September 15, 2021

LGB Forge Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/CC	17.00	17.00	[ICRA]AA(CE)(Stable); Reaffirmed
Short Term - Non Fund Based	10.00	10.00	[ICRA]A1+(CE); Reaffirmed
Total	**27.00**	**27.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB+/[ICRA]A2

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above ratings are based on the strength of the corporate guarantee provided by L.G. Balakrishnan & Bros Limited (LGB/the guarantor; rated [ICRA]AA(Stable)/MAA (Stable)/[ICRA]A1+) for the rated bank facilities LGB Forge Limited (LGBFL). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, LGB.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the corporate guarantee issued by LGB in favour of the said instruments. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by L.G. Balakrishnan & Bros Limited is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AA(CE)(Stable)/[ICRA]A1+(CE)** against the rating of [ICRA]BBB+/[ICRA]A2 without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the ratings of the aforesaid instrument as well. The ratings of the instruments may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or if there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- *The company shall not declare dividend for any year except out of profits of the current year and subject to no default in payment/repayment obligation to the bank and prior written approval of the bank*
- *During the currency of the loan, the Guarantor/Borrower will not, without bank's permission (a) Do a share buyback, (b) Formulate any scheme of amalgamation or reconstruction, (c) Avail any loan; and/or stand as surety or guarantor for any third-party liability or obligation*
- *The company shall not repay monies brought in by the promotors/directors/principal shareholders and their friends and relatives by way of deposits/loans/advances. Further the rate of interest, if any, payable on such deposits/loans/advances should be lower than the rate of interest charged by the bank on its credit facilities.*
- *If the rating of the instrument falls below A+ (TR) or (SO), the bank shall have right to review and revise the applicable interest rate and charges*

Key rating drivers and their description

Credit strengths

Corporate guarantee from LGB towards rated bank facilities of LGB Forge Limited – The ratings derive comfort from the irrevocable and unconditional corporate guarantee extended by LGB towards LGB Forge Limited's rated bank facilities.

Comfortable capital structure and coverage metrics – LGB Forge Limited has a comfortable capital structure and coverage metrics with a gearing of 0.4 times as on March 31,2021 and interest coverage of 4.4 times in FY2021. The company's coverage metrics improved from FY2020 levels in FY2021, aided by increase in operating profit margins amid modest debt levels. LGB Forge Limited's interest coverage improved to 4.4 times in FY2021 from 2.1 times in FY2020 and its DSCR improved to 2.3 times in FY2021 from 1.3 times in FY2020. LGBFL's OPM increased to 10.3% in FY2021 (PY: 5.7%) due to cost savings initiatives taken and increase in revenue share from the margin-accretive cold forging and exports segment. Further, in the absence of debt funded capex plans, LGBFL's capital structure and debt protection metrics are likely to remain comfortable going forward.

Credit challenges

Margins susceptible to increase in commodity prices in FY2022 – LGBFL's primary raw material is steel, the price of which has increased substantially over the past few months and is at a multi-year high currently. While its margins remain susceptible to increase in raw material prices, its ability to pass through the price increases, although with a lag of two to three months mitigates the risk to an extent. The company derived 19% of its revenues through exports in FY2021, and increase in exports freight cost could also impact its margins to an extent in FY2022.

Impending electrification of automotive industry could impact company's revenues over the medium term – The company's products primarily cater to auto electrical and transmission components, and the usage of same is expected be minimised in electric vehicles in comparison to those with internal combustion engines. As a result, the move towards electrification of automobiles might impact its revenues over the medium to long term.

Modest scale of operations; intense competition from larger/unorganised players restricts pricing flexibility – The company has a modest scale of operations with an operating income (OI) of Rs. 92.1 crore in FY2021, that limits the benefits arising from economies of scale. Further, LGBFL is a relatively small player in the highly competitive forging industry with pressure from larger players, restricting its pricing flexibility. It also has relatively low market share with its customers such as Denso India Private Limited, Lucas TVS Limited, Danfoss Power Solutions Limited, among others, because of its scale. Nonetheless, the established relationships with reputed tier-1 auto components suppliers support its revenue to an extent.

Liquidity position:

For the support provider (L.G. Balakrishnan & Bros Limited): Adequate

LGB's liquidity is adequate with healthy cash flow from operations of Rs. 214.3 crore in FY2021 and unencumbered cash and bank balances of Rs. 143.0 crore as on March 31,2021. The company has adequate buffer in its working capital lines with an average working capital utilization of 19.1% of sanctioned limits of Rs.125.0 crore and 11.7% of drawing power for the period July 2020 - June 2021. Going forward, LGB (at the consolidated level) has repayment obligations of Rs. 12.0 crore in FY2022, Rs. 4.2 crore in FY2023 and Rs. 14.5 crore in FY2024 for its existing term loans and fixed deposits. The company also has capex plans of Rs. 225.0 crore in FY2022, Rs.120.0 crore in FY2023 and Rs. 75.0 crore in FY2024, predominantly for capacity enhancement through additions and debottlenecking, product diversification and maintenance. The capex is likely to be funded through internal accruals.

For the rated entity (LGB Forge Limited): Adequate

LGBFL's liquidity position is adequate with a retained cash flows of Rs. 4.0 crore in FY2021 and adequate buffer in its working capital limits. It had an average working capital utilization of 11% of the sanctioned limit of Rs. 17.0 crore and 14% of the drawing power for the period July 2020 – July 2021. Going forward, LGB has minimal repayment obligations (for the existing term loans) of Rs. 0.9 crore in FY2022, Rs. 0.4 crore in FY2023 and Rs. 0.1 crore FY2024 and no major capex plans. ICRA expects LGB's liquidity position to remain adequate in the near term.

Rating sensitivities

Positive factors: The ratings could be upgraded if there is an improvement in the credit profile of the guarantor, L.G. Balakrishnan & Bros Limited.

Negative factors: The ratings may be downgraded if there is a deterioration in the credit profile of the guarantor or weakening of the form of support extended by the guarantor, L.G. Balakrishnan & Bros Limited. Further, downward pressure on LGB Forge's rating could emerge with sharp deterioration in its earnings or liquidity position; or, significant rise in debt levels either due to working capital stretch or significant capex.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Rating Approach - Explicit third-party support
Parent/Group Support	Parent/Group Company: L.G. Balakrishnan & Bros Limited, rated [ICRA]AA(Stable)/MAA(Stable)/[ICRA]A1+. The assigned rating for LGB Forge Limited is based on an unconditional, irrevocable corporate guarantee extended by LGB. Link to the latest rating rationale of the guarantor
Consolidation/Standalone	The ratings are based on the company's standalone financials

About the company

LGB Forge Limited ("LGB Forge"), incorporated in 2008, is involved in manufacturing of forged (range of hot, cold and warm forgings) and machined components. LGB Forge's product portfolio consists of auto electric and transmission line components and its clientele includes established tier I suppliers such as Denso India Private Limited, Lucas TVS Limited, Danfoss Power Solutions Limited, among others in the LCV, PV, 2W segments. Its derives majority of the revenue from the domestic market (81% of sales in FY2021) and the remaining from exports. The company has manufacturing facilities located at Coimbatore, Puducherry and Mysore with a capacity to produce 7.8 million number of components in hot forging and 4.2 million number of components in the cold forging segment. It is a part of larger LGB group, which includes L.G. Balakrishnan & Bros Limited.

Key financial indicators

LGB Forge Limited	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	101.14	92.13	26.88
PAT (Rs. crore)	-0.6	3.4	0.6
OPBDIT/OI (%)	5.7%	10.3%	7.2%
PAT/OI (%)	-0.6%	3.7%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2	*
Total Debt/OPBDIT (times)	2.6	1.4	*
Interest Coverage (times)	2.1	4.4	3.9

Source: *Company, ICRA Research; Note: Amounts in Rs. crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; * not available*

About the Guarantor (L.G. Balakrishnan & Bros Limited)

With presence of over six decades, LGB is amongst the largest manufacturers of 2W automotive chains in India (marketed under the brand 'Rolon'). It derived 81% of its revenues in FY2021 from chains and allied products and the remaining 19% of revenues in FY2021 were derived from the metal forming segment. In terms of segments, 2W constituted over 80% of the revenues, while 37% of revenues were derived from the replacement segment. The company has one subsidiary LGB USA Inc, which manufactures fine blanking products. LGB (standalone) accounted for 95% of the consolidated revenues and 84% of the consolidated debt in FY2021. The company has 22 manufacturing facilities spread across Tamil Nadu, Maharashtra, Uttarakhand, Karnataka, Haryana, Rajasthan and Pondicherry in India and one facility in the USA, at the consolidated level.

Key financial indicators

LGB - Consolidated	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,542.8	1,609.0	392.6
PAT (Rs. crore)	90.1	132.8	33.1
OPBDIT/OI (%)	12.2%	15.8%	15.5%
PAT/OI (%)	5.8%	8.3%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5	*
Total Debt/OPBDIT (times)	0.7	0.3	*
Adjusted Total Debt/OPBITA (times)^	0.9	0.4	*
Interest Coverage (times)	11.5	23.2	33.5

Source: *Company, ICRA research; Note: Amounts in Rs. crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; *not available; ^ adjusted for corporate guarantee of Rs. 27.0 crore extended to LGB Forge Limited by L.G. Balakrishnan & Bros Limited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of April 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 15, 2021	Jun 12, 2020	-	Mar 28, 2019
1	Fund-based/CC	Long-term	17.0	2.4	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	-	[ICRA]AA(SO) (Stable)
2	Non-Fund Based	Short-term	10.0	-	[ICRA]A1+(CE)	[ICRA]A1+(CE)	-	[ICRA]A1+(SO)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based/CC	Simple
Short -term – Non-Fund Based	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	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(CE)(Stable)
NA	Bank Guarantee/Letter of Credit	NA	NA	NA	10.00	[ICRA]A1+(CE)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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

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