

## Press Release

Lokesh Machines Limited

September 02, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.50	-	ACUITE A3   Reaffirmed
Bank Loan Ratings	25.00	-	ACUITE A3   Assigned
Bank Loan Ratings	37.92	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	79.00	ACUITE BBB-   Stable   Reaffirmed	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	163.42	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has reaffirmed 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**'.

Acuite 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.62.92 Cr bank facilities of Lokesh Machines Limited (LML). The outlook is '**Stable**'.

The rating reaffirmed, 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 the machine tools industry and its long-term association with the 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 FY2022 because of demand revival in the end-user sectors (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. 202.08 Cr in FY2022 as against Rs 150.48 Cr in FY2021 with a Y-o-Y growth of ~34.29%. The EBITDA margin is continued to be reported healthy but marginally declined in FY2022 to 15.02% from 17.06 % on account of execution of better margin orders coupled with various cost cutting measures adopted by the company. Acuité believes that going forward; the margins are expected to remain at 14-17 % and revenue's upward trajectory to continue.

#### **Comfortable financial risk profile**

LML financial risk profile is comfortable marked by healthy capital structure and moderate debt protection metrics. LML's net worth is healthy at Rs. 149.13 Cr as on March 31, 2022 as compared to Rs. 142.92 Cr as on March 31, 2021. Gearing is healthy at 0.58 times as on March 31, 2022 as against 0.61 times as on March 31, 2021. Total outside liabilities to total net worth (TOL/TNW) is comfortable at 0.97times as on March 31, 2022 as compared to 1.00 time on March 31, 2021. Its debt protection metrics are moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 2.51 times and 0.18 times in FY2022 vis-à-vis 2.10 times and 0.18 times in FY2021, respectively. Acuité believes that the company will be able to maintain its comfortable 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 275-397 days for past three fiscals ended FY2022 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 209-319 days and moderate debtor days of 86-109 days over the past three fiscals ended March 31 2022. Its creditor's days stood at 94-166 days for past three fiscals ended March 31 2021. Its working capital limits highly

utilised at about 95 percent over the past six months ended June, 2022. 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 FY2022 and FY2021. 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 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
- 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 Position 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.4.22 Cr to 15.37 Cr during the last three years through 2020-22, while it's maturing debt obligations were at Rs.3.50-7.00 Cr over the same period. The cash accruals are estimated to remain around Rs.15.00 Cr to 20.00 Cr during 2023-25 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 275 days (PY: 364 days) as on March 31, 2022 led to higher reliance on working capital borrowings at 95 per cent during the last 6 months period ended June, 2022. LML maintains low unencumbered cash and bank balances of Rs.0.19 Cr as on March 31, 2022. The current ratio stood moderate at 1.38 times as on March 31, 2022. Acuité believes that the liquidity of the company is likely to adequate over the medium term.

### **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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	202.08	150.48
PAT	Rs. Cr.	6.35	3.96
PAT Margin	(%)	3.14	2.63
Total Debt/Tangible Net Worth	Times	0.58	0.61
PBDIT/Interest	Times	2.51	2.10

### 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>
- Entities In Manufacturing Sector - <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Feb	Bank Guarantee	Short Term	3.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	6.90	ACUITE BBB-   Stable (Assigned)
	Standby Line of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	1.25	ACUITE BBB-   Stable (Assigned)
	Standby Line of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	36.00	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Assigned)

2022	Cash Credit	Long Term	1.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.00	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	1.25	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	1.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.05	ACUITE BBB-   Stable (Assigned)
	Secured Overdraft	Long Term	8.05	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	9.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	1.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	1.50	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	1.25	ACUITE BBB-   Stable (Assigned)

## 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	4.00	ACUITE A3   Reaffirmed
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.25	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB-   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.50	ACUITE BBB-   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	2.02	ACUITE BBB-   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	1.12	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	6.42	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.43	ACUITE BBB-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	1.69	ACUITE BBB-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.95	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	3.38	ACUITE BBB-   Stable   Assigned
ICICI Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	8.62	ACUITE BBB-   Stable   Reaffirmed
Punjab National	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A3 

Bank							Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A3   Assigned
Punjab National Bank	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A3   Assigned
State Bank of India	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-   Stable   Assigned
Punjab National Bank	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-   Stable   Assigned
Indusind Bank Ltd	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-   Stable   Assigned
State Bank of India	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3   Assigned
Punjab National Bank	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BBB-   Stable   Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	25.00	ACUITE BBB-   Stable   Assigned

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### About Acuité Ratings & Research

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