

Lonestar Industries: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Term Loan	2.07	SMERA BBB+/Stable (Withdrawn)
Cash Credit	3.00	SMERA BBB+/Stable (Reaffirmed)
Letter of Credit	1.75*	SMERA A2 (Reaffirmed)
Proposed Letter of Credit	0.18	SMERA A2 (Reaffirmed)
Bank Guarantee	10.00	SMERA A2 (Reaffirmed)

**Letter of Credit is one way interchangeable with bank guarantee.*

SMERA has reaffirmed the long term rating of **'SMERA BBB+' (read as SMERA triple B plus)** and short-term rating of **'SMERA A2' (read as SMERA A two)** on the Rs.14.93 crore bank facilities of Lonestar Industries (LI). Further, SMERA has withdrawn the long term rating of 'SMERA BBB+' (read as SMERA triple B plus) on the Rs.2.07 crore bank facility since there are no dues outstanding as certified by the banker. The outlook is **'Stable'**.

The ratings continue to draw comfort from the strong market position and extensive experience of the promoters in the manufacturing of metal expansion joints. The above average financial risk profile is marked by healthy net worth and strong debt protection metrics.

However, the ratings are constrained by the susceptibility of the firm's profitability to volatility in raw material prices.

Update

LI has reported operating income of Rs.32.47 crore in FY2015-16 (provisional) as against Rs.37.61 crore in the previous year, registering a decline of ~14 per cent in the current financial year. The prices of the main raw material i.e. steel had declined in FY2015-16 resulting in lower realisation for products sold as compared to the previous year. Further, the operating margin declined to 13.33 per cent in FY2015-16 (provisional) vis-à-vis 16.22 per cent due to low bargaining power with customers. Besides, the firm's profitability continues to remain susceptible to volatility in raw material prices and change in product mix.

LI, incorporated in 1985 benefits from its long standing presence in the metal industry. The firm caters to reputed clients including Siemens, VAI Metal Technologies Private Limited, Bharat Heavy Electricals Limited and Reliance Industries Limited. The financial risk profile continues to remain above average marked by gearing of 0.60 times and interest coverage ratio of 3.68 times for FY2014-15. Further, the gearing stands at 0.37 times and interest coverage of 2.82 times for FY2015-16 (provisional). LI also plans to purchase new machineries worth Rs.2.00 crore to automate the manufacturing process and increase existing capacity. The machines are expected to be commissioned by March, 2017. The project will partly be funded by term loan and the rest through promoter's funds.

The firm's liquidity is comfortable with cash credit limit utilisation of around 16 per cent for the last six months ended August, 2016.

Rating Sensitivity Factors

- Scaling up operations while improving profitability
- Efficient working capital management

Criteria applied to arrive at the ratings:

- Manufacturing Entities

Outlook-Stable

SMERA believes LI will maintain a stable outlook in the medium term on account of its established position in the metal expansion joint industry. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenue along with improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case the of deterioration in the financial risk profile or liquidity profile.

About the Firm

LI, incorporated in 1985, is a Chennai-based firm engaged in the manufacture of metal expansion joints and bellows used in pipelines, process products, turbines among others.

In FY2014-15, LI reported profit after tax (PAT) of Rs.2.50 crore on operating income of Rs.37.61 crore as compared to PAT of Rs.3.52 crore on operating income of Rs.39.33 crore in the previous year. Further, the firm reported profit before tax of Rs.1.48 crore on operating income of Rs.32.47 crore for FY2015-16 (provisional).

Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
25 August, 2015	Term Loan	2.07	SMERA BBB+ (Assigned)	-	Stable
	Cash Credit	3.00	SMERA BBB+ (Assigned)	-	Stable
	Letter of Credit	1.75	-	SMERA A2 (Assigned)	-
	Proposed Letter of Credit	0.18	-	SMERA A2 (Assigned)	-
	Bank Guarantee	10.00	-	SMERA A2 (Assigned)	-



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ABOUT SMERA

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