

**Lokesh
Machines Limited**



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URL : www.lokeshmachines.com
CIN : L29219TG1983PLC004319

Date: 11/01/2019

<p>To, Bombay Stock Exchange Limited Department of Corporate Services Floor 25, PJ Towers, Dalal Street Mumbai- 400001 Scrip Code: 532740</p>	<p>To, National Stock Exchange of India Limited Listing Department Plot No. C/1, G Block, Exchange Plaza, Bandra Kurla Complex, Bandra(E), Mumbai- 400051 Company Code: LOKESHMACH</p>
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Dear Sir/Madam,

Sub: Intimation of Credit Rating

Pursuant to Regulation 30 read along with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we inform you that the Credit Analysis & Research Limited(CARE) vide their letter dated 08th January , 2019 which we received yesterday i.e. on dated 10th January, 2019 has revised the rating assigned to Company's various credit facilities as mentioned below:

Facilities	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	65.59 (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	85.19 (Rs. Eighty Five Crore and Nineteen lakh only)		

This is for your information and record.

Thanking You,
 For Lokesh Machines Limited

Matru Prasad Mishra
 Matru Prasad Mishra
 Company Secretary



No. CARE/HRO/RL/2018-19/1896

Mr. M Lokeshwara Rao
Managing Director
Lokesh Machines Limited
B-29, E.E.I.E Stage II,
Balanagar, Hyderabad
Telangana – 500037

January 08, 2019

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and H1FY19 (provisional), our Rating Committee has reviewed the following 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	85.19 (Rs. Eighty Five crore and Nineteen lakh only)		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 10, 2019, we will proceed on the basis that you have no any comments to offer.
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE

¹ Complete definitions of the ratings assigned are www.careratings.com and in other CARE publications.
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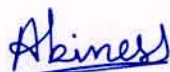
warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



[Abinesh Kumar Kar]

Analyst

abinesh.kumar@careratings.com



[Vidhyasagar L]

Associate Director

vidhya.sagar@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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.

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029

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Annexure 1
Details of Rated Facilities

1. Long-term facilities

1.A. Secured rupee term loans

(Rs. Crore)

Sr. No.	Lender	Rated Amount	Remarks	Debt Repayment Terms
1.	State Bank Of India	3.17	Outstanding	8 quarterly installments commencing from December 2018
2.	Punjab National Bank	2.52	Outstanding	5 quarterly installments commencing from December 2018
	Total	5.69		

1.B. Fund Based limits

(Rs. Crore)

Sr. No.	Name of Bank	Fund Based Limits		
		Cash Credit	Others	Total fund-based limits
1.	State Bank Of India	39.00	Nil	39.00
2.	Punjab National Bank	9.50	Nil	9.50
3.	Indusind Bank	11.50	Nil	11.50
	Total	60.00		60.00

Total long-term facilities (1.A.+1.B.): Rs.65.69 crore

2. Short term Facilities

(Rs. Crore)

Sr. No.	Name of Bank	Nature of Facility	Amount
1.	State Bank Of India	LC/BG	14.00
2.	Punjab National Bank	LC/BG	5.50
	Total		19.50

Total short-term facilities (2.A.): Rs.19.50 crore

Total Facilities (1+2): Rs.85.19 crore

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Annexure 2
Press Release

Ratings

Facilities	Amount (Rs. crore)	Rating ²	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	85.19 (Rs. Eighty Five crore and Nineteen lakh only)		

Details of 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 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 favourably 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

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

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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.

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).

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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 600 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.

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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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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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)

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