Press Release
LOCKSMITHS INDUSTRIES PRIVATE LIMITED
July 21, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.60	ACUITE BB | Stable | Assigned	-
Bank Loan Ratings	6.25	-	ACUITE A4+ | Assigned
Total Outstanding Quantum (Rs. Cr)	19.85	-	-

Rating Rationale
Acuité has assigned its long-term rating of **'ACUITÉ BB' (read as ACUITE double B)** and short-term rating of **'ACUITÉ A4+' (read as ACUITE A four plus)** on the Rs. 19.85 Cr. bank facilities of Locksmiths industries Private Limited (LIPL). The outlook is **'Stable'.**

Rationale for the rating assigned.
The rating assigned reflects an improvement in the overall business risk profile of the company, marked by an increase in operating income arising from improved realizations. The revenue of the company has increased at a CAGR of 35 percent in the last four years. The revenue of the company increased to 75.41 crore in FY2023(Prov.) as against 58.34 crore in FY2022. Rating also factors in the strong industry experience of management which helped them to maintain a longstanding relationship with reputed clientele like VIP, Safari and Samsonite. These strengths are however offset by the weak financial risk profile of the company marked by a low net worth and moderate gearing along with high reliance on short-term bank financing. Further, the company faces the customer concentration risk with more than half of the company's income is from the top four customers, any downside to their businesses could harm the operations of LIPL.

About the Company
Incorporated in 1988, Locksmiths Industries Private Limited (LIPL) is an established manufacturing company in locking systems for luggage industries and modular furniture hardware. Company manufactures Luggage hardware like combination locks for hard luggage which are Transportation Security Administration (TSA) category locks or non-TSA locks, trolley of a luggage bag and wheels etc. LIPL is one of the 25 companies in the world to hold the prestigious license to manufacture TSA specialized locks used widely in North America, Europe, Japan, etc. for which the company pays royalty to Travel Sentry. The manufacturing facility of LIPL is located at MIDC Satpur, Nashik.

LIPL is promoted by Mr. Nimesh Kishore Sheth and Mrs. Dipa Nimesh Sheth.

Analytical Approach
Acuité has considered the standalone business and financial risk profiles of Locksmith Industries Private limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations and experienced management
LIPL has an established track record of operations dating back almost three decades, along with experienced management. The company is promoted by Mr. Nimesh Kishore Sheth and Mrs. Dipa Nimesh Sheth. The promoters and management of the company have experience of over 2 decades in the industry which is reflected in the growing scale of operations. Further, the experience of management has helped the company to maintain a stable longstanding relationship with reputed clients namely VIP, Safari and Samsonite. The company is one of the few who holds the Travel Sentry manufacturing license to make TSA locks for which company pays royalty to them.

Acuité believes that the long operational track record coupled with the extensive experience of the management and relationship with reputed clientele will continue to benefit LIPL going forward, resulting in steady growth in the scale of operations.

Strong Business risk profile
The Indian luggage sector is a proxy play to the travel industry. It has been growing at a pace of 12-14 percent CAGR over the past decade. While the pandemic breakout and the ensuing lockdowns, halted this growth temporarily, the momentum has returned with a recovery in airline passenger traffic coupled with normalcy across the economy, consumer confidence in travelling has also been restored. This will in turn support and boost the demand for luggage.

The revenue of the company has grown to Rs. 75.41 crore in FY2023(Prov.) as against Rs. 58.34 crore in FY2022 and Rs. 18.19 crore in FY2021 on account of increasing travel spends across the country after the covid led lockdown Further, the company has a strong and reputed clientele in the industry namely VIP, Safari, Samsonite etc. EBITDA margins of LIPL increased to 8.03 percent in FY2023(Prov.) from 6.04 percent in FY2022. Further, PAT margin also increased to 1.32 percent in FY2023(Prov.) as against 0.61 percent in FY2022.

Acuite believes that the scale of operations may continue to increase going forward on account of strong industry outlook.

Weaknesses

Moderate Financial risk
The financial risk profile of LIPL is moderate marked by a low net worth, moderate gearing, and moderate debt protection metrics. The tangible net worth of the group increased to Rs. 7.51 crore as of March 31, 2023(Prov.) from Rs. 6.52 crore as of March 31, 2022, due to the ploughing back of profits. The gearing of the group stood at 3.44 times as of March 31, 2023(Prov.) as against 3.83 times as of March 31, 2022. The total debt of the company stood at 25.85 crore as of March 31, 2023(Prov.) of which 12.74 crore constitutes short term debt. The company is heavily reliance on the short term financing with average utilizations of around 95 percent for the last 6 months ended June 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.99 times as of March 31, 2023(Prov.) as against 6.06 times as of March 31, 2022. Moreover, the moderate debt protection metrics are marked by an interest coverage ratio (ICR) of 1.97 times and a debt service coverage ratio (DSCR) of 1.86 times as of March 31, 2023(Prov.) as against ICR of 1.72 times and DSCR of 1.65 times as of March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.1 times as of March 31, 2023(Prov.) and is expected to remain almost at similar levels in the near term.

Acuite believes that going forward, the financial risk profile of the company may improve slowly, backed by steady cash accruals and no major debt funded capex plans.

Working Capital Intensive operations
The working capital operations of the company are intensive marked by GCA days of 169 days in FY2023 (Prov) as against 227 days in FY2022. The inventory levels of the company was around 125 days in FY23 (Prov) as against 158 days for FY2022. The Debtor days stood at 44 days in FY2023 (Prov) as against 65 days for FY2022. Generally, the company has a policy of

providing credit of upto 60 days to its customers. Further, LIPL paid its creditors in 69 days in FY2023 (Prov) as against 112 days in FY2022. LIPL has high reliance on short-term financing with an average utilization of Cash Credit is around 95 percent and of LC is around 60 percent for last six months ending June 2023. LIPL has also proposed a cash credit enhancement of Rs. 5 to 6 crore, which will be fully interchangeable into LC.

Acuite believes that the working capital operations of the company may continue to remain at similar levels going forward considering the nature of operations.

Rating Sensitivities

- Increase in scale of operations while maintaining profitability.
- Any deterioration in the financial risk profile of the company leading to stretch on liquidity.

Material covenants

None

Liquidity Position

Adequate

The company's liquidity position is adequate, marked by moderate net cash accruals against the maturing debt obligations. The company generated net cash accruals of Rs. 2.65 crore in FY2023(Prov.) against its maturing repayment obligations of Rs. 1.51 crore in the same tenure. Further, the company is expected to generate sufficient cash accruals to repay its debt obligation in the near to medium term. However, the working capital management of the company is intensive marked by GCA days of 169 days in FY2023 (Prov) as against 227 days in FY2022. The current ratio stands at 1.37 times as on March 31, 2023 (Prov), as against 1.56 times as on 31 March 2022. LIPL has very high reliance on short-term financing with an average utilization of around 95 percent for last 6 months ended June 2023.

Acuite believes the liquidity position of the company may continue to remain adequate due to steady cash accruals.

Outlook: Stable

Acuité believes the outlook on LIPL will continue to remain 'Stable' over the medium term backed by its long track record of operations, increasing scale of operations and reputed clientele base. The outlook may be revised to 'Positive' if the company is able to significantly improve the scale of operations and profitability margins while also maintaining its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the business risk profile or financial risk profile of the company leading to stretch in liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	75.41	58.34
PAT	Rs. Cr.	0.99	0.35
PAT Margin	(%)	1.32	0.61
Total Debt/Tangible Net Worth	Times	3.44	3.83
PBDIT/Interest	Times	1.97	1.72

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Entities In Manufacturing Sector:- https://www.acuite.in/view-rating-criteria-59.htm
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.60	ACUITE BB | Stable | Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.25	ACUITE A4+ | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.