

Lapp India Private Limited

Instrument	Amount In Rs. Crore	Rating Action
Fund Based/Non-fund based limits	85.00	[ICRA]A-(Stable)/[ICRA]A2+ reaffirmed
Total	85.00	

ICRA has reaffirmed the long term rating of [ICRA]A- (pronounced ICRA A minus) and the short term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to Rs 85.00 crore¹ fund based/ non-fund based limits of Lapp India Private Limited (LIPL)[†]. The outlook on the long term rating is Stable.

The reaffirmation of ratings factors in the group support received by LIPL from the Lapp group of companies which have a track record of over 5 decades in the cable manufacturing business worldwide; and the long-standing presence and established track record of LIPL in the cables industry aided by a diversified product portfolio. Further, the ratings continue to positively factor in the healthy capital structure of the company with a gearing of 0.23 times as on H1 FY2016² end with long-term debt being limited to term-loan(ECB) availed from its parent entity. Moreover, the ratings also factor in the favorable demand prospects of the cable industry as the demand for cables is derived from demand from diverse industrial segments such as machine tools, engineering, automobiles etc. The ratings, however, continue to remain constrained by the vulnerability of the company's profitability to fluctuations in key raw material prices. LIPL's profitability was significantly impacted during H1 FY2016 owing to steep fall in raw material prices, which could not be reset for sales made in categories other than the project segment (which is protected by presence of escalation clauses); and the aggressive pricing adopted by the company to improve its overall market share. In addition, the profitability was also impacted owing to outsourcing of certain processes in cable manufacturing from the Bengaluru plant, to cater to catalogue based orders. The company's profitability is expected to improve in H2 FY2016 aided by new customer acquisitions made in H1 FY2016 and moderation of the effect of raw material price movements owing to prudent purchase strategies adopted by the company. ICRA also notes that LIPL proposes to hedge its overall copper purchases going forward, which is expected to shield it from sharp movements in raw material prices. Further, the ratings continue to remain constrained by the relatively high over head costs involved in operation of the Bhopal and Bengaluru plants, the highly competitive nature of the cables industry in India ; and exposure of the company's profitability to volatility in foreign exchange fluctuations mitigated to a certain extent by the hedging policy adopted by the company. In addition, the ratings continue to remain impacted by the relatively high working capital intensity of the company owing to high inventory requirements.

Going forward, the company's ability to manage its raw material costs and improve overall profitability while effectively managing its working capital requirements levels remains crucial from a credit perspective.

Company Profile

Lapp India Pvt. Ltd. (LIPL) is a part of the Lapp Group of companies which is into manufacturing of Cables, Connectors, Cable Glands, Conduits and Accessories. LIPL commenced operations in the year 1996 and is currently the third largest manufacturing facility of the Lapp Group with facilities at Bengaluru and Bhopal in India. The Lapp group was founded in 1959 by Oskar Lapp for manufacturing of OLFLEX, the first industrially produced signal cable in the world. The group is headquartered in Stuttgart, Germany and is a provider of integrated solutions and branded products in the field of cable and connection technology. The product portfolio of the group includes electrical and fiber optic cables, industrial connectors and screw, customized assembly solutions, automation and robotics solutions etc.

Recent Results

As per the unaudited & provisional results for H1 FY2016³, LIPL reported an operating income of Rs.206.02 crore as against an operating income of Rs.399.05 crore in FY2015 (audited).

June 2016

¹ 100 lakh = 1 crore = 10 million

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

² Financial year of LIPL is from October 1 of a given year to September 30 of the subsequent year

³ Financial year of LIPL is from October 1st of a given year to September 30th of the subsequent year



For further details, please contact:

Analyst Contacts:

Mr. Sabyasachi Majumdar (Tel. No. +91 124 4545304)
sabyasachi@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500