# Lokesh Machines Limited

September 09, 2026

| Facilities/Instruments | Name of the Regulator[1] | Amount (₹ crore) | Rating[2] | Rating Action |
|---|---|---|---|---|
| Long-term bank facilities | RBI | 159.98 | CARE BBB-; Stable | Reaffirmed |
| Short-term bank facilities | RBI | 44.50 | CARE A3 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Lokesh Machines Limited (LML) factors in the company's comfortable capital structure, healthy profitability, established and diversified customer base, and promoters' extensive experience in the machine tools industry. Ratings also derive strength from the company's established presence in the CNC machine manufacturing segment, and increasing contribution from the defence and forging segments. The recent removal of LML from the Office of Foreign Assets Control (OFAC) sanctions list is expected to support recovery in its operating scale and order inflows, while the healthy unexecuted order book provides revenue visibility over the near-to-medium term.

However, ratings continue to be constrained by the moderate scale of operations, which was adversely impacted by business disruptions following the OFAC listing, and the company's working capital intensive operations marked by an elongated operating cycle. Ratings are further constrained by moderate debt coverage indicators and the profitability vulnerable to fluctuations in key raw material prices. While the company's liquidity position remains adequate, high utilisation of working capital limits and negative operating cash flow in FY26 warrant monitoring. The company's ability to scale up operations following its removal from the OFAC list, improve working capital management, and strengthen debt coverage indicators will remain key rating monitorables.

## 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**

- Deterioration in 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: Stable

CARE Ratings Limited (CareEdge Ratings) expects the company's operations to remain stable, supported by its established and diversified customer base and the promoters' extensive industry experience.

## Detailed description of key rating drivers:

## Key strengths

**Comfortable capital structure**

The entity's capital structure remained comfortable as on March 31, 2026, marked by an overall gearing ratio of 0.74x (PYE: 0.63x) and a total outside liabilities to tangible net worth (TOL/TNW) ratio of 1.12x (PYE: 0.96x). The TNW increased to ₹227.97 crore as on March 31, 2026, from ₹212.36 crore as on March 31, 2025, providing a strong equity base to support the company's operations and future growth. The debt profile primarily comprises external borrowings in the form of working capital facilities and term debt.

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority

[2]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

Moderation in leverage in FY26 was primarily attributable to an increase in term debt and higher utilisation of working capital borrowings. Going forward, the capital structure is expected to remain comfortable and improve gradually, supported by the absence of major debt-funded capital expenditure, which is expected to keep debt levels broadly stable, and accretion to net worth through retention of profits and the fresh issue of equity shares.

**Healthy profitability**

The improvement in PBILDT margin despite the moderation in TOI reflects the company's shift towards higher-value CNC machines and a greater focus on machine manufacturing, which offers better margins compared to job-work operations. Discontinuation of job-work operations following the OFAC listing also supported margins, as the job-work segment carried relatively lower margins owing to higher overhead and associated costs, while machine manufacturing is comparatively less power- and manpower-intensive. Going forward, the increasing contribution from the defence segment, which is expected to generate relatively higher margins, is likely to support further improvement in overall profitability. With the commencement of operations under the defence project, new forging work opportunities, and the recent removal of LML from the OFAC list, the company's profitability is expected to improve further.

**Reputed and diversified customer base**

With over four decades of industry presence, LML has established strong and longstanding relationships with its customers, resulting in repeat business and a stable customer base. The company has established itself as a prominent manufacturer of CNC machines in India and caters to a reputed clientele across industries. LML also has an established export presence, with its products being supplied to markets including Russia, Italy, the US, Bahrain, and Turkey, providing some geographical diversification. However, the inclusion of LML on the OFAC sanctions list resulted in the suspension of orders, adversely impacting its business operations. With the recent removal of LML's name from the said list, the company is expected to benefit from the resumption of orders, which could support recovery in business volumes and improve its operating performance. The company has also diversified into the defence segment and has commenced operations catering to customers such as the Indian Army and DRDO, which is expected to provide an additional avenue for business growth and diversification.

**Extensive industry experience of promoters**

LML is promoted by Lokeshwara Rao M, who serves as the Managing Director and has been instrumental in steering the company’s strategic direction and growth. The board is strengthened by Krishnaswamy K, Director, who brings over four decades of extensive industry experience and oversees the company’s overseas operations. Complementing this is Srinivas Mullapudi, Director, with three decades of experience in the sector and significant expertise in managing and expanding the company’s international business. The promoters’ long-standing industry experience, deep domain knowledge, and proven track record in both domestic and overseas markets provide the company with strong leadership and operational guidance.

## Key weaknesses

**Moderate scale of operations**

The company reported an 8.57% decline in TOI to ₹208.81 crore in FY26 from ₹228.38 crore in FY25, primarily due to business disruptions following the inclusion of LML in the Specially Designated Nationals and Blocked Persons List by the United States Department of the Treasury’s OFAC in October 2024. The sanctions disrupted the supply of electronic components from a key supplier, adversely affecting production and order execution. The company subsequently arranged alternative sources of supply to meet its delivery commitments. Mahindra & Mahindra, which had contributed ~₹50 crore to TOI from the connecting rods job-work division in each of FY23 and FY24, halted order allocations following the sanctions, further impacting the company’s operating scale. The company has since repurposed the connecting rods capacity towards forging operations and commenced manufacturing auto components for Tier-1 auto component companies. Revenue from the forging segment is expected to increase further in FY27. Dispatches of certain core defence products were also temporarily delayed pending multi-stage technical and quality clearances from government agencies. In addition, a high-value special purpose machine (SPM) order could not be dispatched in FY26 as the customer delayed providing the matching input trial components required to complete the necessary technical “prove-out” runs at LML’s facility. The order is now expected to be delivered in the first week of September 2026. Despite these challenges, revenue from the core SPM and general purpose machine (GPM) divisions increased by 32% in FY26, outperforming the broader machine tool industry’s average growth.

The company reported turnover of ₹56 crore in Q1FY27. As on June 30, 2026, the unexecuted order book stood at ~₹251 crore. LML was removed from the OFAC sanctions list through an administrative directive dated June 30, 2026, which is expected to support a recovery towards the company’s earlier scale of operations.

**Working capital-intensive operations with an elongated operating cycle**
The company's operations are inherently working capital intensive, with the operating cycle elongating to 315 days in FY26 from 226 days in FY25, primarily driven by higher inventory holding. Inventory days increased significantly to 330 days in FY26 (PY: 233 days), with raw materials and work-in-process (WIP) together constituting ~93% of the total inventory. The company's primary product line, machine tools, has a manufacturing cycle of up to 10 months. Given the capital goods nature of the products and the relatively long manufacturing cycle, a significant portion of the inventory remains tied up in WIP for an extended period.

The newly established defence and forging segments are also at an initial stage of operations and have resulted in a modest build-up of inventory. A high-value SPM order could not be dispatched in FY26 considering delay from the customer end. These factors contributed to the increase in WIP inventory during the year. The relatively longer manufacturing cycle for higher-value machines results in working capital remaining tied up in WIP for an extended period. Consequently, the elongated operating cycle necessitates continued reliance on bank borrowings to meet the company's working capital requirements.

**Moderate debt coverage indicators**
The debt coverage indicators improved marginally in FY26, although they remained at moderate levels. The total debt to gross cash accruals (TD/GCA) ratio improved to 8.14x as on March 31, 2026, from 9.06x as on March 31, 2025, while the PBILDT interest coverage ratio improved to 2.10x in FY26 from 1.88x in FY25. Similarly, the TD to PBILDT ratio moderated to 4.39x in FY26 from 4.68x in FY25. Improvement across the coverage indicators was primarily driven by the increase in operating profitability during the year.

**Profitability vulnerable to fluctuation in raw material prices**
Raw material consumption constitutes a significant cost component for the company, with steel and aluminium being the primary inputs. Prices of these commodities have remained volatile in the last few years. Any adverse movement in raw material prices, without a corresponding adjustment in finished goods prices, could impact the company's profitability. While finished goods prices are generally aligned with raw material prices, the order-based nature of operations results in a time lag in passing on cost changes to customers. This exposes the company's margins to risks arising from raw material price fluctuations.

**Liquidity**: Adequate
The company's liquidity position remains adequate, supported by sufficient cash accruals to meet its scheduled debt repayment obligations. As on March 31, 2026, the current ratio stood at 1.42x, while the quick ratio was lower at 0.47x, reflecting the relatively high proportion of inventory in current assets. The average utilisation of working capital limits in the 12-month period ended June 30, 2026, remained at 89% for fund-based facilities and 62% for non-fund-based facilities. There were no instances of reliance on ad hoc limits or overdrawing of working capital facilities during the period. The net cash flow from operations remained negative in FY26, primarily due to the increase in inventory levels, which is consistent with the company's working capital intensive operations. Unencumbered cash and bank balances stood at ₹0.87 crore as on March 31, 2026.

**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 commenced commercial operations in 1985 and is promoted by M. Lokeswara Rao. The company is engaged in manufacturing GPMs and SPMs. The company's product portfolio includes 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. The company also manufactures forgings and defence equipment, including sub-machine guns and light machine guns, among other products. LML operates six manufacturing units, of which five are in Hyderabad and one in Pune.

| Brief Financials (₹ crore) | March 31, 2025 (A) | March 31, 2026 (A) | Q1FY27 (UA) |
|---|---|---|---|
| Total operating income | 228.38 | 208.81 | 55.77 |
| PBILDT* | 28.56 | 38.54 | 9.92 |
| Profit after tax (PAT) | 0.54 | 3.86 | 1.01 |
| Overall gearing (x) | 0.63 | 0.74 | NA |
| Interest coverage (x) | 1.88 | 2.10 | 2.13 |

A: Audited; UA: Unaudited NA: Not available; Note: these are latest available financial results
*PBILDT: Profit before interest, lease rentals, depreciation, and tax

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

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

**For complexity level of instruments rated refer to Annexure-1**

**Lender details**: Annexure-4

**Disclosure on facilities/instruments and name of the regulators:**
A list of facilities / instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | Name of the Regulator | Complexity Level | 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 | RBI | Simple | - | | - | - | 89.00 | CARE BBB-; Stable |
| Fund-based - LT-Term Loan | RBI | Simple | - | | - | 30-09-2032 | 70.98 | CARE BBB-; Stable |
| Non-fund-based - ST-BG/LC | RBI | Simple | - | | - | - | 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 2026-2027 | Date(s) and Rating(s) assigned in 2025-2026 | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 |
| 1 | Fund-based - LT-Term Loan | LT | 70.98 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (29-Aug-25) | 1)CARE BBB; Negative (24-Feb-25)<br><br>2)CARE BBB; Stable (04-Oct-24) | 1)CARE BBB-; Positive (05-Jan-24) |
| 2 | Fund-based - LT-Cash Credit | LT | 89.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (29-Aug-25) | 1)CARE BBB; Negative (24-Feb-25)<br><br>2)CARE BBB; Stable (04-Oct-24) | 1)CARE BBB-; Positive (05-Jan-24) |
| 3 | Non-fund-based - ST-BG/LC | ST | 44.50 | CARE A3 | - | 1)CARE A3 (29-Aug-25) | 1)CARE A3+ (24-Feb-25)<br><br>2)CARE A3+ (04-Oct-24) | 1)CARE A3 (05-Jan-24) |

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Lender details

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

**Note on complexity levels of rated instruments:** CareEdge 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, CareEdge 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 Reserve Bank of India. With an equitable position in the Indian capital market, CareEdge 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, CareEdge 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. CareEdge Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com



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