

## Lokesh Machines Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	176.71 (Enhanced from 130.29)	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	44.50	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Revision in outlook from 'Stable' to 'Positive' is on account of CARE's expectation of the improvement in operating revenue and profits while maintaining a comfortable financial risk profile backed by increasing volumes with augmentation and modernization of CNC capacities expected to be operational during Q4FY24 along with additional accruals from sale of defence components, in coming quarters.

Reaffirmation in the rating to the bank facilities of Lokesh Machines Limited (LML) derives strength from long track record and rich experience of promoters, revenue growth during FY23 by around 18% y-o-y along with satisfactory performance in H1FY24. Profitability margins of the company stood at around 13% in FY23 albeit declined from 14-16% during past years because of fluctuation in raw material prices. Ratings remain underpinned by comfortable capital structure with overall gearing ratio remaining below unity and satisfactory coverage indicators. Ratings also favourably factor expected infusion of equity (through preferential allotment) of around Rs 23 crore by Mar 31, 2024 which will strengthen the company's net-worth base.

The rating strengths are however partially offset by working capital intensive nature of operations, implementation and execution risk associated with the ongoing debt funded defence and augmentation capex, 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 revenue to more than Rs 250 crore while maintaining PBILDT margin of ~13% on a sustained basis.
- Total debt to PBILDT improving to less than 2.5x, on a sustained basis.

#### Negative factors

- Any significant deterioration in TOI or PBILDT by more than 30% y-o-y
- Overall gearing weakening to more than 1x.
- Significant elongation in operating cycle, impacting company's liquidity.

**Analytical approach:** Standalone

**Outlook:** Positive

The 'Positive' outlook reflects CARE Ratings Limited's (CARE Ratings') expectations of the improvement in operating revenue and profits while maintaining a comfortable financial risk profile, in coming quarters.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

#### Increase in revenue during FY23, H1FY24 and Satisfactory profitability margins

The company witnessed growth in revenue of around 20% in FY23 i.e., from Rs.201 crore in FY22 to Rs.240 crore in FY23 on account of healthy demand and increase in installed capacity and utilisation levels. This apart, the higher sales realisations, increase in job work revenue and connecting rods also aided the revenue growth. The profitability of the company remained healthy during FY23 marked by PBILDT and PAT margin at 12% and 4% respectively (PY:15% and 3.14%). The PBILDT margin declined on account of increase in manufacturing and admin expenses 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 0.68x as on March 31, 2023 (PY:0.66x). The company has total debt of Rs.88 crore which constitutes 24% of term loan including GECL loan, 76% of working capital borrowings. The coverage indicators remained satisfactory marked by total debt/PBILDT and PBILDT interest coverage at 3.28x and 3.05x respectively in FY23 (PY:5.94x and 2.47X). The cash accruals of the company improved from Rs.17 crore in FY22 to Rs.21 crore in FY23.

#### 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, Kirloskar Oil Engines Limited, Mahindra and Mahindra Ltd, Siemens 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.

### 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 189 days in FY23 although improved from 218 days in FY22. 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 64 days in FY22 to 54 days in FY23. 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.

**Liquidity:** Adequate

The liquidity position of the company remained adequate marked by sufficient cash accruals against repayment obligation. The current ratio of the company stood at 1.25x as on March 31, 2023, the average utilisation of working capital limits stood at 83%. The company expecting GCA of Rs.24 crore in FY24 vis a vis repayment of Rs.7.5 crore. Furthermore, expected equity infusion will strengthen company's liquidity position, going forward.

**Assumptions/Covenants:** Not Applicable

**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](#)

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**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, 2022 (A)	March 31, 2023 (A)	H1FY2024(UA)
Total operating income	202.14	240.61	126.71
PBILDT	30.10	29.04	15.53
PAT	6.35	9.67	4.04
Overall gearing (times)	0.66	0.68	NA
Interest coverage (times)	2.47	2.70	NA

A: Audited UA: Unaudited; NA: Not Applicable; 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 last three years:** Please refer Annexure-2

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

**Complexity level of 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		-	-	-	79.00	CARE BBB-; Positive
Fund-based - LT-Term Loan		-	-	June 2032	97.71	CARE BBB-; Positive
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 2023-2024	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
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)
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)
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)
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)
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	-	-	-	1)CARE BB+; Positive / CARE A4+ (26-Jul-22)	1)CARE BB+; Positive / CARE A4+	1)CARE BB+; Negative / CARE A4

						2)Withdrawn (26-Jul-22)	(16-Aug-21)	(13-Oct-20)
6	Fund-based - LT-Term Loan	LT	97.71	CARE BBB-; Positive	-	1)CARE BBB-; Stable (29-Mar-23)	-	-
7	Fund-based - LT-Cash Credit	LT	79.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (29-Mar-23)	-	-
8	Non-fund-based - ST-BG/LC	ST	44.50	CARE A3	-	1)CARE A3 (29-Mar-23)	-	-

\*Long term/Short term.

### Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable

### 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.

### Contact Us

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