



Press Release
Lahoty Brothers Private Limited
May 22, 2023
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.21.50 Cr bank facilities of Lahoty Brothers Private Limited (LBPL). The outlook remains '**Stable**'.

Rationale for rating

The rating reaffirmation factors in the steady scale of operations of the company aided by the diversified revenue base, and the company's long track record of operations managed by the experienced management. The rating further considers the adequate liquidity position of LBPL supported by the efficient working capital management and the moderately utilised fund based bank limits. These strengths are, however, offset by the thin profitability margins inherent in trading business - resulting in the moderate debt coverage indicators, and susceptibility to intense competition.

About the Company

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

Analytical Approach

Acuite has considered the standalone business and financial risk profile of LBPL while arriving at the rating.

Key Rating Drivers

Strengths

Steady scale of operations along with diversified revenue base

LBPL is managed by Mr Arvind Jatia, who possess three decades long experience in the petroleum business. The extensive experience of the management has aided the company in achieving diversification in the revenue stream. LBPL is engaged in the dealership business of electrical appliances of Orient fans in northeast India. In addition to the dealership business, LBPL operates 6 petrol pumps under Hindustan Petroleum Corporation Limited's (HPCL) franchise in and around Assam. Apart from this, the company also trades raw jute and coal. The company achieved revenues of Rs.180.73 Cr in FY2022 as compared to Rs.172.10 Cr in FY2021. Moreover, LBPL achieved revenues of Rs.167.00 Cr (provisional) till January, 2023. The uptrend in the operating income is supported by the divergence in operations. The

contribution of the petrol pump operations in the total revenues stood at around 71 per cent in 10M of FY2023 as against 74 per cent in FY2022 and 69 per cent in FY2021. Acuité believes the experienced management and the varied revenue base will continue to

benefit the company's growth, going forward.

Efficient working capital management

The efficient working capital management of the company is marked by Gross Current Assets (GCA) of 92 days as on March 31, 2022 as compared to 84 days as on March 31, 2021. The GCA days are comfortable primarily due to the low inventory level. The inventory period stood at 13 days as on March 31, 2022 as against 10 days as on March 31, 2021. The inventory holding is expected to remain low over the medium term on account of the low procurement level. Moreover, the debtor period stood comfortable at 63 days as on March 31, 2022 as against 56 days as on 31st March 2021.

Acuité believes that the working capital operations of the company will remain almost around the similar levels as evident from the efficient collection mechanism and low inventory period over the medium term.

Moderate financial risk profile

The company's moderate financial risk profile is marked by modest networth, comfortable gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.19.68 Cr as on March 31, 2022 from Rs.17.90 Cr as on March 31, 2021 due to accretion of reserves. Going forward, the networth is expected to remain around the range of Rs.20-25 Cr over the medium term. Acuité has considered unsecured loans to the tune of Rs.9.00 Cr as on March 31, 2022 as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing of the company stood low at 0.74 times as on March 31, 2022 as compared to 0.71 times as on March 31, 2021 due to the low debt burden. The gearing is expected to remain comfortable over the medium term. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.69 times as on March 31, 2022 as against 1.61 times as on March 31, 2021. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 1.87 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.14 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.12 times as on March 31, 2022. Acuité believes that going forward, the financial risk profile of the company will remain moderate over the medium term with no major debt funded capex plans.

Weaknesses

Thin profitability margins

The operating margin of the company marginally decreased to 2.01 per cent as on 31st March, 2022 as compared to 2.20 per cent in the previous year due to rise in the raw material prices. However, the PAT margins slightly rose to 0.74 per cent in 31st March, 2022 as against 0.65 per cent as on 31st March, 2021. Further, the operating margin stood at 2.39 per cent (provisional) in the 10M of FY2023 and the PAT margin stood at 0.91 per cent (provisional) till January, 2023. The Return on Capital Employed (ROCE) of the company stood at 11.90 per cent in FY2022 as against 13.69 per cent in FY2021. Going forward, the margins are expected to remain range bound given the nature of the business in which the company operates.

Exposure to intense competition & regulatory risks

The dealership business is characterised 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

- Growth in the scale of operations along with improvement in the profitability margins
- Improvement in the financial risk profile

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by adequate net cash accruals against matured debt obligations, efficient working capital cycle with sufficient cash balances and moderately utilised fund based bank limits. The net cash accruals stood at Rs.1.75 Cr as on March 31, 2022 as against long term debt repayment of Rs.1.25 Cr over the same period. The cash and bank balances of the company stood at Rs.5.07 Cr as on March 31, 2022, of this Rs.4.66 Cr is retained as current account balance and remaining as unencumbered cash. The fund based limit remained moderately utilised at 71 per cent over the last six months ended February, 2023. The working capital management of the company is efficient as reflected by the Gross Current Assets (GCA) days of 92 days as on March 31, 2022 as against 84 days as on March 31, 2021. The current ratio stood comfortable at 1.69 times as on March 31, 2022. Acuité believes that going forward the liquidity position of the company will remain adequate supported by steady cash accruals and the moderate utilisation of the fund based bank limits.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of experienced management, steady scale of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	180.73	172.10
PAT	Rs. Cr.	1.33	1.12
PAT Margin	(%)	0.74	0.65
Total Debt/Tangible Net Worth	Times	0.74	0.71
PBDIT/Interest	Times	1.87	1.89

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 May 2022	Term Loan	Long Term	0.75	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	1.10	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Term Loan	Long Term	4.65	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.70	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	4.80	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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