

Press Release

Lokesh Machines Limited

February 04, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	79.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	21.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	100.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A Three**) to the Rs.100.50 Cr bank facilities of Lokesh Machines Limited (LML). The outlook is '**Stable**'.

Rationale for Ratings Assigned

The rating continues to take cognizance of its experienced management, established track record, its improving scale and profitability and healthy financial risk profile. These strengths are partially offset by its high working capital intensive nature of operations; profitability remains susceptible to volatility in demand from underlying consumer sectors and intense competition in industry. Going forward, the company's ability to reach its projected scale of operations and effectively manage its working capital requirements will be the key rating sensitivities.

About the Company

Incorporated in 1983, LML is promoted by Mr. M. Lokeshwara Rao and Mr. B. Kishore Babu and started commercial production from 1986. The company has six manufacturing locations with five in Hyderabad and one in Pune. The company's operations are segregated into two divisions namely Machines and Components division. The company is engaged in the design, development and manufacture of custom built Special Purpose Machines (SPMs), General purpose CNC Machines (GPMs), Jigs & Fixtures and Machining of automobile Cylinder Blocks, Heads and Connecting Rods, Defense systems and Precision Engineering Components among others. LML also executes job work majorly for Mahindra & Mahindra Limited (M&M). The company's shares are listed at NSE & BSE.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of LML to arrive at the rating.

Key Rating Drivers

Strengths

Established track record in machine tools industry and long-term association with clientele

The company's long-standing presence, spanning nearly four decades in the machine tools segment has helped it develop strong expertise in design and manufacturing capabilities, enable it to provide customised machines to customers. Further, four-decade-long experience of the promoters, in the Machines Tools industry helped build healthy relationships with customers (automotive original equipment manufacturers) and suppliers, and a diversified distribution network which helps it in getting repeat orders to an extent. The company ranks in the top 5 CNC Machine Manufacturers in India. Acuité believes that the promoter's experience, understanding of the market dynamics and established relationships with suppliers and customers will continue to support the business profile over the medium term.

Growth in operating income and profitability

The company's order inflows improved significantly in H2 FY2021 on the back of growing demand from end-user industries (primarily auto), procurement of CNC machines by customers for productivity and technology improvement initiatives, and consolidation in the industry. This resulted in the improvement of its revenues to Rs 150.48 Cr in FY2021 as against Rs 125.88 Cr in FY2020 with a Y-o-Y growth of ~19.50%. The EBITDA margin improved over pre-covid levels and continued to be strong at 17.06 % (FY20: 9.78 %) on account of execution of better margin orders coupled with various cost cutting measures adopted by the company. Acuite believes that going forward; the margins are expected to remain at 14-17 % and revenue's upward trajectory to continue.

Above-average financial risk profile

LML financial risk profile is above-average marked by healthy capital structure yet moderate debt protection metrics. LML's net worth is healthy at Rs. 142.92 Cr as on March 31, 2021 as compared to Rs. 138.57 Cr as on March 31, 2020. Gearing is healthy at 0.61 times as on March 31, 2021 as against 0.57 times as on March 31, 2020. Total outside liabilities to total net worth (TOL/TNW) is healthy at 1.00 times as on March 31, 2021 and on March 31, 2020. Its debt protection metrics are moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 2.10 times and 0.14 times in FY2021 vis-à-vis 1.07 times and 0.05 times in FY2020, respectively. Acuité believes that the company will be able to maintain its financial risk profile in the absence of any major debt-funded capex plan over the medium term.

Weaknesses

Working Capital Cycle marked by high GCA days

The company's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days in the range of 274-364 days for past three fiscals ended FY2021 due to high debtor and inventory days given the nature of its operations. The inventory levels of the company have been historically high owing to the lengthy order execution cycle. The GCA underpins the high inventory levels in the range of 220-319 days and moderate debtor days of 82-109 days over the past three fiscals ended March 31 2021. Its creditor's days stood at 132-166 days for past three fiscals ended March 31 2021. Its working capital limits highly utilised at about 94 percent over the past nine months ended December 2021. Acuité believes that the working capital operations of the company will remain intense as evident from its high inventory levels; due to the time taken to execute the orders of machine tools operating cycle takes between 4 to 8 months (SPM is 9 -12 months & GPM is 3-4 months) and for component division the operating cycle is 2 months resulting in the large working capital requirement and staggered deliverables.

Intense competition in industry and client concentration risk

LML continues to face stiff competition from domestic players in the standardised machinery segment and from imports in case of high value-added Specialised and customised products, which limit its pricing flexibility and margins to an extent. Further, the company's margins remain susceptible to fluctuations in raw material price as its orders are fixed price in nature. Its major raw materials include steel and steel components. The company's revenue profile remains skewed towards job work income from Mahindra and Mahindra which contributed about 33-35 % of its revenues in FY2021 and FY2020. Thus, LML's performance 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 recent fiscals and thereby impacting demand for LML's products and its profitability. However, going forward, consolidation in the industry and LML's efforts to diversify its sectoral space are likely to support its revenues.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant growth in revenue and profitability
- Strengthening of business risk profile marked by improved diversity, either through customers or product
- Further stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile
- Deterioration in capital structure and other credit metrics due to any large, debt-funded capex/acquisition

Material covenants

None

Liquidity: Adequate

LML's liquidity is adequate marked by adequate net cash accruals to its maturing debt obligations; albeit constrained by high gross current assets (GCA) days leading high utilization of bank lines. The company generated cash accruals of Rs.4.00 Cr to 15.00 Cr during the last three years through 2019-21, while its maturing debt obligations were at Rs.3.50-7.00 Cr over the same period. The cash accruals are estimated to remain around Rs.12.00 Cr to 15.00 Cr during 2022-24 while their repayment obligations are estimated Rs. 3.50-5.00 Cr during the same period. Its operations are highly working capital intensive with GCA of about 364 days in FY2021 led to higher reliance on working capital borrowings at 94 per cent during the last 9 months period ended December 2021. The LML maintains unencumbered cash and bank balances of Rs.0.60 Cr as on March 31, 2021. The current ratio stood healthy at 1.34 times as on March 31, 2021. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of its high inventory levels; due to the elongated operating cycle's resulting in the large working capital requirement and staggered deliverables.

Outlook: Stable

Acuité believes that the outlook of LML will remain 'Stable' over the medium term on account of the promoter's extensive experience and established presence in the machine tool industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the company.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	150.48	125.88
PAT	Rs. Cr.	3.96	(4.68)
PAT Margin	(%)	2.63	(3.72)
Total Debt/Tangible Net Worth	Times	0.61	0.57
PBDIT/Interest	Times	2.10	1.07

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Assigned
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 Assigned
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3 Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE BBB- Stable Assigned
ICICI Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- Stable Assigned
ICICI Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	8.05	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 Assigned
Punjab National	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE A3

Bank							Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Assigned
Indusind Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.25	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.05	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	6.90	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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