

Press Release

Livguard Batteries Private Limited

February 26, 2021



Rating Reaffirmed & Outlook Revised

Total Bank Facilities Rated*	Rs. 375.00 crore*
Long Term Rating	ACUITE BBB+/ Outlook: Positive (Reaffirmed & Outlook revised from Stable)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

Rationale for rating reaffirmation and revision in outlook

The rating reaffirmation reflects improvement in operations and profitability, healthy financial risk profile and healthy liquidity position. On the contrary, despite improvement in profitability, margins continue to remain lean and working capital operations of the group are intensive in nature. Livguard Group's scale of operations are continued to be at comfortable levels with total operating income of Rs. 1,881.38 crore in FY2020 as against Rs. 1,429.48 crore in FY2019, resulting in a marginal Y-o-Y growth of 31.61 per cent. Profitability of the group has remained low though improved with an operating margin of 2.78 per cent and net profit margin of 0.28 per cent in FY2020. The overall financial risk profile of the group is healthy owing to healthy net worth, leverage levels and debt-coverage indicators. The liquidity position of the company is healthy marked by healthy net cash accruals of Rs. 47.77 crores in FY2020 against maturing debt obligations of Rs. 17.82 crore during the same period. On the other hand, GCA stood high at 171 days for FY2020 as against 112 days for FY2019, primarily on account of high outstanding balances of debtors and inventory levels as at 31.02.2020 due to covid-19 induced lockdown across the country.

The revision in outlook is on account of healthy operating performance of the group in the current year and expected benefits from its recent acquisition of two divisions from other associated entities. The group has already booked a revenue of Rs. 1,697.21 crore in 9MFY2021, despite washout of sales in April and for most part of May due to country-wide lockdown, along with healthy improvement in the operating margins owing to rationalization of costs. Two of the associate companies, Ncube Logistic and Warehousing Private Limited (NLWPL) and Livguard Mobile Accessories Private Limited (LMAPL), hereinafter referred to as 'Transferor Companies' have de-merged the operations under 'Manufacturing Business Undertaking' and 'Mobile Accessories Business Undertaking', respectively and subsequently merged the operations of the said undertakings into LBPL with a view to gain from their marketing units.

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.

About the Company

Incorporated in 2012, LBPL is a Delhi-based company promoted by Mr. Rakesh Malhotra and Mr. Navneet Kapoor. The operations were commenced in the year 2015. 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 company has four manufacturing units, three located in Himachal Pradesh and one in Haryana.

LBPL is a part of Livguard Group, which has dedicated distribution companies for further distribution of the products manufactured by LBPL. LBPL is the OEM for Livguard Energy Technologies Private Limited (LETPL) incorporated in 2014 and Livfast Batteries Private Limited (LFBPL) incorporated in 2018. These two companies are having pan India and operating with 600+ distributors each in both the companies, with a dealer base of 20,000 each in both the companies. The group is selling its products under the brand name of "Livguard" and "Livfast".

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 the period 2016 to 2020. The promoters, Mr. Rakesh Malhotra and Mr. Navneet Kapoor have an established track record of manufacturing lead acid batteries for more than two decades through their previous venture 'Luminous Power Technologies Private Limited' which was completely sold to Schneider Electric in the year 2017. 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. The operations of the group have grown at a CAGR of 44.71 per cent over the five years' period with an operating income of Rs. 1,881.38 crore for FY2020. The group registered subdued demand in the first quarter of current financial year and has managed to book a restricted revenue of Rs. 663 crore till July 2020 as against Rs. 705 crore during the corresponding period. However, presently the group has booked Rs. 1,697.21 crore of revenue till December 2021, which lends adequate revenue visibility.

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

• Healthy financial risk profile

The financial risk profile of the group is healthy marked by healthy net worth, gearing levels and debt protection metrics and coverage indicators.

The net worth of the group is healthy, estimated at around Rs. 335.79 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy infusion of funds during FY2019 in the form of equity and during FY2020 in the form of unsecured loans from promoters in sub-ordination to borrowings.

The group has followed a conservative financial policy in the past and is continuing with the same

policy as reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.95 times and 2.75 times as on March 31, 2020. The leverage levels have deteriorated though remained healthy on account of higher short-term borrowings on the balance sheet date i.e. 31.03.2020. The total debt of Rs. 319.57 crore as on 31 March 2020 comprised of working capital borrowings of Rs. 263.87 crores, unsecured loans from promoters to the extent of Rs. 1.51 crore and long-term borrowings of Rs. 54.18 crores of which Rs. 17.82 crore are to be repaid within a year. The short-term borrowings of Rs. 263.87 crore are secured against fixed deposits to the extent of Rs. 100.00 crore, thereby resulting in a net debt of Rs. 219.57.

Despite lean profitability margins, the group has healthy debt coverage indicators marked by debt-service-coverage-ratio of 1.89 times as on 31st March, 2020 as against 1.49 times as on 31st March, 2019 and interest coverage ratio of 2.81 times as on 31st March, 2020 as against 1.85 times as on 31st March, 2019.

Acuité believes that the financial risk profile of the group will continue to remain healthy on account of healthy net worth and debt protection metrics.

Weaknesses

- **Working capital intensive nature of operations**

The group has intensive working capital requirements as evident from Gross Current Assets (GCA) of 170 days in FY2020 as compared to 112 days in FY2019. This deterioration is on account of increase in high year-end inventory and debtor balances owing to covid-19 induced lockdown. Debtors' days stood at 64 days for FY2020 as against 42 days in the previous year, while inventory days stood at 77 days as against 50 days for FY2019. Creditors' payment period also increased to 91 days as on 31st March 2020.

This intensive requirement for working capital is, however, mitigated to an extent on account of healthy liquidity profile of the group leading to lower reliance on working capital limits. The working capital limits are negligibly utilized during the six months ended December, 2020. Further, current ratio of the group stood at 1.08 times for FY2020. Acuité expects the working capital operations of the group to improve yet remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

- **Modest operating margins and intense competition in some battery segments**

Operating margin is susceptible to fluctuations in prices of inputs, mainly Lead, which accounts for more than 60 per cent of total raw material cost. The operating margin stood at 2.78 percent in FY2020 as against 2.23 percent in FY2019. Further, the net margins stood at 0.28 percent in FY2020 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

Positive

- Substantial improvement in working capital management.
- Significant improvement in profitability levels, thereby improving company's debt coverage indicators.

Negative

- Significant decline in the scale of operations

Material Covenants

None

Liquidity: Strong

The group has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The group has generated cash accruals of Rs. 47.77 crore for FY2020, while its maturing debt obligations were Rs. 17.82 crore during the same period. Cash accruals also provide sufficient liquidity buffer to support incremental working capital operations to an extent. The group's working capital operations are intensive marked by Gross Current Asset (GCA) of 170 days for FY2020. The fund-based working capital limits of LBPL negligibly utilized while the non-fund based limits are utilized at an average of 50 to 60 per cent. In addition to this, LBPL has availed covid-19 moratorium for first three months and all the dues have subsequently been cleared. Moreover, the group has Rs. 65.31 crore of unencumbered cash and bank balances as on March 31, 2020. Furthermore, the group has Rs. 35.11 crore of unencumbered fixed deposits, lending adequate financial flexibility. Acuité believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Positive

Acuité has revised the outlook of Livguard group from Stable to Positive. This revision is on account of expected improvement in scale of operations coupled with improvement in profitability over a medium term. The rating may be upgraded if the group registers expected or higher-than-expected growth in revenues and profitability. Conversely, the outlook may be revised to 'Stable' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity- Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1,881.38	1,429.48
PAT	Rs. Cr.	5.29	0.94
PAT Margin (%)	(%)	0.28	0.07
Total Debt/Tangible Net Worth	Times	0.95	0.53
PBDIT/Interest	Times	2.81	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>
- Consolidation of companies: <https://www.acuite.in/view-rating-criteria-60.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
07-Sep-2020	Cash Credit	Long term	40.00	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long term	35.00	ACUITE BBB+/ Stable (Upgraded)

31-Jul-2020	Term loan	Long term	35.00	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long term	25.00	ACUITE BBB+/ Stable (Upgraded)
	Term loan	Long term	14.97	ACUITE BBB+/ Stable (Upgraded)
	Term loan	Long term	4.87	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long term	30.00	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long term	20.00	ACUITE BBB+/ Stable (Upgraded)
	WCDL	Long term	30.00	ACUITE BBB+/ Stable (Assigned)
	Letter of Credit	Short term	50.00	ACUITE A2 (Upgraded)
	Letter of Credit	Short term	50.00	ACUITE A2 (Upgraded)
	Letter of Credit	Short term	40.00	ACUITE A2 (Upgraded)
	Proposed Long-term Facility	Long term	0.16	ACUITE BBB+/ Stable (Upgraded)
	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)

***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+/ Positive (Reaffirmed and outlook revised)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Term loan I	August 2018	10.10%	August 2023	35.00	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Term loan I	July 2018	Not Available	Not Available	14.97	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Term loan II	July 2018	Not Available	Not Available	4.87	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
WCDL	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Proposed fund-based Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.16	ACUITE BBB+/ Positive (Reaffirmed and outlook revised)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 (Reaffirmed)

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About Acuité Ratings & Research:

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