

Lokesh Machines Limited

January 14, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	65.69 (reduced from 70.96)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE B-; Stable (Single B Minus; Outlook: Stable)
Short-term Bank Facilities	19.50 (reduced from 23.50)	CARE A4(A Four)	Reaffirmed
Total Facilities	85.19 (Rs. Eighty Five crore and Nineteen lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Lokesh Machines Limited (LML) takes into account improved financial performance of the company during FY18 (FY refers to the period from April 01 to March 31) and H1FY19 with increased revenue and profits, improvement in the capital structure of the company, improved liquidity position and increased order book position. The ratings also favorably factor further infusion of funds in the form of equity during FY18. The ratings continue to take into account experienced promoters, long track record of the operation and long term relationship with key clients and tie-ups with international companies. The ratings are however tempered by small scale of operations, declining operating margins however the same remained at moderate levels, high reliance on bank borrowings and cyclical nature of industry. The ability of the company to improve its profitability margins and reduce its reliance on bank borrowings are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance: During FY18, the total operating Income (TOI) of LML increased notably by 32.76% to Rs.175.24 crore from Rs.132.00 crore in FY17. The increase in TOI in FY18 was on account of increase in sales of General Purpose machines (GPM) and connecting rods at the back of improved demand. For FY18, the net profit of the company increased by more than two folds and was Rs.4.70 crore. Further, TOI for H1FY19 (Rs.83.37 crore) also increased vis-à-vis H1FY18 (Rs.78.08 crore) on account increased demand. PBILDT margin for H1FY19 (16.87%) was on a similar level vis-à-vis H1FY18 (16.70%). PAT margin for H1FY19 (2.91%) improved vis-à-vis H1FY18 (1.59%) on account of reduction in interest obligations.

Improved capital structure: The capital structure of the company remains comfortable which witnessed further improvement as on March 31, 2018. The overall gearing ratio improved from 0.76x as on March 31, 2017 to 0.61x as on March 31, 2018. Overall gearing ratio has improved in the last year on account of repayment of long term debt.

Improved liquidity position with improved operating cycle; albeit high reliance on bank borrowings owing to working capital-intensive nature of operations: The liquidity position of the company witnessed improvement backed by reduction in operating cycle. LML reported operating cycle of 226 days in FY18 (against 320 days in FY17) due to reduction in inventory holding levels. The company had cash and bank balances to the tune of Rs. 3.08 crore (incl. margin money deposits) as on March 31, 2018. Further, as on March 31, 2018, the current ratio of the company was 1.15x.

Improving order book: The company has on outstanding order book of Rs.95.88 crore as on October 30, 2018 vis-à-vis Rs.63.62 crore as on September 30, 2017, which is an increase of 50.71% in that span of 12 months.

Experienced promoters who are extending financial support: 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 Hindustan Machines Tool (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. The promoters have been supporting the operations of the company by equity infusion. During FY17, there was infusion of Rs. 16.37 crore and during FY18 there has been an infusion of Rs. 4.15 crore.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 meeting the demand from Mahindra & Mahindra (M & M). Since 2006, LML is supplying to Ashok Leyland (ALL). Apart from these two clients, LML has also supplied its products to many reputed clients like TATA Motors, Azad Engineering Pvt Ltd.

Continued international tie-ups: 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) to manufacture Hi-Speed Vertical Machining center model EZ5 for the Indian Market. With respect to the same, 2 machines are under testing phase, with clearance expected over the next year. Further during FY17, company had entered an agreement with EMCO GmbH for manufacturing and selling their machines in India. For the same, the company is currently in process of manufacturing 2 machines which will subsequently be put under testing phase shortly.

Key Rating Weaknesses

High reliance on bank borrowings: The operating cycle of company remained elongated despite improvement on account of high inventory period which is due to nature of the business. This has led to the company having high reliance on bank borrowings. The average working capital utilization was on higher side of over 90%.

Small scale of operations: Even though scale of operations have been improving over the years, the scale of operations of LML continues to remain small with Total Operating Income of Rs.175.24 crore for FY18(Rs.132.00 crore in FY17) and net worth base of Rs.137.48 crore as on March 31, 2018 (Rs. 128.61 crore as on March 31, 2017).

Reducing operating margins; however the same continued to remain at moderate levels: During FY18, PBILDT margin declined by 484 bps to 16.48% in FY18 from 21.23% in FY17 on account of increase in material costs. Despite the decline, the operating margin of the company was at moderate levels for FY18.

Further, falling PBILDT margins didn't affect PAT margins, and PAT margin for FY18 stood improved at 2.68% vis-à-vis 1.66% for FY17 owing to lower interest cost.

Analytical approach: 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 900 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	132.00	175.24
PBILDT	28.03	28.87
PAT	2.11	4.70
Overall gearing (times)	0.78	0.64
Interest coverage (times)	1.68	2.05

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.

Further, CRISIL has suspended its ratings on the bank facilities of Lokesh Machines Ltd (LML) vide its press release dated September 08, 2014. The suspension of ratings is on account of non-cooperation by LML with CRISIL's efforts to undertake a review of the ratings outstanding

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.

Analyst Contact:

Name: Ms. Radhika Ramabhadran

Tel: +91-40-6900-0512

Mobile: 8008883012

Email: radhika.ramabhadran@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	5.69	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	19.50	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	5.69	CARE BB; Stable	-	1)CARE B-; Stable (03-Jan-18)	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE B- (08-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE BB; Stable	-	1)CARE B-; Stable (03-Jan-18)	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE B- (08-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	19.50	CARE A4	-	1)CARE A4 (03-Jan-18)	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE A4 (08-Oct-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD**

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

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