

## Airo Lam Limited

March 23, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3 (A Three) and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00 (Rs. Only)</b>		

Details of facilities in Annexure -1

### Detailed Rationale and Key Rating Drivers

CARE has reviewed the rating assigned to the bank facilities of Airo Lam Limited (ALL) to CARE BBB-; Stable / CARE A3 and has simultaneously withdrawn it, with immediate effect. The ratings factor in comfortable profit margins and solvency position, moderate debt coverage indicators and adequate liquidity during FY20 (refers to the period April 1 to March 31). Further, the ratings continue to take into account vast experience of promoters and established track record of the operations of company in laminate industry. The ratings, however, continue to remain constrained by its moderate scale of operations and working capital intensive nature of operations, susceptibility of profit margins to volatility in raw material price and foreign exchange fluctuation risk and increasing competitive pressure and cyclical nature of the industry.

The rating withdrawal is at the request of ALL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced promoters and long track record of ALL

Directors of the company led by Mr. Pravinbhai Patel have long experience in the same line of business. Further, due to the established presence of ALL in laminate business for more than a decade, the directors have developed good relationship with its customers and suppliers.

##### Comfortable profit margins during FY20

Operating margin of the company continued to remain comfortable marked by stable PBILDT margin of 9.02% during FY20 [8.95% during FY19]. As a result, PAT margin of the company also remained stable at 4.45% during FY20 as compared to 3.75% during FY19.

##### Comfortable solvency position and moderate debt coverage indicators

As on March 31, 2020, solvency position of the company continued to remain comfortable. Overall gearing of the company remained at 0.66 times as on March 31, 2020 [0.46 times as on March 31, 2019] on account of increase in total debt as on March 31, 2020. Debt coverage indicators of ALL have continued to remain moderate during FY20 marked by total debt to GCA of 4.94 times as on March 31, 2020 as compared to 3.28 times as on March 31, 2019. However, interest coverage ratio improved marginally and continued to remain comfortable at 5.70 times during FY20 as against 4.26 times during FY19 owing to decrease in finance charges during FY20.

#### Key Rating Weakness

##### Moderate scale of operations during FY20

ALL's Scale of operations marked by its total operating income (TOI) remained moderate at Rs.107.71 crore during FY20 as compared to Rs.112.71 crore during FY19 on the back of stable demand from customers.

### Working capital intensive nature of operations

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 has remained elongated at 163 days during FY20 as compared to 142 days during FY19 owing to increase in inventory period during FY20.

### Susceptibility of profit margins to volatility in raw material price and foreign exchange fluctuations

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Major raw material for the company are design paper, kraft paper, melamine, phenol, methanol etc. whose price are volatile in nature. Hence, any adverse movement in their price and inability of the company to pass on the same to its end customers may put pressure on the profit margins of the company. Further, the company sales its products and procures part of its material through import and hence, it is also exposed to foreign exchange fluctuation risk.

#### **Increasing competitive pressure and cyclical nature of the industry**

The company operates in highly fragmented and competitive laminate industry marked by presence of large number of medium sized players. The industry is characterized by low entry barrier, no inherent resource requirement constraints and easy access to customers and suppliers. Again, the fortune of the industry is linked to the real estate industry which is inherently cyclical in nature. This limits the pricing flexibility and bargaining power of ALL against its customers.

#### **Liquidity analysis: Adequate**

Liquidity position of ALL remained adequate as marked by cash flow from operating activities which improved and remained at Rs.4.97 crore during FY20 as against Rs.2.96 crore during FY19 mainly on account of decrease in inventory level as on March 31, 2020. The company has sufficient cash accruals of Rs.6.29 crore during FY20 as against repayment obligation of Rs.0.93 crore during FY21. Further, unencumbered cash and bank balance of ALL also remained sufficient at Rs.1.05 crore as on March 31, 2020. Furthermore, ALL hasn't availed moratorium for its existing bank facilities under COVID-19 relief measure, however, it has availed working capital term loan (WCTL) under Emergency Credit Line Guarantee Scheme (ECLGS) to the tune of Rs.5.58 crore with 12 months moratorium period at concessional rate of interest which is expected to provide additional cash flow cushion in medium term.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### **About the company**

Prantij (Gujarat)-based, ALL was incorporated in October 22, 2007 as a closely held public limited company. ALL is engaged in manufacturing of laminate sheets which are used in furniture & fixtures. The company is selling the laminates under the brand name of 'Aiolam', 'ILam', 'Airolite', 'Airolite' and 'Airodoor'. ALL has established its manufacturing unit at Prantij, Sabarkantha. The company is going to diversify its product portfolio with inclusion of laminated doors. ALL has ISO 9001:2000 certification for management system and UL 2818 - 2013 certifications for chemical emissions for building materials, finishes and furnishings standards. The company is also member of India Green Building Council (IGBC) of CII (Confederation of Indian Industry).

<b>Brief Financials (Rs. crore)</b>	<b>FY19 (A)</b>	<b>FY20 (A)</b>
Total operating income	112.71	107.28
PBILD	10.09	9.67
PAT	4.23	4.78
Overall gearing (times)	0.46	0.66
Interest coverage (times)	4.26	5.70

A: Audited

During H1FY21 (Unaudited), ALL has registered TOI of Rs.52.76 crore.

**Status of non-cooperation with previous CRA:**

**Any other information:** Not Applicable

**Rating History:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-ILC/FLC	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)CARE BBB-; Stable / CARE A3 (06-Mar-20)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)	1)CARE BB+; Stable / CARE A4 (06-Sep-17)
2.	Non-fund-based - ST-ILC/FLC	ST	-	-	-	1)CARE A3 (06-Mar-20)	1)CARE A3 (03-Oct-18)	1)CARE A4 (06-Sep-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (06-Mar-20)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BB+; Stable (06-Sep-17)

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Non-fund-based - ST-ILC/FLC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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