

## RESULT UPDATE

# Lloyd Electric & Engineering

Maintain BUY

Price: Rs 205

BSE Index: 15551

01 August 2007

### Share Data

Reuters code	LEEG.BO
Bloomberg code	LEE IN
Market cap. (US\$ mn)	157
6m avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	31

Performance (%)	1m	3m	12m
Absolute	16	40	76
Relative	11	27	23

### Valuation Ratios

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	21.4	27.1
+/- (%)	40.2	26.6
PER (x)	9.6	7.6
PBV (x)	1.8	1.4
Dividend/Yield (%)	1.0	1.0
EV/Sales (x)	0.8	0.6
EV/EBITDA (x)	6.6	5.1

### Major shareholders (%)

Promoters	32
FII's	31
MF's	5
Custodians (ADR/GDR)	3
Public & Others	29

### Financial highlights

(Rs mn)	1QFY07	1QFY08	YoY (%)	FY07	FY08E	YoY (%)	FY09E	YoY (%)
Net Sales	1,245	1,767	42.0	4,961	6,705	35.2	8,312	24.0
EBITDA	142	215	51.3	608	838	37.9	1,037	23.7
EBITDA Margin (%)	11.4	12.2	–	12.2	12.5	–	12.5	–
Other Income	17	16	(3.6)	63	71	12.0	76.0	–
Interest	14	25	79.4	67	63	(5.6)	59	(5.5)
Depreciation	20	23	17.9	80	108	35.0	119	9.7
PBT	126	184	46.1	524	738	40.8	935	26.6
Tax	12	19	61.0	51	74	45.7	93	26.6
Reported PAT	114	165	44.5	474	664	40.2	841	26.6
PAT margin (%)	9.2	9.3	–	9.5	9.9	–	10.1	–
EPS (Rs)	3.7	5.3	–	15.3	21.4	–	27.1	–
P/E (x)	–	–	–	13.4	9.6	–	7.6	–

### 1QFY08 Results – Coil growth in line

The performance at both revenue and profitability levels was achieved by changing revenue mix in favour of ACs. The improved EBITDA margins were as expected while revenues exceeded estimates. While contract manufacturing segment contributed volume, the margin expanded due to railways segment. With the commissioning of Uttarakhand plant during the quarter, the additional revenues were an added on benefit.

The stock is trading at 9.6x FY08E and 7.6x FY09E earnings. We maintain Buy rating on the stock.

### Highlights

- Revenues grew by 42% YoY to Rs 1.8 bn with contribution of ~40%, 10% and 50% from coils, railways and contract manufacturing businesses, respectively.
- EBITDA grew by 51.3% YoY to Rs 215 mn supported by expansion in margins by ~80 bps to 12.2%, due to lower cost of raw material and other expenditure (as % of sales). The increased contribution from the higher margin (~31%) segment of railways pushed up the profits.
- PAT grew by 45% YoY to Rs 165 mn. Margins improved only by ~10 bps to 9.3% as the reduction in depreciation cost was offset by 80% increase in interest cost.

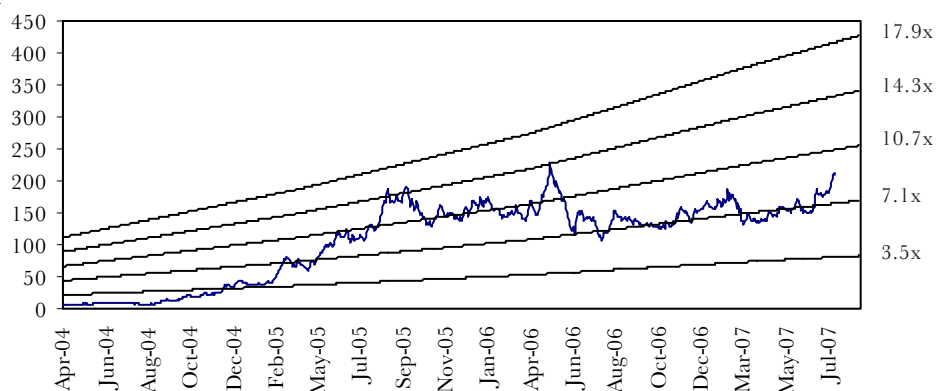
## Outlook

As expected, the increased contribution from contract manufacturing and railways segments is driving the topline of the company. The coils division is also growing driven by 30% growth in the AC industry. With new clients added to the contract manufacturing segment, it would further create a readymade market for the coils business of the company. The DMRC order worth Rs 800 mn, to be executed during the year and contribution from the plant at Uttarakhand with a capacity of 400K coils and 200K ACs will lead to better than expected growth in revenues.

The company will enjoy tax benefit at this plant for the next ~15 years.

The company has significant cash in hand (Rs 1.5 bn at the end of FY07) which may be used to repay debts or buy back of shares. Further, the progress on expansion of a line of production, at JNPT, consisting of 400K coils and 200K ACs is as per schedule and expected to be completed by the end of the year.

## PER Band



Source: B&K Research

## Valuations

At the current market price of Rs 205, the stock is trading at 9.6x FY08E and 7.6x FY09E earnings. We maintain Buy rating on the stock.

**Income Statement**

Yr. ended 31 Mar. (Rs m)	FY06	FY07	FY08E	FY09E
Net sales	3,457	4,961	6,705	8,312
Growth (%)	44.3	43.5	35.2	24.0
Operating expenses	(3,049)	(4,353)	(5,867)	(7,275)
Operating profit	408	608	838	1,037
<b>EBITDA</b>	<b>408</b>	<b>608</b>	<b>838</b>	<b>1,037</b>
Growth (%)	85.2	48.9	37.9	23.7
Depreciation	(59)	(80)	(108)	(119)
Other income	23	63	71	76
<b>EBIT</b>	<b>373</b>	<b>591</b>	<b>801</b>	<b>994</b>
Interest paid	(54)	(67)	(63)	(59)
Pre-tax profit	318	524	738	935
(before non-recurring items)				
Pre-tax profit	318	524	738	935
(after non-recurring items)				
Tax (current + deferred)	(37)	(51)	(74)	(93)
<b>Net profit</b>	<b>281</b>	<b>474</b>	<b>664</b>	<b>841</b>
Adjusted net profit	281	474	664	841
Growth (%)	153.5	68.4	40.3	26.6
<b>Net income</b>	<b>281</b>	<b>474</b>	<b>664</b>	<b>841</b>

**Balance Sheet**

Yr. ended 31 Mar. (Rs m)	FY06	FY07E	FY08E	FY09E
Current assets	2,372	3,431	4,089	4,962
Investments	26	0	0	0
Net fixed assets	909	992	1,063	1,095
<b>Total assets</b>	<b>3,307</b>	<b>4,423</b>	<b>5,152</b>	<b>6,057</b>
Current liabilities	465	641	818	990
Total debt	611	700	661	624
Other non-current liabilities	47	47	47	47
<b>Total liabilities</b>	<b>1,123</b>	<b>1,388</b>	<b>1,525</b>	<b>1,661</b>
Share capital	270	310	310	310
Reserves & surplus	1,917	2,728	3,320	4,088
Less: Misc. expenditure	(3)	(3)	(3)	(3)
Shareholders' funds	2,184	3,035	3,627	4,395
<b>Total equity &amp; liabilities</b>	<b>3,307</b>	<b>4,423</b>	<b>5,152</b>	<b>6,057</b>
<b>Capital employed</b>	<b>2,842</b>	<b>3,782</b>	<b>4,334</b>	<b>5,066</b>

**Cash Flow Statement**

Yr. ended 31 Mar. (Rs m)	FY06	FY07E	FY08E	FY09E
Pre-tax profit	318	524	738	935
Depreciation	59	83	107	119
Chg in working capital	(310)	(457)	(548)	(477)
Total tax paid	(16)	(29)	(51)	(74)
<b>Cash flow from oper. (a)</b>	<b>51</b>	<b>121</b>	<b>247</b>	<b>502</b>
Capital expenditure	(310)	(165)	(179)	(150)
Chg in investments	(20)	26	0	0
Other investing activities	2	(0)	0	(0)
<b>Cash flow from inv. (b)</b>	<b>(328)</b>	<b>(139)</b>	<b>(179)</b>	<b>(150)</b>
<b>Free cash flow (a+b)</b>	<b>(277)</b>	<b>(18)</b>	<b>68</b>	<b>352</b>
Equity raised/(repaid)	1,301	450	0	0
Debt raised/(repaid)	(22)	89	(39)	(36)
Dividend (incl. tax)	(31)	(31)	(73)	(73)
<b>Cash flow from fin. (c)</b>	<b>1,247</b>	<b>508</b>	<b>(112)</b>	<b>(109)</b>
<b>Net chg in cash (a+b+c)</b>	<b>971</b>	<b>491</b>	<b>(44)</b>	<b>243</b>

**Key Ratios**

Yr. ended 31 Mar. (%)	FY06	FY07E	FY08E	FY09E
EPS (Rs)	10.4	15.3	21.4	27.1
EPS growth	67.0	46.7	40.2	26.6
EBITDA margin	11.8	12.2	12.5	12.5
EBIT margin	10.8	11.9	11.9	12.0
ROCE	17.8	17.8	19.7	21.2
Net debt/Equity	(18.4)	(26.5)	(22.0)	(24.5)

**Valuations**

Yr. ended 31 Mar. (x)	FY06	FY07E	FY08E	FY09E
PER	19.7	13.4	9.6	7.6
PCE	16.3	11.5	8.2	6.6
Price/Book	2.5	2.1	1.8	1.4
Yield (%)	1.0	1.0	1.0	1.0
EV/Net sales	1.7	1.1	0.8	0.6
EV/EBITDA	14.6	9.1	6.6	5.1

**Du Pont Analysis – ROE**

Yr. ended 31 Mar. (x)	FY06	FY07E	FY08E	FY09E
Net margin (%)	8.1	9.5	9.9	10.1
Asset turnover	1.4	1.3	1.4	1.5
Leverage factor	1.7	1.5	1.4	1.4
Return on equity (%)	19.8	18.2	19.9	21.0

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**Analysts Declaration:** We, Neeru Gupta & Sharad Tripathi, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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