Ladhuram Toshniwal & Sons
(Proprietor- Ladhuram Toshniwal & Sons Electricals Private Limited)

December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	3.50	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**38.50 (Rs. Thirty-Eight Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Ladhuram Toshniwal & Sons (LTS) continues to be constrained by modest scale of operations, moderate capital structure, weak debt protection metrics, highly competitive electrical equipment industry, working capital intensive operations and elongation of operating cycle mainly due to dip in sales despite reduction in absolute debtor and inventory levels in FY21. However, the ratings take into account improvement in sales in 7MFY22 though moderate financial performance in FY21 (refers to the period April 01 to March 31) owing to Covid-19. The ratings also continue to derive comfort from the extensive experience of promoters, established market position and brand name, long standing relationship with suppliers and satisfactory distribution network.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PAT margin above 2% on a sustainable basis
- Improvement in overall gearing ratio below 1.5x and TD/GCA below 10x.
- Improvement in operating cycle below 150 days on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Fall in the total operating income below Rs.90 crore on a sustained basis
- Deterioration in overall gearing above 2x on a sustained basis
- Elongation in operating cycle beyond 300 days on a sustained basis
- Delay in infusion of funds by the promoters to meet repayment obligations as and when required

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

Despite being in the business for over five decades, the company's scale of operation remains moderate with operating income of Rs.87.85 crore in FY21 (Rs.146.75 crore in FY20) amid covid hit year. The net worth of the company stands at Rs.27.23 crore while the total capital employed stood at Rs.72.44 crore as on March 31, 2021. The small size restricts the financial flexibility of the company in times of stress and deprives it from benefits of economies of scale.

Moderate capital structure and weak debt protection metrics

The capital structure of the company remained moderate marked by overall gearing ratio of 1.66x as on March 31, 2021 (Prov.) as against 1.94x as on March 31, 2020 due to reduction in unsecured loans. The company has repaid unsecured loans of Rs.18.70 crore during FY21 by way of reduction in inventory and receivables coupled with the availment of covid loans of around Rs.6.90 crore. The company has to rely on further reduction in debtor and inventory levels and infusion of unsecured loan from promoters to meet its debt repayment obligations in FY22. Timely support from promoters in case of requirement remains a key rating monitorable.

Working capital intensive nature of operations & elongation of operating cycle

The company's working capital intensiveness is marked by high inventory holding and collection period. The company purchases in larger quantity from its principal suppliers in order to claim a bulk purchase discount from them resulting in higher average inventory holding period. The working capital cycle elongated to 274 days in FY21 (Prov.) from 196 days in FY20 on account of lower sales, while the creditor's period could partially offset the elongation in the working capital cycle. The average collection days stood at 139 days in FY21 (Prov.) as against 89 days in FY20 while the average inventory days

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

stood at 201 days in FY21 (Prov.) as against 137 days in FY20. At an absolute level, both inventory and debtor levels reduced from Rs.47.65 crore and Rs.37.37 crore as on Mar 31, 2020 to Rs.42.19 crore and Rs.30.41 crore respectively as on Mar 31, 2021. Reduction in inventory and debtor levels was utilized to repay unsecured loans.
As on Sep 30, 2021, the inventory and receivables further reduced to Rs.38.50 crore and Rs.25.65 crore respectively. The debtors collection period has improved to 84 days on an annualized turnover of Rs.120 crore while the inventory days stood at 134 days on an average Inventory of Rs.40 crore in H1FY22. As articulated by management, the company plans to bring down the debtor levels resulting in overall improvement in working capital cycle.

Highly competitive electrical equipment industry
The electrical market is highly fragmented with the presence of large number of unorganized players in India constraining the pricing power of organized sector players. There is high competition within the industry due to low entry barriers. Apart from unorganized sector, the group also faces competition from organized sector players.

Key Rating Strengths
Extensive experience of promoters
The promoters, Mr. Madan Gopal Toshniwal, and Mr. Surya Prakash Toshniwal have experience of more than five decades in the industry. It is a closely held family managed business and the board comprises of Madan Gopal Maheshwari, Chand Prakash Toshniwal along with Nitesh Toshniwal and Abhishek Toshniwal.

Improvement in sales in H1FY22 though moderate financial performance in FY21 owing to Covid-19
The company generated total operating income of Rs.87.85 crore during FY21 (Prov.) as against Rs.147.99 crore in FY20 amid covid-19 hit year as operations were impacted for most part of Q1FY21 and sales started to pick up only from September 2020 onwards as things started to move towards normalization. The PBILDT margin stood at 6.34% while the PAT margin stood at 0.61% during FY21 (Prov.).
The company has generated operating income of approximately Rs.56.5 crore during 7MFY22.

Established market position and brand name, long standing relationship with suppliers
LTS has been distributing products of Philips India Ltd for more than 5 decades and has been one of the largest distributor for around three decades, contributing around 65-70% of the total sales from the sale of Philips products. Further, the group is also involved in the distribution of audio products which include speakers, microphones, audio players etc. for Bosch, Harman International (India) Private Limited.

Satisfactory distribution network
LTSEPL has an established distribution network. Sale is made through channel partners (50%) and direct sale (50%). In direct sale, products are sold directly to customers in the professional category mainly for office lighting purpose, project related work, home decoration etc. These are high value high margin products in wide range, for which the group also has to maintain high inventory. In case of sale through channel partners, half the revenue is earned by sale to government and the remaining comes from sale to private institution. The group sells through a network of over 2000 dealers, distributors and retailers. These are low value low margin products sold in bulk, for which the group has to maintain low inventory level. Dhanashree Electronics Limited (DEL) sells the products either directly or through the network of LTSEPL.

Liquidity: Stretched
Liquidity is stretched with gross cash accruals of Rs.0.64 crore against debt repayment obligation of Rs.0.78 crore during FY21 (Prov.). The shortfall was funded mainly through reduction in inventory levels and availment of Covid-19 loans. The average utilization levels of the working capital limits stood around 86% for the last twelve months ended October 31, 2021. The company has repaid unsecured loans of Rs.18.70 crore by reduction in inventory and debtor levels and availing covid loan of Rs.6.90 crore during FY21.
In FY22, the company has debt repayment obligation of Rs.2.94 crore out of which Rs.1.40 crore has already been repaid as on Sep 30, 2021. The balance repayment which would be met out from a mix of cash accruals, reduction in inventory and receivable levels and unsecured loans from promoters if required. The company has undrawn working capital limits of Rs.10.66 crore as on November 28, 2021.

Analytical approach: Standalone
Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Wholesale Trading](#)

About the Company

LTSEPL was established as a partnership firm between two brothers Mr. Madan Gopal Maheswari (Toshniwal) and Mr. Surya Prakash Toshniwal in 1967. Later in 2008, LTS was reconstituted as a proprietorship firm, wherein LTSEPL became the sole proprietor of the firm. It is involved in distribution of various electronic products namely lighting, CCTV camera, fans, solar products etc. for various brands across India mainly for Philips India Limited (PIL). The firm is associated with Philips India Ltd, since 1970 as one of its largest distributors.

LTS is a closely held family managed business. The board comprises of Madan Gopal Maheshwari, Chand Prakash Toshniwal, Nitesh Toshniwal and Abhishek Toshniwal.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (P)	7MFY22 (P)
Total operating income	147.99	87.85	56.50
PBILDT	8.24	5.57	NA
PAT	0.79	0.53	NA
Overall gearing (times)	1.94	1.66	NA
Interest coverage (times)	1.17	1.13	NA

A: Audited; P: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL Ratings continues to place the rating of Ladhuram Toshniwal & Sons under Issuer Not Co-operating vide Press release dated April 21, 2021.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	35.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	3.50	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	35.00	CARE BB; Stable	-	1)CARE BB; Stable (02-Mar-21)	1)CARE BB; Stable (25-Feb-20)	1)CARE BB; Stable (15-Oct-18) 2)CARE BB; Stable (04-Oct-18)
2	Non-fund-based - ST-Letter of credit	ST	3.50	CARE A4	-	1)CARE A4 (02-Mar-21)	1)CARE A4 (25-Feb-20)	1)CARE A4 (15-Oct-18) 2)CARE A4 (04-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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