

Press Release

L P F Systems Private Limited

August 24, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.25	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	49.00	ACUITE B+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	50.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B 'plus'**) from '**ACUITE C**' (read as **ACUITE C**) and reaffirmed the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.50.25 Cr bank facilities of L P F Systems Private Limited (LSPL). The outlook is '**Stable**'.

The rating upgrade is majorly on account of LPF's ability to regularize its loan account (mainly GECL loan) during the course of last 6 months of time ending July 31, 2022 from its last delay in the month of January 2022. This has been confirmed by the lender as well as the bank statements submitted by the issuer. Acuite believes that the timely repayment of its debt obligations over the near to medium term shall remain key monitorable given the stress in liquidity resulting from deterioration in its business operations and elevated GCA days.

The rating also takes into account its established track record of operations with experienced promoter and reputed dealership contracts. The above ratings are, however underpinned by competitive nature of the industry, moderate financial risk profile and working capital intensive nature of operations.

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

Acuite 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.15.62 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

noninterest 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 since FY21. 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

- **Working capital intensive nature of operations**

LSPL's working capital cycle is marked by intensive gross current assets (GCA) days in the range of 365-506 days over the last two years ending March 31, 2022. The GCA days are majorly marked by high inventory and moderate debtor days. The GCA days of 506 days as on March 31, 2022 is on account of inventory days of 333 days and debtors' days of 95 days. Further, the average bank limit -utilization in the last ten months ended July, 2022 remained at ~98 percent for fund based and 100 percent for non-fund based. Acuité believes that the working capital cycle will continue to be intensive over the medium term.

- **Moderate financial risk profile**

LSPL's financial risk profile is moderate, marked by moderate net worth, comfortable gearing and moderate debt protection metrics. The net worth of the company stood at Rs.32.08 Cr and Rs.25.63 Cr as on March 31, 2022(Prov.) and 2021 respectively. The improvement is on account of moderate accretion of net profit in the reserves during the period. Gearing of the company has been improving over the last 2 years ending March 31, 2022(Prov.). It stood at 0.92 times as on March 31, 2022(Prov.) against 1.39 times as on March 31, 2021. the improvement is on account of reduction in short term borrowings during the period. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 1.17 times and 0.77 times as on March 31, 2022(Prov.) respectively as against 1.31 times and 1.02 times as on March 31, 2021 respectively. TOL/TNW (Total outside liabilities/Total net worth) has marginally improved and stands moderate at 1.48 times and 1.97 times as on March 31, 2022(Prov.) and 2021 respectively. Moderate TOL/TNW is on account of presence of moderate leverage position of the LSPL during the period. The debt to EBITDA of the company stood at 5.55 times as on 31 March, 2022(Prov.) as against 5.41 times as on 31st March, 2021. 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.

- **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.0.65-1.29 Cr during last two years ending FY2022 as against its maturing long term debt obligations in the range of Rs.2.16-4.08 Cr for the same period. LSPL's working capital is intensive as evident from Gross Current Asset (GCA) of 506 days as on March 31, 2022 as compared to 365 days as on March 31, 2021. The current ratio stood at 1.89 times as on March 31, 2022 against 1.77 in previous year and the fund based limit remains fully utilized over the seven months ended July, 2022. Unencumbered cash and bank balances stood at Rs. 0.78 Cr as on March 31, 2022(Prov). LSPL is expected to generate NCA in range of Rs.1.50-2.63 Cr against modest maturing debt obligations in range of Rs.1.44-3.64 Cr over the medium term. Acuité believes that the liquidity of the company will improve supported by increase in accruals in the medium term.

Outlook: Stable

Acuité 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 company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	56.37	74.06
PAT	Rs. Cr.	0.33	0.93
PAT Margin	(%)	0.59	1.26
Total Debt/Tangible Net Worth	Times	0.92	1.39
PBDIT/Interest	Times	1.17	1.31

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

LPF's rating was Reaffirmed and migrated to 'ISSUER NON COOPERATING" status with CRISIL, through its rating rationale dated February 22, 2022. The reason provided by CRISIL is nonfurnishing of information by LPF.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <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
08 Feb 2022	Bank Guarantee	Short Term	1.25	ACUITE A4 (Downgraded from ACUITE A4+)
	Channel Financing	Long Term	5.40	ACUITE C (Downgraded from ACUITE BB Stable)
	Term Loan	Long Term	2.40	ACUITE C (Downgraded from ACUITE BB Stable)
	Working Capital Term Loan	Long Term	2.92	ACUITE C (Downgraded from ACUITE BB Stable)
	Cash Credit	Long Term	2.50	ACUITE C (Downgraded from ACUITE BB Stable)
	Term Loan	Long Term	0.45	ACUITE C (Downgraded from ACUITE BB Stable)
	Term Loan	Long Term	1.06	ACUITE C (Downgraded from ACUITE BB Stable)
	Proposed Bank Facility	Long Term	24.27	ACUITE C (Downgraded from ACUITE BB Stable)
	Channel Financing	Long Term	10.00	ACUITE C (Downgraded from ACUITE BB Stable)
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)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	13.50	ACUITE BB Stable (Downgraded from ACUITE BB+ Stable)

07 Aug 2019	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 Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+ Stable Upgraded (from ACUITE C)
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE B+ Stable Upgraded (from ACUITE C)
Tata Capital Limited	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+ Stable Upgraded (from ACUITE C)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	24.27	ACUITE B+ Stable Upgraded (from ACUITE C)
Karur Vysya Bank	Not Applicable	Term Loan	15-09-2020	10.20	05-04-2024	0.45	ACUITE B+ Stable Upgraded (from ACUITE C)
Tata Capital Limited	Not Applicable	Term Loan	02-11-2017	11.00	15-10-2024	2.40	ACUITE B+ Stable Upgraded (from ACUITE C)
TATA Capital Financial Service Ltd.	Not Applicable	Term Loan	26-06-2021	11.40	15-07-2023	1.06	ACUITE B+ Stable Upgraded (from ACUITE C)
TATA Capital Financial Service Ltd.	Not Applicable	Working Capital Term Loan	24-09-2020	11.30	15-08-2024	2.92	ACUITE B+ Stable Upgraded (from ACUITE C)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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