Lokesh Machines Limited

January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	70.96 (reduced from 93.14)	**CARE B-;Stable (Single B Minus; Outlook: Stable)**	Revised from CARE D; ISSUER NOT COOPERATING (Single D; ISSUER NOT COOPERATING)
Short-term Bank Facilities	23.50 (reduced from 27.00)	**CARE A4 (A Four)**	Revised from CARE D; ISSUER NOT COOPERATING (Single D; ISSUER NOT COOPERATING)
Total Facilities	**94.46 (Rupees Ninety four crore and forty six lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale

The revision in ratings assigned to the bank facilities of Lokesh Machines Limited (LML) takes into account infusion of funds in the form of equity and unsecured loans, improvement in scale of operations and capital structure in FY17 (refers to the period April 01 to March 31) and recent technical tie-ups entered by the company during FY17. The ratings are however tempered by stretched liquidity position on account of cyclical and working capital intensive nature of business with elongated operating cycle, small scale of operations and moderate order book position,. The ratings derive strength from experienced promoters, long track record of operations and relationship with key clients, comfortable operating margins albeit low PAT margins and positive outlook on auto ancillary industry. Ability of the company to improve its scale of operations and liquidity position without any decline in operating margins are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strength

Infusion of funds: In order to improve the liquidity position of the company, there has been regular infusion of funds in the form of equity shares and share warrants. During FY17, there has been fund infusion of around Rs. 16.38 crore. Further, during H1FY18, the promoters have infused Rs. 1.00 crore in the form of money received against share warrants and subsequently another Rs. 0.53 crore to support operations and debt servicing.

Improvement in scale of operations during FY17: During FY17, Total Operating Income (TOI) increased by 8.95% to Rs.132.00 crore. The increase in TOI was on account of increase in sales of General Purpose Machines (GPM) and connecting rods. TOI for H1FY18 was Rs.85.90 crore as against Rs. 76.36 crore in H1FY17 on account increased orders.

Technical tie-ups entered during FY17: During FY17, the company has entered into strategic alliance with Tongtai Machine & Tool Company Ltd. Taiwan (One of the leading machine tool manufacturing companies in the world). Further, during the year company entered an agreement with EMCO GmbH. These technical tie-ups are expected to help LML to manufacture next generation multitasking machines for Indian markets as well as exports.

Improved comfortable capital structure: The overall gearing ratio improved from 1.03x as on March 31, 2016 to 0.76x as on March 31, 2017. Overall gearing ratio has been improving in the last two years on account of equity infusion, repayment of long term debt and profit accretion to reserves.

[2] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Experienced promoters: Lokesh Machines Limited (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 HMT. He worked for 11 years in HMT before starting LML. The company also derives strength and managerial capabilities from the experience of the 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.

Long track record of operations and relationship with key clients: LML has long term relationship with Mahindra & Mahindra and Ashok Leyland. The company has set up a dedicated component division at Pune for supply of cylinder blocks and cylinder heads for meeting the demand from Mahindra & Mahindra (M & M). Since 2006, LML is supplying cylinder blocks and cylinder heads to Ashok Leyland (ALL). Apart from these two clients, LML has also supplied its products to many reputed clients like TATA Motors, John Deere, Hindustan Motors, Volvo.

Comfortable PBILDT margins: During FY17, PBILDT margin improved marginally by 13 bps to 21.32% on account of lower contribution from material costs. PBILDT margins for H1FY18 (15.17%) deteriorated vis-à-vis H1FY17 (17.60%) on account of increased focus on GPM (General Purpose Machines)

Positive outlook on auto ancillary industry: The auto component industry is expected to witness growth in FY18 which will be largely driven by the buoyancy witnessed in automobile sales. Lower cost of ownership of auto vehicles triggered by series of interest rate cuts, push on manufacturing and infrastructure segment by the government combined with lower fuel prices have resulted in recovery of auto sector. Auto component industry stands to benefit from this turnaround in OEM demand and stable replacement demand.

Key Rating Weaknesses

Stretched liquidity position on account of working capital-intensive nature of operations: Due to high inventory holding at around 343 days for FY17, the liquidity position of the company continues to remain constrained and the average working capital utilization was on higher side with the company completely utilizing the working capital limits.

Small scale of operations: Even though scale of operations have been increasing over the years, the scale of operations of LML continues to remain small with Total Operating Income of Rs.132.00 crore for FY17(Rs.121.15 crore in FY16) and net worth base of Rs.133.30 crore as on March 31, 2017 (Rs.114.75 crore as on March 31, 2016).

Moderate order book position: The Company has moderate order book of Rs.63.62 crore as on September 30, 2017.

Cyclical nature of business: The demand for automobiles expands in times of economic prosperity and contracts in times of economic downturn, as the company caters primarily to automobile industry its revenues also increase during economic prosperity and decrease during economic downturns.

Analytical Approach followed: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short-Term Instruments]
[Rating Methodology: Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company

Lokesh Machines Ltd (LML) incorporated in December 1983 is promoted by Mr. M Lokeswara Rao and company started commercial production from 1986. The company has five manufacturing locations with four in Hyderabad and one in Pune with an installed capacity of 600 Machines per annum. The company's operations can be segregated into two divisions namely Machines and Components division. The company initially started the operations by doing job works for Hindustan Machine Tools Limited (HMT) later on moved to manufacturing of machines. Under machinery division, LML manufactures Special Purpose Machines (SPM) and General Purpose Machines (GPM). Under component division, the company manufactures automobile components viz., cylinder heads, and cylinder blocks and also executes job work for automobile manufacturers like Mahindra & Mahindra (M&M) and Ashok Leyland. During 2017, the company has entered into strategic alliance with Tongtai Machine & Tool Company Ltd. Taiwan (one of the leading machine tool manufacturing companies in the world) to manufacture Hi-Speed Vertical Machining center model EZ5 for the Indian Market. Further, during FY17, the company entered an agreement with EMCO GmbH for manufacturing and selling their machines in India.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	121.15	132.00
PBILDT	25.67	28.14
PAT	2.14	2.19
Overall gearing (times)	1.03	0.76
Interest coverage (times)	1.67	1.69

A-Audited

Status of non-cooperation with previous CRA: ICRA Limited has suspended rating assigned to the bank facilities of Lokesh Machines Limited vide its press release dated December 05, 2012 on account of lack of requisite information to carry out rating surveillance.

Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2020	12.96	CARE B-; Stable
Fund-based - LT-Cash Credit	-	-	-	58.00	CARE B-; Stable
Non-fund-based - ST-BG/LC	-	-	-	23.50	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	12.96	CARE B-; Stable	-	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE B- (08-Oct-15)	1)CARE B- (27-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	58.00	CARE B-; Stable	-	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE B- (08-Oct-15)	1)CARE B- (27-Mar-15)
3.	Non-fund-based - ST-BG/LC	ST	23.50	CARE A4	-	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE A4 (08-Oct-15)	1)CARE A4 (27-Mar-15)

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