

May 21, 2007

Shri Lakshmi Cotsyn Ltd.

CMP - Rs. 108 BSE Code - 526049

The Rs.360 crores Shri Lakshmi Cotsyn Ltd. will see a substantial growth in its revenues and profits in the coming years, thanks to the expansion projects going on stream.

The activities of the company are well diversified within textiles and comprises of Processing, Home Textiles, Fusible Interlinings and specialized textiles for the Defence sector. The Company product range includes Bedspreads, Suiting & Shirting, Puff Cushions, Pillows, Sleeping Bags and other Home Furnishing Products. The company also manufactures Cotton Fusible Interlining and is one of the leading player in this segment.

The company core strength lies in Manufacture of Blended Suiting and Shirting, Cotton Fusible Interlinings and specialized Textiles being used in the Industrial & Defence Sector and Paramilitary forces. The company's products are approved by DRDO for supply to the Indian Defence forces. The products include Bullet Proof Jackets, Bullet Proof Helmets, Infrared Protective Clothing, Nuclear Biochemical Clothing and Clothing used in High Altitudes.

Expansion Projects

Over the past few years, the company has undertaken various expansion projects :-

→ The company is putting up a project to manufacture Denim, Wider Width, Bottom wear fabric and Terry Towels at Distt. Malwan, Fatehpur, U.P. The project valued at Rs.264 crores started commercial production in October - November 2006 and the Denim manufacturing in the project will commence operations in the month of May 07.

→ The company is implementing a Nylon project having installed capacity of 8.55 million meters p.a. under its ongoing expansion plan at Malwan Dist. Fatehpur for manufacturing Nylon Coated Fabric, Furnishing Fabric (Woven) and Furnishing Fabric (Knitted). The project costing Rs.125 crores will commence production from July - August 2007.

→ The company is setting up a garment manufacturing unit at Rorkee, Uttaranchal having the capacity of 10,000 trousers 5,000 shirts and 5,000 ladies wears per day. The project with a total outlay of Rs.67 crores would commence commercial production from January 2008.

→ The Company has formed Joint Venture (JV) with U.K. based company Armet Armored Vehicles Ltd.. The Company is participating with 49% equity in the said Joint Venture Company whereas Armet Armored Vehicles Ltd, UK is having 51% equity in over all capital structure. The main business of this joint Venture will be to carry on the business of manufacturing of armored vehicles and manufacturing of armor plates, panels, helmets, ballistic body amours, etc and similar safety and security related equipments for domestic as well as foreign market. The manufacturing unit of the Joint Venture Company will be established in Dist Malwa, Fatehpur, U.P. The project will commence commercial production from May -June 08.

Financials

The latest financials of the company are given as under :-

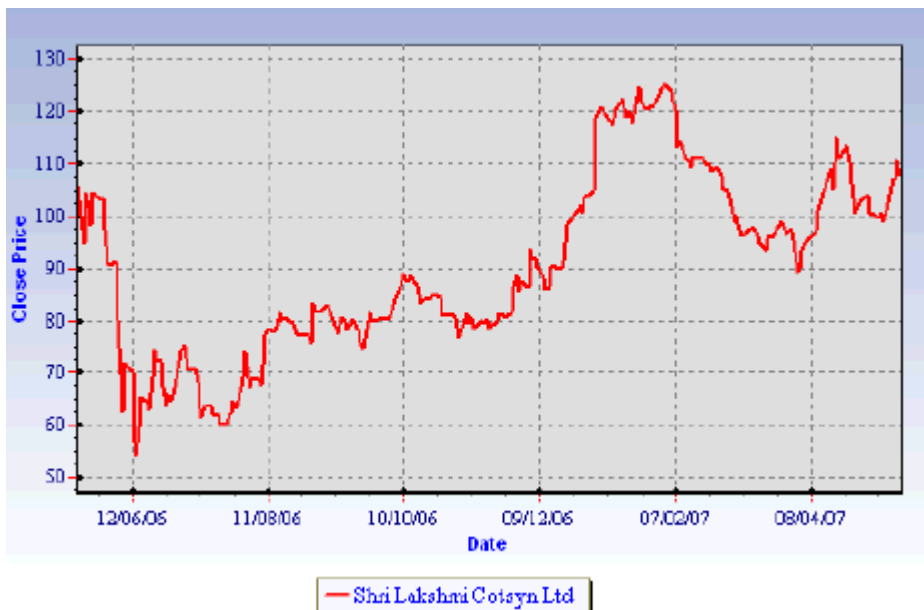
Particulars	Quarter Ended (Mar 07)	Quarter Ended (Mar 06)	Quarter Ended (% Var)	YTD / Latest Half (Mar 07)	YTD / Latest Half (Mar 06)	YTD / Latest Half (% Var)	Year Ended (Jun 06)	Year Ended (Jun 05)	Year Ended (%Var)
Sales	153.72	93.18	65	378.23	265.52	42.4	360.03	282.38	27.5
Other Income	2.02	0.14	1342.9	4.04	0.92	339.1	3.91	1.4	179.3
PBIDT	30.36	8.1	274.8	54.74	23.08	137.2	30.3	22.1	37.1

Interest	8.15	2.88	183	14.61	7.43	96.6	9.86	8.46	16.5
PBDT	22.21	5.22	325.5	40.13	15.65	156.4	20.44	13.64	49.9
Depreciation	5.5	0.66	733.3	7.6	1.82	317.6	2.73	2.34	16.7
PBT	16.71	4.56	266.4	32.53	13.83	135.2	17.71	11.3	56.7
Tax	1.88	0.45	317.8	3.15	1.5	110	0.58	1.07	-45.8
Deferred Tax	3	0	-	3	0	0	1.3	0	-
PAT	11.83	4.11	187.8	26.38	12.33	113.9	15.83	10.23	54.7

**Latest Data As On
18/05/2007**

Latest Equity(Subscribed)	13.7
Latest Reserve	110.46
Latest Bookvalue -Unit Curr.	90.63
Latest EPS -Unit Curr.	21.77
Latest Market Price -Unit Curr.	108.45
Latest P/E Ratio	4.98
52 Week High -Unit Curr.	134.9
52 Week High-Date	1/31/2007
52 Week Low -Unit Curr.	48
52 Week Low-Date	6/14/2006
Market Capitalisation	148.58
Stock Exchange	BSE
Dividend Yield -%	0

The stock price movement is given below :-



Conclusion

Shri Lakshmi Cotsyn has in the recent past undertaken various expansion projects involving a total outlay of over Rs.400 crores - major part of these projects has become operational with the balance expected to go on stream soon, in phases. The projects have been completed through raising of funds through preference shares at a price of Rs.129 per share and a loan of around Rs. 320 crores under the Technology Upgradation Fund (TUF) scheme. The noticeable part of funds raised under TUF scheme is the 5% Interest subsidy provided by the government of India - this would lead to the company's cost of funds being lower by about 5%.

The most remarkable thing in the entire expansion projects is that the total Equity dilution in the whole process will be just Rs.5.70 crores. The company completing an expansion project of Rs. 400 crore with an Equity dilution of just Rs.5.70 crore would itself lead to substantial increase in shareholders valuation.

However, the major concern is the fact that the level of debt in the balance sheet (even though it is at a subsidized Interest rate under TUF Scheme) will be very high.

The company's thrust on specialized fabric for Industrial and Defence applications will lead to an overall improvement in the company's margins since margins in the traditional textiles is less. Moreover, the company's joint venture with Armet Vehicles for armoring of vehicles would create long term value for the shareholders of Shri Lakshmi Cotsyn.

For the first nine months (upto Mar 07) of the current FY, the company has achieved Sales Revenues of Rs.378 crores and a PAT of Rs.26.28 crores. For the full year, we expect Sales Revenues of around Rs.550 crores and a PAT of around Rs.35 crores. This would result in an EPS of Rs.25. The stock trading at a PE of 4.3 looks undervalued given the fact that the company can register substantial increase in its revenues and profitability in the next two years since all its expansion projects will be fully operational.

Corrigendum

In our report on Oswal Chemicals in Hidden Gems dated May 14, 2007, we had mentioned that company holds around 60-65 acres of land at Chembur in Mumbai. This was based on some press reports which had mentioned this fact. However, we have found out that the ownership of the land lies with Oswal Agro Mills Ltd., a group company and not Oswal Chemicals & Fertilisers Ltd. as mentioned by us in our report. The error is regretted. We however continue to remain positive on Oswal Chemicals.