



**Lokesh  
Machines Limited**



**Regd. Office :**

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**e-mail : info@lokeshmachines.com**

**URL : www.lokeshmachines.com**

**CIN : L29219TG1983PLC004319**

Date: 03/01/2018

**TO,  
Bombay Stock Exchange Limited  
Department of Corporate Services  
Floor 25, PJ Towers,  
Dalal Street  
Mumbai- 400001  
Scrip Code: 532740**

**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**

Dear Sir/Madam,

**Sub: Intimation of Revision of Credit Rating**

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 Kindly find the attached copy of Credit Rating of the Company given by CARE Ratings Limited.

This is for your information and record.

Thanking You,

**For Lokesh Machines Limited**

*M. Prasad Mishra*  
**Matru Prasad Mishra  
Company Secretary**



Enclosed:a/a

**CARE/HRO/RL/2017-18/1766**

**Mr. M Lokeswara Rao**  
Managing Director  
**Lokesh Machines Limited**  
B-29, EEIE Stage II,  
Balanagar,  
Hyderabad-500037

December 28, 2017

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your company for FY17 (Audited) and H1FY18 (Unaudited), our Rating Committee has reviewed the following rating.

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	70.96 (reduced from 93.14)	<b>CARE B-;Stable (Single B Minus; Outlook: Stable)</b>	Revised from CARE D; ISSUER NOT COOPERATING (Single D; ISSUER NOT COOPERATING)
Short-term Bank Facilities	23.50 (reduced from 27.00)	<b>CARE A4 (A Four)</b>	Revised from CARE D; ISSUER NOT COOPERATING (Single D; ISSUER NOT COOPERATING)
<b>Total Facilities</b>	<b>94.46</b> <b>(Rupees Ninety four crore and forty six lakh only)</b>		

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 03, 2018 we will proceed on the basis that you have no any comments to offer.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications


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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 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 afore-mentioned 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](http://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,

  
[Gopi Kishan Gautam]  
Analyst

[gopi.kishan@careratings.com](mailto:gopi.kishan@careratings.com)

  
[Radhika Ramabhadran]  
Senior Manager

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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

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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.

**Annexure 1**  
**Details of Rated Facilities**

**1. Long-term facilities**

**1. A. Rupee term loans**

(Rs crore)

Sr. No.	Lender	Rated Amount	Remarks	Debt Repayment Terms
1.	Punjab National Bank	6.99	Outstanding	To be repaid in 24 quarterly installments
2.	State Bank of India	5.97	Outstanding	To be repaid in 28 quarterly installments
	<b>Total</b>	<b>12.96</b>		

**1. B. Fund Based limits Working Capital Limits**

(Rs crore)

Sr. No.	Name of Bank	Fund Based Limits	
		CC*	Total fund-based limits
1.	Punjab National Bank	9.50	9.50
2.	State Bank of India	37.00	37.00
3.	Indusind Bank	11.50	11.50
	<b>TOTAL</b>	<b>58.00</b>	<b>58.00</b>

\*CC=Cash credit

**Total long-term facilities (1): Rs.70.96 crore**

**2. Short-term facilities**

**2.A Non fund based**

Sr. No.	Name of Bank	Non-Fund Based Limits	
		LC	BG
1.	Punjab National Bank	3.25	2.25
2.	State Bank of India	10.00	8.00
	<b>TOTAL</b>	<b>13.25</b>	<b>10.25</b>

LC-Letter of Credit; BG- Bank Guarantees

**Total short-term facilities (2): Rs.23.50 crore**

**Total facilities (1+2): Rs.94.46 crore**

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**Annexure-2**  
**Press Release**  
**Lokesh Machines Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>2</sup>	Rating Action
Long-term Bank Facilities	70.96 (reduced from 93.14 )	<b>CARE B-;Stable (Single B Minus; Outlook: Stable)</b>	Revised from CARE D; ISSUER NOT COOPERATING (Single D; ISSUER NOT COOPERATING)
Short-term Bank Facilities	23.50 (reduced from 27.00)	<b>CARE A4 (A Four)</b>	Revised from CARE D; ISSUER NOT COOPERATING (Single D; ISSUER NOT COOPERATING)
<b>Total Facilities</b>	<b>94.46 (Rupees Ninety four crore and forty six lakh only )</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale**

The revision in ratings assigned to the bank facilities of Lokesh Machines Limited (LML) takes into account infusion of funds in the form of equity and unsecured loans, improvement in scale of operations and capital structure in FY17 (refers to the period April 01 to March 31) and recent technical tie-ups entered by the company during FY17. The ratings are however tempered by stretched liquidity position on account of cyclical and working capital intensive nature of business with elongated operating cycle, small scale of operations and moderate order book position,. The ratings derive strength from experienced promoters, long track record of operations and relationship with key clients, comfortable operating margins albeit low PAT margins and positive outlook on auto ancillary industry. Ability of the company to improve its scale of operations and liquidity position without any decline in operating margins are the key rating sensitivities.

**Detailed description of the key rating drivers**

**Key Rating Strength**

**Infusion of funds:** In order to improve the liquidity position of the company, there has been regular infusion of funds in the form of equity shares and share warrants. During FY17, there has been fund infusion of around Rs. 16.38 crore. Further, during H1FY18, the promoters have infused Rs. 1.00 crore in the form of money received against share warrants and subsequently another Rs. 0.53 crore to support operations and debt servicing.

**Improvement in scale of operations during FY17:** During FY17, Total Operating Income (TOI) increased by 8.95% to Rs.132.00 crore. The increase in TOI was on account of increase in sales of General Purpose Machines (GPM) and connecting rods. TOI for H1FY18 was Rs.85.90 crore as against Rs. 76.36 crore in H1FY17 on account increased orders.

**Technical tie-ups entered during FY17:** 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). Further, during the year company entered an agreement with EMCO GmbH.

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

These technical tie-ups are expected to help LML to manufacture next generation multitasking machines for Indian markets as well as exports.

**Improved comfortable capital structure:** The overall gearing ratio improved from 1.03x as on March 31, 2016 to 0.76x as on March 31, 2017. Overall gearing ratio has been improving in the last two years on account of equity infusion, repayment of long term debt and profit accretion to reserves.

**Experienced promoters:** 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 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.

**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 supply of cylinder blocks and cylinder heads for meeting the demand from Mahindra & Mahindra (M & M). Since 2006, LML is supplying cylinder blocks and cylinder heads to Ashok Leyland (ALL). Apart from these two clients, LML has also supplied its products to many reputed clients like TATA Motors, John Deere, Hindustan Motors, Volvo.

**Comfortable PBILDT margins:** During FY17, PBILDT margin improved marginally by 13 bps to 21.32% on account of lower contribution from material costs. PBILDT margins for H1FY18 (15.17%) deteriorated vis-à-vis H1FY17 (17.60%) on account of increased focus on GPM (General Purpose Machines)

**Positive outlook on auto ancillary industry:** The auto component industry is expected to witness growth in FY18 which will be largely driven by the buoyancy witnessed in automobile sales. Lower cost of ownership of auto vehicles triggered by series of interest rate cuts, push on manufacturing and infrastructure segment by the government combined with lower fuel prices have resulted in recovery of auto sector. Auto component industry stands to benefit from this turnaround in OEM demand and stable replacement demand.

#### **Key Rating Weaknesses**

**Stretched liquidity position, on account of working capital-intensive nature of operations:** Due to high inventory holding at around 343 days for FY17, the liquidity position of the company continues to remain constrained and the average working capital utilization was on higher side with the company completely utilizing the working capital limits.

**Small scale of operations:** Even though scale of operations have been increasing over the years, the scale of operations of LML continues to remain small with Total Operating Income of Rs.132.00 crore for FY17(Rs.121.15 crore in FY16) and net worth base of Rs.133.30 crore as on March 31, 2017 (Rs.114.75 crore as on March 31, 2016).

**Moderate order book position:** The Company has moderate order book of Rs.63.62 crore as on September 30, 2017.

**Cyclical nature of business:** The demand for automobiles expands in times of economic prosperity and contracts in times of economic downturn, as the company caters primarily to automobile industry its revenues also increase during economic prosperity and decrease during economic downturns.

**Analytical Approach followed: 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. During 2017, 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. Further, during FY17, the company entered an agreement with EMCO GmbH for manufacturing and selling their machines in India.

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total operating income	121.15	132.00
PBILDT	25.67	28.14
PAT	2.14	2.19
Overall gearing (times)	1.03	0.76
Interest coverage (times)	1.67	1.69

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.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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**About CARE Ratings:**

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.

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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.

**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	12.96	CARE B-; Stable
Fund-based - LT-Cash Credit	-	-	-	58.00	CARE B-; Stable
Non-fund-based - ST-BG/LC	-	-	-	23.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	12.96	CARE B-; Stable	-	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE B- (08-Oct-15)	1)CARE B- (27-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	58.00	CARE B-; Stable	-	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE B- (08-Oct-15)	1)CARE B- (27-Mar-15)
3.	Non-fund-based - ST-BG/LC	ST	23.50	CARE A4	-	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-17)	1)CARE A4 (08-Oct-15)	1)CARE A4 (27-Mar-15)

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