



Press Release
LOKESH MACHINES LIMITED
November 24, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	118.92	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	44.50	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	163.42	-	-

Rating Rationale

Acuite has Upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) and short-term rating to **ACUITE A3+** (read as **ACUITE A Three 'plus'**) from '**ACUITE A3**' (read as **ACUITE A Three**) to the Rs.163.42 Cr bank facilities of Lokesh Machines Limited (LML). The outlook is '**Stable**'.

Rationale for upgrade:

The rating upgradation considers LML's improvement in operational performance during FY2023 and same being sustained during the first 6 months of FY2024. The company has reported revenue of Rs.272.54Cr in FY2023 registering a growth rate of ~19.06 percent against the previous year. During the current year the company has already achieved revenue of Rs.126Cr till September 2023. Further, the company is currently undertaking a capex to improve its production capacity from 900 to 1200 machines which will lead to significant improvement in revenue from FY2025 onwards. The operating margins ranged between 14.91-12.09 percent for the last two years ended FY2023. The financial risk profile of LML continues to be healthy with comfortable debt protection metrics and low gearing. The overall gearing of the Company stood at 0.56 times as on March 31, 2023 as against 0.58 times as on March 31, 2022. The interest coverage ratio stood at 3.20 times in FY2023 as against 2.51 times in FY2022. Further, the rating continues to derive strength from the company's long-term presence in the market for more than two and half decades, its established relations with the customers which fetches repeated orders. The clientele of the company includes Ashok Leyland Limite, Kirloskar Oil Engines Limited Mahindra and Mahindra Ltd, Seimens Financial Services Pvt Ltd, Oswal Pumps Limited and International Tractors Limited among others.

The rating is however constrained by working capital operations intense competition in industry.

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

- **Improving scale of operations**

The company's order inflows improved significantly in FY2023 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 significant growth with YOY of 19.06 percent in FY2023 as compared to FY2022. Revenues stood at Rs.240.30 Cr in FY2023 as against Rs.201.84 Cr in FY2022. The EBITDA margin is continued to be reported healthy but marginally declined in FY2023 to 12.09 percent from 14.91 percent in FY2022. Acuité believes that going forward; the margins would remain in the range of 13-14 percent and revenue's upward trajectory is likely to continue.

- **Healthy financial risk profile**

The company's financial risk profile is healthy marked by a healthy net worth, healthy gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.158.67 Cr and Rs.149.13 Cr as on March 31, 2023 and 2022 respectively. The improvement in net worth is due to accretion of reserves. Gearing of the company stood at 0.56 times as on March 31, 2023 against 0.58 times as on March 31, 2022. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.20 times and 1.70 times as on March 31, 2023 respectively as against 2.51 times and 1.48 times as on March 31, 2022 respectively. TOL/TNW (Total outside liabilities/Total net worth) stood at 1.06 times and 0.97 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 2.57 times as on March 31, 2023 as against 2.84 times as on March 31, 2022. Acuité believes that the company will be able to maintain its healthy financial risk profile in the absence of any major debt-funded capex plan over the medium term.

Weaknesses

- **Working capital intensive operations**

LML's working capital operations is intensive marked by high gross current Asset (GCA) at 254 days as on March 31, 2023 as against 276 days as on March 31, 2022. The GCA days are impacted mainly on account of inventory days. The inventory levels of the company have been historically high owing to the lengthy order execution cycle.

The Inventory days stood at 194 days as on March 31, 2023 as against 209 days as on March 31, 2022. Debtor day stood at 53 days as on March 31, 2023 as against 68 days as on March 31, 2022. Subsequently, the payable period stood at 83 days on March 31, 2023 as against 94 days as on March 31, 2022 respectively. 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**

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. 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.

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

All Covenants

None

Liquidity: Adequate

LML liquidity is adequate, marked by adequate net cash accruals to its maturing debt obligation. The company has generated cash accruals in the range of Rs.18.76 Cr in FY2023, while its maturing debt obligations were Rs. 6.59Cr during the same period. Going forward the company is expected to generate net cash accruals of Rs. 26-36 Cr in FY 2024-25 against Rs.5.37-5.88 Cr debt obligations. The current ratio stood at 1.23 times as on March 31, 2023, and the limits remains utilized at 87 percent over the 6 months ended August 31, 2023 for fund based. The company maintains unencumbered cash and bank balances of Rs.0.23 Cr as on March 31, 2023. Acuité believes that the liquidity of the company is likely to improve 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

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	240.30	201.84
PAT	Rs. Cr.	9.67	6.35
PAT Margin	(%)	4.03	3.14
Total Debt/Tangible Net Worth	Times	0.56	0.58
PBDIT/Interest	Times	3.20	2.51

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Sep 2022	Dropline Overdraft	Long Term	8.62	ACUITE BBB- Stable (Reaffirmed)
	Covid emergency line	Long Term	0.95	ACUITE BBB- Stable (Reaffirmed)
	Covid emergency line	Long Term	2.02	ACUITE BBB- Stable (Reaffirmed)
	Covid emergency line	Long Term	1.69	ACUITE BBB- Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	7.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.25	ACUITE A3 (Reaffirmed)
	Covid emergency line	Long Term	1.12	ACUITE BBB- Stable (Reaffirmed)
	Covid emergency line	Long Term	0.43	ACUITE BBB- Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	2.50	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	9.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	1.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Covid emergency line	Long Term	6.42	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	9.25	ACUITE BBB- Stable (Reaffirmed)
	Standby Line of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	11.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.54	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	3.25	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	1.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	37.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	5.50	ACUITE A3 (Assigned)
Covid emergency line	Long Term	3.38	ACUITE BBB- Stable (Assigned)	
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Assigned)
		Long		ACUITE BBB- Stable

04 Feb 2022	Working Capital Term Loan	Term	6.90	(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)
	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)
	Dropline 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)
	Dropline 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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	13.50	ACUITE A3+ Upgraded
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.75	ACUITE A3+ Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.75	ACUITE BBB Stable Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE BBB Stable Upgraded
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.25	ACUITE BBB Stable Upgraded
Indusind Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.36	ACUITE BBB Stable Upgraded
Indusind Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.13	ACUITE BBB Stable Upgraded
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	4.18	ACUITE BBB Stable Upgraded
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.81	ACUITE BBB Stable Upgraded
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.14	ACUITE BBB Stable Upgraded
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	0.95	ACUITE BBB Stable Upgraded
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.75	ACUITE A3+ Upgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A3+ Upgraded
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.66	ACUITE BBB Stable Upgraded

State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE BBB Stable Upgraded
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.69	ACUITE BBB Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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