

January 19, 2023

## Lakshmi Vacuum Technologies Pvt. Ltd.: [ICRA]BB- (Stable)/[ICRA]A4 assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based (CC Limits)	10.0	[ICRA]BB- (Stable); assigned
Short term - Fund Based (standby line of credit)	3.4	[ICRA]A4; assigned
Long term – Fund based- Term Loan	4.65	[ICRA]BB- (Stable); assigned
Short term - Non-fund based limits (BG/LC)	16.5	[ICRA]A4; assigned
Long term - Unallocated limits	0.43	[ICRA]BB- (Stable); assigned
<b>Total</b>	<b>34.98</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings derive comfort from 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 November 2022, which provides near-term revenue visibility.

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 68.6% in FY2022), 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.

The Stable outlook on the rating reflects ICRA's opinion that LVTPL's will continue to benefit from the extensive experience of its promoters in the heat treatment industry and the pending orders-in-hand to support its revenues, going forward.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in vacuum furnace manufacturing-** LVTL 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, 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 crore as of November 2022, 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. 29.9 crore in FY2022, a growth of 48% 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 high, reflected in its net working capital relative to the operating income of 86.3% in FY2021 and 68.6% in FY2022, owing to a stretched receivable cycle (159 days in FY2022) and high inventory holding period (283 days) owing to a long manufacturing cycle. 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. 10.5 crore as on March 31, 2022) and moderately leveraged capital structure, with a gearing of 1.6 times as on March 31, 2022. The coverage indicators remained modest with interest coverage of 2.5 times, total debt/OPBITDA of 3.3 times and NCA/TD of 14.9% in FY2022, owing to the high debt levels vis-à-vis its accruals. 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 limited free cash and bank balance (Rs.0.1 crore as on March 31, 2022) and high utilisation of working capital limits, averaging ~91% in the past 12 months ending August 2022 (undrawn limits of Rs. 0.17 crore as of August 2022).

## 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. A specific credit metric for a downgrade is OPBDITA/interest of less than 2.0 times on a sustained basis.

## 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)

	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	20.2	29.9
PAT (Rs. crore)	1.2	2.3
OPBDITA/OI (%)	22.8%	17.3%
PAT/OI (%)	5.8%	7.6%
RoCE (%)	18.8%	19.8%
Total outside liabilities/Tangible net worth (times)	2.9	2.6
Total debt/OPBDIT (times)	3.6	3.3
Interest coverage (times)	1.9	2.5
DSCR (times)	1.3	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	10.0	-	[ICRA]BB- (Stable)	-	-	-
2	Fund-based-Term loan	Long Term	4.65	3.37	[ICRA]BB- (Stable)	-	-	-
3	Fund Based (standby line of credit)	Short Term	3.4	-	[ICRA] A4	-	-	-
4	Non-Fund Based (BG & LC)	Short Term	16.5	-	[ICRA] A4	-	-	-
5	Unallocated	Long Term	0.43	-	[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-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	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-2: List of entities considered for consolidated analysis: Not Applicable**

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