in FY2020. The improvement is attributable to decrease in operational overheads. The PAT margins of LSPL has improved to 1.26 per cent in FY2021 in comparison to 1.01 per cent in FY2020. The PAT margins in FY2021 was improved on account of reduction in depreciation and finance cost during the period. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.31 times and 1.02 times respectively in FY2021 as against 1.27 and 0.92 times respectively in the previous year.

The net worth of LSPL stood at Rs.25.63 Cr as on 31 March, 2021 as against Rs.24.69 Cr as on 31 March, 2020. The improvement is on account of moderate accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands improved at 1.39 times as on 31 March, 2021 as against 1.61 times as on 31 March, 2020, the improvement is on account of reduction in short term borrowings during the period. TOL/TNW (Total outside liabilities/Total net worth) has marginally improved and stands moderate at 1.97 times as on 31 March, 2021 against 2.16 times in previous year. Moderate TOL/TNW is on account of presence of moderate leverage position of the LSPL during the period.

The total debt of Rs.35.61 Cr as on 31 March, 2021 consist of long-term debt of Rs.8.61 Cr, short term debt of Rs.24.84 Cr and maturing portion of long term borrowings of Rs.2.16 Cr. LSPL is moderately aggressive towards its leverage policy and has been funding the working capital requirements through banking limits. NCA/TD (Net cash accruals to total debt) stands low at 0.04 times in FY2021 as against 0.04 times in FY2020. Acuité expects the financial risk profile to remain moderate over the medium term period on account of moderately leveraged capital structure and declining scale of operations of LSPL.

- **Working capital intensive nature of operations**

LSPL's working capital cycle is marked by intensive gross current assets (GCA) days in the range of 206-365 days over the last 3 years ending March 31, 2021. The GCA days are majorly marked by high inventory and moderate debtor days. The GCA days of 365 days as on

March 31, 2021 is on account of inventory days of 252 days and debtors' days of 70 days. The inventory has increased to Rs.47.45 Cr in FY2021 against Rs.43.36 Cr in previous year on account of decrease in scale of business and impact of Covid-19 pandemic. The high GCA cycle has led to fully utilization of fund based working capital requirement bank lines over the past 12 months ending January, 2022. Acuité believes that the working capital cycle will continue to be intensive over the medium term.

- **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. Acuité believes that LSPL's business profile and financial profile could be impacted on account of presence of inherent risk in the industry.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Material covenants

None

Liquidity Position: Stretched

LSPL's liquidity is stretched marked by high utilization of banking lines, working capital intensive nature of business marked by high GCA days. LSPL has generated cash accruals in the range of Rs.1.29-1.57 Cr during last three years ending FY2021 as against its maturing long term debt obligations in the range of Rs.0.57-1.98 Cr for the same period. The shortfall in cash flows were supported through infusion of unsecured loans from promoters during the period. LSPL's working capital is intensive as evident from Gross Current Asset (GCA) of 365 days as on March, 2021 as compared to 280 days as on March, 2020. The current ratio stood at 1.77 times as on 31 March 31 2021 against 1.54 in previous year and the fund based limit remains fully utilized over the 12 months ended January, 2022. LSPL maintained unencumbered cash and bank balances of Rs.0.78 Cr as on 31 March 31 2021 against Rs.1.51 Cr in previous year. LSPL has deposited of amount Rs.3.58 Cr as on March 31,2021. LSPL is expected to generate NCA in range of Rs.1.35-3.12 Cr against modest maturing debt obligations in range of Rs.2.16-4.12 Cr over the medium term. LSPL is expected to generate NCA of around Rs.1.0-1.30 Cr in FY2022 against the repayment obligation of Rs.2.16 Cr arising during the period. As of January, 2022, the obligations been paid through support from the net cash accruals and unsecured loans from promoters. However, there has been instances of delays in the repayment obligation on account of stretched liquidity. LSPL has availed Covid-19 emergency line of credit in form of working capital term loans of total amount Rs.7.89 Cr to support the cash flows and operations. Any further shortfall in the repayment obligation is expected to be supported by the infusion of funds by the promoter group in the form of unsecured loans (USL).

Outlook: Not Applicable

Other Factors affecting Rating

None

About the Rated Entity - Key Financials

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	74.06	98.08
PAT	Rs. Cr.	0.93	0.99
PAT Margin	(%)	1.26	1.01
Total Debt/Tangible Net Worth	Times	1.39	1.61
PBDIT/Interest	Times	1.31	1.27

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Nov 2020	Channel Financing	Long Term	4.85	ACUITE BB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	11.59	ACUITE BB Stable (Reaffirmed)
	Channel Financing	Long Term	19.00	ACUITE BB Stable (Reaffirmed)
	Channel Financing	Long Term	7.65	ACUITE BB Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	2.50	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	3.16	ACUITE BB Stable (Reaffirmed)
07 Aug 2019	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	13.50	ACUITE BB Stable (Downgraded from ACUITE BB+ Stable)
	Channel Financing	Long Term	7.65	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	19.00	ACUITE BB Stable (Downgraded from ACUITE BB+ Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE A4 Downgraded (from ACUITE A4+)
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE C Downgraded (from ACUITE BB)
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE C Downgraded (from ACUITE BB)
Tata Capital Limited	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE C Downgraded (from ACUITE BB)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	24.27	ACUITE C Downgraded (from ACUITE BB)
Karur Vysya Bank	Not Applicable	Term Loan	15-09-2020	10.20	05-04-2024	0.45	ACUITE C Downgraded (from ACUITE BB)
Tata Capital Limited	Not Applicable	Term Loan	02-11-2017	11.00	15-10-2024	2.40	ACUITE C Downgraded (from ACUITE BB)
TATA Capital Financial Service Ltd.	Not Applicable	Term Loan	26-06-2021	11.40	15-07-2023	1.06	ACUITE C Downgraded (from ACUITE BB)
TATA Capital Financial Service Ltd.	Not Applicable	Working Capital Term Loan	24-09-2020	11.30	15-08-2024	2.92	ACUITE C Downgraded (from ACUITE BB)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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