Management Discussion

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Good morning everyone. This is the third day of Bharat Connect Conference . I welcome you all to the call of Lokesh Machines Limited. Today f rom the management we have Mr. Srinivas Mullapudi, Whole-Time Director; Mr. Sudhakara Reddy , CFO of the company; a nd Mr. Kodanda Rami Reddy , CS of the company. Before I hand over call to the management, I will lay out the flow of the event. We will start with brief introductory remark by the management and then we will move on to the question -and -answer round. Any participant would like to ask question can raise their hand or put them in the chat box. First we will take question from the participants who have raised hand and then we will move on to the chat box. If time permits in the end we will take question that I have received from the clients who were not able to participate.

With this now I hand over call to the management. Over to you, sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yeah. Good morning. Good morning everyone. First an introduction, a brief introduction of our company. Who we are. Lokesh Machines Limited, our company, we are a leading CNC machines and special purpose machines manufacturer. We are based out of Hyderabad. This company was founded, I mean -- we started the operations in 1985. Founded by Mr. Lokeswara Rao , a technocrat and the current Managing Director of the company. We also have an auto component division and in that division we are now commissioning three hot forging lines to backward integrate our raw material capability and capacity and which would in turn complement our machining capabilities. A third vertical that we have entered recently is the Defense segment. Amongst the Defense, we just got into the small arms to start with and we have collaborated with the DRDO to develop and deliver India's first submachine guns in the private sector which are 100% indigenous. I mean this truly embodies Aatmanirbharta. We have set up a green field plant for the small arms and for which we got all the clearances from MHA and MOD.

We're happy to tell you that you know the company we started in 1985, t oday we have the third generation of the promoters joining the family. Qualified engineers and they would like to perhaps keep the generation going on. A brief about last year, I mean '25-' 26 was -- I mean most of you all would have gone through our earlier presentation and AGM. Couple of things could be repetitive but just to give a small perspective. The last year was more about the three Rs. R esilience under a constraint; Rebuilding an operating base; and Readiness for reopening. What we mean by this is, throughout the year we were working under a constraint, a huge constraint. As most of you all were aware, we had gone through some US sanctions era and in which, the entire supply chain and the exports and a lot of overseas business was stopped for us. But despite that, the company held very firm. Yes, there was a drop in the top line, but the silver lining is the CNC division of ours did exceedingly well and grew by almost 29%. And the good thing is also we managed to curb our costs and more than 10% we managed to reduce the cost. The other thing is profitability was restored. The EBITDA margins we could improve to almost 18% from 12.5% in the preceding years. And the PAT had also significantly improved.

Now reopening and readiness. I mean, the sanctions were lifted on 30th June and we had informed the exchanges immediately. And this was also confirmed by the External Affairs Ministry. I mean the External Affairs Ministry, they helped a lot in getting our company delisted from the US sanctions. I mean very few globally got delisted and we're happy that in India we were the first amongst some

50, 60 or 80 companies which are apparently sanctioned. But we are glad that we are out of it and thanks to the government and the Ministry of External Affairs to get us out. With this, our overseas supply chains are restored and hopefully , in the coming years or coming months, our exports would also start though earlier it was on a very low base.

Further, when we talk about readiness, we currently have an order book of, I mean not currently, as on 12th August 2026, which we declared to the bourses earlier, we have an order book of more than INR271 crores which is significantly higher than the entire last year's top line. And within that, the Defense itself is close to around INR100 crore. I mean, this order book is perhaps been one of the best in the history of the company itself. And now with all the things improving, I'm sure things would be much better. And besides that, as a part of the readiness, while we were trying to recover as a part of the 3R, the Promoters have also to infused around INR35 crores of their own capital into this thing.

As I mentioned the order front, I mean, sorry, orders on hand INR271 crore order book. Majority of that is again GPMs of course, that is the CNC machines and the Defense also is close to around INR100 crore as I mentioned. And the CNC machines, the lead time for deliveries are typically quarter -on -quarter. So the order book would continue to accrue as we go along. Of course, going forward some of the opportunities that the company is looking for or rather the opportunities that the company oversees in the coming days, I mean India as you know the capital good output would continue to grow perhaps at a double digit pace, primarily because of the government's PLI schemes and the Atmanirbhar initiatives which were, which are driving local manufacturing.

The automotive industry continues to grow, continues to invest and improve. I mean the capex keeps on going and with the proliferation of EVs, the EV market also has been pretty good and the growth has been high. And typically, EVs require a lot of our machines for the huzines, the battery structures and the structures, etc. Globally of course, as we mentioned, maybe with the sanctions off and Europe and some of the other countries, the manufacturing over there perhaps is not very high but then there would be a requirement of capacities, I guess so maybe that would open for us. And the aerospace industry at large requires a lot of capacity now with the, with the kind of demand and the backlog of more than 14 years, of 12 years for each respective companies. So their vendors would also need to augment their capacities and that's where most of our machines and the others could look forward. Similarly the defense also in India would continue to grow and yeah, well initially we are in the small arms. We would look at other opportunities and for the machine tools itself, the defense industry in India would continue to grow and they would also continue to invest.

And some of -- we also have some innovative products for these industries at large, particularly the high -tech aerospace and the defense. Recently we launched these 5- axis machines and multi axis turning centers. Again, both indigenous as well as with partnerships abroad. And going forward we would also be offering a lot of automotive -- I mean automation solutions because most of our special purpose machines that we are offering today are with some of the very cutting -edge automation technologies like auto part loaders, the gantry loaders and a whole load of systems. In the defense itself, so so far, I mean we are now trying to work on various other platforms between the 9 millimeter and 30 millimeter for which we have licenses and we are working on it and even some of the regulatory opportunities, regulatory systems such as the government's reservation for defense procurement within the domestic industry would help us as well. The strategic road map for us for the days ahead or the years ahead.

On the financial front, the focus would be on, I mean, better management of our working capital,

debt reduction and further improving margins wherever possible. I mean the way we're going to do it is most of the inventory which has been built up earlier would continue to get expended. And on the margins, yes, we are putting a lot of efforts, we have improved and yes, there would be a fair bit of improvement as well. And then debt reduction could be either through the accruals or the balance preferential proceeds that we are going to bring in as we go along. On the sales front, the strategy is to diversify customers because earlier we were dependent on a single customer, particularly for the -- I'm talking about the auto component sector. Now we are diversifying and with the backward integration of the forging plant, we hope to get a lot of Tier 1 suppliers as well.

On the defense front, of course, we are going to improve our engagement with the Ministry of Defense and the defense public sector units to try and see how to expand -- extend our sales over there. And the capacity expansion, y es, as I mentioned, we are going to productionize the hot forging plants perhaps by December of this year and we're going to see the results of that in the last quarter of this year. And in the machine tools, yes, CNC machines, we will try and reconnect with our sources abroad for exports. And on the defense, yes, as I mentioned, besides the Ministry of Defense, we will try to pursue with some of these Central Armed Forces such as BSF, Assam Rifles, SSB and so on and so forth.

On the internal processes, I mean, as a part of the strategy, we are also going to further improve our internal processes where we are going to drive in operational excellence. What we're going to do is, the shop floor productivity, we're going to improve further and we're going to ensure that, there is a substantial cycle time and other optimization. In fact, we worked a lot last year which resulted in the cost reduction and we will continue to work on these as well. And on the innovation front, yes, we are going to commercialize the new 5 -axis machines and the turnmill machines.

Finally, of course, as a organization, while we worked on the strategy I mentioned on the finance sales, the expansion strategy and internal processes, we're also going to work on the organizational learning. That is there will be a hell a lot of focus on upskilling our people and getting better people and better executives on the top so that we continue to be future ready. Because some of the new technologies that we're going to introduce, such as the 5 -axis, the additive manufacturing, so on and so forth, we would require a lot of trained manpower for that. And I mean while we will continue to scout in the market but at the same time we will develop the expertise in house at all itself. Our own people would be skilled to gear up for such things.

On the R& D front, of course, we will continue to engage with the IITs and RRCAT for the 5- axis machines or more advanced machines and automation. And with RRCAT of course, we launched literally a 80 -plus percent indigenous metal additive manufacturing machine earlier and we are working with them for newer technologies and new variants in the additive manufacturing. So that would continue. On the defense front, I mean we did manage to indigenize more than three weapons platforms and we will continue to do so on more and more products as well. And machine tools, out of the 13 and odd products that our R& D worked on, we managed to productionize close to around five, five machines, some of which as I mentioned are the 5 -axis in the turn mill centers.

Certifications. Yes, we did have an issue when we were sanctioned but we're happy to note that we are getting the certifications back in place. We are again now a AS 9100 certified company which is aerospace and defense ready. So we are proud that, we could get it back on a record time. And AS 9100 of course, is again we are working in the future towards the aerospace industry. So that's one of the prerequisites and we are back on that. We did get DGQA registrations for some of the defense products and DPIIT has given us a license today anywhere from 12.7 to 30 mm weapons. So yes, we

will continue to work on that. And on the rating itself though it remained at BBB minus. But the good thing to note is, we've been removed from any rating watch. So that reiterates that we continue to be in the investment grade.

So the final takeaways of course are, I mean we have established our position, we continue to be strong in the machine tools with I mean operations since '85 and more than 5,000 -plus customers across seven countries. And I mean within India itself, more than 9,000 machines delivered till date. We have been very resilient, as we mentioned, despite one of the toughest periods that the company has endured in the last year and the year before. And I would say thanks to our people we come out very strong. We managed to cut the cost, the EBITDA margin has been restored and the delisting has helped us in reopening and readiness for recovery. As I said, a strong order book. INR271 crore as of August. That's half year and much more as we go along. And on the risk front of course we are aware of the risk. Our priorities working capital conversion, debt reduction and diversification would remain a priority to us and as we go along we will not lose track on that.

Yeah that about it from my side. Thank you and we are open for any questions in brief please.

Questions & Answers

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you, sir. Now we will open the Q& A round. Any participant who would like to ask question can raise their hand or put them in the chat box. First we will take question from the participants who have raised hand and then we will move on to the chat box. I would request each participant to limit their question to two question per participant. For more questions they can rejoin the queue again. So first question is from Manan Vandur. Please go ahead.

Manan Vandur - Analyst, Wallfort PMS
Thank you so much for the opportunity sir and congratulations on coming through from all the hardships sir. Sir my first question would be on our CNC machines' growth and wanted to understand a little bit more on the drilling side and I'm just trying to understand the tapping and threading tools market. So could you give a little sense on how that industry will be shaping up in the coming few years, t he tapping and threading tools industry.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Mr. Manan, first and foremost t hank you. Thanks for your wishes. And on the CNC front we do make drilling and tapping machines and going forward, yes the demand would be pretty good. Both as I mentioned these machines are typically applied in the -- I mean lighter materials particularly for drilling and tapping. While our CNC machine themselves are capable of heavy machining, precision machining and all that. But what you're mentioning in drilling and tapping is typically not very critical. So we have some of the low end machines which are capable of that. The application as I mentioned, are on lightweight materials such as aluminum and you low strength steels.

And going forward the demand for such machines would be in the electronics industries and such as the mobile manufacturing or any of the white good manufacturing sector and of course, the EV components mostly being aluminum, they would find extensive use of these machines. So therefore, and okay, now I'm talking about the machines front. W hile you are specifically mentioning about cutting tools, drills and taps, we are not into that but and naturally, I mean machine is like a one time purchase and the taps and drills are consumable. So if there is a good demand for machines naturally there would be a multi proportionate demand for the cutting tools such as drills and taps.

Manan Vandur - Analyst, Wallfort PMS
Okay. So sir, okay. Could you give like a percentage understanding in terms of the machine growth please?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
As I mentioned, we do expect a double digit growth.

Manan Vandur - Analyst, Wallfort PMS
Okay.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
As I mentioned in my presentation , in my first slide itself or the earlier slides.

Manan Vandur - Analyst, Wallfort PMS
Right. Okay, okay, understood. Thank you so much sir. That's it from my side.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you. Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you, sir. Sir, we have our next question from Amir Veech. Please go ahead.

Amir Veech - Analyst, Individual Investor
Yes, audible.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes please we can hear you.

Amir Veech - Analyst, Individual Investor
So my first set of questions is on special purpose machine s ir. So we have decent order book around INR37 crore. So could you talk about thesis based on like how many customers and what kind of order inflow do we expect in FY '27 and FY '28 in this business? That is the first question.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yeah, thank you for the question. Special purpose machines, Mr. Aman, we work with a select few corporates. There could be OEMs or very established Tier 1s. On the OEMs -- I'll give you a general customer base because I can't really share a specific machine to a specific customer because we have certain obligations in terms of NDAs and other things and the customers themselves have their own production plans linked to these machines. So I can't really share. But the general profile of customers I'll tell you are in terms of OEMs, we work with Ashok Leyland and Volvo Eicher and Mahindra & Mahindra and so on and so forth. On the Tier 1 s, the reputed Tier 1s, we work with companies like Cummins. In fact Cummins I would say is an OEM, not exactly into automotive but more into power sector. So we work with them. And there's a leading Tier 1, Craftsman Automation who's also a very good customer of ours. Sundaram, which is part of the TVS group. They also buy.

So handful of some six to 10 customers or even more of course, most of the OEMs they come with them, come to us. And this order book is primarily from these customers. In terms of the numbers there could be, I mean 10 to 12 machines max. Because all these machines are extremely high value. As I mentioned they're placed, loaded with automation and the other things. The lowest machine could be around INR1 crore or so and the the highest sometimes could even go as high as INR10

crores or INR12 crores. The outlook for the next year, y es, we have a very healthy inquiry stage. Because we are still in the first half and as of now the prospects look very good going forward.

Amir Veech - Analyst, Individual Investor
So do you expect say INR100 crore kind of order book in next one to two years in this business?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
The special machines, I mean that would be a little bit on a higher side at this point of time. But yes there would be significant growth for sure because we will be launching some of the other machines also. I mean specifically like special horizontal machining centers and other things which would be customized to the customers. I mean a client's requirement. So we are moving from the traditional SPMs special purpose to some of these cutting -edge technologies as I mentioned. Yes, there are chance but, but then, I don't want to really give a big picture for that but there would be a healthy growth for sure.

Amir Veech - Analyst, Individual Investor
Sure, sir. N ext question is on the...

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sorry to interrupt sir. Sir, you can rejoin the queue for more questions.

Amir Veech - Analyst, Individual Investor
I just asked one question. I'm just completing my second session and then I'll join back.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sure.

Amir Veech - Analyst, Individual Investor
On the defense side sir, you talked about three platforms you have ready but I believe most of the orders have come from one or two. So could you talk a little bit more about by the end of next one to two years how many platforms do you think will be ready for us a nd our order pipeline, is it INR100 crore, INR200 crore? Can you give some details on that? I'll join back after this.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Mr. Aman, as I mentioned, we already developed around three platforms and going forward, I mean this year perhaps another one or two platforms is what we will be developing. But what we are going to develop, I can't really share the details in this particular meeting because as and when the products are ready and they're ready to be launched, we have to necessarily inform the stock exchanges and only then we can release to the public. So and also at the moment, for the sake of confidentiality we can't really reveal. But yes, we are working on two more platforms which before the end of this financial year we would be releasing.

Amir Veech - Analyst, Individual Investor
And on the pipeline sir?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
The pipeline, as I mentioned, we are very close to around INR100 crores and I would say I don't know but we've been pretty successful I would say for being a young company to get to that figure so fast and we hope that you know, that would continue as we go along.

Amir Veech - Analyst, Individual Investor
Sure, I'll join back in the queue. Thank you.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you sir. Sir, next question is from Faraz Ahmed . Please go ahead.

Faraz Ahmed - Analyst, Individual Investor
Hello sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Hello Mr. Faraz.

Faraz Ahmed - Analyst, Individual Investor
Firstly, congratulations on getting the sanctions off and everything and doing such great work. My question is on your defense side of the business, sir, we have a INR58.2 crore army order for 7.62 mmg modification kits which is roughly 98% of our Q4 '26 revenue. What is the execution timeline for this? And any margin profile, if you could just throw some light on.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
The execution for the army orders would get extended almost to the first quarter of the next year or perhaps even more. We have timelines for that because we have other orders in the pipeline as it is to be closed this year because INR58 crore is that one particular order. But apart from that we have another INR40 -plus crore in the current order which we need to deliver this year itself. So that is on the delivery front. On the margins, Mr. Faraz, I can't exactly give you a number but as I mentioned, amongst the lot it would be a healthier because we have the machine tools and the forgings and auto components and the defense this thing. So amongst the three , yes, perhaps this would command much more than the other two.

Faraz Ahmed - Analyst, Individual Investor
And so this is in this INR58.2 crore is inclusive in this INR100 crore order book that we have for defense?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, yes that's correct.

Faraz Ahmed - Analyst, Individual Investor
Also sir, beyond the MMG kits, the INR22 crore AWEL machine pistol components order and the INR9.4 crore SSB machine gun order, what does the qualified defense pipeline look like? Total is INR100 crores.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yeah, sorry, sorry, can you repeat again please? I didn't understand the question, if you don't mind, can you repeat?

Faraz Ahmed - Analyst, Individual Investor
Yeah, so I just wanted to ask beyond the MMG kits, the INR22 crores AWEL, machine pistol

component order, are we, I mean are we looking at more order book from this category itself in the coming months or years?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, yes between these two, we're already -- b esides that INR58 crores, we already have some INR15 crore order to be executed for the MMG kits which would be done this year itself. And we also got orders besides AWEL, we have orders from SSB, from Assam Rifles which need to be executed this year. And yes we did participate in couple of more tenders and hopefully we will emerge, I mean L1 there as well.

Faraz Ahmed - Analyst, Individual Investor
And sir, one last question. The ASMI machine pistol was co developed with DRDO on a no cost no commitment basis. What -- do we hold any IP or exclusivity rights and can any other licensee go ahead and get this.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
No. DRDO has a commitment to two agencies. So one is us and the other of course is AWEL. So besides that I don't think they will be giving it to anyone else. That's how their products go along.

Faraz Ahmed - Analyst, Individual Investor
AWEL also get this sourcing order or it's only with us.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
No, mostly we only compete because the entire development per se with DRDO has been done by us. The entire supply chain for this ASMI has been established by us. So yes, mostly it's with us.

Faraz Ahmed - Analyst, Individual Investor
Okay, sir. Thank you so much. I'll join the queue.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you sir. Sir, next question we have from Divya Goyal, sir. Please god ahead. Divya, y ou may go ahead with your question.

Divya Goyal - Analyst, Individual Investor
Hello. Yeah. Firstly, I wanted to understand what is the capacity in terms of number of machines in each of our segment, t he CNC one and the defense.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
The CNC, t his year we established a capacity of close to around 1,500 machines per year. And on the defense front, we are anywhere between 15,000 to 18,000 small arms per year as of now. Both of them are of course scalable.

Divya Goyal - Analyst, Individual Investor
And what is the peak revenue that we can do from the existing set of capacity?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
We can perhaps. I mean maybe we could cross around combined, i f you're talking about the combined revenue.

Divya Goyal - Analyst, Individual Investor
Yeah.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
I mean we can easily do more than INR500 -plus crores.

Divya Goyal - Analyst, Individual Investor
Okay. And sir, what would be a guidance for FY '27 and '28 in terms of revenue and margins?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
We are in '26-'27. And as I mentioned '26-'27. You've seen our order book which is pretty good compared to what we went through last two years. And again we hope to get back to our last peak this year. Very close to that. And we would continue to grow in a similar fashion in the coming years as well.

Divya Goyal - Analyst, Individual Investor
Okay. And sir, margins.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Margins definitely will hold these. Because again as I mentioned in the presentation, there's been a significant improvement over the last few years. And we are very confident of holding this while internally we are working on improving it further.

Divya Goyal - Analyst, Individual Investor
Okay, sir, one last question. In the CNC machines we do 5-axis as well.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, please. We launched 5-a xis machines. The first couple of machines have gone to some aerospace industry and we are happy to note that they're doing well. That was one machine and we will shortly be launching the second machine as well which we developed -- we are developing along with IIT Chennai. We'll be launching that as well.

Divya Goyal - Analyst, Individual Investor
Thank you so much.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you, sir. Sir, we have our next question from Akshat Chavra. Please go ahead.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, please.

Akshat Chavara - Analyst, Individual Investor
Hello. Yeah, hi, sir. So I actually had one question regarding our order book. You mentioned that we have INR271 crores, what is the expected timeline of this order book to be executed i n, most of the orders.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
See among the INR271 crores, as I mentioned around INR58 crore of the defense would go on to the next year and the balance would be executed this year itself. And as we go along our CNC division would continue to accrue orders and they'll get added to this for this year as well although I can't give a number on that at this point of time but this is what it is.

Akshat Chavara - Analyst, Individual Investor
Understood. You also mentioned that promoters have put in an infusion of INR35 crores so if you could just give us a breakdown on the object of the reason for like what are we going to utilize as cash because you mentioned, if you have any leftover we'll try to repay the debt. So if you could just give us a little bit on what exactly we're trying to spend that INR35 crores on. Hello?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yeah, yeah, I'm listening. I'm sorry.

Akshat Chavara - Analyst, Individual Investor
Yeah, so just a little breakdown of the INR35 crores what are the usage of it?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
See overall, I mean from the time we launch the preferential issue to the time we get subscribed we would be bringing in close to around INR74 crores and initially -- the initial amounts are going mostly into the working capital requirements and then the later half and partially for the debt repayment as well and the later amounts also would close around INR20 crore would be going into capex and the rest whatever balance is there would go again into the debt.

Akshat Chavara - Analyst, Individual Investor
So the capex would be basically for our forging division or building out defense capabilities.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
No defense and forging l uckily we have invested enough we can see through. This amount would be primarily in our CNC machines division.

Akshat Chavara - Analyst, Individual Investor
I see.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Some of the outsourcing capacities and capabilities will be insourcing them. We'll be moving it in -house.

Akshat Chavara - Analyst, Individual Investor
All right. And one last question. The forging division you mentioned that you're working on a little bit of backward integration, so I wanted to just understand what is the margin impact that how will it affect our margins, m oment our entire division is ready for production.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
The margin, Akshat, o kay again we worked on the margins last year and we have improved them significantly and they would continue for sure. The reason...

Akshat Chavara - Analyst, Individual Investor
I'm asking. Yeah, sorry, sorry, sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
I'm answering your question. S ee more than the margins here this is more towards number one the control and to reduce the dependency on outside this thing certainly for the -- some of the critical customers. So that would help us get more business, yeah, that's about it.

Akshat Chavara - Analyst, Individual Investor
Understood, sir. So just basically, so what I'm trying to...

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sorry to interrupt sir.

Akshat Chavara - Analyst, Individual Investor
No, it's the same question only I just wanted a little bit. So essentially we're trying to say that it is mainly for quality purposes and there will be a margin impact but not -- that's not the main priority of backward integration. Right, if I understand correctly.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, yes. I mean there would be a nominal improvement in margin because we already squeezed a lot and we'll get it. But that will be mostly efficiency of logistical efficiency or some of the quality improvements, since we in source. That's it. But the greatest requirement has been, to develop our own capabilities and to be a -- I mean like a one s hop solution for the customer.

Akshat Chavara - Analyst, Individual Investor
Understood. All right, thank you so much and once again, so congratulations on getting the sanctions lifted. It was quite a big moment for the entire company.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thanks a lot. Thanks a lot, Mr. Chavara.

Akshat Chavara - Analyst, Individual Investor
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you. Keeping the interest of time in mind, I would request each participant to proceed with one question only. We have a next question from Geetha Kannan. Please go ahead.

Geetha Kannan - Analyst, Individual Investor
Yeah. Hi sir, good to connect back with you. Sir, I just wanted to understand two things. One is that M&M is back. So are we back to the old level with M& M, the business with them?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Not yet, Mr. Geetha. We are in touch with them because this being a middle of year, their entire year program is more or less fixed. So we are working with them, we are talking to them, we are in discussions with them for the future business cycle number one. And of course, with M& M, of course our relation is not just the auto components but even machine tools. So we're in talks with them for that as well because they have their own capex requirements themselves and their vendors

to whom we've been suppliers earlier. So they are in talks with us for that as well.

Geetha Kannan - Analyst, Individual Investor
Got it sir. And sir, we have learned from the sanctions that having limited customers for our supply would hurt us eventually. So we have diversified our customer base from one or two customers to five or six customer. What are we doing more to expand our customer base further so that we could be diversified and execute the order book very fastly and quickly in order to have a healthy growth which you guided for.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
That's precisely why, I mean one of the reasons we went for the forging lines, putting up the forging lines is to have a diversified customer base and more customers. Otherwise earlier with M& M who were single customer for the machine tools, even with one forging line we could have managed. But then having multiple customers, therefore we added more forging lines. So that's been one of our strategy. In fact, it was worked on prior to the sanctions itself. It's just that it was unfortunate we could not -- b efore we could execute that plan, we landed in trouble. But then, yes, we have totally der isked ourselves now having put up more forging lines and we are expanding the customer base and we would continue to do that and perhaps in years to come t here again we look at some of the non -automotive customers as well because there would be an engineering space where a lot of forgings would be required and we would be there as well.

Geetha Kannan - Analyst, Individual Investor
And it's a similar kind of margin business for other customers as well.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, yes, that's right.

Geetha Kannan - Analyst, Individual Investor
Got it. And the 5-ax is machine...

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sorry to interrupt.

Geetha Kannan - Analyst, Individual Investor
Just last question from my side.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Okay.

Geetha Kannan - Analyst, Individual Investor
Yes, this is a 5-axis machine. And you are catering this for the aerospace division. Sir, I want you to understand what is the TAM for you in this industry? Because it's a very big space, very big industry and very attractive industry in terms of margin as well, as per my understanding. So what's your TAM to address this market with 5-a xis machines and other products of yours?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
You're talking about...

Geetha Kannan - Analyst, Individual Investor
Aerospace.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
No, no. What's our -- w hat is TAM.

Geetha Kannan - Analyst, Individual Investor
Total Addressable Market for Lokesh M achines?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Now in terms of size, Mr. Kannan, we really not pegged it. But I would only say that, when we started working with IIT and with the government, we had projected a significant number because a lot of these machines get imported. And once we've proven these machines here and some of the customers with whom we are working or who have taken our machines, they are into extremely sensitive and very precise components. And that itself would give us a big filip. And even if we -- e ven if you can get 50, 60 machines a year also it's going to be a huge number.

Geetha Kannan - Analyst, Individual Investor
Yes, fair point. Thank you, sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you, sir. We have our next question from Tarunkumar Khatri . Please go ahead.

Tarunkumar Khatri - Analyst, Individual Investor
Am I audible?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, please.

Tarunkumar Khatri - Analyst, Individual Investor
I would like to know about the status of the machines which we have developed with the IIT Madras, that is additive manufacturing -- metal additive manufacturing machines. How are we -- at what state are we in commercialization of those machines -- c ommercial sale a ctually?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
We are working with two institutions, Mr. Tarun. I mean one is IIT Madras and the other is RRCAT. With IIT Madras we are working on 5-a xis machines. And with an institution called RRCAT we are working on the metal additive manufacturing machines. So the first machine has been launched a couple of years ago and we are happy to tell you that we managed to sell the first machine successfully to IIT Indore for their R& D division. So we've already commercialized. At this point of time, mostly these machines we see a opportunity in the, I mean not just the institutions but most of the R& D centers, whoever is involved with R& D, they would be requiring these machines. So we are now more or less geared up to expand this customer base, sell more machines.

Tarunkumar Khatri - Analyst, Individual Investor
So these particularly like these, these machines are required mainly for precision component

manufacturing, particularly for aerospace and defense. And we have a couple of, couple of very good companies emerging as in this because government wants to create an ecosystem for that. And there are a lot of companies having a lot of traction and they are in on the, on expansion spree also. To name a few, I mean Azad is there. Then there is even Raymonds, the Raymonds Limited, they've got many division, then there are many more. I mean I can name a lot of companies. So they are all in the expansion . Are there inquiries from these kind of companies also for providing the machines which they were currently putting in their line by importing?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
I mean, I mean the customers you named, of course, Azad is a very good customer of ours. At any given point of time we have some open orders with them of machines yet to be delivered. So that's the kind of order book we always carry with Azad. And yes, some of these machines in Azad also, they get deployed in the aerospace division of theirs as well. And going forward, yes, I mean we will be working with other customers as well. As I mentioned earlier, a couple of our machines have been bought by the aerospace industry. So therefore, these companies would definitely buy our machines.

Tarunkumar Khatri - Analyst, Individual Investor
With this delisting, I wish you all the luck and the success which you actually truly deserve. Thank you.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thanks a lot.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you, sir. W e have our next question from Rahul Jain. P lease go ahead.

Rahul Jain - Analyst, Individual Investor
Yeah, thanks for the opportunity. Sir, you mentioned that on the 5-axis machine one machine has been delivered and the performance has been good. So typically, what is the kind of, relation which you can get from 5-axis machines and what kind of business do you see in this, say in this year and the next year?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
This year would be perhaps a little slow, but going forward, yes, as we go along in the coming years we expect good numbers. Although it would be too premature for me to give a confirmed this thing because we were test marketing the first few machines and we are pretty happy with the results so far. So another couple of months we're really going to make sure that we are fully geared up. And then yes we will go in a, a bigger scale. But the results have been extremely encouraging and the customers are very happy with what they got.

Rahul Jain - Analyst, Individual Investor
And sir, with regards to the preferential offer which was done, one of the investors being the Co-founder of a larger defense company. So what that investment are we able to get some benefits in terms of some technology, some kind of collaboration, some kind of benefits on product development side w hich could help our defense business to scale very sharply in coming two, three years?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
I mean Mr. Rahul, we work with everyone very closely. I mean not just the customers but some of the industry colleagues as well such as the companies that you're mentioning about. I mean I won't purely look at from a monetary point of view but yes, definitely there would be a comfort in knowing that such people are with us. I mean it would be very difficult for me to put anything beyond this point because unless we put it in a public domain, I can't really comment over here .

Rahul Jain - Analyst, Individual Investor
Just last one bit. In defense do -- can we expect some or in two, three years can defense be a INR200 crore business? Is there a possibility? I'm not asking for a guidance but in two, three years can that number be around INR200 crores?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yes, certainly in two to three years. I mean that's a -- I mean that's definitely our endeavor. I mean there are opportunities and also we will be working not just with one or two platforms but we will have a diversified platform and precisely. So I mean to take us beyond the INR200 crore mark as you're talking about.

Rahul Jain - Analyst, Individual Investor
Sure. Thank you so much sir. Wish you all the best.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sir, w e have our next question from Rohan Tantia. Please go ahead.

Rohan Tantia - Analyst, Individual Investor
Thank you for the opportunity sir. So my questions are based on the CNC machines part. Sir, recently I visited the semicon event and there I got to understand that the CNC machines and the precision manufacturing is very -- plays a very important part in the semiconductor ecosystem. So is Lokesh's CNC machines division is planning to enter into that semiconductor ecosystem as well? Or are we going towards the defense part, that's it. So that's my question.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
See our vertical, the defense and the machine tools are totally different. So both of them would be growing. I mean the defense as well as machine tools they are two independent paths. So we will not be losing focus on one at the expense of the other. Both will be very high priority areas for us. The machine tools as well as the defense. And as far as the application of the CNC machines itself, I mean not entirely into the semicon, but as I mentioned, we will be getting into the electronics industry as well as we go along. Our machines could be deployed over there.

Rohan Tantia - Analyst, Individual Investor
Okay, sir. And sir, another one is that you mentioned that defense is having INR100 crores pipeline right now. So can we, can you give us the bifurcation of what -- which products are specifically being like R& D order books? And is it including the precision tools specifically or some other defense equipments?

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
No, in the defense, the INR100 crore order again has nothing to do with the precision tools. Precision tools are again the machine tool business, which is totally different. Of course, machine tool is a larger business. No doubt in that and it will continue to remain so. Whereas the defense is exclusively in this small arms space. These are machine guns and allied equipment.

Rohan Tantia - Analyst, Individual Investor
Okay, thank you so much.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you sir. We would be taking next participant as a last participant and please note we have to close the call by 11:55 p.m. so limit your question as per that. We have our next question from Saket Saurav. Please go ahead.

Saket Saurav - Analyst, Individual Investor
Thanks for the opportunity. So sir, quickly, I just want to understand the OFAC thing. So are there -- so what steps have been been undertaken so that such things doesn't recur for a prestigious organization like Lokesh? And second, sir, because we are in sensitive areas like defense, so does that in order to be compliant with OFAC, does that mean there are some restrictions on us like the kind of countries that we can say export to or certain products that we can work on? So these would largely be the questions sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
For the OFAC, of course, it's been, it's very unfortunate that we got into that. And having said that, number one, as far as the UN regulations and as far as Government of India concerned, we have done nothing wrong. These are not recognized either by the Government of India or the UN itself. But having said that, we are glad that the Minister of External Affairs and the US Government deemed it fit that we don't qualify in that and they got us out of the sanctions. Now the reason the US Government was convinced was because number one, they've seen that there's been no wrongdoing on our part. And having said that, we also showed them, some of the compliances that we have put in place along with the help from our Indian and the American lawyers. We put together compliance policies in place which are akin to what the MNCs do .

So those kind of policies we have put in place though being a small company to ensure that none of the customers or rather I'm saying prospective customers or prospective suppliers, we're going to screen them and ensure that none of them are sanctioned or have anything to do with sanctioning. I mean anything to do with these countries where the sanctions are imposed. That's point number one. On the export front, OFAC or no OFAC, when it comes to the defense or technologies of dual purpose like machines and all, there is always a restriction and that's what we have learnt and the entire Indian ecosystem has learnt thanks to our particular mishap. A nyone who's a non -US or non, I would say EU kind of a country, there would be severe restrictions, so yeah.

Saket Saurav - Analyst, Individual Investor
Okay, thanks appreciate this and best of luck for the coming quarters. Really appreciate.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Thank you. Due to time constrained we will have to close the call.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
So any other questions you're welcome to write to my colleague Mr. Kodanda Rami Reddy and we will be happy to address them.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sure sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Yeah.

Abhishek Jain - Analyst, Arihant Capital Markets Ltd
Sir, I would like to thank the management on behalf of Arihant Capital for sparing time and sharing insight about their company. If the participants have any further doubt they can get in touch with team at Arihant Capital. Thank you sir.

Srinivas Mullapudi - Whole-Time Director, Lokesh Machines Ltd
Thank you. Thanks a lot. Thanks for the opportunity and thanks to everyone.