



LAKSHMI MACHINE WORKS LIMITED

Our Ref : Sec/270/2020
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BSE Limited
Listing Department
Phiroze Jeejeebhoy Towers
Dalal Street, MUMBAI-400 001

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, C-1, Block-G,
Bandra Kurla Complex Bandra(E)
MUMBAI - 400 051.

Dear Sir/Madam,

Sub : Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015.

This is in reference to the circular bearing no.SEBI/HO/CFD/CMD1/CIR/P/2020/84 dated 20.05.2020 issued by the Securities and Exchange Board of India.

The COVID-19 pandemic and consequent nationwide lockdown announced by the Government of India has had a significant adverse impact on the overall Indian Economy and on the operations of the Company.

Textile Machinery Business

The deadly Coronavirus (COVID-19), has been declared as a global pandemic by the World Health Organization (WHO). It has infected millions of people globally and taken several lives. In addition to massive human anguish, the virus is taking its toll on the global economy. The outbreak has affected the textile & apparel industry globally as well as in India. The spread of the virus is having serious implications and companies have started feeling the impact of supply chain disruptions, declining exports and uncertainty in orders.

The International Monetary Fund (IMF) projects the most severe down-turn of the global economy for 2020 since the Great Depression about 100 years ago. Global economic output is expected to contract by 3 percent in 2020. Emerging Asia is projected to be the only region with a positive-growth rate in 2020, albeit more than 5 percentage points below its average in the previous decade. Several economies in the region are forecast to grow at modest rates, including India. The IMF expects a significant bounce-back during next year, with global economic growth of 5.8 percent year-on-year. However, this scenario assumes that the pandemic will be largely contained in the second half of 2020 and economic activity will normalize again¹.

Raw Material Price:

Fibre price and demand is under pressure due to COVID-19 crisis. India's cotton yarn exports, especially to China, has significantly declined in the past two months. This has led to the surplus cotton yarn being diverted to the domestic market. As a result, cotton yarn prices have witnessed a decline of 3-5% during the past month. Indian cotton prices (Shankar-6 quality)



eased from 62 to 60 cents/lb. In domestic terms, values fell from 37,000 to 35,700 INR/candy. Also globally w.r.t Cotton there is warehoused supply of cotton, estimated to be 97.2 Million bales this will be the highest level of Inventory since 2014/15, when stock hit their record level of 106.7 Million bales².

With reduced demand and falling oil prices, there has been an impact on polyester prices as well. Polyester prices have reduced by more than 20% due to reduced demand and has resulted in significant losses for the fibre players. The prices for standard viscose dropped to a new all-time low of up to 33 percent lower than in the prior-year quarter³.

Demand:

The nationwide shutdown has brought India's textile & apparel industry to a standstill. The outbreak of coronavirus in China had disrupted the supply chain and Indian apparel manufacturers faced a shortage in supply of synthetic fabric and accessories. But after coronavirus started to impact Europe and USA, production has started to slow down. With retail stores in these markets temporarily closing down, brands started putting their orders on hold or have cancelled them. The textile industry has been hit hard with brands holding payments and cancelling all the orders. With India under lockdown the domestic market has also come under complete halt and is now facing an uncertain future. It is expected that this disruption is expected to reduce total market demand by around 15-20% resulting in large scale loss in production and jobs and apparel retail in India will reduce from 20% to 48% depending on the developing crisis. The black swan event has affected the Indian textile & apparel industry, in terms of both trade and domestic consumption³.

With the increasing spread of coronavirus in US & EU, the two major markets for apparel globally, there has been a significant reduction in demand. A growing number of retailers across the globe have announced temporary closure of their brick and mortar stores in an effort to prevent the spread of coronavirus. A large number of buyers have cancelled their running orders and frozen future buying as well. However, with the emerging health crisis and a period of uncertainty ahead, the COVID-19-induced economic slowdown could end up hitting the holiday sales, when many retailers make the bulk of their profits. With uncertainty on the extent of duration of this virus, there is expected to be a prolonged impact on global apparel demand in the near future.

Both the U.S. and European Union have also released estimates for consumer spending by category in March. In each location, clothing suffered more than any other set of goods (certain service categories, such as travel, fared worse). In the U.S., consumer spending on apparel was down 28% year-over-year. In European Union countries, consumer spending on apparel was down 42% year-over-year. In both cases, these were the steepest declines on record, and steeper decreases could be expected in data for April 20. Part of the pullback can be attributed to the unavailability of supply, with brick and mortar stores shuttered. Part can also be attributed to demand, with consumers postponing purchases until their outlooks on employment and income improve².

Machine Tool Business (MTB):

On account of COVID-19 and complete disruption of production in automotive and other manufacturing industries – this has had a very hard landing for us and our customer. Our customer in MTB are MSME and they have been hard hit on account of lack of demand. Government has extended support to MSME segment and we wait to see how the same is translated into demand in this business. As we progress out of this crisis, the manufacturing technology industry will be critical in scaling up the products and equipment that economies need going forward.



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FOUNDRY:

Foundries have been very hard hit on account of the COVID-19. The foundry sector is highly labour intensive with more than 2 million people being involved with it directly or indirectly mainly from the socially and economically weaker sections of society. The COVID-19 impact along with the mass migration of people will result in potential non-availability of workforce when the lockdown will be removed.

With respect to the business we have mix of Locomotive business, Pump and valve, Engine, Marine and general engineering. We are experiencing noticeable decline in the demand in few of the segment i.e. Engine, MTB, pumps and valve and are keenly working towards servicing the growth segment such as locomotive.

ADVANCED TECHNOLOGY CENTER:

As the COVID-19 pandemic continues around the world, many global aerospace and defense industry companies are feeling the impact during this uncertain time. In commercial aviation, companies are experiencing disruption in production and slowing demand as workers stay home, passengers stop traveling, and customers defer delivery of new aircraft. Demand for spare parts is also down since less maintenance is currently required. With respect to Defence spending, US being by far the largest spender in Defence, the senate is discussing cuts to defence budgets. Domestic demand is concerned, spend by the Indian Govt. is expected to come down on account of Financial uncertainties. We at LMW supply to all the top names in aerospace and we are seeing order reduction and job cuts at a steady phase, as there is drop in air travel and cuts in spending.

IMPACT ON THE OPERATION

LMW has temporarily suspended its operations during phase 1 & 2 of lock down period which was in force from 25th March, 2020 to 5th May, 2020. After ensuring that the Standard Operating Procedures given by Government of India (GOI) and Tamilnadu Government with regard to maintenance of health and hygiene at workplace, have been properly complied with, the Company has gradually started its operations from 6th May, 2020.

LMW has successfully and in compliance with the Government regulation as prescribed, has reopened all the units. We have enabled working from home option, social distance measures and all defensive actions as a part of the restarting of the units.

The COVID19 lockdown and above-mentioned market scenario puts many customers and partners along the textile value chain under pressure. In the interests of customer confidence and long-term partnerships, LMW will continue to support its customers in all areas. LMW normally has a stable order book position and hence production plans and inventory levels are in tandem with the requirement. However, the black swan event has disrupted the business cycle.

The lockdown has significantly impacted the distribution of goods, including raw materials and finished goods. With partial resumption of work, we have seen restoration of supply chain, which is able to support our operations and deliverables to customers.

In assessing the recoverability of the company's assets, such as investment, trade receivable, inventories etc, we have considered internal and external information and expect to recover the carrying amount of the assets.



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LMW does not have any bank borrowing. Our focus is on restarting the business cycle which will eventually restart the working capital cycle.

Complete lockdown has resulted in non-operational days and had its effect on turnover, also after commencement of operations, the Company is experiencing low turnover on account of customers reviewing their CAPEX investments. The impact of the COVID-19 crisis on the business of LMW can still not be reliably estimated and strongly depends on the duration of the crisis and its impact on the global economy. The revival of Textile, Machine tool, Foundry and Advanced Technology Centre is dependent on revival of economic activity in the country and across the globe.

We are taking all structural measures necessary to overcome the situation. These measures ensure that our customers are serviced, costs are contained and provide us with the agility to adapt to the new economic/business environment.

LMW will re-assess and re-set itself to deal with the new normal.

Request you to take the same on records.

Thanking you,

Yours faithfully,
For LAKSHMI MACHINE WORKS LIMITED



C R SHIVKUMARAN
Company Secretary



cc : BSE Limited
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Source information:

1. *IMF World Economic Outlook: The Great Lockdown*
2. *Cotton Inc*
3. *Wazir Advisors & Lenzing*