



<b>Report Date</b>	January 30, 2008.
<b>Company Name</b>	<b>Lakshmi Electrical Control Systems Ltd (LECSL)</b>
<b>Recommendation</b>	<b>BUY</b>

**CMP – Rs. 391.25**      **Target Price – Rs. 500**      **Mkt. Cap. Rs. 96 crore**

### Investment Rationale

- LEC, part of South based LMW group, has posted robust performance for Q3 FY 2008 (Standalone) net Sales grew @ 107.5% to Rs. 36.03 crore (Rs. 17.37 crore) led by 127.8% increase in sales of electrical division (89% of sales) to Rs. 32.34 crore. OPM% plunged to 16.4% (19.1%) due to sharp rise in material cost to 75.5% (63.6%) of sales resulting in PBT shooting up by 73.4% to Rs. 5.02 crore (Rs. 2.90 crore). Higher average tax rate of 34.1% (27.6%) dented growth in PAT to Rs. 3.31 crore (Rs. 2.10 crore) - increase of 57.7%.
- For 9 months ended December 31, 2007 (Standalone), net sales grew @ 58.3% to Rs 78.78 crore (Rs 49.77 crore), mainly led by increase in sales of electrical products by 66% to Rs 66.39 crore (Rs 39.96 crore). OPM% increased marginally to 20.9% (20%) due to cost control which was off-set by increase in material cost to 68.2% of net sales (63.2%) resulting in jump in PBT by 52.2% to Rs 13.37 crore (Rs 8.78 crore) and increase in PAT by 43.5% to Rs 8.52 crore (Rs 5.94 crore).
- On Consolidated basis, Q3 net sales stood at Rs 48.27 crore and PAT at Rs 1.94 crore while for 9 months ended December 31, 2007, net sales stood at Rs 110.62 crore with PAT at Rs 7.27 crore.
- LEC operates in areas of Electrical equipment, textiles and plastic components. Company's product profile comprises of LV Switchgear, Motor Protection & Control devices, Automatic Power Management Systems and Automation devices which have wide applications in industrial engineering markets catering to different types of industries thereby de-risking its business by not overly dependent on one industry. Electric division, which manufactures switchgears & control panels, has developed additional products like Automatic Power Factor Control Panel (APFC) and Limit Switches with many variants for wide range of applications, as also Solenoid Valves in defined executions.
- Apart from LMW, it caters to many industrial engineering companies. Industrial engineering industry is witnessing hectic activity and is expected to see continued buoyancy. On sustained industrial capex and surging demand for textile machinery, LEC's business prospects remain buoyant.
- Company's 100% spinning subsidiary – Harshini Textiles also holds good potential with increase in capacity. Expiration of MFA [Multi Fiber agreement] and removal of quotas, has put up a lot of opportunities and company is all geared to take advantage of this opportunity thru doubling of installed capacity to 50,400 spindles (25,200 spindles).

### Valuation

- At CMP of Rs. 391.25, the share (Rs. 10/- paid up) is trading at 8.5 times FY 2008 expected consolidated EPS of Rs. 46 and 6.5 times FY 2009 expected consolidated EPS of Rs. 59.8. In view of excellent growth prospects, we recommend to "BUY" the share at CMP.

### **Financial Summary** **Rs. Crore**

	<b>FY 2008</b>	<b>FY 2007</b>	<b>%</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>%</b>	<b>FY 2007 A</b>
	<b>Q3</b>		<b>Change</b>	<b>9 months</b>		<b>Change</b>	<b>12 mths</b>
Net Sales	36.03	17.37	<b>107.5%</b>	78.78	49.77	<b>58.3%</b>	68.24
Total Expenses	30.11	14.05	<b>114.3%</b>	62.33	39.82	<b>56.5%</b>	54.48
EBITDA	5.92	3.32	<b>78.3%</b>	16.45	9.95	<b>65.4%</b>	13.76
<b>EBITDA (%)</b>	<b>16.4%</b>	<b>19.1%</b>		<b>20.9%</b>	<b>20.0%</b>		<b>20.2%</b>
Interest Expenses / (Income)	0.40	0.40	<b>0.3%</b>	1.28	0.97	<b>32.2%</b>	1.47
Depreciation	1.21	0.54	<b>122.9%</b>	3.55	1.54	<b>130.3%</b>	2.54
Other Income	0.71	0.52	<b>36.9%</b>	1.75	1.35	<b>30.0%</b>	1.96
P.B.T.	5.02	2.90	<b>73.4%</b>	13.37	8.78	<b>52.2%</b>	11.71
Net Profit	3.31	2.10	<b>57.7%</b>	8.52	5.94	<b>43.5%</b>	7.88
Equity Capital (Rs 10/-)	2.46	2.46		2.46	2.46		2.46
EPS for the period (Rs)	13.46	8.53	<b>57.7%</b>	34.67	24.16	<b>43.5%</b>	32.07

## **Disclosures**

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January 31, 2008