

August 10, 2011

**Reco** Previous **Reco**  
Accumulate Accumulate

**CMP** Target Price  
Rs2056 Rs2535

EPS change FY12E/13E (%) NA  
Target Price change (%) NA  
Nifty 5,073  
Sensex 16,858

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(12)	(8)	(4)
Rel. to Sensex	2	(4)	(4)	3

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods
Bloomberg	LMW@IN
Equity Capital (Rs mn)	113
Face Value(Rs)	10
No of shares o/s (mn)	11
52 Week H/L	2,920/1,930
Market Cap (Rs bn/USD mn)	22/486
Daily Avg Volume (No of sh)	3500
Daily Avg Turnover (US\$mn)	0.2

### Shareholding Pattern (%)

	Jun-11	Mar-11	Mar-11
Promoters	28.3	28.3	28.3
FII/NRI	6.3	6.2	6.2
Institutions	23.4	23.2	23.2
Private Corp	16.3	16.2	16.2
Public	25.7	26.0	26.1

Source: Capitaline

### Naval Seth

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- Robust revenue growth of 47.9% yoy to Rs5111mn (our est. of Rs4105mn), driven by strong performance in both Textile and Machine tools division
- EBITDA at Rs709mn grew 27.1% yoy with margin at 13.9% (our est. of 13.4%) down 227bps yoy but improved 103bps qoq. PAT of Rs411mn was led by higher revenue realization
- Order inflow in quarter was at Rs5.5bn with order book at the end of Q1FY12 at Rs48bn v/s Rs47bn in Q4FY11
- Maintain ACCUMULATE with target price of Rs2535. Valuations at 11.9x /10.2x EPS of Rs173.2 /201.6 for FY12/13E

### Better than expected results

LMW reported strong set of numbers. Revenue for the quarter stood at Rs5111mn (our est. of Rs4105mn) up 47.9% yoy. Revenue from Textile & machine tool segment grew by 44.6% and 69% yoy, resp. Led by strong revenue growth it reported robust EBITDA of Rs709mn v/s our estimate of Rs548mn. EBITDA margin at 13.9% declined 227bps yoy but improved 103 qoq. Margin decline was primarily due to high raw material expenses which grew 55.0% yoy. PAT at Rs411mn was significantly ahead of our expectation of Rs292mn, led by strong revenue realization & lower depreciation charge.

### Order inflow remains strong with order book of Rs48bn

Order inflow for LMW remained strong, inflow during the quarter was at Rs5.5bn. Order book at the end of quarter stood at Rs48bn v/s Rs47bn in the last quarter. Healthy order book of LMW provides adequate revenue visibility for the next 18-24months.

### Significant margin expansion from current level, unlikely

Despite of revenue growth of 47.9%, the company reported margin decline of 227bps. The decline was result of continuously increase in raw material prices. Raw material prices increased 55.0% yoy due to continuous increase in its key raw material i.e pig iron. Management has indicated that significant improvement in margins from current levels is unlikely. Impact of price hike taken in April, 2011 would just mitigate the negative impact of cost increases rather than earning accretion, going forward.

### Outlook

Till date management has not seen any kind of delays in delivery, despite of signs of economic slowdown. However, we believe with the recent events in the global economy (especially in US & UK) could lead to slowdown in the textile exports resulting in delays in order pick up from LMW. LMW has received an order inflow of Rs5.5bn and order book of Rs48bn gives revenue visibility for next 18-24 months. Price hike in recent past would restrict the downside in the margin for LMW. We have revised our revenue estimates upward by 3.7% for FY12E and EBITDA margin downward by 51bps while maintain earning est.

### Maintain ACCUMALATE with target price of Rs2,535

We maintain our rating on the stock at ACCUMULATE with price target of Rs 2,535, based on 9x FY13E core EPS of Rs 150.8 and net cash of Rs1178 per share. Strong order book gives revenue visibility for next 18-24 months and recent price hike wane margin erosion. At CMP of 2056, LMW trades at 11.9x and 10.2x FY12/13E EPS of Rs173.2/ 201.6.

Y/E	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (%)	P/E	EV/ EBITDA	P/BV
FY10	11538	1832	15.9	999	88.7	-6.6	11.3	23.2	9.9	2.5
FY11	18316	2608	14.2	1533	136.0	53.4	17.7	15.1	6.0	2.9
FY12E	22049	3349	15.2	1952	173.2	27.4	22.0	11.9	3.8	2.4
FY13E	23491	3854	16.4	2271	201.6	16.3	21.4	10.2	2.6	2.0

## Quarterly results

Results	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	3,456	4,430	4,909	5,390	5,111	47.9	(5.2)	5,111	3,456	47.9
Raw material cost	1984.2	2496.5	2857.0	3382.4	3076.8	55.1	(9.0)	3,077	1,984	55.1
as % of sales	57.4	56.4	58.2	62.8	60.2			60.2	57.4	
Employee Expenses	367.9	381.4	395.2	538.9	441.4	20.0	(18.1)	441	368	20.0
as % of sales	10.6	8.6	8.1	10.0	8.6			8.6	10.6	
Administrative expenses	546.1	774.8	900.5	776.3	884.4	62.0	13.9	884	546	62.0
as % of sales	15.8	17.5	18.3	14.4	17.3			17.3	15.8	
Total operating expenditure	2898	3653	4153	4698	4403	51.9	(6.3)	4403	2898	51.9
<b>EBITDA</b>	<b>557.6</b>	<b>777.0</b>	<b>756</b>	<b>692</b>	<b>709</b>	<b>27.1</b>	<b>2.4</b>	<b>709</b>	<b>558</b>	<b>27.1</b>
Depreciation	242.7	251.4	263.3	283.8	248.1	2.2	(12.6)	248.1	242.7	2.2
<b>EBIT</b>	<b>314.9</b>	<b>525.7</b>	<b>492.8</b>	<b>408.3</b>	<b>460.7</b>	<b>46.3</b>	<b>12.9</b>	<b>461</b>	<b>315</b>	<b>46.3</b>
Other Income	137.2	151.7	175.4	185.6	145.7	6.2	(21.5)	145.7	137.2	6.2
Interest	0.0	0.0	0.0	0.0	0.0					-
PBT	452.1	677.4	668.3	593.9	606.4	34.1	2.1	606.4	452.1	34.1
Tax	151.2	218.8	210.0	151.8	195.0	29.0	28.5	195.0	151.2	29.0
<b>PAT</b>	<b>300.9</b>	<b>458.6</b>	<b>458.3</b>	<b>442.0</b>	<b>411.4</b>	<b>36.7</b>	<b>(6.9)</b>	<b>411.4</b>	<b>300.9</b>	<b>36.7</b>

Margins %						(bps)	(bps)				(bps)
EBIDTA	16.1	17.5	15.4	12.8	13.9	(227)	103	13.9	16.1	(227)	
EBIT	9.1	11.9	10.0	7.6	9.0	(10)	144	9.0	9.1	(10)	
EBT	13.1	15.3	13.6	11.0	11.9	(122)	85	11.9	13.1	(122)	
PAT	8.7	10.4	9.3	8.2	8.0	(66)	-15	8.0	8.7	(66)	
Effective Tax rate	33.4	32.3	31.4	25.6	32.2	(129)	659	32.2	33.4	(129)	

Segment Revenues	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Textile Machinery	3,030	3,847	4,247	4,537	4,381	44.6%	-3.4%	4,381	3,030	44.6
Machine tools	447	596	695	870	755	69.0%	-13.3%	755	447	69.0
Intersegment	20	14	33	17	25			25	20	
Net sales	3,456	4,430	4,909	5,390	5,111	47.9%	-5.2%	5,111	3,456	47.9

Segment EBIT	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Textile Machinery	312	518	453	360	423	35.7%	17.7%	423	312	35.7
Machine tools	28	31	63	85	55	95.2%	-35.3%	55	28	95.2
EBIT	340	549	516	444	478	40.6%	7.6%	478	340	40.6

Segment EBIT %						bps	bps				bps
Textile Machinery	10.3	13.5	10.7	7.9	9.7	(64)	174	9.7	10.3	(64)	
Machine tools	6.3	5.2	9.1	9.7	7.3	98	(247)	7.3	6.3	98	
EBIT %	9.8	12.4	10.5	8.2	9.4	(49)	111	9.4	9.8	(49)	

Source: Company, Emkay Research

## Earning estimates

	FY12E			FY13E		
	Old	New	Var %	Old	New	Var %
Net Sales	21,268	22049	3.7	23,490	23490	0.0
EBIDTA	3,339	3349	0.3	3,852	3853	0.0
EBIDTA %	15.7	15.2	-51 bps	16.4	16.4	0 bps
PAT	1943	1951	0.4	2270	2270	0.0
EPS (Rs)	172.5	173.2	0.4	201.6	201.6	0.0

Source: Company, Emkay Research

## Financials

## Profit &amp; Loss

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>11,538</b>	<b>18,316</b>	<b>22,049</b>	<b>23,491</b>
<i>Growth (%)</i>	-16.0	58.7	20.4	6.5
Raw Material exp	6,567	10,841	13,274	13,859
Employee cost	1,180	1,761	1,915	2,157
Marketing expenses	1,959	3,106	3,511	3,621
<b>Total expenditure</b>	<b>9,706</b>	<b>15,708</b>	<b>18,700</b>	<b>19,637</b>
<b>EBITDA</b>	<b>1,832</b>	<b>2,608</b>	<b>3,349</b>	<b>3,854</b>
<i>Growth (%)</i>	-15.6	42.4	28.4	15.1
Depreciation	962	1,050	1,169	1,252
EBIT	870	1,558	2,181	2,601
<b>EBIT margin (%)</b>	<b>7.5</b>	<b>8.5</b>	<b>9.9</b>	<b>11.1</b>
Other Income	588	706	725	788
Interest expenses	0	0	0	0
<b>PBT</b>	<b>1,458</b>	<b>2,264</b>	<b>2,906</b>	<b>3,389</b>
Tax	459	732	954	1,118
<i>Effective tax rate (%)</i>	31.5	32.3	32.8	33.0
<b>PAT</b>	<b>999</b>	<b>1,533</b>	<b>1,952</b>	<b>2,271</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	124	113	113	113
Reserves & surplus	9,081	7,975	9,538	11,414
<b>Net worth</b>	<b>9,205</b>	<b>8,088</b>	<b>9,651</b>	<b>11,526</b>
Net deferred tax liability	331	276	276	276
<b>Total Liabilities</b>	<b>9,536</b>	<b>8,364</b>	<b>9,927</b>	<b>11,802</b>
Gross Block	13,699	14,392	15,292	16,192
Less: Depreciation	9,217	10,084	11,253	12,505
<b>Net block</b>	<b>4,482</b>	<b>4,308</b>	<b>4,040</b>	<b>3,687</b>
CWIP	35	105	105	105
<b>Investment</b>	<b>1,038</b>	<b>768</b>	<b>768</b>	<b>768</b>
<b>Current Assets</b>	<b>10,376</b>	<b>13,303</b>	<b>17,162</b>	<b>20,307</b>
Inventories	1,186	2,907	3,192	3,306
Sundry debtors	582	841	1,004	1,125
Cash & bank balance	7,330	7,568	10,478	13,186
Loans & advances	1,040	1,634	1,986	2,098
Other current assets	237	354	503	592
<b>Current liab &amp; Prov</b>	<b>6,395</b>	<b>10,121</b>	<b>12,148</b>	<b>13,066</b>
Current liabilities	6,156	9,674	11,613	12,372
Provisions	239	446	536	695
<b>Net current assets</b>	<b>3,981</b>	<b>3,182</b>	<b>5,014</b>	<b>7,241</b>
<b>Total Assets</b>	<b>9,536</b>	<b>8,364</b>	<b>9,927</b>	<b>11,802</b>

## Cash Flow Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>PBT</b>	870	1,558	2,181	2,601
Depreciation	962	1,050	1,169	1,252
Interest	0	0	0	0
Other Non-Cash items	-151	-2,300	6	0
Chg in working cap	-346	1,036	1,079	481
Tax paid	-459	-732	-954	-1,118
<b>Operating Cashflow</b>	<b>876</b>	<b>612</b>	<b>3,481</b>	<b>3,216</b>
Capital expenditure	-189	-947	-900	-900
<b>Free Cash Flow</b>	<b>687</b>	<b>-335</b>	<b>2,581</b>	<b>2,316</b>
Other income	588	706	725	788
Investments	0	270	0	0
<b>Investing Cashflow</b>	<b>399</b>	<b>29</b>	<b>-175</b>	<b>-112</b>
Equity Capital Raised	0	-11	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-216	-393	-395	-395
<b>Financing Cashflow</b>	<b>-216</b>	<b>-404</b>	<b>-395</b>	<b>-395</b>
<b>Net chg in cash</b>	<b>1,058</b>	<b>237</b>	<b>2,910</b>	<b>2,709</b>
Opening cash position	6,272	7,330	7,568	10,478
Closing cash position	7,330	7,568	10,478	13,186

## Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	15.9	14.2	15.2	16.4
Net Margin	5.2	5.8	6.6	7.4
ROCE	15.8	25.3	31.8	31.2
ROE	11.3	17.7	22.0	21.4
RoIC				
<b>Per Share Data (Rs)</b>	88.7	136.0	173.2	201.6
EPS (adjusted)	174.1	229.2	277.0	312.7
CEPS	817.0	717.9	856.6	1023.1
BVPS	16.5	30.0	30.0	30.0
<b>Valuations (x)</b>				
PER	23.2	15.1	11.9	10.2
P/CEPS	11.8	9.0	7.4	6.6
P/BV	2.5	2.9	2.4	2.0
EV / Sales	1.6	0.9	0.6	0.4
EV / EBITDA	9.9	6.0	3.8	2.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.8	-0.9	-1.1	-1.1
Net Debt/EBITDA	0.0	0.0	0.0	0.0

**Recommendation History: Lakshmi Machine Works – LMW IN**

Date	Reports	Reco	CMP	Target
23/05/2011	<a href="#">LMW Q4FY11 Result Update</a>	Accumulate	2,126	2,535
01/02/2011	<a href="#">LMW Q3FY11 Result Update</a>	Accumulate	2,138	2,660
26/10/2010	<a href="#">LMW Q2FY11 Result Update</a>	Hold	2,766	2,660
29/07/2010	<a href="#">LMW Q1FY11 Result Update</a>	Hold	2,099	2,170

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
03/08/2011	<a href="#">Bharti Airtel Q1FY12 Result Update</a>	Accumulate	427	464
01/08/2011	<a href="#">Sterlite Technologies Q1FY12 Result Update</a>	Hold	50	51
29/07/2011	<a href="#">Idea Cellular Q1FY12 Result Update</a>	Accumulate	94	105
29/07/2011	<a href="#">Tulip Telecom Q1FY12 Result Update</a>	Buy	157	218

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