

## Press Release

**Lare Fibc and Energies Private Limited**

**(Previously known as Tech Sun Energies Private Limited)**

April 20, 2020



### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.29.50 Cr (Enhanced from Rs.22.00 Cr)
<b>Long Term Rating</b>	ACUITE B- / Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.21.90 crore and assigned the long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) to Rs. 7.60 the bank facilities of Lare Fibc and Energies Private Limited (LFEPL). The outlook is '**Stable**'.

Tamil Nadu based, LFEPL was originally incorporated in 2012 as Tech Sun Energies Private Limited; the name was changed in 2019. The Company is promoted by Mr. Mayivel Ponnusamy and Mrs. Navaneethakrishnan Ponlakshmi. The company is engaged in providing Operation and Maintenance Services to various Industry segments with specialisation in Power related industries and Petrochemicals Industries.

In May 2018, LFEPL is proposed to diversify its business to manufacturing of flexible intermediate bulk containers (FIBC) also known as Jumbo bags for packaging applications. The company commenced operations from January 2020. The manufacturing unit is located in Tirunelveli in Tamil Nadu and has installed production capacity of 750 per hour.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

##### • Experienced Management

LFEPL is incorporated in 2012; involved in Operation and Maintenance Services to Power related industries and Petrochemicals Industries. The promoter Dr. P. Mayivel is a veteran in engineering industry with long-standing experience over a decade which lead to steady revenues. In January 2020 Company has diversified its business to flexi packaging segment it has been manufacturing different types of flexible intermediate bulk container (FIBC) bags, and jumbo bags international and domestic markets. Due to the demand driven by the diversified end-user industry, which includes fast moving consumer goods, food & beverages, chemicals cement, construction, and agro - commodities; the company is expected to early establish and maintain its business risk profile over the medium term. Acuité believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

#### Weaknesses

##### • Nascent stage of operations of FIBC bags project

The operations of this project are at a very initial stage started in January 2020 and the company has to optimally utilise its capacity to generate cash flows to meet its outstanding debt obligations. In May 2018, LFEPL is proposed the project with an estimated cost of Rs 27.25 Crore, funded through debt of around Rs

17.40 Crore, promoters' contribution of around Rs 9.85 Crore and it's expected to commence commercial operations (COD) in May 2019. However total cost of the proposed project is revised at Rs. 40.66 crore from Rs.27.25 Crore. The total cost of the project was Rs 40.66 crore which was funded by term loan of Rs 25 crore, promoter funds of Rs 15.66 crore respectively. The COD is extended from May 2019 to January 2020.

Acuite believes that ability of the company to timely stabilize its operations in order to service its debt obligation in timely manner will be critical.

• **Moderate financial risk profile**

The company's financial risk profile is moderate marked by moderate network, leveraged capital structure and average debt protection metrics. The tangible net worth of the company stood at Rs.15.49 crores as on March 31, 2019 improved from Rs.0.65 crores as on March 31, 2018 due infusion of funds by promoters. The company has gearing moderate stood at 1.14 times as on March 31, 2019 and The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.19 times as on March 31, 2019. The average debt protection metrics of the company is marked by Interest Coverage Ratio at 1.51times and NCA/TD 0.02 times in FY2019.

Acuite believes that with marginal improvement in revenues and profitability, the financial risk profile is expected to moderate over the medium term.

• **Moderate working capital intensive operations**

LEFPL operations are working capital intensive as reflected in the Gross Current Assets (GCA) of 159 days in FY2019 as against 132 days in FY2018. The high GCA days emanates from the company's moderate receivable cycle. The receivables are at 51 days in FY2019 (108 days: FY2018). To manufacture the Jumbo Bags and the credit period offered to customers (FIBC exports) varies between 1-6 month periods (about 50-60% of FIBC exports are with 180 days of credit period). Overall, the working capital intensity remains high in the business to the export-oriented nature of business and is thus, exposed to the movement in the forex rates.

• **Susceptibility to fluctuations in raw material prices, and exposure to competition**

Operating margin remains susceptible to fluctuations in the prices of key input i.e. polymer, which move in tandem with crude oil prices. Also, around 80% of total revenue is expecting from exports; however, this is hedged by using forward contracts, thereby mitigating forex rate fluctuation risk. Also, the FIBC industry is fragmented because of low entry barrier as capital and technology requirements are limited, gestation period is small, and raw materials are easily available. This restricts substantial scale up in operations and exerts pricing pressure on players.

**Rating Sensitivity**

- Stabilization of the operations earlier than expected
- Scaling up of revenues along with improvement in the profitability margins
- Improvement in the overall financial risk profile and the working capital management

**Material covenants**

None

**Liquidity Position: Stretched**

LEFPL's FIBC and polypropylene bag unit is recently started its commercial operations and thus there's no impact on liquidity as on March, 2020. The company generated cash accruals of Rs.0.33 crore in FY19 through its O&M services for thermal power plant, while there are no maturing debt obligations over the same period. The cash accruals of the company are estimated to remain at around Rs.2.50 - Rs.3.50 crore during 2019-21 as against repayment obligation of around Rs. 2.50 crore during the same period. Acuite expects that the liquidity of the company is likely to be stretched over the medium term on account of moderate cash accrual while its maturing debt obligations are.

**Outlook: Stable**

Acuite believes that LEFPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of company stabilises operations earlier than expected, better-than-expected operating performance, most likely aided by better capacity utilisation. Conversely, the outlook may be revised to 'Negative' in case of any there is any significant deviation from the current project cash flow estimates and risk related to stabilisation of plant operations.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	8.76	7.15
PAT	Rs. Cr.	0.32	0.24
PAT Margin	(%)	3.67	3.37
Total Debt/Tangible Net Worth	Times	1.14	-
PBDIT/Interest	Times	1.51	70.60

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service sector Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jan-2019	Term Loans	Long Term	17.40	ACUITE B-/Stable (Assigned)
	Overdraft	Long Term	1.00	ACUITE B-/Stable (Assigned)
	PC/PCFC	Short Term	2.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A4 (Assigned)
	Proposed	Long Term	0.10	ACUITE B-/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
Term Loans	17-09-2019	Not Applicable	31-05-2027	17.40	ACUITE B-/Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B-/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)
Term Loans	17-09-2019	Not Applicable	31-05-2027	7.60	ACUITE B-/Stable (Assigned)

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### About Acuité Ratings & Research:

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