



Press Release

Lahoty Brothers Private Limited

May 09, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.50	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	21.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to 'ACUITE BBB-' (read as ACUITE triple B Minus) from 'ACUITE BB+' (read as ACUITE double B plus) on the Rs 21.50 Cr. bank facilities of Lahoty Brothers Private Limited (LBPL). The outlook is 'Stable'.

The rating upgrade is driven by an improvement in the overall business risk profile of the company as reflected from its growing revenue trend in FY22 coupled with management's long track record in the sector and its diversified revenue streams with significant proportion of income being generated from petrol pump operations. The rating also draws comfort from the improving financial risk profile and efficient working capital management supported by minimum inventory holding and comfortable debtors. Moreover, the rating upgrade is also supported by the adequate liquidity position of the company. These strengths are however, partly constrained by the thin operating margins inherent in the dealership businesses resulting in moderate debt coverage metrics.

About the Company

Lahoty Brothers Private Ltd was incorporated in 1943 by Kolkata based Lahoty family. Currently, the company operates six retail outlets of Hindustan Petroleum Corporation Limited (HPCL) in Upper Assam. LBPL is an authorized distributor of Orient Fans in the entire Northeast Region. LBPL is also engaged in trading of raw jute and coal. The company is managed by Mr. Arvind Jatia.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of LBPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Strengths Diversified revenue streams coupled with experienced management**

LBPL was incorporated by Mr. BL Lahoty in 1943. Since then, LBPL operates 6 petrol pumps under Hindustan Petroleum Corporation Limited's (HPCL) franchise in and around Assam. The

petrol pump operations contribute to ~72 per cent of its overall top line. The promoters have extensive experience of over seven decades in the industry. Currently, the company is managed by Mr Arvind Jatia, who has three decades of experience in petroleum business. Apart from this, the company has leased out its commercial property in Kolkata. The promoters have extensive experience in the dealership business of electrical appliances of Orient fans in northeast India. The company has achieved revenues of Rs. 172.10 Cr in FY2021

as compared to revenues of Rs162.56 Cr in FY2020. The company has achieved revenues of Rs ~180.36 Cr till March 2022(Provisional). Acuité believes the diversified revenue base reduces dependence on any particular business line for sustaining operation.

- **Efficient working capital management**

The efficient working capital management of the company is marked by comfortable Gross Current Assets (GCA) of 84 days in as on March 31, 2021 as compared to 67 days as on March 31, 2020 owing to adoption of distributorship model to minimise inventory and receivables risks. The inventory period stood low at 10 days as on 31 st March 2021 against 12 days in the previous year. Further, the debtor days also stood comfortable at 56 days as on March 31, 2021 as against 51 days as on 31 st March 2020. LBPL's working capital requirements reduced on the back of comfortable debtor days with the support of channel financing facilities for its dealers. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from efficient collection mechanism and low inventory levels over the medium term.

- **Average financial risk profile**

The company's average financial risk profile is marked by modest networth base, comfortable gearing and moderate debt protection metrics. The tangible net worth of the company improved to Rs.17.90 crore as on March 31, 2021 from Rs. 8.22 crore as on March 31, 2020 due to accretion of reserves. Acuité has considered unsecured loans to the tune of Rs.8.56 Cr as on March 31, 2021 as part of networth as these loans are subordinated to bank debt. Gearing of the company also improved as it stood below unity at 0.71 as on March 31, 2021 as compared to 1.73 as on March 31, 2020. The promoters have extended significant financial support to the company, via unsecured loans to cover working capital and debt obligations. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.61 times as on March 31, 2021 as against 2.44 times as on March 31, 2020. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 1.89 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.48 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.12 times as on March 31, 2021. Acuité believes that going forward, the financial risk profile of the company will remain healthy with no major debt funded capex plans.

Weaknesses

- **Thin operating margin**

The operating margin of the company marginally decreased to 2.20 per cent as on 31st March, 2021 as compared to 2.28 per cent in the previous year. The company had to face logistical challenges by paying higher freight costs to prevent supply chain disruption amid the evolving Covid-19 scenario. However, the PAT margins improved to 0.65 per cent in FY2021 as against 0.60 percent as on FY2020. Going forward, the margins are expected to remain range bound given the nature of the business in which the company operates.

- **Intense competition and regulatory risks**

The dealership business is characterized by thin margins and low bargaining power of the dealer owing to the trading nature of operations, as margins on electrical appliances are determined by the principal. The inherently low value addition and intense competition in the sector resulted in low margins for the company. Furthermore, the company is exposed to regulatory risk, as any interference by the Government of India (GoI) affects its profitability.

Rating Sensitivities

- Improvement in capital structure
- Revenue growth and sustained improvement in profit margins

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by adequate net cash accruals stood at Rs.1.51 Cr as on March 31, 2021 as against long term debt repayment of Rs.0.33 Cr over the same period. The current ratio stood comfortable at 1.77 times as on March 31, 2021. Further, the cash and bank balances of the company stood at Rs.8.46 Cr as on March 31, 2021, of this Rs. 8.30 Cr is retained as current account balance and remaining as unencumbered cash. Moreover, the fund based limit remained moderately utilised at ~42.45 per cent over the last six months ended March, 2022. The working capital management of the company is also satisfactory as reflected by Gross Current Assets (GCA) of 84 days as on March 31, 2021 as against 67 days as on March 31, 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals. Support from the promoters through unsecured loans further aids liquidity.

Outlook: Stable

Acuité believes that the outlook of company will remain 'Stable' over the medium term on account of long operational track record. The outlook may be revised to 'Positive' if the company registers significant improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company witnesses deterioration in liquidity profile due to rise in working capital requirement.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	172.10	162.56
PAT	Rs. Cr.	1.12	0.98
PAT Margin	(%)	0.65	0.60
Total Debt/Tangible Net Worth	Times	0.71	1.73
PBDIT/Interest	Times	1.89	1.75

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Mar 2021	Letter of Credit	Short Term	11.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	7.50	ACUITE BB+ Stable (Assigned)
	Proposed Term Loan	Long Term	1.15	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	1.10	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	0.75	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Upgraded
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE BBB- Stable Upgraded
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BBB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.65	ACUITE BBB- Stable Upgraded

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About Acuité Ratings & Research

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