Lumino Industries Limited

October 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities - Cash Credit	53.53	55.53	[ICRA]A-(Positive) reaffirmed
Fund-based facilities – Bills discounting under letter of credit	59.47	59.47	[[ICRA]A-(Positive) reaffirmed
Non-fund based facilities – Letter of Credit	65.00	65.00	[ICRA]A2+ reaffirmed
Non-fund based facilities – Bank Guarantee	246.00	270.00	[ICRA]A2+ reaffirmed
Unallocated limits	26.00	0.00	-
Issuer Rating	-	-	[ICRA]A-(Positive) outstanding
Total	**450.00**	**450.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 55.53-crore[1] cash-credit facilities, the Rs. 59.47-crore bill-discounting facilities of Lumino Industries Limited (LIL) [2]. The outlook on the long-term rating is Positive. ICRA has further reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 65.00-crore letter of credit facilities and the Rs. 270.00-crore bank guarantee facilities of the company. ICRA has also has an outstanding issuer rating of [ICRA]A- for the company.

Rationale

The ratings consider the improvement in the financial profile of the company in FY2018 on the back of healthy project execution in the EPC segment. The operating income witnessed a healthy growth at Rs. 524 crore in FY2018 compared to Rs. 368 crore in FY2017, mainly driven by an increase in project revenue. The OPM improved to 14.8% in FY2018 from 11.1% in FY2017. The capital structure remained conservative, with negligible long-term debt, leading to a gearing of 0.4 times. Debt coverage indicators remained comfortable with interest cover at 6.7 times and Total Debt/OPBITDA at 0.9 times during FY2018 driven by healthy profitability and cash flows. Given the healthy order book of Rs. 1,533 crore (~2.9 times of FY2018 turnover), ICRA expects LIL's performance to sustain going forward.

The ratings also factor in the established record of the company and the experience of the promoters in the cables and conductors industry. ICRA notes that the domestic demand outlook for conductors is likely to remain favourable given the Government's focus on rural electrification and power distribution network in the country. The ratings are, however, constrained by intense competition and tender-based nature of the business, which limit the scope of margin improvement. However, the presence of price-variation clause in most of the orders of both the manufacturing and

[1] *100 lakh = 1 crore = 10 million*

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

turnkey contracts mitigates volatility of major raw materials prices. While the healthy order-book position for the turnkey business provides revenue visibility over the near term, timely execution remains a challenge and any substantial delay in the same would adversely impact the financial position of the company. Despite an increase in turnover, the company's scale of operations remains limited compared to some of the larger and more established players of the industry. In addition, ICRA notes that the project order book comprises orders from only two entities, which leads to client concentration risk. Nonetheless, the projects are mostly funded by the Central Government schemes under the Ministry of Power, which mitigates counterparty risks to some extent. The ratings are also constrained by the working-capital intensive nature of operations given the high receivables in the EPC segment due to retention money held by customers. However, modest cash and bank balance support liquidity. The ability of the company to execute orders in hand in a timely manner, while efficiently managing its working capital requirements, would be key rating sensitivities, going forward.

Outlook: Positive

ICRA believes that LIL will continue to benefit from the healthy order book in both the manufacturing and EPC segments as well as the extensive experience of its promoters. With increased thrust of the Government on rural electrification, the EPC segment is poised to grow in the medium term, leading to higher operating margins. The outlook may be revised to Stable if there is a weakening of the financial risk profile. The outlook may be revised to Negative if there is a material delay in project execution or if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Healthy financial performance in FY2018: LIL's turnover grew by ~42% to reach Rs. 524.3 crore in FY2018, driven by an increase in the EPC project execution. While the manufacturing segment reported a YoY growth of ~45%, the EPC segment registered a ~89% YoY growth in FY2018. The OPBITDA increased to Rs. 77.44 crore in FY2018 from Rs. 40.72 crore in FY2017. Despite an increase in turnover, the company's scale of operations remains limited compared to some of the larger and more established players of the industry.

Healthy order-book position provides revenue visibility - LIL had a healthy order book position of ~Rs. 1,533 crore as on March 31, 2018, which indicates a trailing book-to-bill ratio of ~2.9 times of turnover for FY2018. Out of this, the EPC order book stood at ~ Rs. 1,261 crore and the manufacturing division order book stood at ~Rs. 272 crore. The turnkey orders are scheduled to be executed over the next three to four years, thereby providing revenue visibility in the near to medium term.

Conservative capital structure and comfortable coverage indicators- The company's total debt comprised primarily working-capital facilities with negligible long-term debt as on March 31, 2018. LIL has a conservative capital structure with a gearing of 0.4 times. This, along with a healthy cash and bank balance of ~Rs. 82 crore, out of which ~Rs. 37 crore was unencumbered, provides financial flexibility. Debt coverage indicators remained comfortable with interest cover at 6.7 times and Total Debt/OPBITDA at 0.9 times during FY2018 driven by healthy profitability and cash flows.

Established track record of the company and vast experience of the promoters in the cables and conductors industry- LIL was set up by Mr. Puroshottam Das Goel in 1989 as a partnership firm and was incorporated as a company in 2005. The company has a track record of nearly 30 years in the cables and conductors industry and caters to established players in the power infrastructure sector.

Favourable demand prospects for conductors due to thrust on rural electrification– Given the thrust on rural electrification, the demand prospects for conductors remain favourable in the medium term. LIL operates under various GoI schemes like Backward Region Grant Fund (BRGF), Deen Dayal Upadhyaya Gram Jyoti Yojna (DDUGJY) etc. in which the funds are tied up with Rural Electrification Company (REC) and Power Finance Company (PFC), which, in turn, mitigates counterparty risks.

Credit challenges

Limited scope of margin expansion given the tender-based nature of business; however, price-variation clause for most of the high-value items mitigates risks of margin fluctuations - The tender-based system of awarding government contracts, coupled with competitive business environment, characterised by the presence of many players, limit the scope of margin expansion. LIL has price-variation clauses in its contracts and it can pass on any increase in raw-material costs to the end customers, thus mitigating the risks of margin fluctuations to an extent.

Working-capital intensive nature of operations given the high proportion of income from the EPC division - In the EPC division, the company has high receivables on account of retention money held by customers. The working-capital intensity is expected to increase in the future as higher proportion of business is expected to accrue from turnkey operations.

Exposure to project-execution risk in the EPC division - The current orders in the EPC division have an average tenure of 24-36 months. Any delay in execution and completion of the projects will have an adverse impact on the revenue growth and liquidity of the company.

Exposure to customer-concentration risk in the turnkey division - In the project division, the current outstanding order book of ~Rs. 1,261 crore comprises only two parties, North Bihar Power Distribution Company Limited and West Bengal State Electricity Distribution Company Limited, which expose LIL to customer-concentration risk. LIL, however, expects to address the same by participating in upcoming tenders in other states/geographies.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

LIL was set up as a partnership firm in 1989 and was incorporated as a company in 2005. It manufactures conductors and cables including all aluminium conductors (AAC), all alloy aluminium conductors (AAAC), aluminium conductors steel reinforced (ACSR) and aerial bunched cables (ABC) at its manufacturing facility in Howrah. It also undertakes rural electrification projects in Bihar and West Bengal under various GoI schemes.In FY2018, the company reported a net profit of Rs. 45.54 crore on an operating income of Rs. 524.24 crore compared to a net profit of Rs. 22.94 crore on an operating income of Rs. 368.48 crore in the previous year.

Key financial indicators (Audited)

	FY2017	FY2018	Q1 FY2018^	Q1 FY2019^
Operating Income (Rs. crore)	368.5	524.3	123.6	155.0
PAT (Rs. crore)	22.9	45.5	7.5	10.0
OPBDIT/OI (%)	11.1%	14.8%	11.3%*	12.3%*
RoCE (%)	25.9%	35.0%		
Total Debt/TNW (times)	0.3	0.4		
Total Debt/OPBDIT (times)	1.0	0.9		
Interest coverage (times)	3.2	6.7	8.0**	8.5**

^Provisional

**Represents PBDIT/OI ; ** Represents PBDIT/Interest*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019) Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	August 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Issuer rating	Long term	-		[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
2	Fund based facilities – Cash Credit	Long term	55.53		[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
3	Fund based facilities – Bills Discounting under Letter of Credit	Long term	59.47		[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
4	Non-fund based facilities – Letter of Credit	Short term	65.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
5	Non- fund based facilities – Bank Guarantee	Short term	270.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Issuer rating	-	-	-	-	[ICRA]A-(Positive)
	Fund based facilities – Cash Credit	-	-	-	55.53	[ICRA]A-(Positive)
	Fund based facilities – Bills Discounting under Letter of Credit	-	-	-	59.47	[ICRA]A-(Positive)
	Non-fund based facilities – Letter of Credit	-	-	-	65.00	[ICRA]A2+
	Non- fund based facilities – Bank Guarantee	-	-	-	270.00	[ICRA]A2+

Source: Lumino Industries 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.

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