



RATING RATIONALE

30 October 2020

LKP Finance Limited

Brickwork Ratings reaffirms ratings for the Bank Loan Facilities of Rs. 125 Crs. of LKP Finance Limited

Particulars:

Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2019)	Present
Fund Based	125.00	125.00	Long Term	BWR BBB-/Stable	BWR BBB-/Stable (Reaffirmed)
Total	125.00	125.00	Rs. One Hundred Twenty Five Crs. Only/-		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank Loan facilities is provided in Annexure-I&II

RATING REAFFIRMED / OUTLOOK

Brickwork Ratings (BWR) reaffirms BWR BBB-/Stable for the bank loan facilities amounting to Rs.125 Crs of LKP Finance Limited (LKPFL or the company). The rating reaffirmation factors in the experienced promoters and management team, comfortable capital position with a low gearing and improvement in financial performance during H1FY21. However, the rating is constrained by earnings volatility due to high revenue dependence on trading in equity and debt market securities.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes that LKPFL's business risk profile will be maintained over the medium term.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

KEY RATING DRIVERS

- **Credit Strengths:**

Experienced promoters and management team: The group's promoters have vast experience in the industry. The company's management consists of experienced professionals with a long track record in the financial services space. The company's Chairman and Executive Director Mr. Mahendra V Doshi is the company's promoter. He is supported by an experienced board of directors and a professional management team. Chief Finance Officer Mr. S S Gulati, is a chartered accountant with more than 10 years of experience in the industry.



Comfortable capital position and low gearing: As on 30 September 2020, the company's networth stood at Rs. 179.82 Crs, compared with Rs 146.30 Crs as on 31 March 2020. LKPFL has maintained its gearing ratio below 1 time in recent years. As on 30 September 2020, the company's gearing ratio stood at 0.28 times, against 0.25 times as on 31 March 2020. As of end-H1FY21, the company's total borrowing stood at Rs. 50.35 Crs, the same being at Rs. 35.97 Crs as of end-FY20. LKPFL has not opted for a moratorium from any of its lenders. BWR believes the company's capital position is sufficient to pursue growth and also cover for any asset-side risks over the medium term.

- **Credit Risks:**

Income volatility: During the last couple of years, the company has seen a fluctuation in revenue generation and profitability. Due to high dependency on the trading of shares and debt market securities, the company has observed volatility in its earnings profile. The company had an investment book of Rs.141.68 Crs as on 30 September 2020, which mainly consisted of equity shares to the tune of 82.11% and balance debt securities and other investments at 17.89%.

Losses during FY20: The company reported a loss of Rs. 22.73 Crs during FY20 against a profit after tax of Rs. 19.80 Crs during FY19. This loss during FY20 was mainly because of a net loss on fair value changes of Rs 30.10 Crs (as per IND AS) caused by the crash in equity stock markets in March 2020. The market value of the company's investments declined during March 2020. However, the same improved during H1FY21. In addition, due to weak market conditions and sentiment, the business did not pick up during H2FY20, and the same has affected the company's revenue generation and profit.

Nevertheless, the company has shown a substantial improvement in profitability in H1FY21. During H1FY21, the company has reported a total income of Rs 46.71 Crs, with profit after tax of Rs. 31.76 Crs.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: A significant improvement in the financial risk profile, including a substantial increase in revenue and profitability, while maintaining gearing, will be rating positives.

Negative: A significant deterioration in business volumes, or the earnings and capital profile, will be rating negatives.

LIQUIDITY INDICATORS: ADEQUATE

As on 30 September 2020, the company had liquidity of Rs. 140.12 Crs, i.e., free stocks/investments of Rs 118.13 Crs, and cash and cash equivalents of Rs. 21.89 Crs against no stipulated debt obligation between 1 November 2020 to 31 March 2021. The company also has undisbursed sanctions of over Rs. 100.00 Crs as on date.



COMPANY PROFILE

LKP Group was established in 1948 and headquartered at Mumbai, Maharashtra, by Mr. L K Panday, Mr. C P Mehta and Mr. Mahendra V Doshi. It was originally incorporated as Elkaypee Merchant Financing in May 1984, and subsequently, it was converted into a public limited company in February 1986. It was listed on the BSE in 1994. In 2008, the company's name was changed to LKP Finance Limited. The company is a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India and is engaged in the business of finance and trading in shares and securities, and derivatives, among others.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20
Result Type		Audited	Audited
Total Income	Rs in Crs	44.68	19.44
Profit After Tax	Rs in Crs	19.82	(22.69)
Networth	Rs in Crs	171.60	146.30
Debt: Networth	Times	0.33	0.25

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (2020)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs.Crs.)	Rating	19-Nov-19	29-Oct-18	26-Jul-17
Fund Based	Long Term	125.00	BWR BBB-Stable	BWR BBB-Stable	BWR BBB Stable	BWR BBB-Stable
Total		125.00	Rupees One Hundred Twenty Five Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)

- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)

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LKP Finance Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Federal Bank	Cash Credit	25.00	0.00	25.00
2	Bank of India	Overdraft	100.00	0.00	100.00
Total Rupees One Hundred Twenty Five Crores only/-					125.00

ANNEXURE II

INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS : NA

ANNEXURE III:

List of entities consolidated: NA



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.