

# Infomerics Valuation And Rating Pvt. Ltd.

## Press Release

### Lahari Laminates Private Limited

March 12, 2018

#### Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Fund Based Facilities- Cash Credit	20	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Assigned
<b>Total</b>	<b>20</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The aforesaid rating assigned to the bank facilities of Lahari Laminates Private Limited (LLPL) is tempered by its modest scale of operation, fluctuation in raw material prices, presence in a highly competitive industry, sharp decline in EBIDTA margin and thin profitability along with working capital intensive nature of operations. The rating also considers its fortunes linked to demand from cyclical real estate industry. However, the rating is underpinned by its long track record of operation with experienced promoters in the laminates industry, established brand with well diversified geographical presence and improvement in gearing ratio. Growth, profitability, gearing level and efficient working capital management remain the key rating sensitivities.

#### List of Key Rating Drivers

- Long track record of operation and experienced promoters in laminates industry
- Established brand presence with well diversified geographical presence
- Improvement in gearing ratio
- Modest scale of operation
- Fluctuation in raw material prices
- Presence in a highly competitive industry
- Sharp decline in EBIDTA margin and thin profitability
- Working capital intensive nature of operations
- Fortunes linked to demand from cyclical real estate industry

## Infomerics Valuation And Rating Pvt. Ltd.

### Detailed Description of Key Rating Drivers

#### Key Rating Weaknesses

##### *Modest scale of operation*

Despite its long track record of operations, LLPL has a modest scale of operations with total operating income of Rs.35.50 crore in FY17 (FY refers to the period from April 1 to March 31). However, during 9MFY18 (refers to the period from April 1 to December 31) the company has achieved a total operating income of Rs.54.7 crore driven by its increased penetration in various states, with expanded dealer network ( 250 dealers as on December 31,2017 as against 175 dealers as on March 31, 2017).

##### *Fluctuation in raw material prices*

The key raw materials required for manufacturing laminates include craft paper, base paper, phenol resins and melamine resins which are petroleum products. The prices of these products are volatile in nature and accordingly the profitability is exposed to volatility in raw material prices. The company changed its raw material mix during FY17 to produce higher quality decorative laminates to expand its operations and to compete with other established and reputed players. Accordingly, the company imports around 30-35% of its raw materials (mainly craft/base papers) from China. Due to change in raw material mix the raw material cost increased from about 63% of the total cost of sales in FY16 to about 84% of the total cost of sales in FY17.

##### *Presence in a highly competitive industry*

Decorative laminate industry is highly fragmented and unorganized in nature as more than 35% of the market is dominated by the unorganized players, thereby putting pressure on profitability of the industry participants. Furthermore, due to low entry barriers, the competition gets intensified, which might put further pressure on profitability of the existing as well as new players. Accordingly, the margins of LLPL may fluctuate depending upon the crude oil price movement, prices of paper and level of competition.

##### *Sharp decline in EBIDTA margin and thin profitability*

The company has witnessed a sharp decline in its EBIDTA margin over the past three years from 22.42% in FY15 to 11.20% in FY17. Earlier, the operations of the company were

## **Infomerics Valuation And Rating Pvt. Ltd.**

restricted to few geographies and mostly based on high profit earning opportunities, accordingly the operating profit margin remained high. However, over the years with increasing competition and increased focus of the company to penetrate in other geographies with a competitive price the operating profitability declined sharply. Further, there was sharp increase in raw material cost in FY17 attributable to change in raw material mix to improve the quality of its products and increase in man power cost to expand its operations in new geographies. The PAT margin of the company also remained thin over the past years.

### *Working capital intensive nature of operations*

The company's operations remain working capital intensive attributable to high inventory requirements in the business to maintain an assorted range of laminates. However, the inventory day's position reduced substantially during FY15-17 on account of significant increase in cost of production in response to expansion in sale. Further, the company has to extend credit period of around 3-4 months to its customers in view of intense competition in the operating spectrum. The operating cycle though improved gradually remained high at 103 days in FY17. However, sales of the company is more skewed towards last quarter and first quarter of the year of the year as the buyer mostly represents real estate and furniture manufacturing sector. Accordingly, gross billing is more in these two quarters and in the year end debtors and stock positions generally remained high. The average cc utilisation of the company over the past 12 months remained on the higher side at about 89% ending on December 31, 2017.

### *Fortunes linked to demand from cyclical real estate industry*

LLPL supplies decorative laminates for furniture making, the demand of which largely comes from the real estate sector which is cyclical in nature and with fortunes dependent upon the overall economic conditions in the country. Any adverse impact on real estate sector is likely to affect the growth rate of the laminates industry.

## **Key Rating Strengths**

### *Long track record of operation and experienced promoters in laminates industry*

LLPL was incorporated in 1994 and since inception the company has been engaged in the business of manufacturing and sale of decorative laminates in India. The company was set up by the Agarwal family of Raipur and currently headed by Shri Pradeep Kumar Agarwal having

## **Infomerics Valuation And Rating Pvt. Ltd.**

more than two decades of experience in the Iron & Steel business and in the laminate industry. Shri Agarwal is associated with LLPL since its inception and accordingly has vast experience in this sector. He is currently at the helm of affairs of the company and well supported by the other director Shri Sohan Lal Gupta having about three decades of experience in this industry.

### *Established brand presence with well diversified geographical presence*

LLPL sells its products under the various brand names like Big Boss, Marina, Marbonite, Lahari Lam, Rim Zim, Digi gold, Lahari digital, Digi Star, Digi Prime etc. and operates in 18 states majorly, Maharashtra, Karnataka, Telengana, Uttar Pradesh, Andhra Pradesh, Delhi etc. and Nepal through brokers/dealers. Currently, the company is dealing with around 250 dealers/brokers across various states and Nepal. Top five states contribute around 77% of its total revenue in 9MFY18.

### *Improvement in gearing ratio*

The long term debt equity ratio and the overall gearing ratio of the company improved from 0.29x and 0.91x as on March 31, 2016 and remained at 0.10x and 0.74x respectively as on March 31, 2017 driven by repayment of term loans and accretion of profit to net worth. The interest coverage ratio improved from 2.40x in FY16 to 2.88x in FY17.

## **Analytical Approach & Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **About the Company**

Incorporated in February 1994, by Raipur Chhattisgarh based Shri Pradeep Agarwal, LLPL is engaged in manufacturing of decorative laminated sheets with its manufacturing unit located in Raipur (Chhattisgarh) with a capacity of 2.16 million sheets per annum. LLPL commenced its operations from April, 1994. The company manufactures interior decorative laminates with thickness ranging from 0.7 millimetre (mm) to 1 mm and exterior laminates. Laminates are mostly used in the real estate industry and in manufacturing of furniture's. LLPL sells its products under its various brands like Big Boss, Marina, Marbonite, Lahari Lam, Rim Zim, Digi gold, Lahari digital, Digi Star, Digi Prime etc. and operates in various states like, Maharashtra, Karnataka, Delhi, Chhattisgarh, West Bengal and Gujarat through

## Infomerics Valuation And Rating Pvt. Ltd.

brokers/dealers. Currently the company has a network of about 250 dealer/broker spread across these states.

### Financials (Standalone):

(Rs. Crore)

For the year ended* / As On	31-03-2016	31-03-2017
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	23.01	35.50
EBITDA	4.35	3.98
PAT	0.14	0.23
Total Debt	12.06	10.03
Tangible Net worth	13.28	13.50
EBITDA Margin (%)	18.92	11.20
PAT Margin (%)	0.58	0.64
Overall Gearing Ratio (x)	0.91	0.74

\*Classification as per Infomerics' standards.

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

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Fund Based Limits-Cash Credit	Long Term	20	IVR BB+ / Stable Outlook			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: [apodder@infomerics.com](mailto:apodder@infomerics.com)

### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and

## Infomerics Valuation And Rating Pvt. Ltd.

Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are 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 us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	20	IVR BB+ / Stable Outlook