

Press Release

Lamina Foundries Limited

December 04, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.29.50 Cr.
Long Term Rating	ACUITE B+/Outlook: Negative (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4 (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE D**' (read as **ACUITE D**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.29.50 Crore bank facilities of Lamina Foundries Limited (LFL). The outlook is '**Negative**'.

Reason for Upgrade

The rating is upgraded on account of regularities in terms of debt servicing. Currently, there is no instance of devolvement of letter of credit and delays in repayment of interest and principal of term loan. However, the outlook continues to remain 'Negative' due to the ongoing COVID situation and its impact on the automobile industry and pressure on the business risk profile of the group.

About the Company

Incorporated in the year 1981, Lamina Foundries Limited (LFL) is engaged in manufacturing of automobile brake drums, flywheels, iron castings such as motor bodies, valve bodies among others to cater to the needs of domestic market. The company has entered into the export market since 1990 by exporting its products to Germany, UK and the Middle East. The day to day operations are managed by its Managing Directors- Mr. Vishal Hegde and Mr.GopalKrishna Shenoy. The company has secured business with Ashok Leyland, Tata Motors, Addison, Mahindra's and Gardner Denver to name a few.

About the Group

Lamina Group comprises of Lamina Suspension Products Limited, Lamina Engineering Company Private Limited, Lamina Investments Private Limited, Lamina Leasing and Finance Limited, Lamina Foundries Limited and Lamina International. Lamina group was established in the year 1976 by Mr. Nitte Vinaya Hegde, Mr. Guruprasad Adyanthaya and Mr. Tonse Ramesh Shenoy. At present, it has presence in casting industry, automobile springs and brake drums and separate export arm for marketing automobile components.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Lamina Foundries Limited (LFL), Lamina Suspension Products Limited (LSPL) and Lamina International (LI) together referred to as 'Lamina Group'. The consolidation is mainly on account of the business synergies, strong operational synergies and common management. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Long track record of operation and experienced Management

Lamina group commenced its operation in the year 1976 with the manufacturing setup for automobile springs under the name of Lamina Suspension Products Limited (LSPL). The group is promoted by Mr. N.V.Hegde, Mr.Guruprasad Adyanthaya and Mr.Tonse Ramesh Shenoy who possess experiences of more than four decades in the casting-forging industry and automobile industry. The promoters are ably assisted by an experienced second line of management. The extensive experience of the promoters has helped the group to maintain healthy relationships with its customer and suppliers. However, due to slow down in the automobile sales, the operating income of the group has declined by around 19.65 percent to Rs.157.31Cr in FY2020 from Rs.195.77Cr in FY2019.

Acuite believes that Lamina group will continue to get benefit from its experienced management, long track record of operation and healthy relationships with its customer and suppliers.

Weaknesses

- **Working capital operation is intensive in nature**

Lamina group's working capital operation is intensive in nature marked by high gross current asset (GCA) days of around 209 days in FY2020 as against 184 days in FY2019. The group had maintained an inventory holding period of around 126 days as on March 31, 2020 as against 99 days as on March 31, 2019. The inventory holding period has stretched in FY2020 due to piling up of finished product that the group was unable to sell due to the outbreak of Covid-19 during the last quarter of the financial year. However, the group maintains high inventory so as to cater the spot orders. The group had extended a credit period of around 74 days as on March 31, 2020 to its customer as against 75 days as on March 31, 2019. On the other hand the company's credit payment period to its supplier is around 60 days as on March 31, 2020 as against 83 days as on March 31, 2019. The working capital limit is moderate, leading to moderate utilization of its bank line at an average of around 65.75 percent over the last six months through September, 2020, while its peak utilization was high at around 81.93 percent during the same period. Acuite believes that the working capital operations of the company will continue to remain intensive on account of its higher inventory that the group maintains in order to cater to the spot orders.

- **Average Financial Risk Profile**

Lamina group's financial risk profile is average marked by moderate net worth, high gearing and moderate debt protection metrics. The net worth of the group stood at Rs.44.16Cr as on March 31, 2020 as against Rs.42.70Cr as on March 31, 2019. The group has followed aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.73times and 2.81 times respectively as on March 31, 2018. The gearing stood at 1.36 times as on March 31, 2020. The group incurred capex of Rs.2.20Cr over the last year to expand its scale of operation, while its' incremental working capital requirement over the same period to support the increase in scale of operation has been around Rs.(0.71)Cr. On the other hand, the group generated cash accruals of Rs.(0.02)Cr over the same period. Lamina group's cash accrual over the next three years through FY2023 is estimated to remain in the range of Rs.0.40Cr to Rs.2.00Cr. The gearing, however, is expected to be high at around times 1.30 times to 1.50 times as on March 31, 2021.

The revenue of the group has declined by around 19.65 percent to Rs.157.31Cr in FY2020 as against Rs.195.77Cr in FY2019. Since the group is engaged in manufacturing and trading of automotive components and other casting products, the net sales got impacted due to recessionary condition in the automobile market along with the outbreak of Covid-19. EBITDA in absolute term has significantly declined to Rs.9.28Cr in FY2020 from Rs.16.93Cr in FY2019. This is due to fluctuation in raw material prices. The group registered a loss of Rs.3.21Cr as against a profit of Rs.2.98Cr in FY2019. The operating margins have declined to 5.90 percent in FY2020 as against 8.65 percent in FY2019. The low profitability levels, coupled with moderate debt levels, have led to moderate debt protection metrics. The interest coverage ratio stood at 1.09 times in FY2020 as against 1.71 times respectively in FY2019. The debt service coverage ratio has declined to 0.75 times in FY2020 from 1.07 times in FY2019. The Debt-EBITA ratio stood at 5.40 times in FY2020 as against 3.32 times in FY2019.

Liquidity Position: Stretched

The group has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.(0.02)Cr in FY2020 as against maturing debt obligation of Rs.3.30Cr during the same period. The cash accrual of the group is estimated to remain around Rs.0.40Cr to Rs.2.00Cr during FY2021-2023 against repayment obligation of Rs.2.15Cr to Rs.2.45Cr during the same period. The group's working capital operation is intensive in nature marked by gross current asset (GCA) days of 209 days for FY2020. The average bank limit utilization stood at 65.75 percent for the last six months ended September, 2020. The group maintains unencumbered cash and bank balances of Rs.0.65Cr as on March 31, 2020 as against Rs.2.75Cr as on March 31, 2019. The current ratio has improved to 1.46 times as on March 31, 2020 as against 1.31 times as on March 31, 2019. Acuite believes that the liquidity of the group to remain stretched over the medium term on account of low net cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Any deterioration in the working capital cycle and liquidity profile of the group
- Significant improvement in the operating performance of the group while maintaining the profitability

Outlook: Negative

Acuite believes that the outlook on the Lamina group will continue to remain 'Negative' over the medium term due to the ongoing COVID situation and its impact on the automobile industry and pressure on the business risk profile of the group. The rating may be downgraded in case of a sustained decline in the revenue profile leading to low profitability and deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable', in case of improvement in the outlook of the automobile industry and business risk profile of the group.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	157.31	195.77
PAT	Rs. Cr.	(3.21)	2.98
PAT Margin	(%)	(2.04)	1.52
Total Debt/Tangible Net Worth	Times	1.36	1.48
PBDIT/Interest	Times	1.09	1.71

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Sep-2019	Cash Credit	Long Term	3.90*	ACUITE D (Downgraded from ACUITE BB+/ Negative)
	Cash Credit	Long Term	4.10**	ACUITE D (Downgraded from ACUITE BB+/ Negative)
	Cash Credit	Long Term	2.70#	ACUITE D (Downgraded from ACUITE BB+/ Negative)
	Cash Credit	Long Term	0.60	ACUITE D (Downgraded from ACUITE BB+/ Negative)
	Term Loan	Long Term	2.80	ACUITE D (Downgraded from ACUITE BB+/ Negative)
	Letter of Credit	Short Term	4.80	ACUITE D (Downgraded from ACUITE A4+)
	Letter of Credit	Short Term	4.80	ACUITE D (Downgraded from ACUITE A4+)
	Letter of Credit	Short Term	3.29	ACUITE D (Downgraded from ACUITE A4+)
	Letter of Credit	Short Term	1.60# #	ACUITE D (Downgraded from ACUITE A4+)
	Proposed Bank Facility	Long Term	0.91	ACUITE D (Downgraded from ACUITE BB+/ Negative)
22-Jul-2019	Cash Credit	Long Term	3.90*	ACUITE BB+/Negative (Reaffirmed and Outlook Revised)
	Cash Credit	Long Term	4.10**	ACUITE BB+/Negative (Reaffirmed and Outlook Revised)
	Cash Credit	Long Term	2.70#	ACUITE BB+/Negative (Reaffirmed and Outlook Revised)
	Cash Credit	Long Term	0.60	ACUITE BB+/Negative (Reaffirmed and Outlook Revised)
	Term Loan	Long Term	2.80	ACUITE BB+/Negative (Reaffirmed and Outlook Revised)
	Letter of Credit	Short Term	4.80	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short	4.80	ACUITE A4+

		Term		(Reaffirmed)
	Letter of Credit	Short Term	3.29	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	1.60##	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.91	ACUITE BB+/Negative (Reaffirmed and Outlook Revised)
27-Feb-2019	Cash Credit	Long Term	3.90*	ACUITE BB+/Stable (Assigned)
	Cash Credit	Long Term	4.10**	ACUITE BB+/Stable (Assigned)
	Cash Credit	Long Term	2.70#	ACUITE BB+/Stable (Assigned)
	Cash Credit	Long Term	0.60	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	2.80	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	4.80	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	4.80	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	3.29	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	1.60##	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	0.91	ACUITE BB+/Stable (Assigned)

*Sublimit of Rs.3.90crore for DBD/DATBD/DLSB/CDD/FDBP/FUBP/EBR/AABC.

**Sublimit of Rs.1.20crore for BD/CBP/FDBP/FUDBP.

#BE under LC of prime banks/FDBN: Rs.1.70crore and interchangeability between cash credit limit and bills discounting limit including existing export bills discounting facility in foreign currency (PSCFC) within overall limit of Rs.2.70crore.

##Sublimit of Rs.1.60crore for BG.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.90*	ACUITE B+/Negative (Upgraded from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.10**	ACUITE B+/Negative (Upgraded from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.70#	ACUITE B+/Negative (Upgraded from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE B+/Negative (Upgraded from ACUITE D)
Term loans	Not Available	Not Available	Not Available	0.55	ACUITE B+/Negative (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE A4 (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE A4 (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.29	ACUITE A4 (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.60##	ACUITE A4 (Upgraded from ACUITE D)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.16	ACUITE B+/Negative (Upgraded from ACUITE D)

*Sublimit of Rs.3.90crore for DBD/DATBD/DLSB/CDD/FDBP/FUBP/EBR/AABC.

**Sublimit of Rs.1.20crore for BD/CBP/FDBP/FUDBP.

#BE under LC of prime banks/FDBN: Rs.1.70crore and interchangeability between cash credit limit and bills discounting limit including existing export bills discounting facility in foreign currency (PSCFC) within overall limit of Rs.2.70crore.

##Sublimit of Rs.1.60crore for BG.

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