

Airo Lam Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	27.91 (Enhanced from 13.99)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	10.00	CARE BBB; Stable / CARE A3+	Assigned
Long Term / Short Term Bank Facilities	61.75	CARE BBB; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities	2.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Airo Lam Limited (ALL) continue to derive strength from vast experience of its promoters, established track record of operations in the laminate industry with addition of plywood product line, healthy profitability, moderate capital structure as well as debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate scale of operations, high working capital intensity, susceptibility of profitability to volatility in raw materials prices as well as foreign exchange fluctuation and its linkages to cyclical real estate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume backed growth in Total Operating Income (TOI) to more than Rs.350 crore while maintaining its profitability.
- Managing its working capital efficiently with improvement in the working capital cycle to less than 90 days on a sustained basis.
- Improvement in debt protection metrics with total debt/gross cash accruals (TD/GCA) of less than 3x and interest coverage of over 5x on a sustained basis.

Negative factors

- Decline in scale of operations below Rs.150 crore or PBILDT margin below 7% on sustained basis
- Moderation in capital structure with overall gearing above 1.25 times.
- Elongation of operating cycle to more than 180 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from its established brand names as well as its presence in diversified geographies which shall enable the company to sustain its operational performance over the medium term.

Detailed description of the key rating drivers

Key strengths

Established track record of operations with addition of plywood product line

ALL has an established track record of around one and a half decades in decorative laminates industry and has a wide product offering. It has ISO 9001:2000 certification for management system as well as ISO 14001:2004 certification for environmental management system and ALL is a recognized star export house by the Govt. of India. Company has established network of more than 12 depots, 100 distributors and more than 5 thousand dealers across the nation as well as presence in more than 16 overseas market such as Saudi Arabia, Kuwait, UAE, Israel, Bangladesh and Australia etc. Exports formed 27% of total sales in FY24.

ALL has installed capacity of 36 lakh sheet per annum of laminates which is moderately utilized. Company also added product line of plywood in FY21 with installed capacity of 67.20 lakh square meters per annum. Overall laminates continue to be the main revenue contributor forming 85%-90% of net sales but plywood sales are growing at a healthy rate over past couple of years.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy profitability margin

Operating profitability of the company marked by its PBILDT margin remained healthy and increased to 9.50% during FY24 (PY: 8.58%) on the back of lower RM price which was partially offset by higher selling expense. Consequently, PAT margin of the company also increased to 4.04% during FY24 (PY: 3.70%).

Moderate capital structure as well as debt coverage indicators

As on March 31, 2024, capital structure of the company remained moderate. Overall gearing ratio stood at 1.09x as on March 31, 2024, deteriorating from 0.84 times as on March 31, 2023, on account of increase in working capital borrowings, reclassification of USL from quasi equity to debt and term debt availed during FY24 for capacity expansion and installation of ground mounted solar plant. Tangible net worth of the company was moderate at Rs.72.33 crore as on March 31, 2024.

Debt coverage indicators of ALL also continued to remain moderate marked by PBILDT interest coverage of 3.73 times [PY: 4.09 times] and total debt / GCA of 6.22 times [PY: 5.14 times] in FY24. Marginal moderation was on the back of debt availed in FY24 and resultant higher interest cost.

Key weaknesses

Moderate scale of operations

During FY24, TOI of ALL remained stable at Rs.204.99 crore as against TOI of Rs.200.04 crore in FY23. Laminate sales formed 91% of TOI in FY24. sales volume of laminates registered a healthy y-o-y growth of around 13% in FY24, while its sales realization moderated. Whereas for plywood, sales volume was stable, while its sales realization improved in FY24.

Working capital intensive nature of operations

Laminate business is working capital intensive in nature as its products are made of different types of papers, wide variety of colours and chemicals which necessitates significant investment in raw material inventory. Further, majority of the papers are imported which have lead time ranging from 6 months to 8 months from the date of placement of order. Further, to take care of customer's specific requirement in time, company has to keep raw material (mainly papers) readily available at their site which increases raw material inventory of the company. Hence, operating cycle of ALL remained elongated to 160 days during FY24 (PY: 135 days)

Further, the company has established more than 12 depots [started with 4 depot in FY19 and subsequently increased to 12 till FY24] at its major recipient markets for quick and direct supply of its material to customers. Subsequently, ALL has started maintaining inventory of laminated sheets at these depots and as a result of this, inventory period has gradually increased.

Real estate linked industry and hence, cyclicity affects the business prospects

The fortunes of the laminates and plywood board industry is linked to the real estate industry which is inherently cyclical in nature. This factor limits the pricing flexibility and bargaining power of ALL and puts pressure on profitability. However, the company has geographically diversified presence in the export market which helps in maintaining the steady growth in revenue.

Susceptibility of profit margin to volatility in raw material price and foreign exchange fluctuation

Major raw material for the company includes design papers, kraft papers, printed papers, melamine and formaldehyde. Price of design papers, kraft papers and printed papers (65-70% by value) are more stable than price of melamine and formaldehyde, whose prices are linked to crude oil prices.

Furthermore, ALL's export revenue was Rs.54.41 crore i.e. ~27% of gross sales in FY24 (FY23: 31%). On other hand, import remained ~45-55% of export value, hence, the company is a net exporter and does not follow any active hedging policy. As articulated by the management, ALL hedges ~50% of its net forex exposure and balance remains open. During FY24, ALL reported net forex loss of Rs.0.06 crore as against net forex loss of Rs.0.34 crore in FY23.

Liquidity: Adequate

Liquidity position of ALL remained adequate as marked by moderate cash accruals as against low debt repayment obligations coupled with moderate liquidity ratio, moderate utilization of its working capital limit, and positive cash flow from operations.

ALL is expected to generate GCA of Rs.13-20 crore annually during FY25-FY27 period as against gross debt repayment of 5-7 crore annually during same period. Average working capital limit utilization during last twelve months ended in May 2024 remained moderate at ~75%. CFO of the company declined to Rs. 1.18 crore during FY24 as against Rs. 6.44 crore during FY23, majorly on account of increase in inventory and receivables. Receivables outstanding for more than six months remained at Rs.14.53 crore as on March 31, 2024 [PY: Rs.10.22 crore].

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Withdrawal Policy](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

Prantij (Gujarat)-based, ALL was incorporated in October 22, 2007 and is a listed public limited company promoted by Mr. Pravinbhai N. Patel, Mr. Pravinbhai A. Patel and Mr. Sureshbhai H. Patel. ALL is engaged in manufacturing of laminate sheets and plywood boards which are used in furniture & fixtures. The company is selling its products under the brand names of 'Airolam', 'Classico', 'Ilam', 'Airolite', 'Ilite' and 'Airodoor', while selling plywood under the brand name of 'Airoply'. The company has its manufacturing unit at Prantij, Sabarkantha with installed capacity of 36 lacs sheets per annum.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Pb)
Total operating income	200.04	204.99
PBILDT	17.16	19.46
PAT	7.40	8.29
Overall gearing (times)	0.84	1.09
Interest coverage (times)	4.09	3.73

A: Audited Pb: Abridged published; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31/05/2030	27.91	CARE BBB; Stable
Fund-based - LT/ ST-Bank Overdraft		-	-	-	10.00	CARE BBB; Stable / CARE A3+
Fund-based - LT/ ST-Cash Credit		-	-	-	40.50	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC		-	-	-	21.25	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	2.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Cash Credit	LT/ST	40.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (29-Jun-23)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	21.25	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (29-Jun-23)	-	-
3	Fund-based - LT-Term Loan	LT	27.91	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Jun-23)	-	-
4	Non-fund-based - ST-Loan Equivalent Risk	ST	2.00	CARE A3+	-	1)CARE A3+ (29-Jun-23)	-	-
5	Fund-based - LT/ ST-Bank Overdraft	LT/ST	10.00	CARE BBB; Stable / CARE A3+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Fund-based - LT/ ST-Cash Credit	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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