February 23, 2023

LGB Forge Limited: [ICRA]BBB- (Stable)/[ICRA]A3 reaffirmed

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]BBB- (Stable) reaffirmed
Short term non-fund-based facilities	10.00	10.00	[ICRA]A3 reaffirmed
Total	**27.00**	**27.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings draw comfort from LGB Forge Limited's ('LGBFL' / 'the company') operational and financial flexibility from being a part of larger Coimbatore-based LGB Group. The promoters have also infused unsecured loans of Rs. 4.5 crore in 9M FY2023 given the weak operating performance and are expected to extend timely and adequate support from promoters to meet the company's operational and financial commitments, on need basis, going forward as well. Further, LGBFL has established client relationships, along with a diversified segment presence and client base.

However, the ratings are constrained by LGBFL's weak operating performance in 9M FY2023, with revenues declining by 14.4% on YoY basis, and the company reporting an operating loss. The lower revenues in 9M FY2023 were due lower production for 3-4 months following machinery breakdown. The lower revenues along with inability to pass through RM price increases completely and higher maintenance expenses resulted in LGBFL reporting operating losses during 9M FY2023, as against an operating profit margin (OPM) of 8.2% during 9M FY2022. The weak accruals resulted in stretched coverage metrics and liquidity as well.

LGBFL has relatively low market share because of its modest scale, and witnesses competition from other forging players. Also, going forward, the impending electrification of automotive industry could have a bearing on the company's revenues over the medium term, by virtue of LGBFL catering to auto electricals. However, company's segment diversification, presence in components that are unlikely to be impacted by the EV transition and anticipated addition of new products going forward, mitigate the risk to an extent.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility arising from being a part of larger Coimbatore-based LGB group – LGBFL enjoys financial flexibility, lender/investor comfort and operational flexibility by virtue of belonging to the larger Coimbatore-based LGB Group. The promoters owned 73.82% stake in the company as on December 31, 2022, with 28.45% stake held by Mr. V Rajvirdhan, grandson of Mr. L. G. Balakrishnan. Additionally, Ms. V Rajasri, grand daughter of Mr. L.G. Balakrishnan, has been appointed as LGBFL's Managing Director (MD) effective February 16, 2023. The promoters have also infused unsecured loans of Rs. 4.5 crore in 9M FY2023 given the weak operating performance, and are expected to extend timely and adequate support, on need basis, to meet the company's operational and financial commitments going forward as well.

Revenue diversification across segments and clients – LGBFL is a tier-II player and supplies to reputed tier-I auto component suppliers in both the domestic and export markets. Its customer profile is diversified, with no single customer accounting for more than 25% of revenues. Further, the company's revenues are diversified across passenger vehicles (PV), light commercial vehicles (LCV) and tractors. This insulates revenues from risks arising from downturn in a particular segment or lower volumes from a specific client to an extent.

Credit challenges

Weak performance 9M FY2023 and stretched coverage metrics – LGBFL's operating income moderated to Rs. 83.8 crore during 9M FY2023 vis-à-vis Rs. 97.9 crore in 9M FY2022, a decline of 14.4% on YoY basis. The lower revenues in 9M FY2023 were due lower production for 3-4 months following machinery breakdown. The lower revenues along with inability to pass through RM price increases completely and higher maintenance expenses resulted in LGBFL reporting operating losses during 9M FY2023, as against an operating profit margin (OPM) of 8.2% during 9M FY2022. The weak accruals resulted in stretched coverage metrics as well.

Modest scale of operations; intense competition from larger/unorganised players restricts pricing flexibility – The company has modest scale of operations with an operating income of Rs. 83.8 crore in 9M FY2023, limiting the benefits arising from economies of scale. 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 because of its scale. Nonetheless, the established relationships with reputed tier-I auto components suppliers support its revenues to an extent.

Impending electrification of automotive industry could have a bearing on the company's revenues – Some of the company's products are auto electrical 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. However, company's segment diversification, presence in components that are unlikely to be impacted by the EV transition and anticipated addition of new products going forward, mitigate the risk to an extent.

Liquidity position: Stretched

The company's liquidity is stretched, impacted by its relatively weak accruals. It had minimal cash balances as on December 31, 2022. LGBFL had Rs. 5.9 crore undrawn working capital lines as on December 31, 2022 (as against drawing power) and its average fund-based utilisation was 51.5% of drawing power for the period twelve months to December 2022. As against these sources of cash, the company has only a Rs. 0.1 crore repayment in Q4 FY2023 and Rs. 0.1 crore in FY2024 on its existing external loans, and maintenance capex of Rs. 2-3 crore for FY2023-FY2025. The promoters have committed to extending timely and adequate financial support, on need basis, to meet the company's operational and financial commitments going forward. LGBFL also enjoys lender/investor comfort by virtue of belonging to the larger Coimbatore-based LGB Group.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a significant improvement in its scale of operations and margins, resulting in improvement in debt protection metrics and liquidity position.

Negative factors – The ratings may be downgraded if there is a sharp deterioration in its earnings or liquidity position; or significant rise in debt levels either due to working capital stretch or significant debt funding capex resulting in Debt/ OPBDITA>3.0x on a sustained basis.

Environmental and social risks

Environmental considerations: LGBFL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, the prospects for LGBFL are linked to the ability of its customers to meet tightening emission requirements. The company also remains exposed to tightening environmental regulations with regard to waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. LGBFL has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and water recycling.

Social considerations: Social considerations for LGBFL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. The company also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ridesharing

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

LGB Forge Limited is involved in manufacturing of forged (hot, warm and cold forgings) and machined components. It is a tier-II auto ancillary player and caters to both domestic (84% of revenues in 9M FY2023) and export markets, and to the PV, LCV and tractor segments. The company has manufacturing facilities located at Coimbatore (Tamil Nadu), Pondicherry and Mysore (Karnataka) with a capacity to produce 6.0 million hot forged components and 6.5 million cold forged components. It is a part of the larger Coimbatore-based LGB Group, which includes L.G. Balakrishnan & Bros Limited ([ICRA]AA (Stable)/[ICRA]A1+). The promoters owned 73.82% stake in the company as on December 31, 2022.

Key financial indicators (Audited)

Standalone	FY2021	FY2022
Operating income	92.1	130.1
PAT	3.4	3.4
OPBDIT/OI	10.3%	7.4%
PAT/OI	3.7%	2.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.2
Total debt/OPBDIT (times)	1.4	1.4
Interest coverage (times)	4.4	4.3

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2022 (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years			
					Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019
					February 23, 2022	August 19 2022	September 15, 2021	June 12, 2020	-	March 28, 2019
1	**Fund based/CC**	Long term	17.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]AA (CE)(Stable)	[ICRA]AA (CE)(Stable)	-	[ICRA]AA (SO) (Stable)
2	**Non-fund based**	Short term	10.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	-	[ICRA]A1+ (SO)

Complexity level of the rated instruments

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 analysing 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 are available on ICRA’s website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	17.00	[ICRA]BBB- (Stable)
NA	**Bank guarantee/Letter of credit**	NA	NA	NA	10.00	[ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
Vinutaa.s@icraindia.com

Chandra Boddu
+91 44 4596 4313
chandra.boddu@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches