



RATING RATIONALE

27 Jan 2023

LKP Finance Limited

Brickwork Ratings downgrades and withdraws the rating for the Bank Loan facilities of Rs.125 crs. of LKP Finance Ltd.

Particulars

Instruments**	Amount (Rs.Crs)		Tenure	Rating	
	Previous	Present		Previous (29 Oct 2021)	Present
Fund Based (Cash Credit/ Overdraft)	125.00	125.00	Long Term	BWR BBB/Stable <i>(Upgraded from BWR BBB-/Stable)</i>	BWR BBB-/ Stable (Downgraded & Withdrawn)
Total	125.00	125.00	Rupees One Hundred Twenty-Five Crores Only/-		

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

Issuance of advisory was published dated 04 Nov 2022

**Details of Bank loan facilities in Annexure-I

RATING ACTION / DOWNGRADE & WITHDRAWAL

Brickwork Ratings (BWR) downgrades and withdraws the rating of Bank loan facilities of Rs.125 Crs of LKP Finance Limited, as tabulated above.

The rating downgrade for the bank loan facilities factors in the decline in the revenues and profitability for FY22 and for the nine month period ending 31 Dec 2022, on a year-on-year (y-o-y) basis, and any likelihood of volatility in the market movement to adversely impact the earnings of the company over the near term, as the dependence of revenues and profitability is on trading of shares and debt market securities. The company's ability to improve upon its earnings, i.e revenues and profitability from its core business activities shall remain the key monitorable. The rating however continues to factor in the continued support of the promoters and their expertise in the line of activity, its legacy of existence in the share trading market and ability to follow a conservative approach to remain risk averse, established through its ability to duly service the debt and interest obligations.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes that LKP's will continue to maintain its credit risk profile over the medium term.

The withdrawal of rating of the bank loan facilities of the company is at the request of the company, no objection for the withdrawal of rating conveyed by the lenders of the bank loan facilities. The rating withdrawal is in line with BWR's policy on Withdrawal of Ratings.



KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

KEY RATING DRIVERS

Credit Risks:-

Fluctuation in revenue generation and profitability during past and current year to date:-

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.248.04 Crs as on 30 September 2022, which mainly consisted of equity shares to the tune of 55.87% and balance of debt securities and other investments at 44.13%.

On a y-o-y basis, the company's earnings for FY22 had nearly halved, it earned a total income of Rs. 55.70 Crs (FY21: Rs. 97.13 Crs) and net profits were Rs.32.81 Crs (FY21: Rs. 60.74 Crs). The interest income of the company had increased to Rs. 10.76 Crs (FY21: Rs.4.03 Crs) however the core revenue contributor - the net gain in fair value changes was lower at Rs.43.86 Crs (FY21: Rs.91.32 Crs). Though there were efforts to reduce its costs through a decline in employee benefit expenses by ~Rs 3 Crs, it had negligible impact on the net profits of the company, as the net profits nearly halved to Rs.32.81 Crs in FY22 from Rs.60.74 Crs in FY21

As per the latest published results of the company for the period ending 31 Dec 2022, the 9MFY23 income was Rs.25.69 Crs as against Rs.70.58 Crs for 9MFY22. This was mainly on account of higher income from gain on sale of security and derivatives transactions of Rs.60.23 Crs during 9MFY22 against Rs. 8.63 Crs during 9MFY23. The total expenses for 9MFY23 were Rs.8.4 Crs against Rs.22.26 Crs for 9MFY22 mainly on account of net loss on fair value changes amounting to Rs.9.47 Crs during 9MFY22; further on expenses the impairment cost of the company for 9MFY23 was at Rs. 2.05 Crs (9MFY22: Rs.2.92 Crs) and employee benefit expenses were Rs.2.59 Crs (9MFY22: Rs.5.52 Crs); The company for 9MFY23 had generated net profits of Rs. 15.27 Crs as against Rs. 42.46 Crs for 9MFY22.

BWR considers the fluctuations in the market conditions and its impact on the lower levels of earnings and profits, as a key rating sensitivity.

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 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 2022, the company's net worth stood at Rs.293 Crs, compared with Rs 289.31 Crs as on 31 March 2022. LKPFL has maintained its gearing ratio below 1 time in recent years. As on 30 September 2022, the company's gearing ratio stood at 0.40 times, against 0.29 times as on 31 March 2022. As of end-H1FY23, the company's total borrowing stood at Rs. 118.44 Crs, the same being at



Rs. 82.26 Crs for FY22. BWR believes the company's capital position is sufficient to pursue growth and also cover for any asset-side risks over the medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of LKP . BWR has applied its rating methodology as detailed in the Rating Criteria .

RATING SENSITIVITIES

Positive: The experienced promoters and management team, having 74 plus years of experience in the same line of business.

The BWR rated fund based facilities are secured by pledge of G-Sec and bonds with AA ratings and above and the impact of notional losses caused by market volatility, will have negligible impact on the serviceability of debt/ interest obligations. Considering the nature of liquidity of the securities against which borrowings are availed, increase in interest income.

Negative: The rating is constrained by earnings volatility due to high revenue dependence on trading in equity and debt market securities.

LIQUIDITY POSITION:

The company avails working capital facilities totalling to Rs.125 Crs repayable on demand and intraday limits repayable on same day from Federal Bank - Rs 25 Crs and Bank of India - Rs.100 Crs.It does not have any scheduled debt obligations. Liquidity position as of 30 September 2022 indicates adequate liquidity.

COMPANY PROFILE:

LKP Group was established in 1948, 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 BSE in 1994. Further in 2008, the company's name was changed to **LKP Finance Limited (LKPFL)**. The company is a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India and engaged in the business of finance and trading in shares and securities, derivatives etc.

The LKP group is engaged in capital and debt market related activities such as merchant banking, institutional equity, wholesale debt market, retail debt market, PF Advisory, research, retail equity, distribution and depository services of financial products (mutual funds and insurance). However, it is to be noted that the group operates its merchant banking division only for the debt placements.

KEY FINANCIAL INDICATORS

Standalone Financial	Units	FY20	FY21	FY22	H1FY22	H1FY23
Result Type		Audited	Audited	Audited	Unaudited	Unaudited
Total Income	Rs.in Crs	19.44	97.13	55.70	65.56	16.24
Net Profit	Rs.in Crs	-22.69	60.74	32.81	49.62	9.23
Networth	Rs.in Crs	146.3	255.26	287.67	302.35	292.98
Borrowing	Rs.in Crs	35.97	45.78	82.26	130.35	118.44
Gearing	times	0.25	0.18	0.29	0.43	0.40

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

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

S.No	Instrument	Current Rating			Rating History			
		Type	Amount (₹ Crs)	Rating	2022 4-Nov-22	2021 29-Oct-21	2020 30-Oct-20	2019 19-Nov-19
	Fund Based (Cash Credit/Over draft)	Long term	125.00	BWR BBB-/ Stable (downgrade and withdrawn)	Issuance of Advisory	BWR BBB/ Stable (Upgraded from BWR BBB-/ Stable)	BWR BBB-/ Stable	BWR BBB-/ Stable
Total			125.00	Rupees One Hundred Twenty-Five Crores Only				

COMPLEXITY LEVELS OF THE INSTRUMENTS

Bank Loans - Simple

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 Facilities rated by BWR

Sr.	Name of Bank	Type of Facility	Long Term (Rs in Crs)	Short Term (Rs in Crs)	Total (Rs in Crs)
1	Federal Bank	Cash Credit	Long Term	--	25.00
2	Bank of India	Overdraft		100.00	
Total					125.00

ANNEXURE II - INSTRUMENT (NCD/CP) DETAILS: Not Applicable

ANNEXURE III List of entities consolidated : NA

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