

Lakshmi Machine Works

Performance highlights

Y/E March (₹ cr)	4QFY11	3QFY11	% chg (qoq)	4QFY10	% chg (yoy)
Net sales	528	482	9.7	354	49.3
EBITDA	59	66	(11.7)	48	22.9
OPM (%)	11.1	13.8	-	13.5	-
PAT	44	46	(3.5)	31	44.1

Source: Company, Angel Research

Lakshmi Machine Works (LMW) posted strong top-line growth of 49.3% yoy to ₹528cr (₹354cr) during 4QFY2011, which was in line with our expectations. However, OPM fell by 238bp to 11.1%, which was lower than our estimates, mainly due to higher raw-material and employee costs. PAT grew strongly by 44.1% yoy to ₹44cr. Operations in the Chinese subsidiary have not picked up as per our expectations and the subsidiary reported sales of only ₹20cr. We have revised our sales estimates for FY2012 and FY2013 downwards by 4.2% and 3.3%, respectively, to ₹2,350cr and ₹2,883cr. PAT estimates have also been revised downwards by 9.6% and 5.6% to ₹202cr and ₹261cr, respectively.

We maintain our Buy recommendation on the stock.

Order book swells to ₹4,700cr: The company has recorded yet another quarter of high order inflow, reflecting the strong demand from textile machinery manufacturers. The company's order backlog now stands at ₹4,700cr, while the total order inflow during FY2011 stands at ~₹3,000cr.

Outlook and valuation: We remain positive on the company's outlook, given a strong order book of ₹4,700cr. Although yarn prices have shown signs of correction in the recent past, overall demand, as reflected in the order inflow, is still robust. Spinning mills continue to operate at high utilisation levels. At the CMP, the stock is trading at 11.6x and 9.0x its FY2012E and FY2013E EPS, respectively, which we believe is attractive. **We maintain our Buy recommendation on the stock with a target price of ₹2,780.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	1,131	1,794	2,350	2,883
% chg	(15.5)	58.7	31.0	22.7
Net profit	100	153	202	261
% chg	(6.6)	53.6	31.7	29.2
EBITDA (%)	14.2	12.4	14.2	14.3
EPS (₹)	80.7	136.2	179.3	231.7
P/E (x)	25.8	15.3	11.6	9.0
P/BV (x)	2.8	2.9	2.4	2.0
RoE (%)	11.3	17.7	22.9	24.7
RoCE (%)	7.0	13.2	24.3	27.1
EV/Sales (x)	1.6	0.9	0.6	0.4
EV/EBITDA (x)	11.5	7.1	4.2	2.8

Source: Company, Angel Research

BUY

CMP	₹2,131
Target Price	₹2,780

Investment Period	12 Months
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Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	2,347
Beta	0.6
52 Week High / Low	2,920/1,752
Avg. Daily Volume	6,469
Face Value (₹)	10
BSE Sensex	18,012
Nifty	5,395
Reuters Code	LKMC.BO
Bloomberg Code	LMW@IN

Shareholding Pattern (%)	
Promoters	28.3
MF / Banks / Indian Fls	39.4
FII / NRIs / OCBs	6.2
Indian Public / Others	26.1

Abs. (%)	3m	1yr	3yr
Sensex	2.2	9.4	8.2
LMW	1.6	11.4	26.8

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Exhibit 1: 4QFY2011 performance (Standalone)

Y/E March (₹ cr)	4QFY2011	3QFY2011	% chg (qoq)	4QFY2010	% chg (yoy)	FY2011	FY2010	% chg
Net Sales	528.3	481.7	9.7	353.9	49.3	1,773.3	1,136.9	56.0
Consumption of RM	338.2	285.7	18.4	221.8	52.5	1,072.0	662.0	61.9
(% of Sales)	64.0	59.3		62.7		60.5	58.2	
Staff Costs	53.9	39.5	36.3	27.7	94.6	168.3	116.8	44.2
(% of Sales)	10.2	8.2		7.8		9.5	10.3	
Other Expenses	77.6	90.1	(13.8)	56.7	36.8	299.8	193.9	54.6
(% of Sales)	14.7	18.7		16.0		16.9	17.1	
Total Expenditure	469.8	415.3	13.1	306.2	53.4	1,540.1	972.7	58.3
Operating Profit	58.6	66.4	(11.7)	47.6	22.9	233.2	164.2	42.0
OPM	11.1	13.8		13.5		13.1	14.4	
Interest	-	-		-		-	-	
Depreciation	28.4	26.3	7.8	27.6	2.8	104.1	95.8	8.6
Other Income	29.2	26.8	9.0	19.5	49.4	110.1	82.1	34.0
PBT	59.4	66.8	(11.1)	39.6	50.1	239.2	150.6	58.8
(% of Sales)	11.2	13.9		11.2		13.5	13.2	
Provision for Taxation	15.2	21.0	(27.7)	8.9	71.0	73.2	45.9	59.5
(% of PBT)	25.6	31.4		22.4		30.6	30.5	
Reported PAT	44.2	45.8	(3.5)	30.7	44.1	166.0	104.7	58.6
PATM	8.4	9.5		8.7		9.4	9.2	
Equity shares (cr)	1.1	1.2		1.2		1.1	1.2	
EPS (₹)	39.2	37.0	5.9	24.8	58.2	147.3	84.6	74.1
Adjusted PAT	44.2	45.8	(3.5)	30.7	44.1	166.0	104.7	58.6

Source: Company, Angel Research

Segment-wise performance

The textile machinery division posted strong sales growth of 46.5% yoy to ₹454cr (₹310cr). However, EBIT margin declined by 47bp to 7.9% (8.4%). Sales were driven by volumes, as the company did not take any price hike during the year.

The others division also grew strongly by 60.0% to ₹87cr (₹54cr). EBIT margin fell by 360bp yoy to 9.7% (13.3%), even though sequentially it improved by 64bp.

Exhibit 2: Segment-wise performance

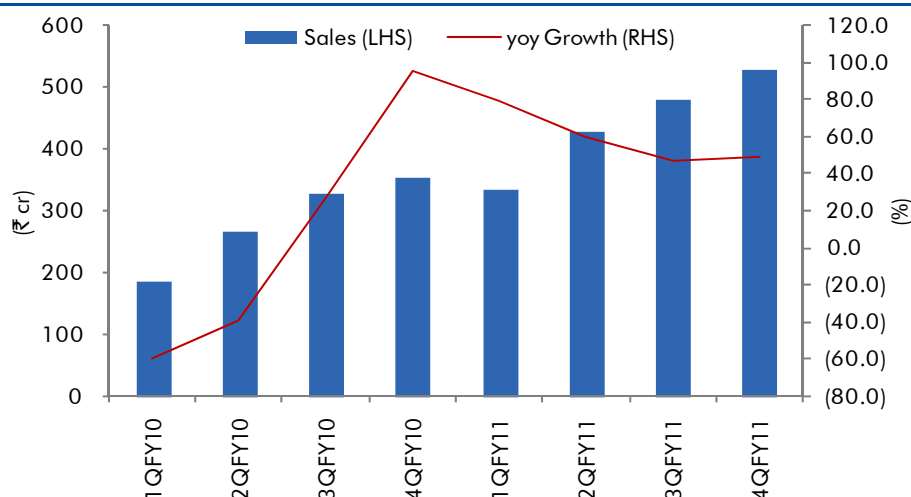
Y/E March (₹ cr)	4QFY2011	3QFY2011	4QFY2010	% chg (qoq)	% chg (yoy)
Total Revenue					
A) Textile Machinery	454	425	310	6.8	46.5
B) Others	87	70	54	25.2	60.0
Total	541	494	364	9.4	48.5
Less: Inter-Seg. Rev.	2	3	2	(48.9)	9.5
Net Sales	539	491	363	9.8	48.7
EBIT Margin (%)					
A) Textile Machinery	7.9	10.7	8.4	(274bp)	(47bp)
B) Others	9.7	9.1	13.3	64bp	(360bp)

Source: Company, Angel Research

Sales growth momentum remains strong

LMW has posted consistently strong sales growth over the past quarters, after emerging from the lows of the global economic crisis. This trend was maintained in 4QFY2011 as well, with the company posting 49.3% yoy growth in sales. Going ahead, we expect sales to remain high, although the rate of growth is expected to come down from the current stellar levels.

Exhibit 3: Sales trend

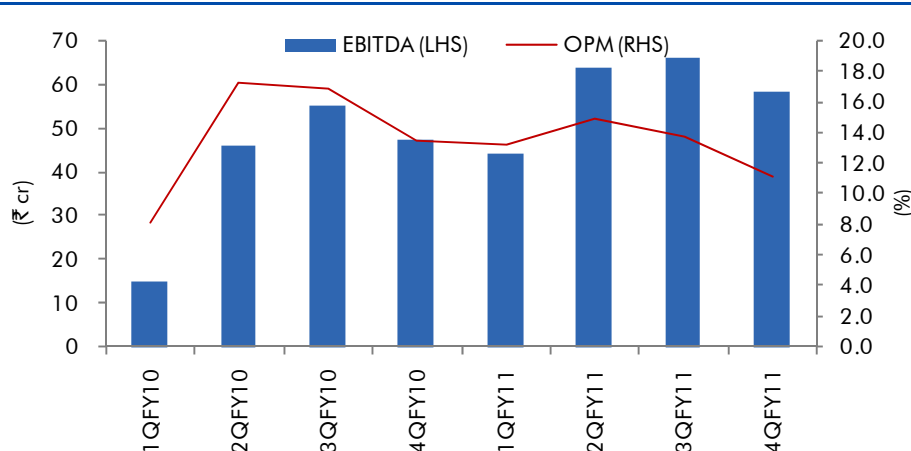


Source: Company, Angel Research

OPM declines yoy

LMW reported a dip in OPM during 4QFY2011 to 11.1% as compared to 13.5% in 4QFY2010. The company has not hiked its prices during the year, which led to pressures on the margin. However, with the company raising its product prices by 4–7% in April 2011, we expect margins to get back on track over the next few quarters.

Exhibit 4: OPM trend

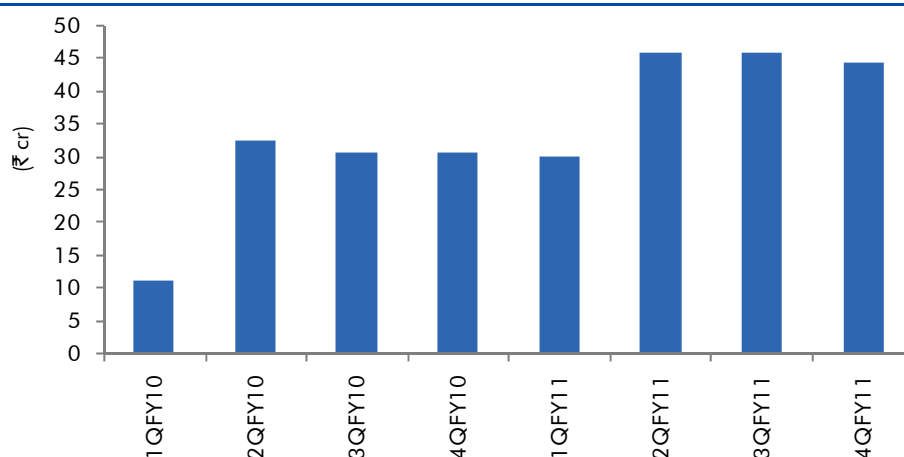


Source: Company, Angel Research

PAT grows by 44.1%

PAT during the quarter grew strongly by 44.1% yoy, backed by robust sales. However, sequentially, PAT declined by 3.5%. Over the past few quarters, PAT has remained more-or-less flat. Going ahead, as sales continue to grow and OPM gets back on track, we expect PAT to resume its growth trajectory.

Exhibit 5: PAT trend



Source: Company, Angel Research

Management call – key takeaways

- The order book at the end of FY2011 stood at ~₹4,700cr compared to ~₹4,100cr at the end of 3QFY2011.
- For FY2011, the total order inflow was ~₹3,000cr.
- LMW is still quoting a delivery time of 10–12 months, indicating the persistence of strong demand. Yarn spinners continue to operate at high utilisation levels. During the year, exports also grew significantly to ₹251cr.
- Chinese operations may breakeven by the end of this year. Currently, management is focusing on localisation of sourcing.
- Margins are expected to rise to normal levels, once the announced price hike starts taking effect.
- The company had a market share of ~68% during FY2011.

Investment arguments

Ability to defend market share: LMW is one of the largest players in the world and one of the only three players globally that manufactures the entire range of spinning machinery. In India, the company has a high market share of around 70% in yarn spinning and preparatory machines. The company has been able to sustain this market share on the back of strong after-sales service coupled with providing the world's best technology to customers at the cheapest rates. LMW has service centres at all textile hubs across the country, which gives it a strong advantage over its European peers, who at the most have service centres in only

3–4 cities. LMW also enjoys an edge over competition as it caters to 1,300 domestic textile players, out of the total universe of around 1,600. The company has been innovating on technology for the past 15 years. In terms of prices, LMW's products are at least 10% cheaper than its European peers who have manufacturing base in India.

Strong order book to translate into robust sales growth: LMW has a strong order book of ₹4,700cr. The upturn in the spinning industry has lent a boost to LMW's order inflow. Yarn prices have increased at a 15.0% CAGR over the last two years and most listed yarn manufacturers surveyed by us are operating at utilisation rates of around 95%. This indicates that there is low probability of order deferments and the company's robust order book is expected to result in strong growth.

Outlook and valuation

We remain positive on LMW's outlook, given a strong order book of ₹4,700cr. The company's order inflow has remained firm, with the total order inflow for FY2011 coming in at ~₹3,000cr. Although yarn prices have shown signs of correction in the recent past, overall demand, as reflected in the order inflow, is still robust. Spinning mills continue to operate at high utilisation levels of 95–98%. The announcement on the TUFs scheme is another positive for the textile industry, which would further benefit LMW. However, to reflect the slow ramp-up of operations in China and the below-expectation margins, we have reduced our sales estimates for FY2012 and FY2013 downwards by 4.2% and 3.3%, respectively, to ₹2,350cr and ₹2,883cr. PAT estimates have also been reduced by 9.6% and 5.6% to ₹202cr and ₹261cr, respectively. Overall, we expect sales to post a CAGR of 26.8% over FY2011–13E to ₹2,883cr. We expect PAT to register a CAGR of 30.4% to ₹261cr over the same period. Currently, the stock is trading at 11.6x and 9.0x its FY2012E and FY2013E EPS, respectively. **We maintain our Buy rating on the stock with a target price of ₹2,780.**

Exhibit 6: 4QFY2011 results: actual vs. estimated

	Actual	Estimated	Var. (%)
Sales (₹ cr)	528	529	(0.1)
EBITDA (₹ cr)	58.6	84.5	(30.6)
OPM (%)	11.1	16.0	(488)bp
PAT (₹ cr)	44.2	43.7	1.1

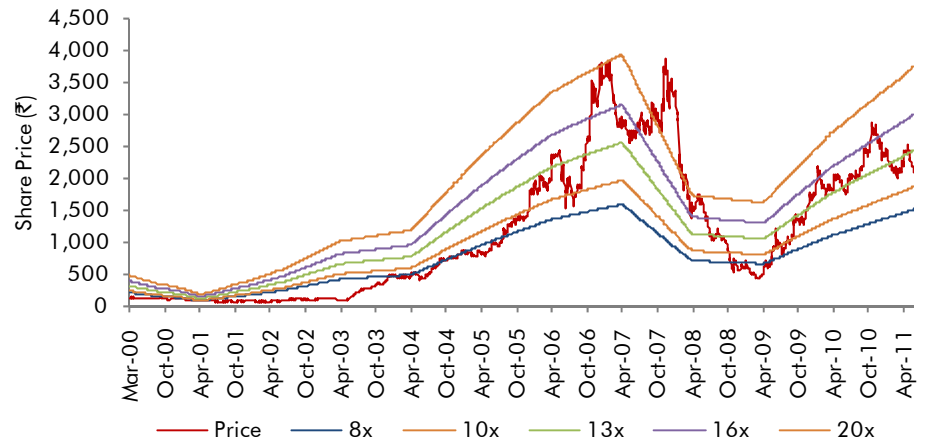
Source: Company, Angel Research

Exhibit 7: Revised estimates

₹ cr	Old		New		% chg	
	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
Sales	2,453	2,982	2,350	2,883	(4.2)	(3.3)
EBITDA	357	427	333	413	(6.8)	(3.2)
EBITDA (%)	14.6	14.3	14.2	14.3		
PAT	223	277	202	261	(9.6)	(5.6)
EPS (₹)	198.4	245.6	179.3	231.7	(9.6)	(5.6)

Source: Angel Research

Exhibit 8: One-year forward P/E band



Source: Company, Bloomberg, Angel Research

Profit and loss statement (consolidated)

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Gross sales	2,533	1,502	1,224	1,948	2,551	3,127
Less: Excise duty	328	164	94	154	201	244
Net Sales	2,205	1,338	1,131	1,794	2,350	2,883
Total operating income	2,205	1,338	1,131	1,794	2,350	2,883
% chg	19.0	(39.3)	(15.5)	58.7	31.0	22.7
Total Expenditure	1,802	1,153	970	1,571	2,017	2,470
Net Raw Materials	1,305	782	657	1,084	1,397	1,711
Other Mfg costs	213	156	112	171	224	275
Personnel	128	111	118	176	216	264
Other	157	104	83	140	180	220
EBITDA	403	185	161	223	333	413
% chg	37.5	(54.0)	(13.1)	38.7	49.2	24.1
(% of Net Sales)	18.3	13.8	14.2	12.4	14.2	14.3
Depreciation & Amortisation	116	118	96	105	112	120
EBIT	287	68	65	118	221	293
% chg	28.0	(76.4)	(4.3)	82.6	87.1	32.8
(% of Net Sales)	13.0	5.0	5.7	6.6	9.4	10.2
Interest & other Charges	3	4	1	-	5	6
Other Income	88	91	82	109	87	102
(% of PBT)	23.6	58.8	56.3	47.9	28.8	26.1
Recurring PBT	371	154	146	227	304	390
% chg	20.3	(58.5)	(5.5)	55.5	34.0	28.3
PBT (reported)	371	154	146	227	304	390
Tax	129	47	46	73	102	129
(% of PBT)	34.7	30.6	31.5	32.3	33.5	33.0
PAT (reported)	242	107	100	153	202	261
Prior period items	0	0	3	-	-	-
PAT after MI (reported)	242	107	100	153	202	261
ADJ. PAT	242	107	97	153	202	261
% chg	28.0	(55.9)	(9.3)	58.3	31.7	29.2
(% of Net Sales)	11.0	8.0	8.6	8.6	8.6	9.1
Basic EPS (₹)	195.9	86.5	80.7	136.2	179.3	231.7
Fully Diluted EPS (₹)	195.9	86.5	80.7	136.2	179.3	231.7
% chg	17.5	(55.9)	(6.6)	68.7	31.7	29.2

Balance sheet (consolidated)

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS						
Equity Share Capital	12	12	12	11	11	11
Reserves & Surplus	745	831	908	798	947	1,142
Shareholders' Funds	757	843	920	809	958	1,153
Minority Interest						
Total Loans	-	-	-	-	-	-
Deferred Tax Liability (Net)	47	47	33	28	28	28
Total Liabilities	805	890	954	836	985	1,181
APPLICATION OF FUNDS						
Gross Block	1,274	1,344	1,371	1,465	1,565	1,670
Less: Acc. Depreciation	716	826	922	1,025	1,136	1,254
Net Block	557	519	449	442	428	416
Capital Work-in-Progress	1	10	3	-	8	10
Investments	103	104	104	77	77	77
Current Assets	1,161	1,026	1,037	1,330	1,588	1,997
Cash	568	627	732	756	933	1,176
Loans & Advances	335	242	104	163	281	344
Inventories	136	82	119	291	250	308
Debtors	88	52	58	84	77	112
Other	34	22	24	35	46	56
Current liabilities	1,017	768	640	1,012	1,116	1,319
Net Current Assets	144	257	397	318	472	678
Total Assets	805	890	954	836	985	1,181

Cash flow statement (consolidated)

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Profit before tax	371	154	146	227	304	390
Depreciation	116	118	96	105	112	120
(Inc.)/ Dec. in Working Capital	(9)	(147)	(173)	163	141	100
Less: Other income	88	91	82	109	87	102
Direct taxes paid	129	47	46	73	102	129
Cash Flow from Operations	261	(13)	(59)	313	367	379
(Inc.)/ Dec. in Fixed Assets	(271)	(80)	(19)	(91)	(108)	(107)
(Inc.)/ Dec. in Investments	(1)	(1)	(0)	27	-	-
(Inc.)/ Dec. in loans and advances	(57)	92	138	(59)	(118)	(63)
Other income	88	91	82	109	87	102
Cash Flow from Investing	(241)	102	201	(14)	(138)	(68)
Issue of Equity	-	-	-	(1)	-	-
Inc./(Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	65	22	22	40	53	66
Others	1	(8)	(15)	(234)	1	(2)
Cash Flow from Financing	(65)	(30)	(37)	(275)	(51)	(68)
Inc./(Dec.) in Cash	(44)	59	105	24	177	243
Opening Cash balances	613	568	627	732	756	933
Closing Cash balances	568	627	732	756	933	1,176

Key ratios

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)						
P/E (on FDEPS)	10.6	24.1	25.8	15.3	11.6	9.0
P/E (on basic, reported EPS)	10.6	24.1	25.8	15.3	11.6	9.0
P/CEPS	7.2	11.5	13.1	9.1	7.5	6.2
P/BV	3.4	3.1	2.8	2.9	2.4	2.0
Dividend yield (%)	2.2	0.7	0.7	1.4	1.9	2.4
Market cap. / Sales	1.2	1.9	2.3	1.3	1.0	0.8
EV/Sales	0.9	1.5	1.6	0.9	0.6	0.4
EV/EBITDA	5.0	10.5	11.5	7.1	4.2	2.8
EV / Total Assets	2.5	2.2	1.9	1.9	1.4	1.0
Per Share Data (₹)						
EPS (Basic)	195.9	86.5	80.7	136.2	179.3	231.7
EPS (fully diluted)	195.9	86.5	80.7	136.2	179.3	231.7
Cash EPS	289.6	181.5	158.5	229.4	278.7	337.9
DPS	45.0	15.0	15.0	30.0	40.0	50.0
Book Value	612.4	681.8	744.2	717.9	850.1	1,023.3
ROE Decomposition (%)						
EBIT margin	13.0	5.0	5.7	6.6	9.4	10.2
Tax retention ratio	65.3	69.4	68.5	67.7	66.5	67.0
Asset turnover (x)	3.6	2.1	2.0	3.6	4.6	4.9
ROCE (Post Tax)	31.0	7.2	7.7	15.9	28.7	33.7
Cost of Debt (Post Tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating ROE	31.0	7.2	7.7	15.9	28.7	33.7
Returns (%)						
ROCE (Pre-tax)	40.5	8.0	7.0	13.2	24.3	27.1
Angel ROIC	31.0	7.3	7.8	16.0	28.9	34.2
ROE	36.2	13.4	11.3	17.7	22.9	24.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.0	0.8	1.3	1.6	1.8
Asset Turnover (Net Block)	4.7	2.5	2.3	4.0	5.4	6.8
Operating Income / Invested Capital	3.6	2.1	2.0	3.6	4.6	4.9
Inventory / Sales (days)	25	30	32	42	42	35
Receivables (days)	11	19	18	14	13	12
Payables (days)	169	215	225	184	184	171
WC cycle (ex-cash) (days)	5	0	(6)	(7)	(1)	10
Solvency ratios (x)						
Gross debt to equity	-	-	-	-	-	-
Net debt to equity	-	-	-	-	-	-
Net debt to EBITDA	-	-	-	-	-	-
Interest Coverage (EBIT / Interest)	-	-	-	-	-	-

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Disclosure of Interest Statement	Lakshmi Machine Works
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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