May 31, 2024

LGB Forge Limited: Ratings downgraded to [ICRA]BB+/ [ICRA]A4+; outlook on long-term rating revised to Stable from Negative

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	Downgraded to [ICRA]BB+ from [ICRA]BBB-; outlook revised to Stable from Negative
Short-term non-fund based facilities	10.00	10.00	Downgraded to [ICRA]A4+ from [ICRA]A3
Total	**27.00**	**27.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in ratings for bank lines of LGB Forge Limited ('LGBFL' / 'the company') considers the weaker-than-expected performance in FY2024, and moderation in ICRA's expectations about the company's performance in FY2025. Backed by established relationships with reputed tier-I auto components suppliers, its diversified segment presence and clientele, and stable domestic auto demand, the company was expected to report better performance and higher accruals. However, LGBFL reported only marginal operating profit of Rs. 0.3 crore and cash losses of Rs. 7.1 crore in FY2024, impacted by machinery breakdown in the hot forging division and demand volatility in cold forgings, among other reasons. The cash losses have cascaded into stretched coverage metrics for FY2024. While the accruals are expected to improve going forward, aided by focussed preventive maintenance measures and operational improvement undertaken, the extent of improvement remains to be seen. ICRA expects the performance in FY2025 to remain weaker than the FY2021 / FY2022 levels.

The ratings however, remain supported by the company's operational and financial flexibility by virtue of it being part of the larger Coimbatore-based LGB Group. The promoters have also infused unsecured loans in the company (Rs. 2 crore outstanding as on March 31, 2024), given the subdued operating performance, and are expected to extend timely and adequate financial support, on need basis, to meet the company's operational and financial commitments going forward as well. The company's liquidity position remains adequate, supported by buffer of Rs. 6 crore against the drawing power as on April 30, 2024. 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 the automotive industry could have a bearing on the company's revenues over the medium term, since LGBFL also caters to auto electricals.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by expected improvement in cash accruals and debt metrics, adequate liquidity position and minimal capex plans.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility as part of larger Coimbatore-based LGB Group – LGBFL enjoys financial flexibility, lender/investor comfort and operational flexibility by belonging to the larger, Coimbatore-based LGB Group. The promoters owned 73.79% stake in the company as on March 31, 2024, with 28.45% stake held by Mr. V Rajvirdhan, the grandson of Mr. L. G. Balakrishnan. The promoters have also infused unsecured loans in the company (Rs. 2 crore outstanding as on March 31, 2024), given the weak operating performance, and are expected to extend timely and adequate financial 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 in FY2024. Further, the company's revenues are diversified across passenger vehicles (PVs), light commercial vehicles (LCVs) 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 in FY2024; stretched coverage metrics – LGBFL reported only minimal operating profit of Rs. 0.3 crore in FY2024 (PY: operating loss of Rs. 3.7 crore in FY2023), impacted by machinery breakdown in the hot forging division and demand volatility in cold forgings, among other reasons. The cash losses have cascaded into stretched coverage metrics for FY2024. While the accruals are expected to improve going forward, aided by focussed preventive maintenance measures and operational improvement undertaken, the extent of improvement remains to be seen. ICRA expects the performance in FY2025 to remain weaker than the FY2021 / FY2022 levels.

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. 90.0 crore in FY2024 (YoY decline of 2.9% from Rs. 92.7 crore in FY2023), limiting the benefits 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, its established relationships with reputed tier-I auto component suppliers support its revenues to an extent.

Impending electrification of automotive industry could have bearing on LGBFL's revenues – Some of the company's products are auto electrical components, whose usage is expected to be minimised in electric vehicles (EVs) in comparison to those with internal combustion engines. As a result, the move towards electrification of automobiles might impact LGBFL's revenues over the medium to long term. However, LGBFL's segment diversification, presence in components that are unlikely to be impacted by the EV transition, and anticipated addition of new products mitigate the risk to an extent.

Liquidity position: Adequate

The company's liquidity is adequate, supported by buffer of Rs. 6 crore against the drawing power as on April 30, 2024. While the average fund based utilisation for the last twelve months from April 2023 to March 2024 was 85.6% of drawing power and 75.7% of sanctioned facilities, the company reduced its fund based working capital utilisation with proceeds of Rs. 13.5 crore received in April 2024 from the slump sale of the Puducherry unit (out of the total sale value of Rs. 15 crore). The company has cash and cash equivalents Rs. 0.5 crore as on March 31, 2024. Further 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. As against these sources of cash, the company has debt repayment obligations of Rs. 0.9 crore in FY2025, Rs. 1.2 crore in FY2026 and Rs. 1.8 crore in FY2027 on existing loans. The capex commitment is expected to be minimal over the medium term.

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 sustained weak performance, working capital stretch or sizeable debt-funded capex resulting in deterioration in liquidity position or significant rise in debt levels.

Environmental and social risks

Environmental considerations: LGBFL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive original equipment manufacturer (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 is also exposed 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 ride sharing.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on LGBFL's standalone financial statements

About the company

LGB Forge Limited is involved in manufacturing forged (hot, warm and cold forgings) components. It is a tier-II auto ancillary player and caters to both domestic (~85% of revenues in FY2024) and export markets, including PV, LCV and tractor segments. The company has manufacturing facilities at Coimbatore and Mysore with a production capacity of 4.4 million hot forging components and 9.8 million number of cold forging components per annum in FY2024. Apart from this, the company also used to do job work for machining in its Puducherry plant. This has now been sold to L.G. Balakrishnan & Bros. Ltd. ([ICRA]AA (Stable)/[ICRA]A1+), on slump sale basis in April 2024, for a consideration of Rs. 15 crore. The company is a part of the larger Coimbatore-based LGB Group, which includes L.G. Balakrishnan & Bros Limited. The promoters owned 73.79% stake in the company as on March 31, 2024.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	92.7	90.0
PAT	(9.3)	(9.9)
OPBDIT/OI	-4.0%	0.3%
PAT/OI	-10.0%	-11.0%
Total outside liabilities/Tangible net worth (times)	1.8	2.9
Total debt/OPBDIT (times)	(7.3)	95.4
Interest coverage (times)	(1.7)	0.1

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					May 31, 2024	Aug 22, 2023	Feb 23, 2023	Aug 19, 2022	Sep 15, 2021
1	**Fund based/CC**	Long term	17.00	--	**[ICRA]BB+ (Stable)**	**[ICRA]BBB- (Negative)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]AA (CE) (Stable)**
2	**Non-fund Based**	Short term	10.00	--	**[ICRA]A4+**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A1+ (CE)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based facilities	Simple
Short-term non-fund based facilities	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]BB+ (Stable)**
NA	**Bank Guarantee/Letter of Credit**	NA	NA	NA	10.00	**[ICRA]A4+**

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

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

Bikram Keshari Swar
+91 44 4596 4311
bikram.swar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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