

Rating Rationale

February 25, 2021 | Mumbai

Lakshmi Electrical Control Systems Limited

Ratings reaffirmed at 'CRISIL A- / Stable / CRISIL A1 '

Rating Action

Total Bank Loan Facilities Rated	Rs.19.58 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Lakshmi Electrical Control Systems Limited (LECS) at 'CRISIL A-/Stable/CRISIL A1'.

CRISIL Ratings on the bank facilities of LECS continue to reflect the established relationship with Lakshmi Machine Works Ltd (LMW) leading to regular orders. The ratings also factor in the company's strong financial risk profile because of low gearing and robust debt protection metrics, and its ample liquidity. These strengths are partially offset by the susceptibility of its operating performance to volatility in raw material prices and to cyclical in the textile industry.

Key Rating Drivers & Detailed Description

Strengths

- Established relationship with LMW:** LMW cater to about 80 percent of the overall revenues of LECS, with regular and steady orders for control panels. Both entities enjoy high synergies because of integration and common management. However LECS has also taken concrete measures to diversify its customer base with addition of customers from the automotive and engineering sectors to minimise its exposure to customer concentration risk.
- Strong financial risk profile:** LECS has a healthy financial risk profile, with minimal debt and strong net worth. As on September 2020, LECS had a net worth of Rs.131 crore and total outside liabilities to tangible networth ratio of around 0.17 times. LECS's net worth is expected to gradually improve over the medium term supported by moderate accretion to reserves; while the capital structure is expected to remain sustained supported by the absence of debt funded capital expenditure.

Weakness:

- Susceptibility of its operating performance to volatility in raw material prices and to cyclical in textile industry:** LECS's primary raw materials are plastic components, the prices of which are highly volatile and may have an impact on operating margins. However, LECS has been able to pass on increases in raw material prices to LMW, albeit with a lag. Additionally, the company manufactures low-cost components largely for textile machinery, exposing it to slowdown in sales due to any downturns in the textile industry. This has been reflected in the performance of LECS in fiscal 2020 and the 9 month ended December 2020. Turnover in fiscal 2020 and last 9 months ended December 2020 was around Rs.113 crore and Rs.75 crore as against turnover in the range of Rs.180-190 crore during fiscals 2017 to 2019.

Liquidity: Strong

LECS has surplus liquidity marked by healthy cash and cash equivalents and sparsely utilised bank limits. Cash and cash equivalents was at around Rs. 80 crore as on September 30, 2020. Fund based working capital limits of around Rs.17.5 crore have been sparsely utilised over the last twelve months ended December 2020 Due to decline in operating performance, cash accrual is expected at less than Rs. 2 crore in fiscal 2020, however it is supported by absence of repayment obligations. With improvement in operating performance, the cash accrual is expected at around Rs.5-6 crore in fiscals 2022 and 2023. With absence of any major debt funded capex, surplus liquidity is expected to be maintained over the medium term.

Outlook: Stable

CRISIL believes LECS will maintain its healthy financial risk profile, in the absence of significant debt-funded capital expenditure (capex), over the medium term.

Rating Sensitivity factors

Upward Factors

- Improvement in cash accrual to more than Rs.12 crore
- Customer diversification in revenue profile

Downward Factors

- Decline in turnover by more than 20 percent, hence impacting operating profitability
- Increase in working capital requirements

About the Company

LECS manufactures control panels for textile machinery and generates most of its revenue from LMW. The company forms part of LMW group, and supplies control panels, which are used in manufacture of textile machinery. Additionally, the company manufactures plastic components which are used in automobile and engineering industries. The company is managed by Chairperson and Managing Director, Ms Nethra J S Kumar

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs. Cr.	113.23	190.83
Profit After Tax (PAT)	Rs. Cr.	0.43	10.21
PAT Margin	%	0.4	5.3
Adjusted Debt/Adjusted Networth	Times	0.00	0.03
Interest coverage	Times	9.55	896.6

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	15	NA	CRISIL A-/Stable
NA	Letter of Credit	NA	NA	NA	0.5	NA	CRISIL A1
NA	Bank Guarantee	NA	NA	NA	0.25	NA	CRISIL A1
NA	Proposed Cash Credit Limit	NA	NA	NA	3.25	NA	CRISIL A-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	0.58	NA	CRISIL A-/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	18.83	CRISIL A-/Stable		--	19-02-20	CRISIL A-/Stable		--	28-11-18	CRISIL A-/Stable	CRISIL A-/Stable
					--		--		--	31-01-18	CRISIL A-/Stable	--
Non-Fund Based Facilities	ST	0.75	CRISIL A1		--	19-02-20	CRISIL A1		--	28-11-18	CRISIL A1	CRISIL A1
					--		--		--	31-01-18	CRISIL A1	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Name of Lender	Amount (Rs.Crore)	Rating
Bank Guarantee	Indian Bank	0.25	CRISIL A1
Cash Credit	HDFC Bank Limited	5	CRISIL A-/Stable
Cash Credit	Indian Bank	10	CRISIL A-/Stable
Letter of Credit	Indian Bank	0.5	CRISIL A1
Proposed Cash Credit Limit	Not Applicable	3.25	CRISIL A-/Stable
Proposed Long Term Bank Loan Facility	Not Applicable	0.58	CRISIL A-/Stable

This Annexure has been updated on 7-Sep-2021 in line with the lender-wise facility details as on 24-Aug-2021 received from the rated entity.

Criteria Details

Links to related criteria
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Bank Loan Ratings

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