Lokesh Machines Limited

February 24, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	172.72	CARE BBB; Negative	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

Reaffirmation of ratings to bank facilities of Lokesh Machines Limited (LML) is based on increase in revenue in FY24 and satisfactory profitability margins, long track record and rich experience of promoters, satisfactory capital structure, reputed and diversified customer base, healthy liquidity profile, 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.

CARE Ratings Limited (CARE Ratings) has revised its outlook on the long-term bank facilities of LML to 'Negative' from 'Stable' owing to a decline in revenue and profitability in 9MFY25, resulting from the inclusion of company's name on the Office of Foreign Assets Control (OFAC) sanctions list.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steady growth in revenue to over ₹350 crore while maintaining profit before interest, lease rentals, depreciation, and taxation (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 total operating income (TOI) or PBILDT by over 30% y-o-y.
- Overall gearing weakening to over 1x.
- Significantly elongating operating cycle, impacting company's liquidity.

Analytical approach: Standalone

Outlook: Negative

The outlook has been revised from stable to negative due to a decline in revenue and profitability in 9MFY25, resulting from the inclusion of company's name on the Office of Foreign Assets Control (OFAC) sanctions list, which is expected to result in further moderation of revenue and profitability metrics in near term. CARE Ratings will continue to monitor the impact of this stress on overall industry as well as company's performance. The outlook may be revised back to stable if the company shows improvement in revenue and profitability metrics.

Detailed description of key rating drivers:

Key strengths

Increase in revenue in FY24 and satisfactory profitability margins, despite moderation in 9MFY25

The company witnessed revenue growth of ~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 of September 2023), which will be executed in current financial year.

The company's revenue declined to ₹51 crore in Q3 FY25, down from ₹75 crore in Q2 FY25, resulting in a net loss of ₹4 crore in Q3 FY25 due to its inclusion on the OFAC sanctions list. Consequently, the company achieved a TOI of ₹190.64 crore for 9MFY25, with PBILDT and PAT margins decreasing to 11.63% and 0.21%, respectively, for the same period. However, the management has applied for removal from the list, and the process is expected to be completed within 2-3 months.

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

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, constituting of term loan, including Guaranteed Emergency Credit Line (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.

Reputed and diversified customer base

Due to long-term presence in the market for over 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. One of the key customer has stopped awarding job work to LML, the revival of this contract remains key for credit profile of company. This apart, the company has its presence in export market, including 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 ~8-10 months and ~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 ~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 ₹13 crore in FY25 against repayment of ₹10.7 crore. An equity infusion of ₹12.34 crore has been made in FY25, with additional infusions expected, which will further strengthen the company's liquidity position in the future.

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)	9MFY25 (UA)
Total operating income	240.61	293.87	190.64
PBILDT	29.04	40.75	22.17
PAT	9.67	13.85	0.41
Overall gearing (times)	0.68	0.71	NA
Interest coverage (times)	2.70	3.55	NA

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; Negative
Fund-based - LT-Term loan		-	-	June 2032	93.72	CARE BBB; Negative
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) 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) 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) 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) 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) 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; Negative	1)CARE BBB; Stable (04-Oct-24)	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; Negative	1)CARE BBB; Stable (04-Oct-24)	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+ (04-Oct-24)	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- Not applicable

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

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:
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