Press Release

Livguard Batteries Private Limited

September 07, 2020

Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs. 375.00 crore (Enhanced from Rs. 280.00 crore)
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Upgraded from ACUITE BBB/ Stable)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* *Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating from **'ACUITE BBB' (read as ACUITE triple B)** to **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short-term rating from **'ACUITE A3+' (read as ACUITE A three plus)** to **'ACUITE A2' (read as ACUITE A two)** on the Rs. 375.00 crore bank facilities of Livguard Batteries Private Limited (LBPL). The outlook is **'Stable'.**

The rating upgrade reflects the improved scale of operations, improvement in profitability parameters, resulting in improvement in net cash accruals and debt coverage indicators, strong liquidity profile and lower utilization of banking limits. The operating income of the group increased to Rs. 1,893.20 crore in FY2020 (Provisional) from Rs. 1,429.52 crore in FY2019 resulting in a growth of ~32 per cent. Operating Income has increased at a CAGR of ~45 per cent over the last 5 years. Operating profitability, i.e. EBITDA margin has up from 2.23% in FY2019 to 3.53% in FY2020 (Provisional). Net Profit margin has gone up from 0.07 % in FY2019 to 1.51% in FY2020 (Provisional). The group generated cash accruals of Rs. 51.58 crore for FY2020 (Provisional) as against maturing debt obligations of Rs.17.94 crore for the same period. Further, working capital limits are utilized to the extent as low as ~25-30 per cent.

Incorporated in 2012, LBPL is a Delhi-based company promoted by Mr. Navneet Kapoor and Mr. Rakesh Malhotra. The company is engaged in manufacturing of batteries for application in automotive, inverters and e-rickshaw. LBPL also manufactures power electronic products like inverters and voltage stabilizers among others for the domestic market. The products manufactured by the company are sold under the brand name 'Livguard' and 'Livfast'. The company has four manufacturing units, three located in Himachal Pradesh and one in Haryana.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Livguard Batteries Private Limited (LBPL), Livguard Energy Technologies Private Limited (LETPL) and Livfast Batteries Private Limited (LFPL), collectively referred to as 'Livguard Group'. The consolidation is on account of common management, same value chain with business line synergies within the group. Extent of consolidation: full.

Key Rating Drivers

Strengths

- **Experienced management and leading battery manufacturing operations**

Livguard Group commenced the battery business in 2014, whereas it started the commercial production in 2015. LBPL started manufacturing operations with automotive batteries and added other kinds of batteries such as e-rickshaw batteries, inverter batteries and solar batteries during 2016- 20. The promoters, Mr. Navneet Kapoor and Mr. Rakesh Malhotra have an established track record of manufacturing lead acid batteries for more than two decades through their previous ventures 'Luminous Power Technologies Private Limited' which was completely sold to Schneider Electric at the beginning of 2017. The promoters incorporated a new company namely, Livfast Batteries Private Limited (LFBPL) in FY2020. The promoters launched the brands 'Livguard' and 'Livfast' for automotive batteries and later expanded the same brands for inverter, inverter batteries, solar batteries and other products. LBPL is the manufacturing arm for LFBPL and LETPL, while the two companies are engaged in the distribution of the products across the country.

Currently, the day to day operations of the group is managed by a strong second line of management. Livguard group benefits from its established presence in the market, backed by network of more than 600 distributors supplying to almost 20,000 dealers across the country. The extensive experience of the promoters is also reflected through the healthy ramp up of operations during the period 2015-20.

Acuité believes that LBPL will continue to benefit owing to the extensive experience and establishing a brand of the promoters in the battery industry.

- **Healthy financial risk profile**

Livguard Group has healthy net worth with low gearing and moderate debt protection metrics. The net worth stood at Rs.338.54 crore as on March 31, 2020 (Provisional), which has witnessed improvement from Rs.306.73 crore as on March 31, 2019. In FY2019, the group has raised private equity of around Rs. 220 crore out of which Rs.170 crore has been infused by the investment arm of Chrys Capital and remaining by the promoters.

Gearing levels stood at 0.96 times as on March, 2020 (Provisional) from 0.53 times as on March, 2019. The total outside liabilities to tangible net worth ratio also stood at around 2.89 times as on March 31, 2020 (Provisional). Livguard group's total debt of Rs.325.89 crore as on March 31, 2020 (Rs.162.65 crore as on March 31, 2019) includes term loans (current and non-current portion) of Rs.54.18 crore and working capital borrowings of Rs.271.71 crore. The reason for an increase in working capital was due to business growth over the last year. There is also growth in operating income at a consolidated level by ~32.44% in FY2020 (Provisional) as against FY2019. Acuité expects Livguard group's gearing to remain in the range of 0.69-0.90 times over the medium term.

The interest coverage ratio (ICR) of the group stood at around 3.51 times as on 31 March, 2020 (Provisional) and the net cash accruals to total debt stood at 0.16 times as on March 31, 2020 (Provisional). The debt service coverage ratio (DSCR) stood at 2.16 times for FY2020 (Provisional).

Acuité believes that Livguard group will maintain a healthy financial risk profile on the back of gradual growth in revenue and comfortable net worth over the medium term.

Weaknesses

- **Modest operating margins and intense competition in some battery segments**
  Livguard group has a limited track record of around six years. Thus, the operating capacity is not optimally utilised yet. Therefore, the fixed costs are yet to be fully absorbed. Operating margin is susceptible to fluctuations in prices of inputs, mainly Lead, which accounts for more than 70% of total raw material cost. The operating margin stood at 3.53 percent in FY2020 (Provisional) as against 2.23 percent in FY2019. Further, the net margins stood negative at 1.51 percent in FY2020 (Provisional) as against 0.07 percent in FY2019. The operating margins are also dependent on prices of raw material (i.e. lead) which is highly volatile in nature. It is exposed to intense competition in the replacement battery market in the automobile segment from the market leaders.

Rating Sensitivity

- Significant deterioration in operating performance leading to an overall deterioration in the financial risk profile
- Improvement in profitability margins

Material Covenants

None

Liquidity: Strong

Livguard Group has strong liquidity marked by net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.51.58 crore during FY2020 (Provisional), while its maturing debt obligations were Rs.17.94 crore. The cash accruals of the group are estimated to remain high during 2020-22 due to optimally utilized capacity for better absorption of fixed costs against its repayment obligations. The group has low reliance on working capital borrowings marked by the cash credit limit utilization of around 25-30 percent. The current ratio of the group stood at 1.09 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity of the firm is likely to remain strong over the medium term on account of healthy cash accruals as against maturing debt obligations over the same period.

Outlook: Stable

Acuité believes that LBPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	1,893.20	1,429.52
PAT	Rs. Cr.	28.51	0.94
PAT Margin	(%)	1.51	0.07
Total Debt/Tangible Net Worth	Times	0.96	0.53

PBDIT/Interest	Times	3.51	1.85

Status of non-cooperation with other CRA
None

Any other information
Not Applicable

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
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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 previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
`31-Jul-2020	Cash Credit	Long-Term	25.00	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long-Term	35.00	ACUITE BBB/ Stable (Assigned)
	Term Loans	Long-Term	40.00	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long-Term	25.00	ACUITE BBB/ Stable (Assigned)
	Term Loans	Long-Term	24.00	ACUITE BBB/ Stable (Assigned)
	Term Loans	Long-Term	7.20	ACUITE BBB/ Stable (Assigned)
	Letter of Credit	Short-Term	25.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short-Term	50.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short-Term	40.00	ACUITE A3+ (Assigned)
	Proposed Long-term Facility	Long-Term	8.00	ACUITE BBB/ Stable (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	40.00	ACUITE BBB+/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB+/ Stable (Upgraded)
Term loan	Not Available	Not Available	Not Available	35.00	ACUITE BBB+/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+/ Stable (Upgraded)
Term loan	Not Available	Not Available	Not Available	14.97	ACUITE BBB+/ Stable (Upgraded)
Term loan	Not Available	Not Available	Not Available	4.87	ACUITE BBB+/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/ Stable (Upgraded)
WCDL	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 (Upgraded)
Proposed Long-term Facility	Not Applicable	Not Applicable	Not Applicable	0.16	ACUITE BBB+/ Stable (Upgraded)

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About Acuité Ratings & Research:

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