# Lokesh Machines Limited

October 04, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 172.72<br>(Reduced from 176.71) | CARE BBB; Stable | Upgraded from CARE BBB-; Positive |
| Short-term bank facilities | 44.50 | CARE A3+ | Upgraded from CARE A3 |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The upgrade of ratings assigned to bank facilities of Lokesh Machines Limited (LML) is due to an improvement demonstrated by the company in its revenue by 22% y-o-y in FY24, and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins, which improved to 13.87% (12.07%), the debt coverage indicators also improved and remained at a satisfactory level. Ratings continue to derive strength from long track record and rich experience of promoters, satisfactory capital structure, reputed and diversified customer base, and favourable industry outlook. However, rating strengths are partially offset by working capital intensive operations, profitability vulnerable to adverse fluctuation in key raw material prices.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Steady growth in revenue to more than ₹350 crore while maintaining PBILDT margin of ~15% on a sustained basis.
- Total debt to PBILDT improving to less than 2.5x, on a sustained basis.

### Negative factors

- Significantly deteriorating TOI or PBILDT by more than 30% y-o-y.
- Overall gearing weakening to more than 1x.
- Significantly elongating operating cycle, impacting company's liquidity.

**Analytical approach:** Standalone

**Outlook:** Stable

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

## Detailed description of key rating drivers:

## Key strengths

### Increase in revenue in FY24 and satisfactory profitability margins

The company witnessed revenue growth of around 22% in FY24, from ₹240 crore in FY23 to ₹293 crore in FY24 considering healthy demand and increase in installed capacity and utilisation levels. The profitability of the company remained healthy in FY24 marked by PBILDT and profit after tax (PAT) margins at 13.87% and 4.71%, respectively (PY: 12.07% and 4.02%). The company has order book of ₹197 crore as of June 2024 (₹105 crore as on September 2023), which will be executed in current financial year.

### Satisfactory capital structure and coverage indicators

The company's capital structure remains comfortable represented by below unity overall gearing ratio at 0.71x as on March 31, 2024 (PY:0.67x). The company has total debt of ₹137 crore, which constitutes of term loan, including GECL loan, working capital borrowings, and letter of credits. The coverage indicators remained satisfactory marked by total debt/PBILDT and PBILDT interest coverage at 3.38x and 3.55x, respectively, in FY24 (PY: 3.70x and 2.70X). The company's cash accruals improved from ₹20.71 crore in FY23 to ₹25.7 crore in FY24.

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

**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 the prominent CNC manufacturers in India. The company's clientele includes Ashok Leyland Limited (rated 'CARE AA; Stable/CARE A1+'), Kirloskar Oil Engines Limited, Mahindra and Mahindra Ltd (rated 'CARE AAA; Stable/CARE A1+'), Siemens Financial Services Pvt Ltd, Oswal Pumps Limited and International Tractors Limited among others. This apart, the company has its presence in export market includes Turkey, Russia, Netherland, and Italy.

## Key weaknesses

**Working capital intensive nature of operations**

The company's operations are working capital intensive, and the operating cycle remained high at 166 days in FY24 although improved from 189 days in FY23. The company manufactures both, the machine tools and components where machine tools manufacturing process take around 8-10 months and around two months for component manufacturing. As these are capital goods, a large part of inventory remains under work in progress stage. This apart, the company's collection period remains moderate although it improved from 54 days in FY23 to 47 days in FY24. The company receives the payment from its customers in around 45-60 days. To bridge this working capital gap, the company primarily relies on working capital bank borrowings.

**Profitability vulnerable to adverse fluctuation in key raw material prices**

Raw material consumption forms significant cost factor for the company. Primary raw materials for manufacturing these products are steel and aluminium, the prices of which have remained volatile in the last few years. Hence, adverse movement in raw material price without corresponding movement in finished good price might affect the profitability of the company. The finished goods prices 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 company's profitability to the risk arising considering raw material price volatility.

## Liquidity: Adequate

The company's liquidity position remained adequate marked by sufficient cash accruals against repayment obligation. The current ratio of the company stood at 1.35x as on March 31, 2024, average utilisation of working capital limits stood at 86%. The company expecting GCA of ₹32 crore in FY25 against repayment of ₹10.7 crore. Expected equity infusion will strengthen company's liquidity position, going forward.

## Assumptions/Covenants- Not applicable

## Environment, social, and governance (ESG) risks - Not applicable

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

## About the company and industry

## Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Industrials | Capital goods | Industrial products | Other industrial products |

Incorporated in December 1983, LML is promoted by M. Lokeswara Rao, and the company started commercial operations in 1985. The company has six manufacturing units with five in Hyderabad and one in Pune with a total installed capacity of 1500 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

Centres, Horizontal Machining Centres, Vertical Turning Centres, Special Purpose Milling Machines, Line Boring Machines and Gun Drilling Machines, among others.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | Q1FY2024 (UA) |
|---|---|---|---|
| Total operating income | 240.61 | 293.87 | 62.53 |
| PBILDT | 29.04 | 40.75 | 8.54 |
| PAT | 9.67 | 13.85 | 1.03 |
| Overall gearing (times) | 0.68 | 0.71 | NA |
| Interest coverage (times) | 2.70 | 3.55 | 2.31 |

A: Audited; UA: Unaudited NA: Not Available Note: these are latest available financial results

**Status of non-cooperation with previous CRA: NA**

**Any other information:** NA

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash credit | | - | - | - | 79.00 | CARE BBB; Stable |
| Fund-based - LT-Term loan | | - | - | June 2032 | 93.72 | CARE BBB; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 44.50 | CARE A3+ |

**Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Term loan | LT | - | - | - | - | 1)Withdrawn (26-Jul-22)<br><br>2)CARE BB+; Positive (26-Jul-22) | 1)CARE BB+; Positive (16-Aug-21) |
| 2 | Fund-based - LT-Cash credit | LT | - | - | - | - | 1)Withdrawn (26-Jul-22)<br><br>2)CARE BB+; Positive (26-Jul-22) | 1)CARE BB+; Positive (16-Aug-21) |
| 3 | Non-fund-based - ST-Letter of credit | ST | - | - | - | - | 1)Withdrawn (26-Jul-22)<br><br>2)CARE A4+ (26-Jul-22) | 1)CARE A4+ (16-Aug-21) |
| 4 | Non-fund-based - ST-ILC/FLC | ST | - | - | - | - | 1)Withdrawn (26-Jul-22)<br><br>2)CARE A4+ (26-Jul-22) | 1)CARE A4+ (16-Aug-21) |
| 5 | Non-fund-based - LT/ ST-Bank guarantee | LT/ST | - | - | - | - | 1)Withdrawn (26-Jul-22)<br><br>2)CARE BB+; Positive / CARE A4+ (26-Jul-22) | 1)CARE BB+; Positive / CARE A4+ (16-Aug-21) |
| 6 | Fund-based - LT-Term loan | LT | 93.72 | CARE BBB; Stable | - | 1)CARE BBB-; Positive (05-Jan-24) | 1)CARE BBB-; Stable (29-Mar-23) | - |
| 7 | Fund-based - LT-Cash credit | LT | 79.00 | CARE BBB; Stable | - | 1)CARE BBB-; Positive (05-Jan-24) | 1)CARE BBB-; Stable (29-Mar-23) | - |
| 8 | Non-fund-based - ST-BG/LC | ST | 44.50 | CARE A3+ | - | 1)CARE A3 (05-Jan-24) | 1)CARE A3 (29-Mar-23) | - |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

## Annexure-4: Complexity level of 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

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|---|
| To view lender-wise details of bank facilities please click here |

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