

Press Release

Livguard Batteries Private Limited

August 06, 2021



Rating Upgraded, Assigned & Outlook Revised

Total Bank Facilities Rated*	Rs. 625.00 crore* (enhanced from R. 375.00 crore)
Long Term Rating	ACUITE A-/Outlook: Stable (Upgraded & Outlook revised from Positive)
Short Term Rating	ACUITE A2+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and the short-term rating to '**ACUITE A2+**' (**read as ACUITE A two plus**) from '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 625.00 crore bank facilities of Livguard Batteries Private Limited (LBPL). The outlook is revised from '**Positive**' to '**Stable**'.

Rationale for rating upgrade

The rating upgrade reflects improvement in operations and profitability in FY2021 as per provisional figures, healthy financial risk profile and strong liquidity position. On the contrary, working capital operations of the group are intensive in nature. Livguard Group's scale of operations have significantly improved with total operating income of Rs. 2,564.87 crore in FY2021 (Prov.) as against Rs. 1,881.38 crore in FY2020 and Rs. 1,429.48 crore in FY2019, resulting in a 5-year CAGR of 23.42 per cent. Further, profitability of the group has improved to operating margin of 9.43 per cent and net profit margin of 6.50 per cent in FY2021 (Prov.) as against 2.77 per cent and 0.27 per cent, respectively. The overall financial risk profile of the group continues to remain healthy owing to healthy net worth, leverage levels and debt-coverage indicators. The liquidity position of the group is healthy marked by healthy net cash accruals of Rs. 211.02 crores in FY2021 (Prov.) against maturing debt obligations of Rs. 22.45 crore during the same period. On the other hand, GCA stood high at 184 days for FY2021 (Prov.) as against 171 days for FY2020, primarily on account of high outstanding balances of debtors as at 31.03.2021 due to significant sales during the last quarter.

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 23.42 per cent over the five years' period with an operating income of Rs. 2,564.87 crore for FY2021 (Prov.) despite subdued demand in the first quarter.

Acuité believes that the group 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. 516.70 crore as on March 31, 2021 (Prov.). The net worth levels have seen significant improvement over the last three years through FY2021 on account of infusion of funds in the form of equity and 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 0.54 times and 2.15 times as on March 31, 2021 (Prov.). The total debt of Rs. 277.85 crore as on 31 March 2021 comprised of working capital borrowings of Rs. 190.58 crores and long-term borrowings of Rs. 87.26 crores of which Rs. 22.45 crore are to be repaid within a year. The short-term borrowings of Rs. 190.58 crore are secured against fixed deposits to the extent of Rs. 100.00 crore, thereby resulting in a net debt of Rs. 177.85 crore.

The group has healthy debt coverage indicators marked by debt-service-coverage-ratio of 4.77 times as on 31st March, 2021 (Prov.) as against 1.88 times as on 31st March, 2020 and interest coverage ratio of 7.86 times as on 31st March, 2021 (Prov.) as against 2.80 times as on 31st March, 2020.

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 184 days in FY2021 (Prov.) as compared to 171 days in FY2020. This deterioration is on account of increase in debtor balances owing to significant sales recorded during the last quarter. Debtors' days stood at 101 days for FY2021 (Prov.) as against 65 days in the previous year, while inventory days stood at 52 days as against 77 days for FY2020. Creditors' payment period also increased to 184 days as on 31st March 2021 (Prov.).

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 utilized to an extent of ~47 per cent during the six months ended March, 2021. Further, current ratio of the group stood at 1.29 times for FY2021 (Prov.). 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.

- **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 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.

Negative

- Significant decline in the scale of operations
- Decline in profitability levels leading to deterioration in debt coverage indicators

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. 211.02 crore for FY2021 (Prov.), while its maturing debt obligations were Rs. 22.45 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 184 days for FY2021 (Prov.). The fund-based working capital limits of LBPL are utilized to an extent of ~47 per cent over the six months through March 2021 while the non-fund based limits are utilized at an average of 50 to 60 per cent. Moreover, the group has Rs. 79 crore of unencumbered cash and bank balances as on March 31, 2021 (Prov.). Acuité believes that the liquidity of the group is likely to remain healthy over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuité has revised the outlook of Livguard group to Stable and believes that the group will continue to derive benefit over the medium term due to its extensive experience of promoters and strong brand position in the industry. The outlook may be revised to 'Positive', if the group registers expected or higher-than expected growth in revenues and profitability. Conversely, the

outlook may be revised to 'Negative', 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	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	2,564.87	1,881.38
PAT	Rs. Cr.	166.60	5.01
PAT Margin	(%)	6.50	0.27
Total Debt/Tangible Net Worth	Times	0.54	0.94
PBDIT/Interest	Times	7.86	2.80

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
26-Feb-2021	Cash Credit	Long term	40.00	ACUITE BBB+/ Stable (Reaffirmed)
	Cash Credit	Long term	35.00	ACUITE BBB+/ Stable (Reaffirmed)
	Term loan	Long term	35.00	ACUITE BBB+/ Stable (Reaffirmed)
	Cash Credit	Long term	25.00	ACUITE BBB+/ Stable (Reaffirmed)
	Term loan	Long term	14.97	ACUITE BBB+/ Stable (Reaffirmed)
	Term loan	Long term	4.87	ACUITE BBB+/ Stable (Reaffirmed)
	Cash Credit	Long term	30.00	ACUITE BBB+/ Stable (Reaffirmed)
	Cash Credit	Long term	20.00	ACUITE BBB+/ Stable (Reaffirmed)
	WCDL	Long term	30.00	ACUITE BBB+/ Stable (Reaffirmed)

07-Sep-2020	Letter of Credit	Short term	50.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short term	50.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short term	40.00	ACUITE A2 (Reaffirmed)
	Proposed Long-term Facility	Long term	0.16	ACUITE BBB+/ Stable (Reaffirmed)
	Cash Credit	Long term	40.00	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long term	35.00	ACUITE BBB+/ Stable (Upgraded)
	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)
`31-Jul-2020	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)
	Cash Credit	Long-Term	25.00	ACUITE BBB/ Stable (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.)	Lender Name	Ratings/ Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	HDFC Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	IDFC Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Term loan I	August 2018	10.10%	August 2023	28.00	IDFC Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Working Capital Term Loan	Not available	Not available	Not available	33.00	IDFC Bank	ACUITE A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	IndusInd Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Term loan I	July 2018	Not Available	Not Available	14.97	IndusInd Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Term loan II	July 2018	Not Available	Not Available	4.87	IndusInd Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ICICI Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	Federal Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
WCDL	Not Applicable	Not Applicable	Not Applicable	30.00	Federal Bank	ACUITE A-/ Stable (Upgraded and outlook revised)
Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00	RBL Bank	ACUITE A-/ Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	13.00	RBL Bank	ACUITE A-/ Stable (Assigned)
Proposed WCDL	Not Applicable	Not Applicable	Not Applicable	15.00	RBL Bank	ACUITE A-/ Stable (Upgraded and outlook revised)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	HDFC Bank	ACUITE A2+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	90.00	IndusInd Bank	ACUITE A2+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	55.00	RBL Bank	ACUITE A2+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ICICI Bank	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	RBL Bank	ACUITE A2+ (Assigned)
Proposed short term facilities	Not Applicable	Not Applicable	Not Applicable	46.16	-	ACUITE A2+ (Assigned)

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