Lokesh Machines Limited (Revised)

July 26, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Positive / CARE A4+ (Double B Plus; Outlook: Positive / A Four Plus) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Positive (Double B Plus; Outlook: Positive) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4+ (A Four Plus) and Withdrawn
Total Bank Facilities	**0.00 (₹ Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Ltd. has reaffirmed and withdrawn the outstanding ratings of 'CARE BB+; Positive [Double B Plus; Outlook: Positive]/CARE A4+ (A Four Plus) assigned to the bank facilities of Lokesh Machines Limited with immediate effect. The above action has been taken at the request of Lokesh Machines Limited and 'No Objection Certificates' received from the banks that have extended the facilities rated by CARE Ratings Ltd.

Detailed description of the key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Lokesh Machines Limited (MKJPL) continues to be constrained by elongated operating cycle, high utilization of working capital limits, moderate order book position, client concentration risk and stretched liquidity position. The ratings, however, derives strength from experienced promoters, established clientele, comfortable capital structure and stable industry prospects.

Key Rating Weaknesses

Elongated operating cycle: The operating cycle of the company though improved to 218 days in FY22 (PY: 280 days) continues to remain high. In the machinery segment each GPM machinery takes around four to eight months to complete. This results in high inventory under work in process stage, average inventory period accordingly remains elongated at 211 days in FY22 (PY: 289 days). Furthermore, collection period also remained high although witnessed improvement from 64 days in FY22 to 71 days in FY21.

Moderate order book position: The order book of the company normally provides limited revenue visibility of about a year. However, in the machine tools segment the nature of operations is cyclical where the company produces connection rods order is place as per demand. As on July 01, 2021, the company had an outstanding order book at moderate level of Rs 111 crore, across all divisions.

Client concentration risk: The company's revenue profile remains skewed towards job work income from Mahindra and Mahindra which contributed about 35% of TOI in FY21. Thus, Lokesh's performance largely depends upon the growth prospects of Mahindra, thereby exposing it to client concentration risk. Furthermore, the revenue profile is also concentrated towards auto segment, auto industry had been facing headwinds in the past and thereby impacting demand for Lokesh's products and its profitability.

Cyclical nature of Automobile Industry: LML has majority of its clients from the automobile industry. Though the revenue contribution from the industry has been decreasing on Y-o-Y level the exposure has been significant towards the automobile industry. The performance of the automobile industry is directly related to various global and domestic economic conditions like seasonal trends in automobile manufacturing sector, evolving regulatory requirements and volatile fuel prices. An adverse fluctuation in these economic variables will have a direct impact on the financial health of Lokesh Machines Limited.

Key Rating Strengths

Improvement in TOI and margins in FY22: In FY22, total operating income of LML improved to Rs. 202.14 crores in FY 22 as against Rs. 150.32 crores in FY 21 with Y-o-Y growth of 34.5%. improvement in revenue led by increased revenue

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

contribution from machinery division which has better realizations. Revenue from machinery division increased to Rs.130 crore in FY22 from Rs.98 crore in FY21. PBILDT margins though declined by 201 bps to 14.89%, the same continues to remain at satisfactory level.

Experienced promoters and established track record: 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.

Established clientele: With more than two decades of operations in machine tools industry LML has been successful in establishing itself as one of prominent CNC manufacturers in India. Further, the company has been successful in obtaining repeat orders for its machinery division from major OEM manufacturers like Mahindra and Mahindra, International Tractors Limited, Kirloskar Oil Engines Limited and VE Commercial Vehicles Ltd With a separate plant at Pune which caters specifically to the demand of Mahindra and Mahindra Ltd, LML has customer with strong credit profile which ensure timely collections. This division under takes cylinder manufacturing and other job works to Mahindra and Mahindra Ltd.

Comfortable capital structure: The Capital structure of the company marked by overall gearing remained comfortable 0.22x as of March 31, 2022 (PYE: 0.23x) backed by steady TNW and accretion of profits. Other debt coverage indicators i.e., interest coverage ratio improved to 2.47x (PY: 2.04x) and TDGCA to 5.25x (PY: 6.76x) in FY 22 respectively because of improved PBILDT levels and healthy GCA during the year. Despite improvement, TDGCA remained high.

Liquidity Analysis – Stretched

Liquidity position of the company is stretched marked by extensively utilized working capital limits, no significant cash/bank balance and elongated operating cycle. The working capital limits remained almost completely utilized as on March 31, 2022. Although, company has envisaged to achieve sufficient cash accruals vis-à-vis its future repayment obligation and liquidity is partly supported by an above unity current ratio and positive cash flows from operations.

Analytical approach: Standalone

Applicable Criteria

Policy on Withdrawal of ratings
Criteria on assigning Outlook to Credit Rating
Criteria for Short Term Instruments
Policy on Default Recognition
Financial ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector entities
Rating Methodology - Manufacturing Companies
Rating Methodology -Auto Ancillary Companies

About the company

Lokesh Machines Ltd (LML) incorporated in December 1983 is promoted by Mr. M. Lokeswara Rao and the company started commercial operations during 1986. The company is engaged into manufacturing of auto ancillary components, special purpose machines and general-purpose machine. The company has manufacturing units in five locations with four in Hyderabad and one in Pune with a total installed capacity of 600 Machines per annum.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	150.32	202.14	NA
PBILDT	25.41	30.10	NA
PAT	3.96	6.35	NA
Overall gearing (times)	0.61	0.58	NA
Interest coverage (times)	2.04	2.47	NA

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-ILC/FLC		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	0.00	Withdrawn

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 (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 (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+ (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+ (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+ (16-Aug-21)	1)CARE BB+; Negative / CARE A4 (13-Oct-20)	1)CARE BB+; Stable / CARE A4 (28-Aug-19)

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-ILC/FLC	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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