April 30, 2024

Lakshmi Vacuum Heat Treaters Pvt Ltd: Long-term rating upgraded to [ICRA]BB-(Stable)

Summary of rating action

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

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the increase in the scale of operations and cash generation of the Lakshmi Vacuum Heat Treaters Pvt Ltd (LVHTPL/the company) which will result in an improvement in the credit metrics of the company going forward. The rating continues to factor in the extensive experience of the promoters 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 FY2023 and FY2024 (Prov) which has also led to improvement in the profitability. 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.

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 growth has been healthy in FY2023 and FY2024 supported by expanding capacity of vacuum furnaces. The revenue grew by ~24% YoY and 12% YoY in FY2023 and FY2024 respectively. The operating margins have remained healthy at around 20% in FY2023 and are expected to improve further in FY2024. The RoCE of the company remains modest at around 11.8% in FY2023.

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 client concentration remained low with the top 10 customers contributing to around ~18% of the total sales in FY2023, 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. 29.6 crore in FY2023 and is expected to improve further to Rs. 33.2 crore in FY2024. 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 18.3-20.5% over the course of FY2021 to FY2023. The overall financial risk profile, however, remains average with a small net worth base of Rs. 13.0 crores and a gearing of 1.44 times as on March 31, 2023 and is expected to moderate further in FY2024 due to the capex undertaken. 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 3.2 times, TD/OPBDITA of 3.1 times and DSCR of 1.09 times in FY2023.

There has been continuous capacity addition YoY to ensure timely delivery to the customers. New furnaces were added to meet the growing demand and the company has added several furnaces during the course of FY2023 and FY2024. The capex has been funded using term loans from banks and thereby the credit metrics will moderate in FY2024 and are expected to improve from FY2025.

Exposure to cyclicality inherent in automobile industry; operating margin susceptible to competitive intensity – The revenues from the heat treatment division is exposed to the cyclicality 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. 1.83 crore as on March 31,2023) and high utilisation of working capital limits, averaging ~84% in the last 12 months ended March 2024 (undrawn limits of Rs. 0.2 crore as of March 2024). The company's cash accruals are tightly matched with the debt repayment of Rs. 4.93 crore to be made in FY2025.

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

Note (for analyst reference only):

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)

LTHL Consolidated	FY2022	FY2023	9M FY2024
Operating income	23.99	29.64	24.43
PAT	1.02	1.23	0.79
OPBDIT/OI	19.8%	20.5%	26.5%
PAT/OI	4.2%	4.1%	3.3%
Total outside liabilities/Tangible net worth (times)	2.07	2.65	2.53
Total debt/OPBDIT (times)	3.64	3.10	2.81
Interest coverage (times)	3.53	3.21	4.13

Note: Amounts in Rs. Crore; Source: Company Data

Status of non-cooperation with previous CRA:

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

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (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	2.00	-	**[ICRA]BB- (Stable)**	-	**[ICRA]B+ (Stable)**	-
2	**Fund-based - Term loan**	Long term	18.88	13.79	**[ICRA]BB- (Stable)**	-	**[ICRA]B+ (Stable)**	-
3	**Unallocated**	Long term	2.85	-	**[ICRA]BB- (Stable)**	-	**[ICRA]B+ (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund based - Cash credit	Simple
Long Term – Fund Based - Term loan	Simple
Long Term - 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	2.00	[ICRA]BB- (Stable)
-	**Fund-based Term loan**	-	Nov 2019	NA	Jan 2027	18.88	[ICRA]BB- (Stable)
-	**Unallocated**		NA	NA	NA	2.85	[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

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