

October 26, 2010

Reco Hold
CMP Rs2766

Changed From Hold
Target Price Rs2660

EPS change FY11E/12E (%) 6/12
Target Price change (%) 23%
Nifty 6,106
Sensex 20,303

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	39	33	112
Rel. to Sensex	13	24	16	74

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 2,901/1,215
Market Cap (Rs bn/USD mn) 34/766
Daily Avg Volume (No of sh) 26750
Daily Avg Turnover (US\$m) 1.4

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	25.8	25.8	25.8
FII/NRI	14.4	14.4	14.4
Institutions	20.7	19.9	19.9
Private Corp	15.6	16.0	15.8
Public	23.4	23.9	24.2

Source: Capitaline

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- **Q2FY11 PAT of Rs459mn ahead of estimates led by better than expected revenue growth and higher other income**
- **Strong demand for yarn continues to attract capex resulting in LMW's order book rising to Rs36bn**
- **Upgrade EPS estimates by 6% /12% to Rs122 /Rs142 for FY11E /12E respectively**
- **Valuations at 22.4x /19.2x EPS of Rs123.5 /143.9 for FY11/12E fully factor growth. Retain HOLD rating with target Rs2660**

Q2FY11 results beat estimates on better revenue show

LMW reported Q2FY11 profits of Rs459mn, ahead of our estimate of Rs351mn led by better than expected revenue show. Net sales grew by 59.2% YoY to Rs4.43bn (v/s our estimate of Rs3.9bn) led by strong order in-flows and improved capacity utilization. EBITDA grew by 38.6% YoY to Rs777mn, (v/s our estimate of Rs662mn), while EBITDA margins fell by 260 bps yoy to 16.1% due to in-put cost increases. We highlight that despite in-put cost pressures and continued strong order in-flows, LMW has not taken any price increases which has impacted the margins.

Demand strong, order book rises to Rs36bn

Strong global demand for yarn continues to result in increasing capacities across the textile spinning industry. LMW's order book continued to rise with order book increasing to Rs36bn at the end Q2FY11 from Rs32bn at end Q1FY11. This rise in order book is despite the higher delivery time being quoted by the company at ~12 months. Strong demand for yarn and stronger order booking for LMW provides adequate revenue visibility for the next 12-18months.

Upgrade EPS by 6%/12% to Rs123.5/143.9 for FY11/12E

Considering strong order in-flows and improved capacity utilizations, we increase our revenue estimates by 8.9% /11.8% for FY11E/ 12E. We highlight that LMW is operating on 2 shifts v/s capacity of 3 shifts due to labor shortage, and does not intend to operate the 3rd shift, which caps its quarterly revenue run-rate to Rs4.5-5bn. We increase our EPS estimates by 6% /12% to Rs123.5 /143.9 for FY11E/ 12E. We have factored for 120-140bps EBITDA margin contraction due to in-put cost pressures and no price hikes.

FY11 cash of Rs687 per share

LMW at the end of FY10 had cash reserves of Rs7.3bn (Rs592/ share) which we estimate would increase to Rs8.5bn (Rs687/ share). Apart from the cash, LMW also has equity investments with market value of Rs921mn (Rs75/ share). While LMW has announced a buy-back of equity shares upto Rs2,045/ share from its cash reserves, the stock price has run-up much higher to CMP Rs2,766.

Retain HOLD rating with revised target price of Rs2,660

Post upgrade in EPS by 6%/12% for FY11E/12E we also increase our target price on the stock to Rs2,660, based on 18x FY12E core EPS of Rs110 and FY11E cash of Rs687 per share. While the demand outlook has become very strong and so have order in-flows, we highlight that capacity constraints remain, which would limit revenue growth for the company. At CMP of 2766, LMW trades at 19.2x FY12E EPS of Rs143.9 and 17.5x core EPS of Rs110 (net of cash balance of Rs687/share). Retain HOLD rating.

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
FY10	11,369	1,651	14.5	1,055	85.3	2.5	11.8	32.4	16.3
FY11E	16,282	2,852	17.5	1,527	123.5	44.7	15.6	22.4	9.0
FY12E	18,294	3,191	17.4	1,780	143.9	16.6	16.3	19.2	7.6

EPS upgrade of 6% /12% for for FY11E/12E to Rs123.5 /143.9

	FY10A	FY11E			FY12E		
		Old	New	Var %	Old	New	Var %
Net sales	11,369	14,950	16,282	8.9%	16,366	18,294	11.8%
EBIDTA	1,651	2,799	2,852	1.9%	3,060	3,191	4.3%
EBIDTA %	14.5%	18.7%	17.5%	-120 bps	18.7%	17.4%	-130 bps
PAT	1,075	1,441	1,527	6.0%	1,591	1,781	12.0%
EPS	85	116.5	123.5	6.0%	129.0	143.9	12.0%

Source: Emkay Research

Quarterly results

Results	2Q10	3Q10	4Q10	1Q11	2Q11	YoY %	QoQ %	YTD '10	YTD '11	YoY %
Net Sales	2,782	3,362	3,625	3,456	4,430	59.2%	28.2%	4,707	7,886	67.5%
Raw Material	1,514	1,749	2,218	1,984	2,497	64.9%	25.8%	2,653	4,481	68.9%
% of sales	54.4	52.0	61.2	57.4	56.4			114	114	
Staff Cost	298	343	277	368	381	27.9%	3.7%	547	749	36.9%
% of sales	10.7	10.2	7.6	10.6	8.6			24	19	
Other Exp	410	635	567	546	775	88.8%	41.9%	736	1,321	79.5%
% of sales	14.7	18.9	15.6	15.8	17.5			32	33	
EBITDA	560	634	563	558	777	38.6%	39.4%	771	1,335	73.2%
Depreciation	218	280	276	243	251	15.1%	3.6%	402	494	22.8%
EBIT	342	354	287	315	526	53.7%	66.9%	369	841	128.1%
Interest	-	-	-	-	-			-	-	
PBT	342	354	287	315	526	53.7%	66.9%	369	841	128.1%
Other income	145	101	109	137	152	4.9%	10.6%	286	289	0.9%
PBT	487	455	396	452	677	39.2%	49.8%	655	1,129	72.4%
Taxes	164	150	89	151	219	33.4%	44.7%	221	370	67.4%
PAT	323	305	307	301	459	42.1%	52.4%	434	759	75.0%
EPS	26.1	24.7	24.8	24.3	37.1	42.1%	52.4%	35.1	61.4	75.0%

Margins %						bps	bps			
EBIDTA	20.1	18.9	15.5	16.1	17.5	(260)	141	16.4	16.9	55
EBIT	12.3	10.5	7.9	9.1	11.9	(43)	275	7.8	10.7	283
PBT	17.5	13.5	10.9	13.1	15.3	(220)	221	13.9	14.3	41
PAT	11.6	9.1	8.5	8.7	10.4	(125)	164	9.2	9.6	41
ETR	33.7	33.0	22.4	33.4	32.3	(139)	(114)	33.7	32.8	(98)

Segment Revenues	2Q10	3Q10	4Q10	1Q11	2Q11	YoY %	QoQ %	YTD '10	YTD '11	YoY %
Textile Machinery	2,383	2,910	3,097	3,030	3,847	61.4%	27.0%	3,992	6,877	72.3%
Machine tools	410	465	544	447	596	45.4%	33.5%	734	1,043	42.1%
Intersegment	(11)	(13)	(16)	(20)	(14)			(18)	(34)	
Net sales	2,782	3,362	3,625	3,456	4,430	59.2%	28.2%	4,707	7,886	67.5%

Segment EBIT	2Q10	3Q10	4Q10	1Q11	2Q11	YoY %	QoQ %	YTD '10	YTD '11	YoY %
Textile Machinery	364	324	260	312	518	42.4%	66.2%	384	830	116.5%
Machine tools	9	56	72	28	31	235.9%	10.7%	29	59	106.1%
EBIT	373	381	332	340	549	47.2%	61.6%	412	889	115.7%

Segment EBIT %						bps	bps			
Textile Machinery	15.27	11.14	8.39	10.30	13.48	(180)	318	9.61	12.08	246
Machine tools	2.25	12.14	13.33	6.28	5.21	295	(107)	3.91	5.67	176
EBIT %	13.41	11.32	9.17	9.84	12.40	(101)	257	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	11,369	16,282	18,294
<i>Growth (%)</i>	-38.8%	-17.2%	43.2%	12.4%
Expenditure	11,527	9,718	13,430	15,103
Raw Material	7,816	6,621	9,362	10,519
Staff cost	1,198	1,073	1,287	1,416
Other expenses	2,514	2,025	2,781	3,168
EBIDTA (core)	2,212	1,651	2,852	3,191
<i>Growth (%)</i>	-50.4	-25.3	72.7	11.9
Depn & Amort.	1,176	958	1,045	1,068
EBIT	1,035	693	1,807	2,123
EBIT %	7.5	6.1	11.1	11.6
Other Income	544	821	490	556
Interest	40	9	-	-
PBT	1,539	1,505	2,297	2,679
Tax	517	459	769	897
APAT	1,022	1,047	1,527	1,781
Growth %	-56.9	2.4	45.9	16.6
Net Margin	7.4	9.2	9.4	9.7
EO Items	59	28	0	0
<i>Reported PAT</i>	1081	1075	1527	1781
Growth %	(55.7)	(0.6)	42.1	16.6

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity Capital	124	124	124	124
Reserves	8,304	9,134	10,202	11,448
Net worth	8,427	9,258	10,325	11,572
Total Debt	-	-	-	-
Deferred Tax Liabilities	471	331	434	555
Total CE	8,898	9,589	10,760	12,127
Gross Block	13,015	13,248	13,548	13,848
Less Depreciation	7,829	8,784	9,829	10,897
Net Fixed Assets	5,186	4,464	3,719	2,951
CWIP	88	2	2	2
Investments	1,127	1,214	1,214	1,214
Inventory	825	1,104	1,025	1,147
Debtors	518	616	535	601
Cash and Bank	6,197	7,273	8,495	9,959
Loans & Advances	2,640	1,261	1,874	2,105
Total Curr. Assets	10,179	10,254	11,929	13,813
Current Liabilities	5,782	6,106	5,808	5,483
Provisions	1,900	239	296	371
Total Cur. Liab. & Prov.	7,682	6,345	6,104	5,853
Net Current Assets	2,497	3,909	5,825	7,960
Total Assets	8,897	9,589	10,760	12,127

Cash Flow Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
PBT	1,542	1,534	2,297	2,679
Depreciation	1,176	958	1,045	1,068
Other Income	(536)	(821)	(490)	(556)
Interest	-	9	-	-
Others	(2)	-	-	-
Change in WCap	(180)	1,325	(752)	(745)
Tax Paid	(622)	(599)	(666)	(778)
CFO	1,379	2,405	1,434	1,668
(Inc)/Dec in FA	(869)	(147)	(300)	(300)
FCF	509	2,258	1,134	1,368
(Inc)/Dec in Inv	1	-	-	-
Others	365	302	522	556
CFI	(504)	155	222	256
Equity Issue	-	-	-	-
Net Borrowings	-	155	-	-
Dividend Paid	(361)	(217)	(434)	(460)
Interest & others	-	(1,360)	-	-
CFF	(361)	(1,422)	(434)	(460)
Incr/(decr) in cash	514	1,076	1,222	1,465
Cash beginning	5,683	6,197	7,273	8,495
Cash ending	6,197	7,273	8,495	9,959

Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability%				
EBITDA %	16.1	14.5	17.5	17.4
Net Margin	7.4	9.2	9.4	9.7
ROCE	12.2	7.5	17.8	18.5
ROE	12.8	11.8	15.6	16.3
RoIC	73.6	53.6	168.2	212.2
Per Share Data (Rs)				
EPS	83	85	123	144
CEPS	181	153	216	240
BVPS	681	748	835	935
DPS	15	15	32	37
Valuations (x)				
PER	33.2	32.4	22.4	19.2
P/CEPS	15.3	18.1	12.8	11.5
P/BV	4.1	3.7	3.3	3.0
EV / Sales	2.0	2.4	1.6	1.3
EV / EBITDA	12.3	16.3	9.0	7.6
Dividend Yield (%)	0.5	0.5	1.1	1.3
Gearing Ratio (x)				
Net Debt/ Equity	-0.87	-0.92	-0.94	-0.97
Net Debt/ EBITDA	-3.31	-5.14	-3.40	-3.50

Recommendation History: Lakshmi Machine Works – LMW IN

Date	Reports	Reco	CMP	Target
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
30/10/2009	LMW Q2FY10 Result Update	Hold	1,375	1,270

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2010	Sterlite Tech Q2FY11 Result Update	Hold	92	100
27/08/2010	Bharti Airtel Company Update	Hold	316	346
16/08/2010	Reliance Communication Q1FY11 Result Update	Hold	168	180
13/08/2010	Deccan Chronicle Q1FY11 Result Update	Buy	135	180

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