



March 3, 2010

ICRA reaffirms the LA-/A1 ratings for Optionally Convertible Debentures and enhanced bank facilities of L G Balakrishnan & Bros Limited; stable outlook assigned

ICRA has reaffirmed the LA- (pronounced L A minus) rating assigned to Rs. 944.2 million Optionally Convertible debenture (OCD) programme of L. G. Balakrishnan and Bros Limited (LGB). ICRA has also reaffirmed the LA- (pronounced LA minus) rating to the Rs.1,000 million long term loans (enhanced from Rs. 15 million) and Rs. 700 million (enhanced from Rs. 580 million) fund based limits of the company. ICRA has also reaffirmed the A1 (pronounced A one) rating on the Rs. 520 million (reduced from Rs. 658 million) non-fund based limits of LGB[†]. The outlook on the long term ratings is stable.

The ratings reflect LGB's dominant and stable market position in the Indian automotive chains industry, its decade long track record and well established & diversified OEM client base encompassing all the major OEMs in the Indian two-wheeler industry. LGB also enjoys a strong presence in the two-wheeler replacement market which helps partially mitigate the cyclicity in OEM and exports. The ratings also factor in the expected growth which ICRA anticipates in the Indian two-wheeler industry and LGB position as a key player catering to the industry's demand for chains and sprockets.

The ratings are however constrained by the commoditised nature of the automotive chain industry resulting in relatively thin pricing power and margins, especially in the OEM segment. The ratings also factor in the support extended by LGB to its loss making group company LGB Forge through a corporate guarantee. LGB's leverage, after including the corporate guarantee extended to LGB Forge, remains high. With LGB Forge continuing to post losses, LGB might be called upon to support LGB Forge's operations and debt servicing.

About the Company

Established in 1937 by Mr. LRG Naidu, L.G. Balakrishnan & Bros (LGB), started out as a partnership company operating bus transport routes in Tamil Nadu. Over the years the company grew to become a 500 bus fleet unit with a captive bodybuilding, tyre re-treading and engine servicing plant in the mid 1950's. Mr. LRG Naidu's sons and subsequently grandsons took over each unit and set up separate companies in the late 1950's.

Incorporated as a private limited company in 1957, the flagship company of the group, LGB is the first manufacturer of automotive chains in India. Currently marketed under the proprietary brand "Rolon", the company's premier chain brand caters to approximately 70-72% of the Indian 2W OEM market and 45% of the replacement markets.

LGB, which primarily started with the transmission business, over the years ventured into new areas like forging, textiles, tyre re-treading and distribution for MICO. However the company is now in a consolidation phase and has exited non core business like textiles, re-treading and forging. In January-08, the company de-merged its forging division into a new listed company, LGB Forge Limited (LGB Forge) w.e.f. April 01, 2008. LGB holds a 10.6% stake in LGB Forge, the promoters hold 44.8% while the balance 44.6% is held by the public. In Oct-08 LGB sold its Industrial Chain Business situated at Gudalur, Dindigul to a 75:25 JV- Renold Chain India Pvt Ltd, with Renold UK Manchester.

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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ICRA Limited

An Associate of Moody's Investors Service

Recent Results

In nine months 2009-108-09, LGB posted a net profit of Rs. 1.85 million on net sales of Rs. 3.97 billion.

For further details please contact:

Analyst Contacts:

Mr. Subrata Ray, (Tel. No. +91 22 30470027)
subrata@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee, (Tel. No. +91-80-43326401/ 098 450 22459)
jayantac@icraindia.com

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

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