

August 30, 2021

L.G. Balakrishnan & Bros Limited: Ratings reaffirmed at [ICRA]AA(Stable)/MAA(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
FD Programme	40.00	40.00	MAA (Stable); reaffirmed
Fund-based -Term Loans	100.00	-	-
Long term - Fund-based facilities	125.00	125.00	[ICRA]AA (Stable); reaffirmed
Short term: Non-fund Based facilities	100.00	100.00	[ICRA]A1+; reaffirmed
Long term – Unallocated	-	100.00	[ICRA]AA (Stable); reaffirmed
Total	365.00	365.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in L.G. Balakrishnan & Bros Limited's (LGB) healthy financial risk profile and its established presence in the domestic two-wheeler (2W) chain segment. The company's revenue grew by 4.3% to Rs. 1,609.0 crore in FY2021 (PY: Rs. 1,542.8 crore) aided by relatively better performance of the replacement segment, despite the decline in domestic OEM sector demand due to the Covid-19 pandemic. For Q1 FY2022, LGB reported revenues of Rs. 392.6 crore (PY: Rs. 194.6 crore). Its operating profit margins (OPM) increased to 15.8% in FY2021 from 12.2% in FY2020 due to increased revenues from the margin-accretive replacement segment and cost saving initiatives undertaken, and LGB's accruals improved to Rs. 213.9 crore in FY2021 from Rs. 124.2 crore in FY2020, though the pandemic halted its operations in Q1 FY2021. The healthy accruals resulted in prepayment of borrowings, along with strengthening of its already healthy capital structure and debt metrics. As on March 31, 2021, the company's gearing stood at 0.1 times (PY: 0.2 times), with interest coverage of 23.2 times (PY:11.5 times)¹. The company's liquidity position remains adequate, supported by Rs. 143.0 crore of unencumbered cash and bank balances and adequate buffer in its working capital lines.

In FY2022, ICRA expects LGB's revenues to be supported by the underlying domestic 2W demand (which accounts for over 80% of revenues) and anticipated healthy performance of the replacement segment, despite any headwinds that may arise from a possible third wave of infection and unforeseen supply chain disruption (especially due to the semiconductor shortage). While the increase in steel prices could have a bearing on margins, the improved operating leverage and sustenance of cost saving initiatives undertaken in FY2021, and passthrough part of the price increase albeit with a lag of two to three months, are expected to support its cost structure. Despite the relatively high capex of Rs. 225.0 crore in FY2022, the company debt metrics are expected to remain comfortable with anticipated healthy accruals, in the absence of incremental debt funding. Over the medium term, the company's revenue may be vulnerable to risks arising from the impending electrification of vehicles, due to minimal usage of chains in electric 2W in comparison to internal combustion driven 2W. However, the company's plans on product diversification, sizeable portion of revenues from the replacement segment and anticipated EV penetration of only 8-10% of new vehicle sales by FY2025 mitigate the risk to an extent.

¹ Adjusted for the corporate guarantee of Rs. 27.0 crore, given to LGB Forge Limited, the company's gearing and TD/OPBITDA stood at 0.1 times and 0.4 times, respectively in FY2021.

Key rating drivers and their description

Credit strengths

Dominant market position in domestic 2W chain segment – LGB manufactures and markets chains and allied components (81% of operating income (OI) in FY2021) primarily for 2Ws and metal forming products (19% of OI in FY2021) for 2Ws, passenger vehicles (PVs) and commercial vehicles (CVs). The company remains an established player in the domestic two-wheeler chain segment with market share of over 60%. It is a tier-I supplier and has healthy share of business across 2W OEMs.

Significant presence in the replacement segment– The company derived 51% of its revenues from the OEM segment, 37% from the replacement segment and 12% of its revenues from exports in FY2021. The company's revenue grew by 4.3% to Rs. 1,609.0 crore in FY2021 (PY: Rs. 1,542.8 crore) aided by relatively better performance of the replacement segment, despite the decline in domestic OEM demand due to the Covid-19 pandemic.

Healthy operating margins, comfortable capital structure and adequate liquidity – The company's operating profit margins (OPM) increased to 15.8% in FY2021 from 12.2% in FY2020 due to increase in revenue share from the margin-accretive replacement segment and cost saving initiatives undertaken. LGB's accruals improved to Rs. 213.9 crore in FY2021 from Rs. 124.2 crore in FY2020, despite the pandemic halting operations in Q1 FY2021. The healthy accruals resulted in prepayment of borrowings along with strengthening of its already healthy capital structure and debt metrics. As on March 31, 2021, the company's debt reduced to Rs. 83.5 crore (PY: Rs. 133.1 crore)² and its gearing stood at 0.1 times (PY: 0.2 times), with interest coverage of 23.2 times (PY:11.5 times). Further, the company's liquidity position is adequate, supported by Rs. 143.0 crore of unencumbered cash and bank balances and adequate buffer in working capital lines with an average working capital utilization of 19.1% of sanctioned limits of Rs.125 crore in the twelve months ended June 2021. Further, in absence of incremental debt for capex, LGB's debt protection metrics are likely to remain comfortable.

Credit challenges

Impending electrification of automotive industry may impact revenue – The move towards electrification of automobiles might impact the company's revenues over the medium to long term due to minimal usage of chains in electric 2W in comparison to internal combustion driven 2W. However, the company has plans to diversify its products by reentering into industrial chains with ending of a non-compete clause with an erstwhile JV partner. Further, LGB has been declared as a successful applicant of the corporate insolvency process of RSAL Steel and Private Limited and acquisition of this company would widen the company's product portfolio. The same coupled with sizeable portion of revenues from the replacement segment and anticipated EV penetration of only 8-10% of new vehicle sales by FY2025 mitigates the risk to an extent.

Margins susceptible to increase in raw material prices – LGB's primary raw material is steel, the price of which has increased substantially over the past few months and is at a multi-year high currently. As a result, the company's margins could be impacted in FY2022. However, its ability to pass through part of the price increases, although with a lag of two to three months mitigates the risk to an extent. Further, in FY2022, LGB is likely to benefit from improved operating leverage and sustenance of cost saving initiatives undertaken in FY2021.

High dependence on the 2W industry – LGB derives over 80% of its revenues from the 2W industry and its revenues are susceptible to demand slowdown in the 2W segment. However, the company's established presence, low client concentration and sizeable portion of revenues from the replacement segment mitigate the risk to an extent.

² Adjusted for the corporate guarantee of Rs. 27.0 crore, given to LGB Forge Limited, the company debt stood at Rs. 110.0 crore as on March 31, 2021 (PY: Rs. 160.1 crore). Its gearing and TD/OPBITDA stood at 0.1 times and 0.4 times, respectively in FY2021.

Liquidity position: Adequate

LGB's liquidity is adequate with healthy cash flow from operations of Rs. 214.3 crore in FY2021 and unencumbered cash and bank balances of Rs. 143.0 crore as on March 31, 2021. The company has adequate buffer in its working capital lines with an average working capital utilization of 19.1% of sanctioned limits of Rs.125.0 crore and 11.7% of drawing power for the period July 2020 - June 2021. Going forward, LGB (at the consolidated level) has repayment obligations of Rs. 12.0 crore in FY2022, Rs. 4.2 crore in FY2023 and Rs. 14.5 crore in FY2024 for its existing term loans and fixed deposits. The company also has capex plans of Rs. 225.0 crore in FY2022, Rs.120.0 crore in FY2023 and Rs. 75.0 crore in FY2024, predominantly for capacity enhancement through additions and debottlenecking, product diversification and maintenance. The capex is likely to be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade LGB's rating if the company demonstrates significant growth in its scale of operations and sustained improvement in profitability, along with product diversification. Specific metrics that could lead to an upgrade would be RoCE improving above 25% on a sustained basis.

Negative factors – Negative pressure on LGB's rating could arise if the company's debt levels increase significantly due to increase in working capital requirements or higher-than-estimated capex, resulting in deterioration of total debt/OPBITDA over 1.5 times on a sustained basis. Any significant decrease in the top line beyond the estimates owing to electrification of vehicles could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the L.G. Balakrishnan & Bros Limited and its subsidiaries as mentioned in Annexure-2

About the company

With presence of over six decades, LGB is amongst the largest manufacturers of 2W automotive chains in India (marketed under the brand 'Rolon'). It derived 81% of its revenues in FY2021 from chains and allied products and the remaining 19% of revenues in FY2021 were derived from the metal forming segment. In terms of segments, 2W constituted over 80% of the revenues, while 37% of revenues were derived from the replacement segment. The company has one subsidiary LGB USA Inc, which manufactures fine blanking products. LGB (standalone) accounted for 95% of the consolidated revenues and 84% of the consolidated debt in FY2021. The company has 22 manufacturing facilities spread across Tamil Nadu, Maharashtra, Uttarakhand, Karnataka, Haryana, Rajasthan and Pondicherry in India and one facility in the USA, at the consolidated level.

Key financial indicators

Consolidated	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,542.8	1,609.0	392.6
PAT (Rs. crore)	90.1	132.8	33.1
OPBDIT/OI (%)	12.2%	15.8%	15.5%
PAT/OI (%)	5.8%	8.3%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5	*
Total Debt/OPBDIT (times)	0.7	0.3	*
Adjusted Total Debt/OPBITA (times)^	0.9	0.4	*
Interest Coverage (times)	11.5	23.2	33.5

Source: Company, ICRA research; **Note:** Amounts in Rs. crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; *not available; ^ adjusted for corporate guarantee of Rs. 27.0 crore extended to LGB Forge Limited by L.G. Balakrishnan & Bros Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
					Aug 30,2021	Aug 28,2020	Dec 30,2019	Oct 10,2019	Dec 13,2018	Sep 07,2018	May 23,2018
1 Term Loan	Long term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)
2 Fund-based facilities	Long term	125.00	35.16	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)
3 Non-fund based facilities	Short term	100.00	18.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Fixed Deposit	Medium term	40.00	-	MAA(Stable)	MAA(Stable)	MAA(Stable)	MAA(Stable)	MAA(Stable)	MAA(Stable)	MAA(Stable)	MAA-(Stable)
5 Unallocated	Long term	100.00	-	[ICRA]AA (Stable)	-	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed Deposit	Simple
Fund Based Facilities	Simple

Non-fund Based facilities	Very Simple
Long term – Unallocated	Not applicable

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit	NA	NA	NA	40.00	MAA (Stable)
NA	Fund-based facilities	NA	NA	NA	125.00	[ICRA]AA (Stable)
NA	Unallocated	NA	NA	NA	100.00	[ICRA]AA (Stable)
NA	Non-fund Based facilities	NA	NA	NA	100.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Company Name	Ownership	Consolidation Approach
LGB USA, Inc	96.00%	Full Consolidation
GFM Acquisition LLC [^]	98.47% by LGB USA, Inc	Full Consolidation
GFM LLC [^]	100.00% by GFM Acquisition LLC	Full Consolidation

[^]step down subsidiaries

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