

February 1, 2011

Reco Accumulate	Previous Reco Hold
CMP Rs2,138	Target Price Rs2,660

EPS change FY11E/12E (%)	12.7 / 8.6
Target Price change (%)	NA
Nifty	18,022
Sensex	5,417

Price Performance

(%)	1M	3M	6M	12M
Absolute	(12)	(19)	8	13
Rel. to Sensex	(2)	(12)	6	0

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Capital Goods
Bloomberg	LMW@IN
Equity Capital (Rs mn)	124
Face Value(Rs)	10
No of shares o/s (mn)	12
52 Week H/L	2,920/1,715
Market Cap (Rs bn/USD mn)	27/587
Daily Avg Volume (No of sh)	9449
Daily Avg Turnover (US\$mn)	0.5

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	25.8	25.8	25.8
FII/NRI	14.4	14.4	14.4
Institutions	20.7	20.7	19.9
Private Corp	15.2	15.6	16.0
Public	23.9	23.4	23.9

Source: Capitaline

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- **Q3FY11 PAT of Rs458mn in line with our estimates led by better than expected rev. growth and higher other income**
- **EBITDA margin down 346bps yoy to 15.4% due to significant increase in raw material price**
- **Strong demand for yarn continues to attract capex resulting in LMW's order book rising to Rs41bn from Rs36bn in Q2FY11**
- **Post recent price correction -upgrade rating to ACCUMULATE from HOLD. Valuations at 15.4x /13.7x EPS of Rs139.2 /156.2 for FY11/12E**

Q2FY11 results – Revenues up with dented margins

Revenues at Rs4909mn grew by 46% yoy, ahead of our estimates (Rs4524mn). Revenue growth was led by strong order inflow and higher capacity utilization (83% with selective third shift operations). EBITDA grew by 19.3% YoY to Rs756mn (slightly below our estimate of Rs789mn), however EBITDA margins fell by 346 bps yoy to 15.4% due to rise in raw material cost. PAT at Rs458mn is below our expectation of Rs473mn despite higher other income. The margin pressure was mainly due to raw material cost pressure and absence of price hikes considering increased competition.

Demand strong, order book rises to Rs41bn

Strong demand for yarn in the domestic market has resulted in capacities expansion across the textile spinning industry. LMW's order book continued to rise with order book increasing to Rs41bn at the end Q3FY11 from Rs36bn at end Q2FY11. Strong demand for yarn and stronger order booking for LMW provides adequate revenue visibility for the next 18-24months.

Competition and no price hike to keep EBITDA margin under pressure

EBITDA margin declined 346bps due to 63% yoy and 42% yoy rise in raw material and other expenditure, respectively. The rise in raw material prices (steel and pig iron) is likely to continue to put pressure on margins over the next couple of quarters as the management is unsure of price hike considering rise in competition from foreign players.

Upgrade EPS by 12.7%/8.6% to Rs139.2/156.2 for FY11/12E

Considering the strong order inflows and higher capacity utilization at 83% and operating with selective 3rd shift, we have revised our revenue estimates upward by 11% /10% for FY11E/ 12E. We increase our EPS estimates by 13% / 9% to Rs139.2 /156.2 for FY11E/ 12E. We have factored for 100-170bps EBITDA margin contraction due to in-put cost pressures in absence of any price hikes.

Upgrade to ACCUMALATE with target price of Rs2,660

Post upgrade in EPS by 12.7%/8.6% for FY11E/12E and considering the stock price correction, we upgrade our rating on the stock from HOLD to ACCUMULATE with price target of Rs 2,660, based on 16x FY12E core EPS of Rs114.4 and net cash of Rs836 per share. While the demand outlook has become very strong and so have order inflows, we highlight that margin pressures are likely to stay for some time. At CMP of 2138, LMW trades at 13.7x FY12E EPS of Rs156.2 and 18.7x core EPS of Rs114 (net of cash balance of Rs836/share).

Y/E-	Net	EBITDA	PAT	EPS	EPS	ROE	P/E	EV/		
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	%chg	(%)	EBITDA	P/BV	
FY09	13,739	2,212	16.1	1,030	83.2	-56.7	12.6	33.2	12.3	4.1
FY10	11,305	1,599	14.1	999	80.7	-3.0	11.3	34.3	16.8	3.7
FY11E	18,069	2,856	15.8	1,721	139.2	72.4	17.5	19.9	9.1	3.3
FY12E	20,115	3,293	16.4	1,933	156.2	12.3	17.4	17.7	7.4	2.9

EPS upgrade by 12.7%/8.6% to Rs139.2/156.2 for FY11/12E

	FY10A	FY11E			FY12E		
		Old	New	Var %	Old	New	Var %
Net sales	11,305	16,282	18,069	11.0%	18,294	20,115	10.0%
EBIDTA	1,599	2,852	2,856	0.1%	3,191	3,293	3.2%
EBIDTA %	14.1%	17.50%	15.80%	-170bps	17.40%	16.37%	-103 bps
PAT	1,008	1,527	1,721	12.7%	1,781	1,934	8.6%
EPS	81	123.5	139.2	12.7%	143.9	156.2	8.6%
Core EPS	47.7	93.6	99.8	6.7%	110.0	114.4	4.0%

Source: Emkay Research

Quarterly results

Results	3Q10	4Q10	1Q11	2Q11	3Q11	YoY %	QoQ %	YTD '10	YTD '11	YoY %
Net Sales	3,362	3,625	3,456	4,430	4,909	46.0%	10.8%	8,069	12,794	58.6%
Raw Material	1,749	2,218	1,984	2,497	2,857	63.3%	14.4%	4,402	7,338	66.7%
% of sales	52.0	61.2	57.4	56.4	58.2			166	172	
Staff Cost	343	277	368	381	395	15.1%	3.6%	891	1,145	28.5%
% of sales	10.2	7.6	10.6	8.6	8.1			34	27	
Other Exp	635	567	546	775	901	41.7%	16.2%	1,371	2,221	62.0%
% of sales	18.9	15.6	15.8	17.5	18.3			51	52	
EBITDA	634	563	558	777	756	19.3%	-2.7%	1,405	2,091	48.8%
Depreciation	280	276	243	251	263	-5.9%	4.7%	682	757	11.0%
EBIT	354	287	315	526	493	39.1%	-6.2%	723	1,333	84.5%
Interest	-	-	-	-	-			-	-	
PBT	354	287	315	526	493	39.1%	-6.2%	723	1,333	84.5%
Other income	101	109	137	152	175	74.0%	15.6%	387	464	19.9%
PBT	455	396	452	677	668	46.9%	-1.3%	1,110	1,798	62.0%
Taxes	150	89	151	219	210	40.0%	-4.0%	371	580	56.3%
PAT	305	307	301	459	458	50.2%	-0.1%	739	1,218	64.8%
EPS	24.7	24.8	24.3	37.1	37.0	50.2%	-0.1%	59.7	98.4	64.8%

Margins %						bps	bps			
EBIDTA	18.9	15.5	16.1	17.5	15.4	(346)	(214)	17.4	16.3	(107)
EBIT	10.5	7.9	9.1	11.9	10.0	(50)	(183)	9.0	10.4	146
PBT	13.5	10.9	13.1	15.3	13.6	8	(168)	13.8	14.1	29
PAT	9.1	8.5	8.7	10.4	9.3	26	(102)	9.2	9.5	36
ETR	33.0	22.4	33.4	32.3	31.4	(154)	(88)	33.4	32.3	(116)

Segment Revenues	3Q10	4Q10	1Q11	2Q11	3Q11	YoY %	QoQ %	YTD '10	YTD '11	YoY %
Textile Machinery	2,910	3,097	3,030	3,847	4,247	46.0%	10.4%	3,992	6,877	72.3%
Machine tools	465	544	447	596	695	49.4%	16.6%	734	1,043	42.1%
Inter-segment	(13)	(16)	(20)	(14)	(33)			(18)	(34)	
Net sales	3,362	3,625	3,456	4,430	4,909	46.0%	10.8%	4,707	7,886	67.5%

Segment EBIT	3Q10	4Q10	1Q11	2Q11	3Q11	YoY %	QoQ %	YTD '10	YTD '11	YoY %
Textile Machinery	324	260	312	518	453	39.8%	-12.6%	384	830	116.5%
Machine tools	56	72	28	31	63	11.8%	103.4%	29	59	106.1%
EBIT	381	332	340	549	516	35.6%	-6.1%	412	889	115.7%

Segment EBIT %						bps	bps			
Textile Machinery	11.14	8.39	10.30	13.48	10.67	(47)	(281)	9.61	12.08	246
Machine tools	12.14	13.33	6.28	5.21	9.08	(306)	388	3.91	5.67	176
EBIT %	11.32	9.17	9.84	12.40	10.51	(80)	(189)	8.76	11.28	252

Source: Company, Emkay Research

Financials**Profit & Loss**

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Sales	13,739	11,305	18,069	20,115
<i>Growth (%)</i>	-38.8%	-17.7%	59.8%	11.3%
Expenditure	11,527	9,706	15,213	16,822
Raw Material	7,816	6,567	10,480	11,667
Staff cost	1,198	1,180	1,888	1,983
Other expenses	2,514	1,959	2,845	3,173
EBIDTA (core)	2,212	1,599	2,856	3,293
<i>Growth (%)</i>	-50.4	-27.7	78.5	15.3
EBITDA margin (%)	16.1	14.1	15.8	16.4
Deprn & Amort.	1,176	962	1,027	1,071
EBIT	1,035	637	1,829	2,222
EBIT %	7.5	5.6	10.1	11.0
Other Income	544	820	666	685
Interest	40	-	-	-
PBT	1,539	1,458	2,495	2,908
Tax	517	450	773	974
APAT	1,022	1,008	1,721	1,934
Growth %	-56.9	-1.4	70.8	12.3
Net Margin	7.4	8.9	9.5	9.6
EO Items	59	0	0	0
<i>Reported PAT</i>	<i>1081</i>	<i>1008</i>	<i>1721</i>	<i>1934</i>
Growth %	(55.7)	(6.8)	70.8	12.3

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity Capital	124	124	124	124
Reserves	8,304	9,086	10,289	11,642
Net worth	8,427	9,210	10,413	11,766
Total Debt	-	-	-	-
Deferred Tax Liabilities	471	331	381	512
Total CE	8,898	9,541	10,794	12,277
Gross Block	13,015	13,277	13,577	13,877
Less Depreciation	7,829	8,788	9,815	10,886
Net Fixed Assets	5,186	4,489	3,762	2,991
CWIP	88	35	35	35
Investments	1,127	1,038	1,038	1,038
Inventory	825	1,186	1,160	1,279
Debtors	518	582	594	661
Cash and Bank	6,197	7,323	8,352	9,910
Loans & Advances	2,640	1,278	2,317	2,552
Total Curr. Assets	10,179	10,369	12,423	14,403
Current Liabilities	5,782	6,151	6,109	5,773
Provisions	1,900	239	355	416
Total Cur. Liab. & Prov.	7,682	6,390	6,463	6,189
Net Current Assets	2,497	3,979	5,959	8,214
Misc. Expenditure	-	-	-	-
Total Assets	8,897	9,541	10,794	12,277

Cash Flow Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
PBT	1,542	1,458	2,495	2,908
Depreciation	1,176	962	1,027	1,071
Other Income	(536)	(820)	(666)	(685)
Interest	-	-	-	-
Others	(2)	-	-	-
Change in WCap	(180)	1,266	(1,036)	(758)
Tax Paid	(622)	(599)	(724)	(844)
CFO	1,379	2,266	1,096	1,691
(Inc)/Dec in FA	(869)	(209)	(300)	(300)
FCF	509	2,057	796	1,391
(Inc)/Dec in Inv	1	-	-	-
Others	365	301	666	685
CFI	(504)	92	366	385
Equity Issue	-	-	-	-
Net Borrowings	-	155	-	-
Dividend Paid	(361)	(217)	(433)	(518)
Interest & others	-	(1,108)	-	-
CFF	(361)	(1,170)	(433)	(518)
Incr/(decr) in cash	514	1,126	1,029	1,558
Cash beginning	5,683	6,197	7,323	8,352
Cash ending	6,197	7,323	8,352	9,910

Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability%				
EBITDA %	16.1	14.1	15.8	16.4
Net Margin	7.4	8.9	9.5	9.6
ROCE	12.2	6.9	18.0	19.3
ROE	12.8	11.4	17.5	17.4
RoIC	73.6	48.4	145.5	166.9
Per Share Data (Rs)				
EPS	83	81	139	156
CEPS	181	147	226	253
BVPS	681	745	842	951
DPS	15	15	36	40
Valuations (x)				
PER	33.2	34.3	19.9	17.7
P/CEPS	15.3	18.8	12.2	10.9
P/BV	4.1	3.7	3.3	2.9
EV / Sales	2.0	2.4	1.4	1.2
EV / EBITDA	12.3	16.8	9.1	7.4
Dividend Yield (%)	0.5	0.5	1.3	1.4
Gearing Ratio (x)				
Net Debt/ Equity	-0.87	-0.91	-0.90	-0.93
Net Debt/ EBITDA	-3.31	-5.23	-3.29	-3.32

Recommendation History: Lakshmi Machine Works – LMW IN

Date	Reports	Reco	CMP	Target
26/10/2010	LMW Q2FY11 Result Update	Hold	2,766	2,660
29/07/2010	LMW Q1FY11 Result Update	Hold	2,099	2,170
03/06/2010	LMW Q4FY10 Result Update	Hold	1,803	1,912
27/01/2010	LMW Q3FY10 Result Update	Hold	2,011	1,710

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/01/2011	Sterlite Technologies Q3FY11 Result Update	Buy	55	68
25/01/2011	DB Corp Q3FY11 Result Update	Hold	260	284
25/01/2011	Idea Cellular Q3FY11 Result Update	Sell	71	60
19/01/2011	HT Media Q3FY11 Result Update	Buy	145	175

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