

June 28, 2024

## Lubi Industries LLP: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	50.00	50.00	[ICRA]A+ (Stable); Reaffirmed
Long-term – Fund-based – Cash Credit	175.00	260.00	[ICRA]A+ (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Working Capital Demand Loan	75.00	90.00	[ICRA]A+ (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Working Capital Demand Loan <sup>^</sup>	(175.00)	(260.00)	[ICRA]A+ (Stable); Reaffirmed and assigned for enhanced amount
Short-term Interchangeable – Non-fund Based – EPC <sup>^^</sup>	(35.00)	(35.00)	[ICRA]A1+; Reaffirmed
Short-term Interchangeable – Bank Guarantee <sup>^</sup>	(35.00)	(35.00)	[ICRA]A1+; Reaffirmed
Short-term Interchangeable – Letter of Credit <sup>^</sup>	(35.00)	(42.00)	[ICRA]A1+; Reaffirmed and assigned for enhanced amount
Short-term Interchangeable – Other <sup>^**</sup>	(1.00)	(1.00)	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>300.00</b>	<b>400.00</b>	

\*Instrument details are provided in Annexure-I; <sup>^</sup>Sub-limit of Cash Credit; <sup>^^</sup>EPC/PCFC/FBP/FBD/EBR; <sup>\*\*</sup>LER: Loan Equivalent Risk

### Rationale

The reaffirmation of the ratings for Lubi Industries LLP (Lubi) reflects the steady improvement in financial profile in recent fiscals and expectation of the same to continue over the near to medium term, driven by growing demand for submersible pumps due to depleting water tables, Lubi's diversified product portfolio and wide distribution network. Its operating margins expanded by 160 bps to ~18% in FY2024 (on provisional basis), with better demand for high powered pumps for lower water tables. Going forward, Lubi's operating margins are likely to remain range-bound over the medium term, driven by stable domestic demand and export prospects. The ratings continue to factor the extensive experience of the partners in the domestic pump industry, its proven track record of operations with established brand presence, and its end-to-end, in-house manufacturing facilities, along with its in-house technical and product development capabilities. The financial risk profile is characterised by low gearing levels and strong debt protection metrics.

The ratings, however, continue to be constrained by the firm's working capital intensive operations, its exposure to intense competition from key organised players and the susceptibility of its profitability to volatility in raw material prices. Further, it is exposed to unpredictable monsoon patterns, which may adversely impact the demand for submersible pumps, its major revenue earner. Owing to the limited liability partnership structure, capital withdrawal risks exist, as seen in the last few years. Thus, the extent of capital withdrawals will remain a key rating monitorable from the perspective of liquidity management and growth of net worth, and its aggregate impact on the credit profile of the company. Lubi's liquidity is adequate, supported by limited repayments and sufficient buffer in fund-based limits.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the firm will maintain its business position in the pump industry. Further, the capital structure and coverage indicators are expected to be comfortable with no major debt-funded capex plans, and growing share of its high-powered pump segment, which entails better margins.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of partners and established track record of operations** – Lubi was set up by the Amin and Porecha families, who have been involved in manufacturing various centrifugal and submersible pump sets since 1968, through promoter-owned group entities. These group entities were amalgamated into Lubi Industries Pvt. Ltd., which was subsequently converted into a Limited Liability Partnership (LLP), namely Lubi Industries LLP, from February 2013. Lubi has an established track record of operations in the pump industry and is a leading player in the water pump segment. The partners have an extensive experience of nearly five decades in the industry.

**Wide product profile in pumps segment with operating efficiency supported by end-to-end, in-house manufacturing facilities; wide distribution network** – Lubi manufactures a diverse range of products (submersible pumps, centrifugal mono block pumps and others) and its operations are supported by end-to-end, in-house manufacturing facilities (including foundry, electrical laminations, insulated and copper wires, etc) along with in-house technical and product development capabilities. Further, Lubi has enhanced its casting capacity by setting up an additional foundry unit in FY2024, which is expected to further support the product quality and cost structure at entity level. Lubi has a strong, pan India distribution network of more than 2,500 dealers, supported by 22 branches and 46 exclusive distributors. Lubi remains a predominantly domestic player with export sales driving ~20-22% of its total revenues over the past years. However, the firm plans to increase its presence in export markets, and during FY2022, it set up a wholly owned subsidiary in USA to penetrate the North American market.

**Healthy growth in top line, comfortable capital structure and healthy coverage indicators** – Lubi's operating income (OI) witnessed a steady growth over the years, with a CAGR of ~10% for the past five years. It reported revenues of around Rs. 1,333.9 crore in FY2024 (on provisional basis). The total debt of the firm stood at ~Rs. 368.7 crore majorly comprising working capital debt of ~Rs. 234.7 crore, term loan of Rs. 37.6 crore, with the rest being interest bearing unsecured loans (from promoter/ family), as on March 31, 2024. The firm's capital structure remained comfortable with a gearing of 0.8 times as on March 31, 2024. The debt coverage indicators also remained strong, with an interest coverage of 8.3 times and total debt/ OPBDITA of 1.5 times, as of March 2024. Further, the capital structure and debt coverage indicators are expected to remain healthy in the near to medium term on the back of healthy profitability levels.

### Credit challenges

**Susceptible to volatility in raw material prices and intense competition** – Lubi's key raw materials are metals (copper, steel), which account for ~40-50% of its total raw material cost. Thus, any adverse movement in their prices affects its margins, given the stiff competition from organised and unorganised players, limiting its flexibility to fully pass on such price movements. The firm has been taking periodical revision in prices to counter such price rises in raw materials and would resort to further hikes in the future, as and when needed. The firm also benefits from its brand image, in-house casting, technically advanced product portfolio and after-sales services.

**High working capital intensity resulting from high inventory levels** – Lubi's operations remain working capital intensive, as reflected in high NWC/OI of ~29% as on March 31, 2024, primarily because of high inventory stocking at the year-end to cater to the high demand during pre-monsoon months with inventory levels as high as 154 days as of March 2024. The working capital intensity is also determined by its credit period to its creditors, especially micro, small and medium enterprises (MSMEs) in a timely manner.

**Net-worth expansion restricted with consistent capital withdrawals** – The firm is exposed to capital withdrawal risks by the partners, given its limited liability partnership structure as witnessed in the past (~Rs. 63.5 crore in FY2024, including the interest withdrawal of ~Rs. 37.1 crore on partners' capital). However, as informed by the firm, the partners have ploughed back ~Rs. 40 crore into the firm as capital in April 2024. The firm's net worth remains vulnerable to material capital withdrawals. Though the partners have infused funds, as and when needed, mostly in the form of capital and, to an extent, as unsecured loans from related parties. Any such material withdrawals that weaken the net worth or its liquidity profile will remain a key rating monitorable.

## Liquidity position: Strong

Lubi's liquidity is strong, as indicated by its expected healthy cash accruals of around Rs. 115-125 crore over the next three fiscals against its repayment obligations of ~Rs. 11 crore p.a. over FY2025-FY2027. It is also noted that there was a cushion of ~Rs. 65 crore in its working capital limits at the end of March 2024, while the working capital limits were enhanced to Rs. 350 crore as of May 2024 (from Rs. 225 crore earlier), which further support its liquidity profile. The liquidity profile is also supported by sizeable unsecured loans from the promoter group in the business, which has seen gradual increase over the years, standing at Rs. 96.5 crore as of March 2024. The company does not have any large debt-funded capex plans in the near to medium term and any likely capex will be covered through internal accruals.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the firm demonstrates a steady improvement in revenues and maintain healthy profitability levels, leading to strong cash accruals. Additionally, better working capital management and strengthening of the net worth base on a sustained basis will also be positive for the rating.

**Negative factors** – Pressure on Lubi's ratings could arise if there is any material decline in revenues or profitability leading to weakening of cash accruals; or if any major debt-funded capex, or any substantial capital withdrawal or stretch in the working capital cycle materially weakens the debt protection metrics or liquidity on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer.

## About the company

Lubi Industries LLP was established in 2013 with the amalgamation of the promoter-owned companies, Lubi Electricals Ltd., Lubi Submersibles Ltd., Lubi Pumps Pvt. Ltd., Paras Textile Mills Pvt. Ltd. and Arvind Iron Pvt. Ltd. The Group, set up by the Amin and Porecha families, has been manufacturing various centrifugal and submersible pump-sets since 1968. Its operations are managed by the partners, Mr. Jaymal Amin, Mr. Rajan Porecha, Mr. Subhashchandra Amin and Mr. Shailesh Porecha, who have extensive experience of four decades in the pump industry.

Lubi is an ISO 9001:2008 and ISO 14001 certified firm and manufactures submersible pumps and pump sets (i.e., pump and motor), centrifugal mono block pumps, drainage and sewage pumps, pressure booster pumps, firefighting pumps, etc. Its manufacturing facilities are in Ahmedabad and Gandhinagar (Gujarat) with a production capacity of around 750,000 units per annum. It has developed over 5,000 varieties of pumps and products over the years, which are marketed under the brand name, Lubi, through its established network of over 2,500 dealers, more than 1,000 authorised service centres, 46 distributors and 22 branches across the country.

### Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	978.9	1,164.6	1,333.9
PAT	96.5	109.2	118.5
OPBDIT/OI	15.6%	16.4%	18.0%
PAT/OI	9.9%	9.4%	8.9%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.0
Total debt/OPBDIT (times)	1.5	1.5	1.5
Interest coverage (times)	9.2	8.6	8.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; \* Provisional Numbers

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	Apr 04, 2023	Nov 14, 2022	Oct 28, 2021
1 Fund Based – Term Loan	Long term	50.00	37.58	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2 Fund Based – Cash Credit	Long term	260.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Fund Based – Working Capital Demand Loan	Long term	90.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
4 Fund Based – Working Capital Demand Loan <sup>^</sup>	Long term	(260.00)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5 Interchangeable – Non-Fund-Based – EPC <sup>^^</sup>	Short term	(35.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 Interchangeable – Bank Guarantee <sup>^</sup>	Short term	(35.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7 Interchangeable – Letter of Credit <sup>^</sup>	Short term	(42.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8 Interchangeable – Other <sup>^^*</sup>	Short term	(1.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

<sup>^</sup>Sub-limit of Cash Credit; <sup>^^</sup>EPC/PCFC/FBP/FBD/EBR; <sup>\*\*</sup>LER: Loan Equivalent Risk

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based – Term Loan	Simple
Long Term – Fund Based – Cash Credit	Simple
Long Term – Fund Based – Working Capital Demand Loan	Simple
Long Term – Fund Based – Working Capital Demand Loan <sup>^</sup>	Simple

Short Term Interchangeable – Non-Fund-Based – EPC^^	Very Simple
Short Term Interchangeable – Bank Guarantee^	Very Simple
Short Term Interchangeable – Letter of Credit^	Very Simple
Short Term Interchangeable – Other^**	Very Simple

*^Sub-limit of Cash Credit; ^^EPC/PCFC/FBP/FBD/EBR; \*\*LER: Loan Equivalent Risk*

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Term Loan	July 2022	NA	July 2027	50.00	[ICRA]A+ (Stable)
NA	Fund Based – Cash Credit	NA	NA	NA	260.00	[ICRA]A+ (Stable)
NA	Fund Based – Working Capital Demand Loan	NA	NA	NA	90.00	[ICRA]A+ (Stable)
NA	Fund Based – Working Capital Demand Loan <sup>^</sup>	NA	NA	NA	(260.00)	[ICRA]A+ (Stable)
NA	Interchangeable – Non-Fund-Based – EPC <sup>^^</sup>	NA	NA	NA	(35.00)	[ICRA]A1+
NA	Interchangeable – Bank Guarantee <sup>^</sup>	NA	NA	NA	(35.00)	[ICRA]A1+
NA	Interchangeable – Letter of Credit <sup>^</sup>	NA	NA	NA	(42.00)	[ICRA]A1+
NA	Short-term – Interchangeable – Other <sup>^^*</sup>	NA	NA	NA	(1.00)	[ICRA]A1+

Source: Company; <sup>^</sup>Sub-limit of Cash Credit; <sup>^^</sup>EPC/PCFC/FBP/FBD/EBR; <sup>\*\*</sup>LER: Loan Equivalent Risk

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**Annexure II: List of entities considered for consolidated analysis – Not Applicable.**

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