ICRA

November 23, 2017

LGB Forge Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long term: Fund based facilities	17.00	[ICRA]AA-(SO) (Stable)[1]; reaffirmed
Short term: Non-fund based facilities	10.00	[ICRA]A1+(SO); reaffirmed
Total	**27.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]AA-(SO) (pronounced ICRA double A minus Structured Obligation) for the Rs 17.00 crore fund based facilities of LGB Forge Limited ('LGBFL'/the Company)[2]. The outlook on the long term rating is Stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+(SO) (pronounced ICRA A one plus Structured Obligation) for the Rs.10.00 crore non-fund based facilities of the company.The letters SO in parenthesis suffixed to a rating symbol stand for structured obligation. An SO rating is specific to the rated issue, its terms and its structure. An SO rating does not represent ICRA's opinion on the overall credit quality of the issuers.

Rationale

The rating is solely based on the corporate guarantee extended by L G Balakrishnan and Bros Limited (LGB) (rated [ICRA]AA-/Stable/[ICRA]A1+) and reflect the financial strength of the guarantor. The assigned rating addresses the servicing of the rated facilities to happen as per the terms of the underlying loan and the guarantee arrangement and the rating assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower.

Key rating drivers

Corporate Guarantee from LGB: The [ICRA]AA-(SO) rating addresses the servicing of the rated facilities to happen as per the terms of the underlying loan and the guarantee arrangement and the rating assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower.

Analytical approach: For arriving at the ratings, ICRA has taken into account; inter alia, the explicit support provided by LGB to LGBFL in the form of a corporate guarantee.

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Approach for rating debt instruments backed by third-party explicit support]

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[1] *The rated instrument does not involve a structured payment mechanism*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in / other ICRA Rating publications*

About the company:
LGB Forge Limited ("LGBFL"/ "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 Limited w.e.f. April 01, 2008 to increase focus on the forging operations. LGBFL continues to derive operational, management and financial support from LGB. LGB holds 19.3% stake in LGBFL. The product portfolio of LGBFL 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 LGBFL are supported by in-house machining and heat treatment facilities.

The company reported a net loss of Rs. 2.0 crore on an operating income of Rs. 84.2 crore during FY2017 as against a net loss of Rs. 2.3 crore on an operating income of Rs. 88.9 crore during FY2016.

Guarantor Profile:
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 and it supplies to all major domestic Original Equipment Manufacturer (OEMs) in the two wheeler industry. Currently marketing its chains and sprockets under the proprietary brand "Rolon", the company caters to ~70% of the Indian 2W OEM market and ~50% of the replacement market. LGB had acquired 77% holding in a company (along with a group company and promoters), GFM Corp USA, in November 2012. The subsidiary is into manufacturing of automotive fine blanked components which are supplied to the US market. The company contributed to ~10% of consolidated revenues in FY2016. Over the years, through a re-structuring exercise, the company has exited non-core businesses like textiles and re-treading and had de-merged the forging and sold the industrial chains divisions into separate entities.

Key Financial Indicators of LGBFL

	FY2016	FY2017
Operating Income (Rs. crore)	88.9	84.2
PAT (Rs. crore)	(2.3)	(2.0)
OPBDIT/ OI (%)	2.8%	-1.3%
RoCE (%)	3.8%	2.3%
Total Debt/ TNW+MI (times)	2.5	2.5
Total Debt/ OPBDIT (times)	9.1	(16.8)
Interest coverage (times)	0.7	(0.4)
NWC/ OI (%)	22.8%	19.6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S.No	Name of Instrument			Current Rating	Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				Nov 2017	Sep 2016	April 2015	July 2014
1	Term Loan	Long Term	-	-	-	[ICRA]AA- (SO) (Stable)	[ICRA]AA- (SO) (Stable)
2	Fund based facilities	Long Term	17.00	[ICRA]AA- (SO) (Stable)	[ICRA]AA- (SO) (Stable)	[ICRA]AA- (SO) (Stable)	[ICRA]AA- (SO) (Stable)
3	Non fund based facilities	Short Term	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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash credit	-	-	-	17.00	[ICRA]AA-(SO) (Stable)
-	Letter of credit / Bank guarantee	-	-	-	10.00	[ICRA]A1+(SO)

Source: LGB Forge Limited

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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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