

April 30, 2024

## Lakshmi Vacuum Technologies Pvt. Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based (CC Limits)	10.00	10.00	[ICRA]BB-(Stable); reaffirmed
Short term - Fund Based (standby line of credit)	3.40	3.40	[ICRA]A4; reaffirmed
Long term – Fund based- Term Loan	4.65	4.65	[ICRA]BB-(Stable); reaffirmed
Short term - Non-fund based limits (BG/LC)	16.50	16.50	[ICRA]A4; reaffirmed
Long term - Unallocated limits	0.43	0.43	[ICRA]BB-(Stable); reaffirmed
<b>Total</b>	<b>34.98</b>	<b>34.98</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings factor in the long experience of Lakshmi Vacuum Technologies Private Limited's (LVTPL) promoters spanning over two decades in the vacuum furnace manufacturing and heat treatment services industries, and its established relationships with reputed customers. The ratings also factor in the pending order book position of Rs. 40 crore as of December 2023, which provides near-term revenue visibility. ICRA takes into consideration the capacity expansion carried out by the company in order to cater to the increasing demand from end user industries which should support revenue growth in the near term.

The ratings are, however, constrained by the company's small scale of operations over the years and its average financial risk profile, marked by moderately leveraged capital structure and modest debt protection metrics. The ratings are also constrained by the high working capital intensity of operations (NWC/OI of 39% in FY2023), resulting from high inventory holding requirements and receivable days. Moreover, the overall liquidity position of the company remains stretched as reflected in the high utilisation of working capital limits.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in vacuum furnace manufacturing-** LVTPL was established in 2007 and has been manufacturing vacuum furnaces. The promoters, Mr. L N Prasad and Ms. K S Varalakshmi, have more than two decades of experience in the vacuum furnace industry. Its Group entity, Lakshmi Vacuum Heat Treaters Pvt Ltd (LVHTPL, rated [ICRA]BB-(Stable)), which provides heat treatment service, helps the Group in understanding customers' requirements.

**Reputed customer profile** - LVTPL has reputed clients, which include industry majors in the automobile, defense and engineering sectors. The reputed clientele reduces the counterparty risk to a significant extent. Further, the company had an order book position of Rs. 40 crores as of December 2023, providing near-term revenue visibility.

## Credit challenges

**Small scale of operations** – The company's scale of operations has remained small, with the revenues ranging between ~Rs. 20-30 crore over the past five fiscals. LVTPL reported a revenue of Rs. 42.37 in FY2023, a sustained growth of 42% over the previous year. Further, it derives a major portion of its revenues from the automobile industry, accentuating the risk of demand volatility.

**High working capital intensity of operations** – The company's working capital intensity of operations remained stable, reflected in its net working capital relative to the operating income of 39% in FY2023 over FY2022 (39.4%). The receivable cycle and inventory cycle remain elevated driven by bunching up of revenue recognition in majorly last quarter of the year. High working capital requirements have kept LVTPL's liquidity under pressure, reflected in high utilisation of the fund-based working capital facility.

**Average financial profile characterised by moderate debt coverage indicators** – LVTPL's financial risk profile remains average, marked by a small net-worth base (Rs. 13.2 crore as on March 31, 2023) and moderately leveraged capital structure, with a gearing of 1.2 times as on March 31, 2023. The coverage indicators remained modest with interest coverage of 2.5 times, total debt/OPBITDA of 2.2 times and NCA/TD of 22.5% in FY2023. Nevertheless, with expected improvement in scale and profitability, the leverage and coverage metrics are expected to improve, going forward.

**Vulnerability of profitability to adverse fluctuations in raw material prices** – The company's profitability remains exposed to the fluctuations in raw material (steel & copper) prices. It has little control over the prices of key inputs. The firm's margins are exposed to raw material price fluctuations, due to its limited ability to pass on any upward movements in prices to its customers due to the fixed-price nature of contract. However, the company immediately books the raw materials post the design finalisation stage (1.5-2 months from order received), thus mitigating the said risk, to a large extent.

## Liquidity position: Stretched

LVTPL's liquidity is Stretched with free cash and bank balance of Rs.0.09 crore as on December 31, 2023. Further the working capital utilization is high with average utilization of 97% in the past 12 months ending March 2024. The company also has repayments of Rs.0.96 crore in FY2025.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company demonstrates any sustained improvement in its scale and working capital cycle, while maintaining healthy profit margins, which will improve the key credit metrics and liquidity position.

**Negative factors** – Pressure on the ratings could arise if there is any significant decline in revenue or margins, resulting in the weakening of key credit metrics. Any significant stretch in the working capital cycle or large debt-funded capex, resulting in liquidity pressure, may also lead to a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on LVTPL's standalone financial statements

## About the company

Lakshmi Group Company was established in 2003. Mr. L. N. Prasad, the Group Managing Director started Lakshmi Vacuum Heat Treaters as a proprietorship concern in 2003 in Bengaluru. Consequently, Lakshmi Vacuum Technologies was formed in 2007 in Bengaluru. Lakshmi Vacuum Technologies Private Limited (LVTPL) is involved in the manufacturing of industrial vacuum furnaces. The company's customers mainly belong to the automobile, engineering, aerospace, tooling, mining and research, electrical, defense, and other allied engineering industries. Vacuum furnaces are required for hardening, tempering, annealing, stress-relieving, brazing and sintering applications. The company also provides technical services relating to the installation of vacuum furnaces.

### Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	29.9	42.4	17.1
PAT	2.3	2.6	1.2
OPBDIT/OI	17.3%	16.6%	25.2%
PAT/OI	7.7%	6.2%	6.9%
Total outside liabilities/Tangible net worth (times)	2.6	3.1	3.0
Total debt/OPBDIT (times)	1.6	2.2	2.5
Interest coverage (times)	2.5	2.5	2.0

Note: Amounts in Rs. Crore; Source: Company Data; \* Provisional

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

	Ratings	Date
CARE Ratings	CARE B-; Issuer not cooperating	July 12, 2023
CARE Ratings	CARE A4; Issuer not cooperating	July 12, 2023

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 30, 2024	-	Jan 19, 2023	-
1 Fund-based-Cash Credit	Long Term	10.00	-	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	-
2 Fund-based-Term loan	Long Term	4.65	0.59	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	-
3 Fund Based (standby line of credit)	Short Term	3.40	-	[ICRA]A4	-	[ICRA]A4	-
4 Non-Fund Based (BG & LC)	Short Term	16.50	-	[ICRA]A4	-	[ICRA]A4	-
5 Unallocated	Long Term	0.43	-	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term loan	Simple
Standby line of credit	Simple
BG/ LC	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based-Cash Credit	NA	NA	NA	10.0	[ICRA]BB- (Stable)
-	Fund-based-Term loan	March 2019	NA	2026	4.65	[ICRA]BB- (Stable)
-	Fund Based (standby line of credit)	NA	NA	NA	3.4	[ICRA]A4
-	Non-Fund Based (BG & LC)	NA	NA	NA	16.5	[ICRA]A4
-	Unallocated	NA	NA	NA	0.43	[ICRA]BB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis: Not Applicable

## ANALYST CONTACTS

**Girishkumar Kadam**

+91 22 6114 3441

[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

**Varun Gogia**

+91 9871156542

[varun.gogia1@icraindia.com](mailto:varun.gogia1@icraindia.com)

**Prashant Vasisht**

+91 124 4545 322

[prashant.vasisht@icraindia.com](mailto:prashant.vasisht@icraindia.com)

**Mohika Kundara**

+91 9599133619

[mohika.kundara@icraindia.com](mailto:mohika.kundara@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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