Lokesh Machines Limited

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Website: www.lokeshmachines.com, CIN: L29219TG1983PLC004319

February 26, 2025

To,
BSE Limited
Department of Corporate Services
Floor 25, PJ Towers, Dalal Street
Mumbai- 400001

To,
National Stock Exchange of India Limited
Listing Department
Plot No. C/1, G Block, Exchange Plaza
Bandra Kurla Complex, Bandra(E)
Mumbai- 400051

Scrip Code: 532740

Company Code: LOKESHMACH

Dear Sir/Madam,

Sub: Intimation of Credit Rating

Pursuant to regulation 30 of the SEBI (LODR) Regulations, 2015, we hereby inform you that Acuite Ratings & Research Limited have assigned and reaffirmed the credit ratings to the Company's long-term and short-term banking facilities. Credit ratings letter is enclosed for kind reference.

Date of occurrence of event/information: February 25, 2025.

Time of occurrence of event/information: 09:22:01 P.M. (IST)

This is for your information and records.

Thanking You,

Yours sincerely,
For Lokesh Machines Limited

GURPRIT SINGH Digitally signed by GURPRIT SINGH

Gurprit Singh
Company Secretary & Compliance Officer

Press Release
LOKESH MACHINES LIMITED
February 25, 2025
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.00	ACUITE BBB | Assigned | Rating Watch with Negative Implications	-
Bank Loan Ratings	127.92	ACUITE BBB | Reaffirmed | Rating Watch with Negative Implications	-
Bank Loan Ratings	44.50	-	ACUITE A3+ | Reaffirmed | Rating Watch with Negative Implications
Total Outstanding Quantum (Rs. Cr)	208.42	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB' (read as ACUITE Triple B)** on the Rs. 127.92 Cr. and short-term rating of **'ACUITE A3+' (read as ACUITE A Three plus)** on the Rs.44.50 Cr. bank facilities of Lokesh Machines Limited (LML). The ratings have been placed under **'Rating watch with Negative Implications'.**

Acuité has also assigned its long-term rating of '**ACUITE BBB' (read as ACUITE Triple B)** on the Rs.36.00 Cr. bank facilities of Lokesh Machines Limited (LML). The ratings have been placed under **'Rating watch with Negative Implications'.**

Rationale for rating watch and reaffirmation :
Acuite has placed its outstanding ratings under watch with negative implications due to the company's inclusion on the Office of Foreign Assets Control (OFAC) sanctions list by United States Department of Treasury. This has led to a decline in operating income and profitability in 9MFY2025, with expectations of continued impact on operating performance in the near term. Acuite will continue to monitor the impact of sanctions imposed by US Department of Treasury on the financial and business risk profile of the company.
Further, the rating reaffirmation takes into account the improvement in the scale of operations and profitability in FY2024. Furthermore, it considers its healthy financial risk profile, the company's long-term presence in the market for more than two and a half decades, and its established relations with the customers which fetch repeated orders.
The rating is, however, constrained by intensive nature of its working capital operations and intense competition in the industry.

About the Company

Incorporated in 1983, LML is promoted by Mr. M. Lokeshwara Rao and Mr. B. Kishore Babu and started commercial production in 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 the Machines and Components divisions. 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 on the NSE & BSE.

Unsupported Rating
Not applicable

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, enabling it to provide customized machines to customers. Further, the four-decade-long experience of the promoters in the Machines Tools industry has helped build healthy relationships with customers (automotive original equipment manufacturers) and suppliers, and a diversified distribution network which helps them with 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.

Healthy financial risk profile

The company's financial risk profile is healthy, marked by healthy net worth, low gearing and moderate debt protection metrics. The net worth of the company stood at Rs.195.44 Cr. and Rs.158.67 Cr. as on March 31, 2024, and 2023 respectively. The improvement in net worth is due to the accretion of reserves and equity infusion. Gearing of the company stood at 0.60 times as on March 31, 2024, against 0.56 times as on March 31, 2023. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.66 times and 1.86 times as on March 31, 2024, respectively, as against 3.20 times and 1.70 times as on March 31, 2023, respectively. TOL/TNW (Total outside liabilities/Total net worth) stood at 1.00 times and 1.06 times as on March 31, 2024, and 2023 respectively. The debt to EBITDA of the company stood at 2.81 times as on March 31, 2024, as against 2.57 times as on March 31, 2023. Acuité believes that the financial risk profile will remain healthy in the absence of any major debt-funded capital expenditure plan in the near term.

Weaknesses

Working capital intensive operations

LML's working capital operations are intensive, marked by high gross current Asset (GCA) at 223 days in FY2024, although improved from 254 days in FY2023. The GCA days are impacted mainly on account of high inventory days. The inventory levels of the company have been historically high owing to the lengthy order execution cycle. As these are capital goods, a large part of the inventory remains in the work-in- progress stage. Inventory days stood at 170 days in FY2024 as against 194 days in FY2023. Debtor days stood moderate at 51 days in FY2024 as against 53 days in FY2023. Subsequently, the payable period stood at 83 days in FY 2024 as against 83 days in FY2023. Further, the reliance on bank limits utilization stood at ~89 percent for the fund-based limits and 49 percent for the non-fund-based limits for the past seven months ending in January 2025. Acuité believes that the working capital operations of the company will remain intensive, as evident from its high inventory levels.

Improvement in operating performance in FY2024, albeilt moderation in 9MFY2025

The company witnessed an improvement in its operating revenue marked by y-o-y growth of 22.15 percent in FY 2024, which stood at Rs. 293.54 Cr. in FY 2024 as against Rs. 240.30 Cr. in FY 2023. The improvement in revenues is on account of the increase in utilization levels due to higher order flow and demand revival in the end-user sectors (primarily auto), procurement of CNC machines by customers for productivity and technology improvement initiatives, and favorable industry outlook. The company has an unexecuted order book position of Rs.80.25 Cr. as on January 2025. However, in 9M FY2025, the company's operating revenue moderated to Rs. 189.63 Cr. as against Rs. 213.20 Cr. in 9M FY2024. The moderation is due to its inclusion on the OFAC sanctions list of the United States Department of Treasury. Further, Acuite learns from the management that it has taken steps to resolve the issue, and expects a favorable outcome in the near term. Going ahead, Acuite will continue to monitor the impact of the sanction on the overall financial and business risk profile of the company.

Intense competition in industry

LML continues to face stiff competition from domestic players in the standardized machinery segment and from imports in the case of high value-added specialized and customized products, which limits its pricing flexibility and margins to an extent. Further, the company's margins remain susceptible to fluctuations in raw material prices as its orders are of a fixed price in nature. Its major raw materials include steel and steel components. Furthermore, the revenue profile is also concentrated on the auto segment; the auto industry has been facing headwinds in the recent fiscal 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 an 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
- Removal of company’s name from OFAC sanction list

Liquidity Position: Adequate

LML's liquidity is adequate, marked by adequate net cash accruals to its maturing debt obligation. The company has generated cash accruals of Rs.23.82 Cr. in FY2024, while its maturing debt obligations were Rs. 5.37 Cr. during the same period. Going forward, the company is expected to generate sufficient net cash accruals against its maturing debt obligation. The current ratio stood at 1.30 times as on March 31, 2024. Further, the reliance on bank limits utilization stood at ~89 percent for the fund-based limits and 49 percent for the non-fund-based limits for the past seven months ending in Jan 2025. The company maintained an unencumbered cash and bank balances of Rs.0.21 Cr. as on March 31, 2024. Acuité believes that the liquidity of the company is likely to improve over the medium term.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	293.54	240.30
PAT	Rs. Cr.	13.85	9.67
PAT Margin	(%)	4.72	4.03
Total Debt/Tangible Net Worth	Times	0.60	0.56
PBDIT/Interest	Times	3.66	3.20

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

In order to inform the investors about complexity of instruments, Acuité 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.