

Lokesh Machines Limited

August 16, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	83.19	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	6.25	CARE BB+; Positive / CARE A4+ (Double B Plus; Outlook: Positive/ A Four Plus)	Revised from CARE BB+; Negative / CARE A4 (Double B Plus; Outlook: Negative / A Four)
Short Term Bank Facilities	13.25	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Bank Facilities	102.69 (Rs. One Hundred Two Crore and Sixty-Nine Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating and outlook is on account of improvement in scale of operational and profitability margins in FY21 (refers to the period April 01 to March 31). The ratings continue to derive strength from experienced promoters, established clientele, comfortable capital structure and stable industry prospects. The rating strengths are however partially offset by, moderate orderbook position, elongated operating cycle resulting in extensive utilization of working capital limits, client concentration risk and stretched liquidity position.

Outlook: Positive

Positive outlook on rating reflects expected improvement in revenue and profitability backed by healthy demand coupled with stable industry growth prospects. Furthermore, the liquidity profile of the company is likely to strengthen with improvement in overall financial performance, going forward.

Key rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade

- ✓ Improvement in TOI by around 30% y-o-y while maintain PBILDT margin of 15% or above.
- ✓ Total debt to PBILDT improving to less than 2x, on a sustained basis.
- ✓ Notable improvement in liquidity profile

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Any significant deterioration in TOI or PBILDT by more than 30% y-o-y.
- ✗ Overall gearing weakening to more than 1x.
- ✗ Further elongation in operating cycle beyond existing levels.

Detailed description of the key rating drivers

Key Rating Weaknesses

Elongated operating cycle

The operating cycle of the company remain stretched at 280 days in FY21 (PY: 292 days). In the machinery segment each GPM machinery takes around four to eight months to complete. This results in high inventory under work in process stage, average inventory period accordingly remains elongated at 289 days in FY21 (PY: 313 days). Furthermore, collection period also remained high although witnessed improvement from 82 days in FY20 to 71 days in FY21.

Moderate order book position

The order book of the company normally provides limited revenue visibility of about a year. However, in the machine tools segment the nature of operations is cyclical where the company produces connection rods order is place as per demand. As on July 01, 2021 the company had an outstanding order book at moderate level of Rs 111 crore, across all divisions.

Client concentration risk

The company's revenue profile remains skewed towards job work income from Mahindra and Mahindra which contributed about 35% of TOI in FY21. Thus, Lokesh's performance largely depends upon the growth prospects of Mahindra, thereby

exposing it to client concentration risk. Furthermore, the revenue profile is also concentrated towards auto segment, auto industry had been facing headwinds in the past and thereby impacting demand for Lokesh's products and its profitability.

Cyclical nature of Automobile Industry

LML has majority of its clients from the automobile industry. Though the revenue contribution from the industry has been decreasing on Y-o-Y level the exposure has been significant towards the automobile industry. The performance of the automobile industry is directly related to various global and domestic economic conditions like seasonal trends in automobile manufacturing sector, evolving regulatory requirements and volatile fuel prices. An adverse fluctuation in these economic variables will have a direct impact on the financial health of Lokesh Machines Limited.

Liquidity Analysis – Stretched

Liquidity position of the company is stretched marked by extensively utilized working capital limits, no significant cash/bank balance and elongated operating cycle. The working capital limits remained almost completely utilised during the past twelve months ended July, 2021. Although, company has envisaged to achieve sufficient cash accruals vis-à-vis its future repayment obligation and liquidity is partly supported by an above unity current ratio and positive cash flows from operations.

Key Rating Strengths

Improvement in TOI and margins in FY21.

During H2FY21, post resumption of lockdown there has been an uptick in the economy and improvement in demand along with revival in auto sector, the TOI improved to Rs 150.97 crore in FY21 as against Rs 126.22 crore in FY20 with a Y-o-Y growth of 19.61%. PBILDT margin also remained healthy at 17.26% (PY: 9.88%) on account of execution of better margin orders coupled with various cost cutting measures adopted by the company.

Experienced promoters and established track record

LML is promoted by Mr M. Lokeswara Rao, who has four decades of experience in Machines Tools industry. He was earlier associated with KCP Limited and Hindustan Machine Tools Limited (HMT). He worked for 11 years in HMT before starting LML. The company also derives strength and managerial capabilities from experience of other promoters i.e. Mr. Kishore Babu, Mr. M. Srikrishna and Mr. M. Srinivas who also have rich experience in the Machine Tools design and manufacturing segment.

Comfortable capital structure

The capital structure of the company marked by the overall gearing ratio remained comfortable at 0.61x as on March 31, 2021 backed by steady TNW and accretion of profits. The debt levels increased to about Rs. 87 crore as on March 31, 2021 as company availed COVID loans of Rs. 16 crore. during the year. Nevertheless, the interest coverage ratio and TDGCA improved to 2.09x (FY20: 1.06x) and 6.76x (FY20: 102.78x) in FY21 respectively because of improved PBILDT levels and healthy GCA during the year.

Impact of second wave of Covid

The second wave of covid pushed the Indian auto industry in the slow lane, as sales for the month of May 2021 declined significantly. During the month of May, factory dispatches of passenger vehicles and two wheelers contracted to 1/3rd level of previous month, while three wheelers made negligible sales of just about 1,200 units. However, Lokesh was permitted to operate during lockdown period albeit the capacity utilization was lower.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

About the Company

Lokesh Machines Ltd (LML) incorporated in December 1983 is promoted by Mr. M. Lokeswara Rao and the company started commercial operations during 1986. The company is engaged into manufacturing of auto ancillary components, special purpose machines and general purpose machine. The company has manufacturing units in five locations with four in Hyderabad and one in Pune with a total installed capacity of 600 Machines per annum.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Abridged)
Total operating income	126.22	150.97
PBILDT	12.47	26.06
PAT	-4.68	3.96
Overall gearing (times)	0.57	0.61
Interest coverage (times)	1.06	2.09

A-Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	23.44	CARE BB+; Positive
Fund-based - LT-Cash Credit	-	-	-	59.75	CARE BB+; Positive
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A4+
Non-fund-based - ST-ILC/FLC	-	-	-	3.25	CARE A4+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	6.25	CARE BB+; Positive / CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	23.44	CARE BB+; Positive	-	1)CARE BB+; Negative (13-Oct-20)	1)CARE BB+; Stable (28-Aug-19)	1)CARE BB; Stable (14-Jan-19)
2.	Fund-based - LT-Cash Credit	LT	59.75	CARE BB+; Positive	-	1)CARE BB+; Negative (13-Oct-20)	1)CARE BB+; Stable (28-Aug-19)	1)CARE BB; Stable (14-Jan-19)
3.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A4+	-	1)CARE A4 (13-Oct-20)	1)CARE A4 (28-Aug-19)	1)CARE A4 (14-Jan-19)
4.	Non-fund-based - ST-ILC/FLC	ST	3.25	CARE A4+	-	1)CARE A4 (13-Oct-20)	1)CARE A4 (28-Aug-19)	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	6.25	CARE BB+; Positive / CARE A4+	-	1)CARE BB+; Negative / CARE A4 (13-Oct-20)	1)CARE BB+; Stable / CARE A4 (28-Aug-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-ILC/FLC	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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