December 14, 2023

Lapp India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term fund-based/Non-fund based - Working capital facilities	70.00	70.00	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Fund based – Long-term – term loan	26.00	26.00	[ICRA]A (Stable); reaffirmed
Total	**96.00**	**96.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to draw comfort from the established presence and long track record of operations of Lapp India Private Limited (LIPL) in the cable manufacturing industry, with focus on the instrumentation and building cables segment, and a diversified and reputed client base. ICRA notes that LIPL benefits from being a part of the Lapp Group, which has a worldwide presence in the cables industry, in terms of technical and strategic guidance. LIPL reported a healthy YoY revenue growth of 14% in FY2023, aided by volume growth. ICRA expects the sales volume and profitability to grow in FY2024 as well, backed by expansion post the commissioning of new capacities and the backward integration in PVC compounding and e-beam facility. The ratings further positively take note of the company's favourable capital structure with a gearing of 0.2 times and strong debt protection metrics, with interest coverage ratio of 15.9 times and total debt/OPBDITA of 0.68 for FY2023. Further, the liquidity profile remains healthy with available cash balances of Rs. 45.5 crore as on September 30, 2023 and adequate buffer in the working capital facility.

The ratings, however, remain constrained by the exposure of the company's profitability to the volatility in raw material prices (primarily copper) and the lag in passing on the same to customers. This is mitigated to a certain extent by the presence of a partial price fluctuation clause in some contracts. The ratings are also constrained by the inherent pricing pressure in the cables industry owing to intense competition, though this is mitigated partly by the presence of LIPL in the niche non-retail segments.

The Stable outlook factors in LIPL's steady revenue growth, established track record of operations, strong financial risk profile and a diversified customer and product profile.

Key rating drivers and their description

Credit strengths

Established presence and long track record in cable manufacturing – LIPL is a part of the Lapp Group of companies, which has over six decades of experience in the cable manufacturing business with presence in 19 production sites and over 40 sales companies across the world. LIPL has benefitted from this association through technological know-how from the parent entity.

Diversified and reputed customer base - LIPL has a wide sectoral and geographical diversification and caters to various industrial segments, while the other important markets are the renewable energy, railways and e-mobility. LIPL is an approved vendor for a large number of corporates. A wide product range and a reputed and diversified clientele limit the counterparty credit risk to a large extent.

Improvement in scale and cash accruals – The company witnessed a YoY revenue growth of 14% in FY2023, driven by the increase in sales volumes. The company had an order book of Rs. 227.0 crore as of November 2023, which provides near-term revenue visibility. The new capacity addition in the recent past and the planned expansion in FY2024, predominantly funded by internal accruals, to tap the growing business segments like railways, renewables and e-mobility will support growth, going forward. ICRA expects the company's volume to continue to grow at healthy rate over FY2024-FY2026, driven by healthy demand prospects and likely capacity expansion over the near term. The operating margins are also expected to expand owing to the benefit of growing scale and the recently concluded capex for backward integration in PVC compounding and e-beam facility.

Strong financial risk profile – The company's debt profile has been largely limited to working capital facilities in the last few years. The company's capital structure remains healthy with a strong net worth base of Rs. 312.7 crore and a gearing of 0.2 times as on September 30, 2023. The debt protection metrics remain comfortable with an interest coverage ratio of 15.9 times, total debt/OPBDITA of 0.68 times and NCA/total debt of 96.8% for the year ended September 30, 2023.

Credit challenges

High competitive intensity – The cables industry is inherently competitive with the presence of multiple large established players such as Polycab India Limited, RR Kable Limited, KEI industries etc. It also faces some competition from the unorganised sector. This limits Lapp's pricing power and constrains the margins.

Exposure to raw material price fluctuation risks – The company's profitability metrics remain exposed to the fluctuation in the prices of the key raw material - copper - and the associated lag in passing on the same to the customers. The company is mitigating the risk by inserting a partial price fluctuating clause in the contracts with customers. Also, the competitive intensity in the cables industry puts pressure on the company's margins. Hence, a timely pass-through of the fluctuations in raw material prices to customers remains the key for LIPL's performance. Nevertheless, company hedges its key raw material exposure (copper) to mitigate raw material price fluctuation risk to an extent.

Vulnerability of profitability to movement in foreign exchange rates – LIPL imports around 40% of its raw material (copper) requirements and hence the profitability remains exposed to the fluctuations in foreign exchange. While the company hedges at least 75% of its exposure during a given time, it remains exposed to the forex fluctuations on the balance portion. Nonetheless, the company is focused on increasing the share of procurement from domestic sources which will lower the forex risk and inventory holding period.

Liquidity position: Adequate

LIPL's liquidity position is adequate, supported by healthy cash generation against the debt servicing obligations. The company had free cash and bank balances of ~Rs 45.5 crore and undrawn working capital limits of Rs. 68 crore as on September 30, 2023. Further, the average utilisation level of the limits has remained moderate at 63% in the last 11 months ended October 2023. Going forward, the cash flows are expected to remain sufficient to meet the incremental working capital requirement and planned capex.

Rating sensitivities

Positive factors – The ratings could be revised upwards if the company demonstrates a sustained growth in revenues and profit margins, while maintaining adequate liquidity and healthy debt protection metrics.

Negative factors – Pressure on the ratings could emerge if a sustained slowdown in demand from the end-user industries erodes the scale of operations and profitability. Any large capex or stretch in the working capital cycle that deteriorates the liquidity and credit metrics on a sustained basis will also be a trigger for downgrade. Specific credit metrics for downgrade would be total debt/OPBDITA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on LIPL's standalone financial statements

About the company

Lapp India Private Limited (LIPL), incorporated in 1996, is a part of the Lapp Group of companies, which manufactures cables, connectors, cable glands, conduits and accessories. At present, LIPL is the leading manufacturer of the Lapp Group, with facilities in Bengaluru and Bhopal. The Lapp Group was founded in 1959 by Oskar Lapp to manufacture OLFLEX, the first industrially produced signal cable in the world. The Group has its headquarters in Stuttgart, Germany, and provides integrated solutions and branded products in the field of cable and connection technology. The product portfolio of the Group includes electrical and fibre optic cables, industrial connectors, customised assembly solutions, automation and robotics solutions.

Key financial indicators (audited)

	FY2022*	FY2023 (Provisional)*
Operating income	936.4	1,068.3
PAT	48.8	55.7
OPBDIT/OI	8.6%	8.2%
PAT/OI	5.2%	5.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	0.7	0.7
Interest coverage (times)	22.3	15.9

**Financial year is October-September*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 14, 2023	Dec 23, 2022	Dec 28, 2021	Oct 16, 2020
1	Fund based/Non fund-based facilities	Long term and short term	70.00	--	[ICRA]A (Stable)/ [ICRA] A2+	[ICRA]A (Stable)/ [ICRA] A2+	[ICRA]A- (Positive)/ [ICRA] A2+	[ICRA]A- (Stable)/ [ICRA] A2+
2	Fund-based – term loans	Long term	26.00	20.8	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non fund-based facilities	Simple
Fund-based – Term loans	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	**Fund-based/Non fund-based facilities**	NA	NA	NA	30.00	**[ICRA]A (Stable)/[ICRA]A2+**
NA	**Fund-based/Non fund-based facilities**	NA	NA	NA	40.00	**[ICRA]A (Stable)/[ICRA]A2+**
NA	**Term Loan**	October 2021	NA	February 2027	26.00	**[ICRA]A (Stable)**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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.

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