Press Release

Lords Mark Industries Private Limited

October 07, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 42.00 crore bank facilities of LORDS MARK INDUSTRIES PRIVATE LIMITED (LMPL). The outlook is **'Stable'**.

Incorporated in 1998, Lords Mark Industries Private Limited (LMPL) is engaged in manufacturing of continuous computer stationery and copier paper. The company also manufactures Solar and LED lighting products. The company's manufacturing facility is located at Silvassa (Dadra and Nagar Haveli) for printing and slitting. The facility has installed capacity to process about 8,000 tons per annum of printed continuous stationery, 15000 tons per annum of copier paper (slitting) and manufacture of 10 lakh units of printed circuit boards per annum used in LED lights.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the LMPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

  LMPL is promoted by Mr. Sachidanand Upadhyay and Mr. Dinesh Tiwari. The promoters possess over two decades of experience in the paper industry. Mr. Sachidanand Upadhyay looks after the finance and marketing, and Mr. Dinesh Tiwari looks after operations of the business.

  LMPL started the business in 2005 as a trader of paper and paper reels. In 2006, they diversified into value added operations of slitting the paper reels into copier sheet and supplying to wholesale market. In the same year, it got registered with Directorate General of Supplies and Disposals (DGS&D) for supply of continuous stationery (printed) under rate contract basis and over a period, it got elevated as 'A' grade vendor of the department. DGS&D is basically a procurement agency of Government of India (GOI) for supplies to various departments.

  Further, the company has diversified its business model by entering in LED division in 2016, and is one of the three SME's and 13 corporates for supply of solar LED lighting systems for a period of eleven years (license extended till 2027). Its revenues have improved at a healthy compound annual growth rate (CAGR) of about 35 per cent over five years through FY2019 at Rs. 245.94 crore in FY2019 (Provisional). Further, LMPL has an order book of about Rs. 1118.91 crore for solar division for deliverables by FY2021 giving a healthy revenue visibility in near to medium term.

  Acuité believes that long operational track record of the company and experienced management is expected to support in improvement of its business risk profile over the medium term.

- **Diversified revenue profile with healthy order book position**

  LMPL has two diversified business streams - paper products and Solar LED division. Under the paper products division, LMPL supplies printed stationery (reservation charts and railway tickets) and other stationery material for 18 Railway zones of Indian Railways. It also supplies to 48 postal store depots of India Posts of printed stationery such as postal acknowledgement slips, renewal receipts, policy bonds among others. Apart from the Government supplies, it also caters to major corporates such as LIC of India and Banks to name a few. Under this division, LMPL has reported revenues of about Rs. 98.36 crore in FY2019 (Provisional).

The Solar Division was incorporated in 2016, the company is engaged in supplies of Solar Street Lights, Solar Home Lighting Systems and Solar Lantern; the company has in-house manufacturing unit of printed circuit boards. It sources LED luminal, batteries and solar panels from registered vendors for assembling and supplies. The thrust for solar power penetration and GOI's support has given a big boost to its revenues in solar division; in FY2018, it reported revenues of Rs. 63.26 crore and Rs.147.57 crore in FY2019 (Provisional). The major customers include Uttar Pradesh New and Renewable Energy Development Agency and Assam Power Distribution Company Ltd. among others.

Acuité believes that steady revenue stream of paper division at about Rs.100 crore and increasing penetration for solar lighting devices with healthy order book position of Rs. 1118.91 crore for deliverables by FY2021 is expected to support LMPL's growth in revenues while diversifying the concentration of revenues in the past and showing revenue visibility over near to medium term.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by healthy net worth, gearing (debt-to-equity) and debt protection metrics. The net worth stood healthy at Rs. 135.15 crore as on 31 March, 2019 (Provisional) as against Rs. 31.80 crore in FY2018. This is mainly due to long term investment by Sainik Industries Private Limited (erstwhile Sainik Foods Private Limited) of ~ Rs. 111.09 crore out of which Rs. 100.00 crore will be converted into equity within a period of 5 years. The same investment is done on account of agreement made to execute projects to complete supply and installation of Solar LED products and other electrical products together. However, the rating is constrained due to limited visibility on the investor - Sainik Industries Private Limited.

Further, gearing (debt-to-equity) is healthy at 0.33 times as on 31 March, 2019 (Provisional) which has improved from 1.09 times as on 31 March, 2018. LMPL generated net cash accruals of Rs. 6.07 crore for FY2019 (Provisional) against repayment obligations of Rs. 0.49 crore for the same period. Also, LMPL's debt protection metrics are moderate marked by interest coverage ratio (ICR) of 2.35 times for FY2019 (Provisional) as against 1.70 times for FY2018.

Acuité believes that the financial risk profile of the company will remain healthy in absence of any major debt funded capex and moderate net cash accruals.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive as evident from Gross Current Asset (GCA) days of 260 days for FY2019 (Provisional) as against 145 days for FY2018. The high GCA days is mainly on account of increase in debtors to 167 days for FY2019 (Provisional) from 87 days for FY2018. Since around 46 per cent of total revenues are booked in the last quarter of FY2019, the elongation of working capital cycle mainly pertains to year end phenomenon.

Further, the company maintains an average inventory of about two months of its cost of sales; high inventory is to maintain adequate stock across the product varieties to meet the customer's demand across locations. Inventory level stood at 82 days for FY2019 (Provisional) as against 60 days for FY2018. Further, the bank limit utilisation stood at ~90 per cent for the past six months ended August, 2019.

Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

- **Exposure to risks related to tender-based business and intense competition**

The company has to compete with large players, which operate in sectors including paper and solar LED systems. Also, as all sales are tender-based, revenue depends on the ability to bid successfully. The operating profitability margins are limited to around 5 per cent due to competition, tender based operations and volatile raw material prices. The operating margin stood thin at 5.13 per cent in FY2019 (Provisional) as against 4.88 times in FY2018.

Rating Sensitivities

- Substantial improvement in scale of operation, while maintaining profitability margin over the medium term.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 6.07 crore for FY2019 (Provisional), while its maturing debt obligations were Rs. 0.49 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 12.00 crore to Rs. 23.00 crore during 2020-22 against no repayment obligation for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 260 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.66 crore as on 31 March, 2019 (Provisional). The current ratio stood at 3.72 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual against its maturing debt obligations.

Outlook: Stable

Acuité believes that LMPL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, promoter's extensive industry experience. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	245.94	158.99	130.45
EBITDA	Rs. Cr.	12.61	7.76	6.23
PAT	Rs. Cr.	4.46	1.37	1.12
EBITDA Margin	(%)	5.13	4.88	4.77
PAT Margin	(%)	1.81	0.86	0.86
ROCE	(%)	9.37	11.03	10.87
Total Debt/Tangible Net Worth	Times	0.33	1.09	0.84
PBDIT/Interest	Times	2.35	1.70	2.09
Total Debt/PBDIT	Times	3.42	4.27	4.09
Gross Current Assets (Days)	Days	260	145	157

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-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
24-Jul-2018	Cash Credit	Long Term	15.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (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	15.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.33	ACUITE BBB- /Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.67	ACUITE BBB- /Stable (Reaffirmed)

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