



Press Release
L P F Systems Private Limited
November 22, 2023
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed the long term rating to '**ACUITE B+**' (read as **ACUITE B 'plus'**) and 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'.

Rationale for reaffirmation

The rating is reaffirmed on the account of improvement in the scale of operations in FY2023. LSPL reported operating revenue of Rs.69.87 Cr in FY2023 as compared to Rs.56.24 Cr in FY2022. The rating also takes into account its established track record of operations with experienced promoter. The above ratings are, however underpinned by competitive nature of the industry, below-average financial risk profile and working capital intensive nature of operations.

The rating also factors in the change in the business profile of LSPL current year onwards. From April 1st 2023 onwards, the promoters of LSPL shifted the business of trading of automobile spares of TATA Passenger cars and spares of VE commercial vehicles (Volvo Eicher) limited to newly formed entity LPF Auto Components LLP. LSPL will largely focus on the real estate business FY2024 onwards.

Going forward, the company's ability to develop its business in the real estate segment while improving its accruals and capital structure will be a key rating monitorable.

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, and Shell Lubricants.

Currently, LSPL has ventured into real estate business, where the company will develop and sell the open residential plots.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the LPF systems private limited (LSPL) to arrive at this rating.

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 1800 retailer network to market the spares for the brands.

The turnover of the LSPL stood at Rs.69.87 Cr in FY2023 as against Rs.56.24 Cr in FY2022. The EBITDA margin improved and stood at 8.35 percent as on FY2023, 8.31 percent as on FY2022 as against 7.16 percent as on FY2021.

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.

Weaknesses

Working capital intensive nature of operations

LSPL's working capital cycle is marked as intensive with gross current assets (GCA) days in the range of 465-498 days over the last two years ending March 31, 2023. The GCA days are majorly marked by high inventory and moderate debtor days. The GCA days of 465 days as on March 31, 2023 is on account of inventory days of 314 days and debtor's days of 103 days. Further, the average bank limit -utilization in the last six months ended July, 2022 remained at ~93.00 percent for fund based facilities. Acuité believes that the working capital cycle will continue to be intensive over the medium term.

Below-average financial risk profile

LSPL's financial risk profile is below -average, marked by a below-average gearing ratios, moderate net-worth and poor debt protection metrics. The net worth of the company stood at Rs.16.59 Cr and Rs.16.43 Cr as on March 31, 2023 and 2022 respectively. Gearing ratio of the company has deteriorated and stood at 3.97 times as on March 31, 2023 against 2.75 times as on March 31, 2022. The company has availed additional long term debt in FY2023, for the purpose of development of residential plots. The total debt of LSPL stood at Rs.65.85 Cr as on March 31, 2023 consists of long-term debt of Rs.16.40 Cr, Short term debt of Rs.21.46 Cr, Unsecured loan from directors/promoters is Rs.24.02 Cr and maturing portion of long term borrowings of Rs.3.48 Cr. The long term borrowings include debentures of Rs.10.49 Cr issued to Sundaram High Yield Secured real estate Fund III.

LSPL's debt protection metrics stands poor with Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.11 times and 0.64 times as on March 31, 2023 respectively as against 1.17 times and 0.78 times as on March 31, 2022 respectively. TOL/TNW (Total outside liabilities/Total net worth) has stood at 4.64 times as on 31 March, 2023 against 3.90 times in previous year.

Acuité expects the financial risk profile of the LSPL to remain below average over the medium term due to the increased debt and decline in the turnover of the company.

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

- Higher-than-expected improvement in the real estate business segment.
- Deterioration in working capital cycle and liquidity profile of the company.
- Further weakening of financial risk profile of the company

All Covenants

Not applicable

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 and insufficient generation of net cash accruals in FY2023. LSPL has generated cash accruals in the range of Rs.0.47 Cr during last year ending March 31, 2023 as against its long term debt obligations of Rs.3.99 Cr for the same period. LSPL's working capital is intensive as evident from Gross Current Asset (GCA) of 465 days as on March 31, 2023 as compared to 498 days as on March 31, 2022. The current ratio stood at 2.43 times as on March 31, 2023. The fund based limit remains highly utilized at an average of nearly of 93.00% for the 6 months ending Oct 2023. The cash and bank balances of the LSPL stood at Rs.1.27 Cr as on March 31, 2023. The liquid investments of the company stood at Rs.3.30 crore as on March 31, 2023.

Acuité believes that the liquidity of the company will remain same over 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	69.87	56.24
PAT	Rs. Cr.	0.15	0.31
PAT Margin	(%)	0.22	0.55
Total Debt/Tangible Net Worth	Times	3.97	2.75
PBDIT/Interest	Times	1.11	1.17

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Aug 2022	Bank Guarantee	Short Term	1.25	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	1.06	ACUITE B+ Stable (Upgraded from ACUITE C)
	Cash Credit	Long Term	2.50	ACUITE B+ Stable (Upgraded from ACUITE C)
	Proposed Bank Facility	Long Term	24.27	ACUITE B+ Stable (Upgraded from ACUITE C)
	Term Loan	Long Term	0.45	ACUITE B+ Stable (Upgraded from ACUITE C)
	Channel Financing	Long Term	10.00	ACUITE B+ Stable (Upgraded from ACUITE C)
	Term Loan	Long Term	2.40	ACUITE B+ Stable (Upgraded from ACUITE C)
	Working Capital Term Loan	Long Term	2.92	ACUITE B+ Stable (Upgraded from ACUITE C)
	Channel Financing	Long Term	5.40	ACUITE B+ Stable (Upgraded from ACUITE C)
08 Feb 2022	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)
	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)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.25	ACUITE A4 Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE B+ Stable Reaffirmed
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE B+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	42.07	ACUITE B+ Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	15 Sep 2020	10.20	05 Apr 2024	Simple	0.45	ACUITE B+ Stable Reaffirmed
Tata Capital Limited	Not Applicable	Term Loan	02 Nov 2017	11.00	15 Oct 2024	Simple	0.98	ACUITE B+ Stable Reaffirmed

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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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