

## Airo Lam Limited

September 6, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities/ Short Term Bank Facilities	17.00	<b>CARE BB+; Stable/ CARE A4 (Double B Plus; Outlook : Stable/ A Four)</b>	<b>Assigned</b>
Long Term Bank Facilities	3.09	<b>CARE BB+; Stable (Double B Plus; Outlook : Stable)</b>	<b>Assigned</b>
Short Term Bank Facilities	6.25	<b>CARE A4 (A Four)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>26.34 (Rupees Twenty Six crore and Thirty Four lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Airo Lam Limited (ALL) remain constrained on account of its stretched liquidity position, increasing competitive pressure in the industry having cyclical nature and susceptibility of profit margins to volatility in raw material prices and foreign exchange fluctuation risk. The ratings, however, derives comfort from experienced promoters and established track record of the company. The rating also takes into account comfortable profit margins, comfortable solvency position and moderate debt coverage indicators. Ability to increase its scale of operations with improvement in profitability and liquidity position would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Stretched liquidity position

Liquidity position remained stretched as marked by current ratio which stood at 1.33 times as on March 31, 2017. Further, the operating cycle has elongated and stood at 159 days during FY17 due to high inventory holding period. The working capital requirements of the company remained high on account of high raw material inventory as ALL keeps sufficient stock of its imported raw materials such as decorative paper and chemicals to reduce the lead time. On account of this, average utilization of working capital limits remained full for trailing 12 month period ended July 2017.

##### Increasing competitive pressure

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.

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

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 can put pressure on the profit margins of the company.

##### Cyclical nature of the industry

Again, the fortune of the industry is linked to the real estate industry which is inherently cyclical in nature. This factor limit the pricing flexibility and bargaining power of ALL and put pressure on margins as well.

### Key Rating Strengths

#### Experienced directors and established track record

Directors of the company Mr. Pravinbhai N. Patel, Mr. Pravinbhai A. Patel and Mr. Sureshbhai H. Patel have long experience in the business. Due to the established presence in laminate business for more than a decade, the promoters have developed good relationship with its customers and suppliers.

#### Comfortable profit margins

During FY17, the Total Operating Income (TOI) of ALL stood at Rs.71.47 crore which was in line as compared to previous year. Further, the profit margins stood comfortable marked by the PBILDT margin which has improved by 192 bps and stood at 10.03% during FY17 (Audited) as compared to previous year, mainly on account of lower procurement costs of

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

raw material during FY17 (Audited). Consequently, PAT margin also improved by 39 bps to 2.64% during FY17 (Audited) as compared to previous year.

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

As on March 31, 2017 (Audited), the capital structure of ALL stood comfortable marked by an overall gearing ratio which stood at 0.88x as compared to 0.80x as on March 31, 2016 due to of increase in total debt due to higher working capital utilization and addition of new term loan. Debt coverage indicators stood moderate marked by an Interest coverage ratio which stood at 2.83 times during FY17 (Audited) while total debt to GCA stood at 5.88x as on March 31, 2017.

**Analytical Approach:** Standalone

#### Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

[Criteria for Short Term Instruments](#)

#### About the Company

Prantij (Gujarat)-based, ALL was incorporated in October 2007 as a closely held public limited company by Mr. Pravinbhai N. Patel, Mr. Pravinbhai A. Patel and Mr. Sureshbhai H. Patel. 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', 'Aiolite', 'Airolite' and 'Airodoor'. ALL has established its manufacturing unit at Prantij, Sabarkantha with installed capacity of 2.5 lakh sheets per month. ALL has ISO 9001:2000 certification for management system and UL 2818 - 2013 certifications for chemical emissions for building materials, finishes and furnishings standards.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	71.36	71.47
PBILDT	5.79	7.17
PAT	1.61	1.89
Overall gearing (times)	0.80	0.88
Interest coverage (times)	2.80	2.83

A: Audited

Till 4MFY18 (Provisional), ALL reported total operating income of Rs.31.70 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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#### 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	-	-	-	17.00	CARE BB+; Stable / CARE A4
Non-fund-based-ST-ILC/FLC	-	-	-	6.25	CARE A4
Fund-based-LT-Term Loan	-	-	March, 2022	3.09	CARE BB+;Stable

#### Annexure 2: Rating History for 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	17.00	CARE BB+; Stable / CARE A4	-	-	-	-
2.	Non-fund-based-ST-ILC/FLC	ST	6.25	CARE A4	-	-	-	-
3.	Fund-based-LT-Term Loan	LT	3.09	CARE BB+; Stable	-	-	-	-

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