November 14 2022

Lubi Industries LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	175.00	115.00	[ICRA]A+(Stable); reaffirmed
Long-term Fund-based – Working Capital Demand Loan	-	60.00	[ICRA]A+(Stable); reaffirmed
Long-term Fund-based – Working Capital Demand Loan^	(90.00)	(90.00)	[ICRA]A+(Stable); reaffirmed
Short-term Interchangeable – Non-fund-based- EPC ^*	(85.00)	(85.00)	[ICRA]A1+; reaffirmed
Short-term Interchangeable – Bank Guarantee^	(25.00)	(25.00)	[ICRA]A1+; reaffirmed
Short-term Interchangeable – Letter of Credit^	(35.00)	(35.00)	[ICRA]A1+; reaffirmed
Short-term Interchangeable – Other^**	(1.00)	(1.00)	[ICRA]A1+; reaffirmed
Total	**175.00**	**175.00**	

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

Rationale

The reaffirmation of the ratings continues to take into account the extensive experience of the partners of Lubi Industries LLP (Lubi) in the pump industry, proven track record of operations with an established brand presence on the back of diversified product portfolio and a wide distribution network. Further, the ratings factor in the strong financial risk profile, characterised by steady revenue growth, low gearing levels and strong debt protection metrics. Moreover, the ratings consider the firm's end-to-end, in-house manufacturing facilities, along with its in-house technical and product development capabilities. The in-house capabilities ensure superior product quality, while maintaining a competitive cost structure with its peers.

The ratings, however, continue to be constrained by the firm's working capital intensive operations, its exposure to intense competition and the susceptibility of its profitability to volatility in raw material prices. Further, it is exposed to unfavourable monsoon patterns, which may adversely impact the demand for submersible pumps, its major revenue contributor. ICRA also notes that owing to the firm's limited liability partnership structure, the net worth remains vulnerable to capital withdrawals, which has been a consistent phenomenon over the 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.

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 moderate capex plans.

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 the Porecha families, who have been involved in manufacturing all kinds of 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. Hence, 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 pump industry.

Wide product profile in pumps segment and operating efficiency supported by end-to-end in-house manufacturing facilities; wide distribution network – Lubi manufactures a diverse range of products (more than 5,000 pumps and motors, including submersible pumps, centrifugal mono block pumps and others. Its operations are supported by end-to-end, in-house manufacturing facilities (including foundry, electrical laminations and insulated and copper wire) along with in-house technical and product development capabilities. Further, it has a capex plan to set up a new foundry unit with better technologies at an estimated cost of ~Rs.70 crore, to be funded through debt-to-equity ratio of 72:28. This ensures high product quality, while maintaining a competitive cost structure compared to other players. Lubi has a strong, pan India distribution network of more than 1,000 dealers, supported by 22 branches and 47 exclusive distributors. Lubi remains a predominantly domestic player since export sales have been driving ~20-22% to its total revenue 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 ~11% for the past five years. The total debt of the firm stood at ~Rs. 226 crore majorly comprising working capital debt of ~Rs. 151 crore, while the rest were interest bearing unsecured loans as on March 31, 2022. The firm's capital structure remained comfortable with a gearing of 0.6 time as on March 31, 2022. The debt coverage indicators also remained robust, given its limited debt levels with an interest coverage of 8.2 times, NCA/total debt of 21.1% and total debt/OPBDITA of 1.7 times as of FY2022. Further, the capital structure and the 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 volatile raw material prices and intense competition – Lubi's key raw materials are metals (copper, steel), which account for ~40-50% of the total raw material cost and, thus, any adverse movement in their prices affects its margins, given the stiff competition from organized and unorganized players, limiting its flexibility to fully pass on such price movements. The firm's operating profit margin declined to 14.1% in FY2022 against 16.5% in FY2021, owing to scaling back of costs related to Covid-19 restrictions. Further, 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, 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 35% as on March 31, 2022, primarily because of high inventory stocking at the year end to cater to the higher demand during pre-monsoon months. Its inventory levels were high at 151 days in FY2022 end.

Risk associated with LLP structure as reflected in consistent capital withdrawals in the past – The firm is exposed to the capital withdrawal risks by the partners, given its limited liability partnership structure. The partners of the firm have consistently withdrawn capital and the same was ~Rs. 31 crore in FY2022 (this excludes the interest of ~Rs. 37 crore on the partners' capital), which is ~52% of the firm's profit after tax (PAT). The firm's net worth remains vulnerable to material capital withdrawals. Though the partners have infused funds as and when needed in the form of unsecured loans, any such material withdrawals that weakens the net worth or its liquidity profile will remain a key rating monitorable.

Liquidity position: Strong

Lubi's liquidity position is **strong** as indicated by its ability to generate healthy cash accruals over the years, absence of any term debt repayments in FY2023 and cushion of ~Rs.40 crore in the working capital limits as on September 30, 2022. Further, the company has proposed the enhancement in its current working capital limits, which will support its liquidity profile. ICRA notes that the company has plans to avail the debt of Rs. 50 crore in FY2023 for the capex of setting up a new foundry; however, moratorium period availability and limited repayments compared to its cash accruals are likely to keep the liquidity at comfortable levels.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the firm demonstrates a significant improvement in revenues and profitability, leading to higher-than-expected cash accruals. Additionally, better working capital management and strong net worth may also lead to a rating upgrade.

Negative factors – Negative pressure on Lubi's ratings could arise if any decline in revenues or profitability leads to lower-than-expected cash accruals; or if any major debt-funded capex, or any substantial capital withdrawal or stretch in the working capital cycle materially weakens the capital structure and liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 the Porecha families, has been manufacturing all kids of 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 1,000 dealers, 47 distributors and 22 branches spread across the country.

Key financial indicators (audited)

Standalone#	FY2021	FY2022
Operating income	800.8	961.6
PAT	85.8	96.5
OPBDIT/OI	16.5%	14.1%
PAT/OI	10.7%	10.0%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	1.1	1.7
Interest coverage (times)	11.6	8.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore #Nos adjusted wherever necessary

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 14, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 14, 2022	Oct 28,2021	Oct 27,2020	Jun 28, 2019
1	Cash Credit	Long term	115.00	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Working Capital Demand Loan	Long term	60.00	-	[ICRA]A+(Stable)	-	-	-
3	Working Capital Demand Loan*	Long term	(90.00)	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
4	EPC/PCFC/FBP/ FBD/EBR*	Short Term	(85.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Bank Guarantee*	Short Term	(25.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Letter of Credit*	Short Term	(35.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	LER*	Short Term	(1.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *Sub-limit of Cash Credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - fund-based- cash credit	Simple
Long term-fund-based- working capital demand loan	Simple
Short term- Non-fund-based- Interchangeable- EPC/PCFC/FBP/ FBD/EBR	Very Simple
Short term- Interchangeable- bank guarantee	Very Simple
Short term-Interchangeable- letter of credit	Very Simple
Short term-Interchangeable- LER	Very Simple

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	**Cash Credit**	NA	NA	NA	75.00	[ICRA]A+(Stable)
NA	**Cash Credit**	NA	NA	NA	40.00	[ICRA]A+(Stable)
NA	**Working Capital Demand Loan**	NA	NA	NA	60.00	[ICRA]A+(Stable)
NA	**Working Capital Demand Loan***	NA	NA	NA	(50.00)	[ICRA]A+(Stable)
NA	**Working Capital Demand Loan***	NA	NA	NA	(40.00)	[ICRA]A+(Stable)
NA	**EPC/PCFC/FBP/ FBD/EBR***	NA	NA	NA	(50.00)	[ICRA]A1+
NA	**EPC/PCFC/FBP/ FBD/EBR***	NA	NA	NA	(35.00)	[ICRA]A1+
NA	**Bank Guarantee***	NA	NA	NA	(25.00)	[ICRA]A1+
NA	**Letter of Credit***	NA	NA	NA	(35.00)	[ICRA]A1+
NA	**LER***	NA	NA	NA	(1.00)	[ICRA]A1+

*Source: Firm; *Sub-limit of cash credit*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22-61143443
supriob@icraindia.com

Ruchi Shah
+91 079- 4027 1524
ruchi.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches