

Airo Lam Limited

March 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities / Short-term Bank Facilities	21.75 (increased from 17.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook : Stable / A Three)	Reaffirmed
Long-term Bank Facilities	12.00 (increased from 1.07)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	6.25	CARE A3 (A Three)	Reaffirmed
Total Facilities	40.00 (Rupees Forty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Airo Lam Limited (ALL) continue to derive strength from its growing scale of operations coupled with comfortable profit margins as well as solvency position, moderate debt coverage indicators and adequate liquidity position during FY19 (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 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.

Key rating sensitivities

Positive Factors

- Growth in its scale of operations by more than 20% on sustained basis backed by increase in its capacity utilization levels
- Managing its working capital efficiently with improvement in working capital cycle to less than 120 days
- Improvement in debt protection metrics with TDGCA of less than 3 times and interest coverage of greater than 6 times

Negative Factors

- Decline in scale of operations by more than 30% in comparison to envisaged level along with decline in operating profit margins below 5% on sustained basis
- Higher than envisaged debt leading to deterioration in capital structure with above unity overall gearing
- Elongation of operating cycle to more than 180 days on a sustained basis leading to high reliance on working capital borrowings and stretched liquidity position of ALL.

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.

Growing scale of operations along with comfortable profit margins during FY19

ALL's Scale of operations marked by its total operating income (TOI) grew by 20.72% y-o-y to Rs.112.71 crore during FY19 as compared to Rs.93.36 crore during FY18 on the back of increased in capacity utilization during FY19 due to consistent increase in demand from its regular customers as well as addition of new customers in its portfolio. Operating margin of the company continued to remain comfortable marked by stable PBILDT margin of 8.95% during FY19 [9.90% during FY18]. As a result, PAT margin of the company also remained stable at 3.75% during FY19 as compared to 3.48% during FY18.

Comfortable solvency position and moderate debt coverage indicators

As on March 31, 2019, solvency position of the company continued to remain comfortable. Overall gearing of the company remained stable at 0.46 times as on March 31, 2019 [0.45 times as on March 31, 2018]. Overall gearing of ALL further remained stable at 0.46 times as on September 30, 2019 (Unaudited). Further, ALL has expanded its installed capacity to 48 lakh sheets per annum during FY20 at its existing location considering increase in scale of operations and growing demand from the user industries. Furthermore, considering potential synergies from its already established marketing and

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

distribution network as well as projected favourable demand from end user industry, ALL is setting up a manufacturing plant of plywood and veneers adjacent to its existing location with envisaged total cost of Rs.6.30 crore and installed capacity of 67.20 lakh square feet per annum.

Debt coverage indicators of ALL have continued to remain moderate during FY19 marked by total debt to GCA of 3.31 times as on March 31, 2019 as compared to 3.52 times as on March 31, 2018. However, interest coverage ratio improved marginally and continued to remain comfortable at 4.26 times during FY19 as against 4.38 times during FY18 owing to increase in operating profit coupled with marginal decrease in finance charges during FY19.

Key Rating Weakness

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 142 days during FY19 similar to previous year.

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 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 turned into positive and remained at Rs.2.95 crore during FY19 as against negative Rs.3.59 crore during FY18 mainly on account of better debtors realizations along with increase in operating profit during FY19. The company has sufficient cash accruals of Rs.6.02 crore during FY19 as against repayment obligation of Rs.0.04 crore during FY20. Further, unencumbered cash and bank balance of ALL also remained sufficient at Rs.1.92 crore as on March 31, 2019 as compared to Rs.1.34 crore as on March 31, 2018. Furthermore, average and maximum working capital utilization of ALL remained moderate at 68.19% and 74.04% respectively during past 12 months period ended in January 2020.

Analytical Approach: Standalone

Applicable Criteria

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

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

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

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

About the company

Prantij (Gujarat)-based, ALL was incorporated in October 22, 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 'Airolam', 'lLam', 'Aiolite', 'Airoline' and 'Airodoor'. ALL has established its manufacturing unit at Prantij, Sabarkantha with installed capacity of 25 lakh sheets per annum as on March 31, 2019. 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).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	93.36	112.71
PBILDT	9.25	10.09
PAT	3.25	4.23
Overall gearing (times)	0.45	0.47
Interest coverage (times)	3.48	4.26

A: Audited

During H1FY20 (Unaudited), ALL has registered TOI of Rs.52.32 crore with PBILDT and PAT of Rs.5.28 crore and Rs.2.37 crore respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): 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	-	-	-	21.75	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-ILC/FLC	-	-	-	6.25	CARE A3
Fund-based - LT-Term Loan	-	-	-	12.00	CARE BBB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	21.75	CARE BBB-; Stable / CARE A3	-	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	6.25	CARE A3	-	1)CARE A3 (03-Oct-18)	1)CARE A4 (06-Sep-17)	-
3.	Fund-based - LT-Term Loan	LT	12.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BB+; Stable (06-Sep-17)	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Ms. Shreedha Shah
Group Head Contact no.- +91-79-4026 5636
Group Head Email ID- shreedha.shah@careratings.com

Business Development Contact

Name: Mr. Deepak Prajapati
Contact no. : +91-79-4026 5656
Email ID : deepak.prajapati@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**