

## Airo Lam Limited

October 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities / Short-term Bank Facilities	17.00	<b>CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook : Stable / A Three )</b>	Revised from CARE BB+; Stable/ CARE A4 (Double B Plus; Outlook : Stable / A Four)
Long-term Bank Facilities	1.07 (reduced from 3.09)	<b>CARE BBB-; Stable (Triple B Minus; Outlook: Stable )</b>	Revised from CARE BB+; Stable (Double B Plus; Outlook : Stable)
Short-term Bank Facilities	6.25	<b>CARE A3 (A Three)</b>	Revised from A4 (A Four)
<b>Total Facilities</b>	<b>24.32 (Rupees Twenty Four Crore and Thirty Two Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Airo Lam Limited (ALL) is on account of improvement in overall financial risk profile marked by increase in scale of operations coupled with comfortable profit margins, capital structure and debt coverage indicators in FY18 (FY refers to the period April 1 to March 31). The ratings continue to derive strength from experienced promoters and long track record of the company in laminate business.

The ratings, however, are constrained on account of its working capital intensive nature of operations, increasing competitive pressure in the industry having cyclical nature and susceptibility of profit margins to volatility in raw material prices and foreign exchange fluctuation.

Ability to increase its scale of operations with further improvement in profitability and efficient management of working capital requirement would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Increase in scale of operations and comfortable profit margins

Total Operating Income (TOI) of ALL grew by 30.63% y-o-y and stood at Rs.93.36 crore during FY18 as compared to Rs.71.47 crore during FY17 on account of consistent increase in demand from its regular customers coupled with addition of new customers in its portfolio. Operating margin of the company remained stable compared to previous year marked by PBILD margin of 9.90% during FY18 as against 10.03% during FY17. However, PAT margin improved by 84 bps y-o-y during FY18 and stood at 3.48% due to decrease in depreciation and interest expense as a percentage of TOI.

##### Improvement in capital structure and debt coverage indicators

Overall gearing of the company improved significantly and stood at 0.45 times as on March 31, 2018 as against 0.83 times as on March 31, 2017 on account of decrease in total debt along with increase in the net worth base as the company has raised equity through initial public offering (IPO) during October 2017, apart from accretion of profit into reserves during FY18. Further, the debt coverage indicators of ALL has also improved over the previous year as marked by an Interest coverage ratio of 3.48 times during FY18 (2.83 times during FY17) and total debt to GCA of 3.52 times as on March 31, 2018 (5.57 times during as on March 31, 2017) mainly due to improved operating profit as well GCA level against decrease in total debt during FY18.

ALL has completed its IPO during October 2017 and raised equity capital of Rs.20.16 crore. The shares of ALL are listed on SME platform of NSE (NSE Emerge).

##### 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.

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

### Key Rating Weakness

#### Working capital intensive nature of operations

Overall operations of ALL have remained working capital intensive in nature as marked by elongated operating cycle as it has to maintain high level of inventory in the form of kraft paper and design paper along with other materials, apart from liberal credit terms to its customers which is usual in the laminate industry. Accordingly, although the operating cycle has marginally improved during FY18 remained high at 141 days. Current ratio of the company improved and stood at 1.61x as on March 31, 2018 as against 1.33x as on March 31, 2017.

#### 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.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

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

[Rating Methodology-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. 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)	FY17 (A)	FY18 (A)
Total operating income	71.47	93.36
PBILDT	7.17	9.25
PAT	1.89	3.25
Overall gearing (times)	0.83	0.45
Interest coverage (times)	2.83	3.48

A: Audited

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

**Any other information:** Not Applicable

**Rating History for 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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

**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 BBB-; Stable / CARE A3
Non-fund-based - ST-ILC/FLC	-	-	-	6.25	CARE A3
Fund-based - LT-Term Loan	-	-	March, 2022	1.07	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	17.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4 (06-Sep-17)	-	-
2.	Non-fund-based - ST-ILC/FLC	ST	6.25	CARE A3	-	1)CARE A4 (06-Sep-17)	-	-
3.	Fund-based - LT-Term Loan	LT	1.07	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Sep-17)	-	-

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