

LGB Forge Limited

March 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term: Fund based facilities	17.00	17.00	[ICRA]AA(SO) (Stable); upgraded from [ICRA]AA-(SO) (Stable)
Short Term: Non-fund-based facilities	10.00	10.00	[ICRA]A1+(SO); reaffirmed
Total	27.00	27.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings are based on an unconditional and irrevocable corporate guarantee from L.G. Balakrishnan and Bros Limited (LGB / the guarantor, rated [ICRA]AA/Stable/[ICRA]A1+/MAA/Stable) for the Rs.27.00 crore bank lines of LGB Forge Limited (LGB Forge) and an undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

Please find below link to the last rating rationale of the guarantor.

[Rating rationale of guarantor](#)

Outlook: Stable

LGB Forge's rating outlook would be driven by the rating outlook of the guarantor.

Key rating drivers

Credit strengths

- **Corporate Guarantee from LGB:** The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by LGB and undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

Liquidity Position:

The liquidity of the company is expected to be driven by the liquidity profile of the guarantor.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: L.G. Balakrishnan & Bros Limited rated [ICRA]AA(Stable)/[ICRA]A1+/MAA/Stable The assigned rating is based on an unconditional, irrevocable corporate guarantee extended by L.G. Balakrishnan & Bros. Limited
Consolidation / Standalone	The rating is based on corporate guarantee and undertaking provided by the guarantor, that it would ensure that the related debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

About the company:

LGB Forge Limited (“LGB Forge”/ “the Company”), incorporated in FY2009, is a relatively small-scale forging unit primarily engaged in the manufacturing of forged (range of hot, cold and warm forgings) and machined automotive components. In January-08, LGB de-merged its forging division into a separate company, LGB Forge w.e.f. April 01, 2008 to increase focus on the forging operations. LGB Forge continues to derive operational, management and financial support from LGB. LGB holds 19.33% stake in LGB Forge. The product portfolio of LGB Forge consists of auto electric and transmission line components marketed to established tier I suppliers including Denso India and GKN driveline. Domestic market forms the bulk of the company’s business presently and the company has manufacturing facilities located at Coimbatore and Mysore. The forging operations of LGB Forge are supported by in-house machining and heat treatment facilities.

During June 2018, LGB Forge acquired a company in Pondicherry called M/s. Supreme Automec Private limited (SAPL). The acquired company is merged with LGB forge w.e.f from July 2018. SAPL is an auto component manufacturer with forging and machining capabilities in Pondicherry.

About the guarantor:

Established in 1937 by Mr. LRG Naidu, LGB, started out as a partnership firm operating bus transport routes in Tamil Nadu. LGB, the flagship company of the group, is the largest manufacturer of automotive chains in India which it supplies to all major domestic OEMs in the two-wheeler industry. Marketing its chains and sprockets under the proprietary brand “Rolon”, the company caters to ~70% of the Indian two-wheeler OEM market and ~50% of the replacement market. The company has 22 manufacturing facilities in India and one facility in the USA. The consolidated operations of LGB includes, subsidiary LGB USA Inc. and 25% associate company (M/s. Renold Chain India Private Limited).

LGB Forge's Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	83.1	99.8
PAT (Rs. crore)	-2.1	-3.4
OPBDIT/OI (%)	-1.1%	1.7%
RoCE (%)	2.7%	-0.3%
Total Debt/TNW (times)	2.7	4.9
Total Debt/OPBDIT (times)	-19.3	9.5
Interest coverage (times)	-0.3	0.6

Source: Company, ICRA Research; OPBITDA: Operating profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

LGB's Key financial indicators (audited)

	FY2017(Consol)	FY2018(Consol)
Operating Income (Rs. crore)	1,258.6	1,418.0
PAT (Rs. crore)	74.1	88.5
OPBDIT/OI (%)	13.1%	13.8%
RoCE (%)	18.3%	20.9%
Total Debt/TNW (times)	0.3	0.2
Total Debt/OPBDIT (times)	0.8	0.6
Interest coverage (times)	11.4	18.5

Source: Company, ICRA Research; OPBITDA: Operating profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				March 2019	Nov 2017	Sep 2016	Apr 2015	
1	Fund based facilities	17.00	-	[ICRA]AA (SO)(Stable)	[ICRA]AA- (SO)(Stable)	[ICRA]AA- (SO)(Stable)	[ICRA]AA- (SO)(Stable)	
2	Non-fund-based facilities	10.00	-	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	17.00	[ICRA]AA(SO)(Stable)
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	10.00	[ICRA]A1+(SO)

Source: LGB Forge Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
	Not applicable	

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