

January 19, 2023

Lakshmi Vacuum Heat Treaters Pvt Ltd: [ICRA]B+ (Stable) assigned.

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based- Term loan	18.88	[ICRA]B+ (Stable); assigned
Long term - Fund based - Cash credit	2.00	[ICRA]B+ (Stable); assigned
Long term - Unallocated limits	2.85	[ICRA]B+ (Stable); assigned
Total	23.73	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating derives comfort from the extensive experience of the promoters of Lakshmi Vacuum Heat Treaters Private Limited (LVHPL), spanning over two decades, in the vacuum furnace manufacturing and heat treatment services industries. The rating also factors in the improvement in LVHPL's operating income in FY2022, after moderation in FY2020 and FY2021 due to the weak demand prospects in the auto sector, which was further aggravated by the pandemic. The company has recovered from the demand headwinds to a large extent in FY2022 and is expected to witness healthy growth in FY2023. The rating also draws comfort from a diversified clientele and healthy profitability indicators.

The rating is, however, constrained by the company's small scale of operations over the years and an average financial risk profile, marked by a moderately leveraged capital structure and modest debt protection metrics. Moreover, the company's overall liquidity position remains stretched due to tightly matched cash flow generation against its repayment obligations and limited cushion available in the working capital limits.

The Stable outlook reflects ICRA's opinion that LVHPL's credit profile is expected to remain stable, backed by the extensive experience of the promoters in the industry and the established relationship with customers, which is expected to result in steady business growth, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in heat treatment industry- LVHPL was established in 2003 and provides vacuum heat treatment services. The promoters, Mr L. N. Prasad and Ms K. S. Varalakshmi, have more than two decades of experience in the heat treatment industry. The presence of group entity - Lakshmi Vacuum Technologies Private Limited - which manufactures vacuum furnaces helps the Group in understanding customer requirement. LVHPL's track record enables it to secure repeat orders from its customers.

Healthy profitability indicators – The company's revenue improved by 23.7% in FY2022 compared with FY2021 as the margins rose with the increase in orders and realisation. The recovery was fuelled by the revival in demand in the automobile segment after being hit by the pandemic in the previous year. The operating profitability has been healthy with OPBITDA margins remaining range-bound at 18-24% over the past three years and PAT margins at 1.7-4.24%. The ROCE remained healthy at 10.35% in FY2022.

Diversified client base with repeat orders from a few clients – The company has a diversified client base with customers majorly from the automobile, defense and engineering segments. The automobile segment is the major contributor. The client concentration remained low with the top 10 customers contributing to around 13% of the total sales in FY2022, which reduces the counterparty risks. The industry outlook for heat treatment in India is expected to improve with the growth in the automobile, aerospace and defense sectors.

Credit challenges

Small scale of operations – LVHPL’s scale of operations has remained small over the years, though it increased to Rs. 24.0 crore in FY2022 from Rs. 19.4 crore in FY2021. The small scale exposes the company to the risk of business downturn and its ability to absorb any temporary disruption and fixed costs. Further, it derives a major portion of its revenues from the automobile industry, accentuating the risk of demand volatility.

Leveraged capital structure and modest debt protection metrics - The company’s profit margins have remained healthy in the past, reflected in an OPM of 19.08-24.02% over FY2020-FY2022. The overall financial risk profile, however, remains average with a small net worth base of Rs. 17.3 crore and a gearing of 1.5 times as on March 31, 2022. The debt protection metrics also remained moderate due to the debt-funded capex undertaken by the company in the recent past and the relatively high debt payments, reflected in an interest cover of 3.5 times, TD/OPBDITA of 3.6 times and DSCR of 1.2 times in FY2022.

There has been continuous capacity addition YoY to ensure timely delivery to the customers. New furnaces were added to meet the growing demand. The company plans to add six new furnaces at its existing heat treatment plants by the end of FY2023, which will be predominantly funded by term loans. Going forward, with the expected increase in the debt levels and the corresponding repayments, the debt coverage metrics are likely to remain modest.

Exposure to cyclicity inherent in automobile industry; operating margin susceptible to competitive intensity – The revenues from the heat treatment division is exposed to the cyclicity inherent in the automobile industry as it derives a major portion of its revenues from the automobile industry, accentuating the risk of demand volatility. Also, LVHPL’s operating profitability is exposed to competition.

Liquidity position: Stretched

LVHPL’s liquidity is stretched with limited free cash and bank balance (Rs. 0.3 crore as on March 31,2022) and high utilisation of working capital limits, averaging ~85% in the last 12 months ended August 2022 (undrawn limits of Rs. 0.3 crore as of August 2022). The company also has a capex plan in the near term which is expected to be predominantly debt funded. The debt repayments for the company are Rs. 4.38 crore in FY2023 and Rs. 5.85 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade LVHPL’s ratings if the company is able to scale up its operations while maintaining healthy profit margins, leading to an improvement in the key credit metrics and the liquidity position on a sustained basis.

Negative factors – Pressure on LVHPL’s ratings may arise if there is any significant decline in scale and profitability, leading to a deterioration in the key credit metrics. A stretch in the receivable cycle or any large capex weakening the liquidity may also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on LVHPL’s standalone financial statements

About the company

The Lakshmi Group 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. Lakshmi Vacuum Technologies was formed in 2007 in Bengaluru to manufacture furnaces. Lakshmi Vacuum Heat Treaters Limited (LVHPL) is involved in providing vacuum heat treatment services used to carry out processes such as hardening and tempering, annealing & stress relieving, brazing, sintering, nitriding, etc. LVHPL procures the vacuum furnaces from its sister concern - Lakshmi Vacuum Technologies Private Limited (LVTPL) - which is then used for the heat treatment process in the heat treatment division. The heat treatment is used for auto components, hardware tools and metal parts, etc. After the heat treatment process, the components are used by various industries as per their applications. LVHPL has five heat treatment plants across the country.

Key financial indicators (audited)

	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	19.4	24.0
PAT (Rs. crore)	0.3	1.0
OPBDITA/OI (%)	18.3%	19.8%
PAT/OI (%)	1.7%	4.2%
RoCE (%)	10.4%	10.4%
Total outside liabilities/Tangible net worth (times)	3.0	2.1
Total debt/OPBDIT (times)	4.4	3.6
Interest coverage (times)	3.1	3.5
DSCR (times)	1.7	1.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: $PBIT/avg (total\ debt + tangible\ net\ worth + deferred\ tax\ liability - capital\ work\ in\ progress)$; DSCR: $(PBIT + Mat\ credit\ entitlements - fair\ value\ gains\ through\ P\&L - non-cash\ extraordinary\ gain/loss)/(interest + repayments\ made\ during\ the\ year)$.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					January 19, 2023				
1	Fund-based - Cash credit	Long Term	2.00	-	[ICRA]B+ (Stable)	-	-	-	
2	Fund-based - Term loan	Long Term	18.88	15.7	[ICRA]B+ (Stable)	-	-	-	
3	Unallocated	Long Term	2.85	-	[ICRA]B+ (Stable)	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple

Term loan	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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based - Cash credit	NA	NA	NA	2.0	[ICRA]B+ (Stable);
-	Fund-based - Term loan	Nov 2019	NA	Jan 2027	18.88	[ICRA]B+ (Stable);
-	Unallocated	NA	NA	NA	2.85	[ICRA]B+ (Stable);

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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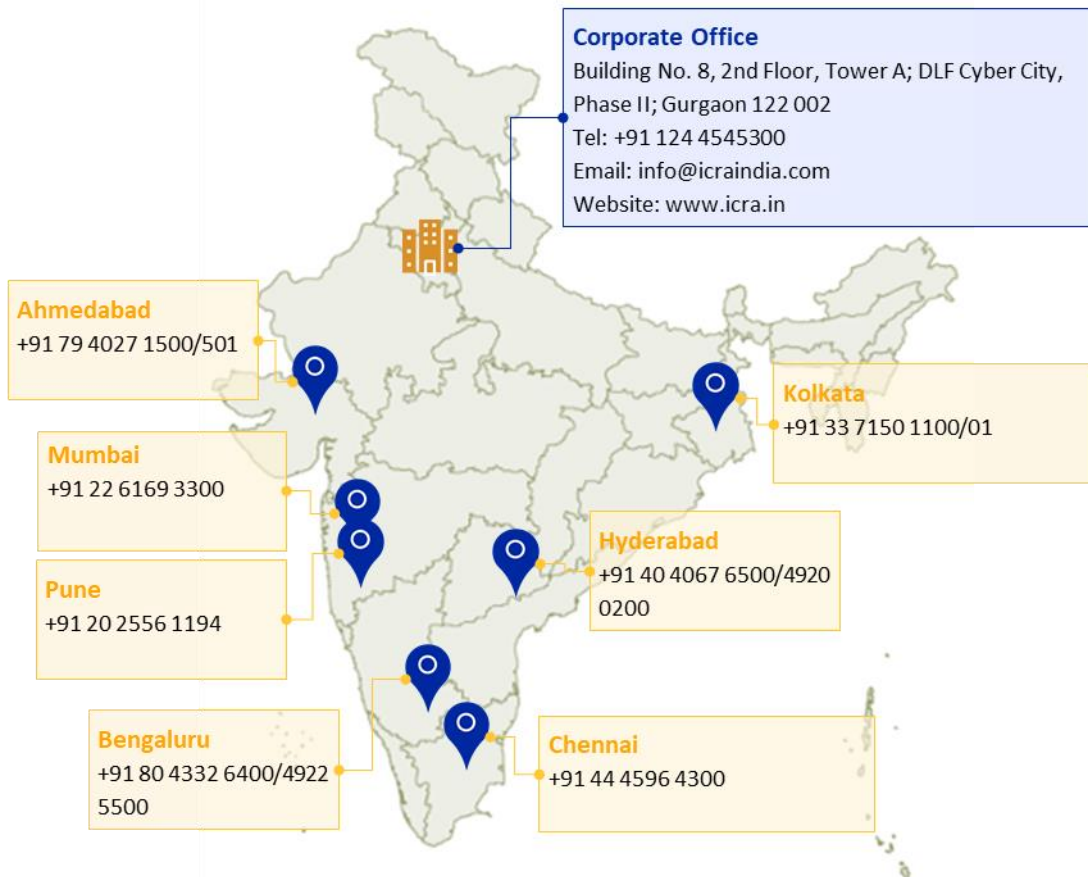
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