Lokesh Machines Limited

March 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.29	CARE BBB-; Stable	Assigned
Short Term Bank Facilities	44.50	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Lokesh Machines Limited (LML) derives strength from long track record and rich experience of promoters, improving trend of revenue, satisfactory profitability margins, comfortable capital structure, reputed clientele, and stable industry outlook. The rating strengths are however partially offset by working capital intensive nature of operations, moderate order book position, ongoing debt funded capex and vulnerability of profitability to adverse fluctuation in price of key raw materials.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steady growth in TOI by around 25% y-o-y while maintaining PBILDT margin of 15% or above.
- Total debt to PBILDT improving to less than 2x, on a sustained basis.

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company likely to benefit from experience of promoters and management in the industry.

Key strengths

Long track record and rich experience of promoters

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. Mr. B. Kishore Babu is the Co-promoter of Lokesh Machines Limited. He is an Engineering graduate and also started his carrier with HMT. He has worked in the various departments' right from shop floor, designs, planning, production, assembly, Purchase and application engineering and has also been trained in various countries. Mr. M. Srikrishna is presently heading the Computerized Numerical Control (CNC) Machines Division of Lokesh Machines Limited. The company is also supported by four other directors from diversified fields like finance, power and designing.

Reputed and diversified customer base

Due to long term presence in the market for more than two and half decades the company has established relations with the customers which fetches repeated orders. LML has been successful in establishing itself as one of prominent CNC manufacturers in India. The clientele of the company includes Ashok Leyland Limited(CARE AA; Stable/CARE A1+), Kirloskar Oil Engines Limited,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Mahindra and Mahindra Ltd (CARE AAA; Stable/CARE A1+), Seimens Financial Services Pvt Ltd, Oswal Pumps Limited and International Tractors Limited among others. Apart, the company has its presence in export market includes Turkey, Russia, Netherland and Italy.

Strategic collaboration with key global players

The company associated with leading global players to offer the best technology and cost-effective solutions for all the machining needs of their esteemed customers. LML Collaborated with M/s Tongtai-Taiwan for High Speed Drill/ Tap Centers, Horizontal Machining Centers and with M/s EMCO- Austria for Multi Axis and Multi Spindle CNC Lathes.

Continuous orders/revenue from Mahindra and Mahindra

Due to long term relationship the company is able to fetch regular orders from its customers. This apart, the company undertakes job work from Mahindra and Mahindra (M&M) which reflects assured revenue. The company has an order book of Rs.110 crore which is likely to be executed in Q1FY24 (including job work). The company undertakes jobwork for M&M, it manufactures one of the key components like cylinder head and connecting rods which go into engine body making Lokesh significantly important to M&M . The order book of the company normally provides revenue visibility for about a year. As on December 31, 2022 the company had an outstanding order book of Rs 87 crore, across all its divisions.

Increase in revenue and profitability during FY22

The company witnessed growth in revenue of around 34% in FY22 i.e., from Rs.150 crore in FY21 to Rs.202 crore in FY22 on account of revival of the Indian economy, especially in the automotive segment, due to the easing of COVID-19 restrictions across the country. Apart, the increase in sales value as compared to the previous year; primarily lead by the General Purpose machinery division coupled with increase in job work revenue.

The profitability margin of the company remained healthy during FY22 marked by PBILDT and PAT margin at 15% and 3% respectively (PY:17% and 2.63%). Although the PBILDT margin reduced by 200 bps on account of increase in input cost but the same remains satisfactory.

Satisfactory capital structure and coverage indicators

The capital structure of the company remains comfortable represented by below unity overall gearing ratio at 0.58x as on March 31, 2022 (PY:0.61x). The company has total debt of Rs.86.92 crore which constitutes 36% of term loan including GECL loan, 62% of working capital borrowings and remaining 2% corporate loans.

The coverage indicators remained satisfactory marked by total debt/GCA and PBILDT interest coverage at 5.25x and 2.47x respectively in FY22 (PY:6.76x and 2.04X). The cash accruals of the company improved from Rs.12 crore in FY21 to Rs.16 crore in FY22.

Favourable industry outlook

India machine tools market is expected to grow at a steady CAGR for the forecast period, FY2023-FY2027. Advent of machine tools such as multi-axis and robotic arm is fueling the demand of machine tools in the region. Growth of oil and gas industry, railway sector and automotive industries is boosting the demand for machine tools market. Demand for smart functions across various end-user industries for reduced power usage and higher energy efficient machines are creating the demand for machine tools in the region. Rise in demand for heterogeneous material for manufacturing process to facilitate the flexibility in design and optimize the operational and maintenance costs is increasing the demand for advanced machine tools.

The industry which is seeing a meaningful upturn after a long period of sluggish growth is likely to witness a positive momentum on the back of revival in overall economy, improving rural cash flows, and an increasing need for personal mobility. Introduction of schemes like production-linked incentive and vehicle scrappage policy is likely to increase the competitiveness of the Indian automotive industry globally. Also, with the Global Supply Chains in Engineering and Automotive space starting to source from India as a China Derisking strategy, the future augurs well for India.

Key weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive, the operating cycle of the company remained high at 218 days in FY22 although improved from 280 days in FY21. The company is engaged in manufacturing of both machine tools and components where machine tools manufacturing process take around 8-10 months and around two months for component manufacturing. As the company is engaged in manufacture of capital goods where a large part of inventory remains under work in progress stage. This apart, the collection period of the company also remains a tad stretched although it improved from 71 days in FY21 to 64 days in FY22. The company receives the payment from its customers in around 45-60 days. To bridge the said working capital gap, the company majorly relies on working capital bank borrowings.

Vulnerability of profitability to adverse fluctuation in price of key raw materials

Raw material consumption forms significant cost factor for the company. Primary raw materials for manufacturing of these products are steel and aluminium the prices of which have remained volatile over the past few years. Hence, any adverse movement in raw material price without any corresponding movement in finished good price might affect the profitability of the company. The prices of finished goods generally move in tandem with that of raw materials, however, due to order-based nature of the business there exists a time lag. This exposes the profitability of the company to the risk arising on account of volatility in the raw material prices.

Ongoing debt funded capex

The company has undertaken expansion project in two of its facilities with upgradation and replacement of machineries resulted in increase in installed capacity coupled with backward integration of manufacturing of forgings with the total project cost of Rs. 55.50 crore. For the said project company has availed the term loans of Rs.39 crore from banks and remaining amount of Rs.16.50 crore funded through internal accruals. As on date the company has incurred around Rs. 10 crore partly from term loan Rs 3 crore and remaining from internal accruals of Rs.7 crore. Although financial closure has been achieved, completion of the project without any time and over run remains critical from credit perspective.

Liquidity: Adequate

The liquidity position of the company remained adequate marked by GCA of Rs.16.56 crore in FY22 against repayment obligation of Rs.6.59 crore The current ratio of the company stood at 1.39x as on March 31, 2022, the average utilisation of working capital limits stood at 85% and the company earned net cash flows from operations of Rs.22.86 crore in FY22 to support the liquidity. The company is expecting a GCA of Rs.21.81 crore in FY23 vis a vis repayment obligation of Rs.8.39 crore.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: Nil

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

Lokesh Machines Ltd (LML) incorporated in December 1983 is promoted by Mr. M. Lokeswara Rao and the company started commercial operations during 1985. The company has six manufacturing units with five in Hyderabad and one in Pune with a total installed capacity of 900 General-Purpose Machines (GPM) and 10 Special Purpose Machines (SPM) per annum (reported capacity; however, depending on the size and the type of machine, the capacity may vary). The company's operations can be segregated into two divisions namely, machines and components division. The product portfolio consists of machine tools such as CNC Lathes, Vertical Machining Centers, Horizontal Machining Centers, Vertical Turning Centers, Special Purpose Milling Machines, Line Boring Machines and Gun Drilling Machines, among others

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Total operating income	150.32	202.14	176.89
PBILDT	25.41	30.10	22.79
PAT	3.96	6.35	6.71
Overall gearing (times)	0.61	0.58	NA
Interest coverage (times)	2.04	2.47	2.76

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'.

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	69.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	June 2032	61.29	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	44.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB+; Positive (26-Jul-22) 2)Withdrawn (26-Jul-22)	1)CARE BB+; Positive (16-Aug-21)	1)CARE BB+; Negative (13-Oct-20)	1)CARE BB+; Stable (28-Aug-19)
2	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BB+; Positive (26-Jul-22) 2)Withdrawn (26-Jul-22)	1)CARE BB+; Positive (16-Aug-21)	1)CARE BB+; Negative (13-Oct-20)	1)CARE BB+; Stable (28-Aug-19)
3	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A4+ (26-Jul-22) 2)Withdrawn (26-Jul-22)	1)CARE A4+ (16-Aug-21)	1)CARE A4 (13-Oct-20)	1)CARE A4 (28-Aug-19)
4	Non-fund-based - ST-ILC/FLC	ST	-	-	1)CARE A4+ (26-Jul-22) 2)Withdrawn (26-Jul-22)	1)CARE A4+ (16-Aug-21)	1)CARE A4 (13-Oct-20)	1)CARE A4 (28-Aug-19)
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	-	-	1)CARE BB+; Positive / CARE A4+ (26-Jul-22) 2)Withdrawn (26-Jul-22)	1)CARE BB+; Positive / CARE A4+ (16-Aug-21)	1)CARE BB+; Negative / CARE A4 (13-Oct-20)	1)CARE BB+; Stable / CARE A4 (28-Aug-19)
6	Fund-based - LT-Term Loan	LT	61.29	CARE BBB-; Stable				
7	Fund-based - LT-Cash Credit	LT	69.00	CARE BBB-; Stable				
8	Non-fund-based - ST-BG/LC	ST	44.50	CARE A3				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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 - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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