

ACCUMULATE

Price: Rs 19.500

29<sup>th</sup> June 2006

# **Lakshmi Machine Works**

### Growth momentum to continue...

LMW reported better than expected performance for Q4FY06; EBITDA margins for Q4FY06 were higher than expected at 18.6% as against expected 16%. Improved product mix and full effect of price increase taken in Q2FY06, kept margins at the same level as witnessed in Q3FY06. Adjusted revenues and PAT were up by 23.2% and 283.3% to Rs 3,935 mn and Rs 854 mn, respectively. Though the revenue growth was in line with expectations, higher than margin growth and write-back of current tax and deferred tax provisions of Rs 255 mn pushed PAT higher than expectations. Write-back of tax provision during Q4FY06 was on account of absorption of unabsorbed depreciation and losses of recently acquired Jeetstex. Adjusted EPS for the quarter was Rs 690 for Q4FY06 as against Rs 180 in Q4FY05.

### Stock Details

Sensex	10,162
Sector	Textile machinery
Bloomberg	LMW@IN
Equity Capital	Rs 123.7 mn
Face Value	Rs 100
52 Week H/L	Rs 24700/ 600
Market Cap	Rs 24.1 bn
Daily Volume	606
Daily Average Turnover	0.25mn(\$)

### Shareholding Pattern (%)

(31st Mar.'06)

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Promoters	30.6
FII/NRI	19.1
Institutions	21.0
Private Corp.	6.0
Public	23.3

Source: Capitaline

#### **Price Performance**

(%)	1M	3M	6M	12M
Absolute	-15	-6	7	106
Rel. to Sensex	-8	3	-3	62

Source: Capitaline

# Operating leverage and shift in product mix push margins higher in FY2006

For the full year, adjusted revenues and PAT were up by 31.5% and 112.3% to Rs 13.3 bn and Rs 1.40 bn, respectively. However, the highlight during FY06 was pick-up in EBITDA margins. EBITDA margins were 16.8% for the full year as against 14.4% last year on account of impressive sales growth and higher sales of higher margin preparatory machines. Tax provision write-back and higher other income from interest on advances pushed PAT higher than expected for the full year. Adjusted EPS for the full year is Rs 1133 as against Rs 534 for last year.

#### Healthy Order book and capacity increase to drive revenue growth

Active order book of the company stands at Rs 30 – 35 bn with large TUF approvals adding to the order book on regular basis. Capacity acquisition through acquisition of Jeetstex is expected to keep the revenue growth high during the year, as the delivery periods come down towards the second half of the year. We expect revenue and Adj. PAT growth to be 36.6% and 42.4% to Rs 18 bn and Rs 2.0 bn for FY07E, respectively. EBIDTA margins are expected to be marginally higher from last year on account of increase in prices undertaken during middle of FY06. Higher tax provision in FY07 as against FY06 will restrict adj. PAT growth to 42.4%.

# **Estimates revised upwards**

We are revising our PAT estimates for FY07 upwards to Rs 2.0 bn from Rs 1.6 bn mainly on account of increase in EBITDA margins from 16.1% to 17.5%. We are introducing our FY08 estimates, wherein we expect the revenues to increase by 14.0% and PAT to increase by 16.0%. At current level the stock is trading at 12.1x and 10.4x its FY07E and FY08E EPS of Rs 1,613 and Rs 1,872, respectively. We are revising our rating from HOLD to ACCUMULATE.

#### Key financials (Rs mn)

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	Adj Net	EBI	TDA	Adj	ROE	EV/		Div Yld	Adj EPS	
	Sales	Rs	(%)	PAT	(%)	EBITDA	P/BV	(%)	(Rs)	P/E
FY05	10,031	1,447	14.4	660	18.6	16.0	7.2	0.8	534	36.5
FY06	13,187	2,214	16.8	1401	35.8	9.3	5.5	1.5	1133	17.2
FY07E	18,013	3,143	17.5	1995	39.1	7.0	4.1	2.1	1613	12.1
FY08E	20.535	3.676	17.9	2315	35.0	5.6	3.2	2.6	1872	10.4

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# **Quarterly performance**

Rs mn	Q4FY06	Q4FY05	% Chg.	FY2006	FY2005	% Chg.
Adjusted Net Revenues	3,935	3,193	23.2%	13,187	10,031	31.5%
Cost of RM Consumed	2,318	2,027	14.4%	7,473	5,894	26.8%
(Inc)/Dec in SIT	(6)	-		0	(16)	
RM Cost	2,312	2,027	14.1%	7,473	5,878	27.1%
% of net sales	58.8%	63.5%		56.7%	58.6%	
Other expenses	589	512	15.1%	2,415	1,856	30.1%
% of net sales	15.0%	16.0%		18.3%	18.5%	
Personnel	303	269	12.9%	1,085	851	27.6%
% of net sales	7.7%	8.4%		8.2%	8.5%	
Total expenditure	3,205	2,807	14.2%	10,974	8,585	27.8%
EBITDA	730	386	89.1%	2,214	1,447	53.0%
EBITDA (%)	18.6%	12.1%		16.8%	14.4%	
Non-Operating Income	44	25	75.6%	159	(4)	-3816%
Interest	6	9	-27.4%	34	81	-57.5%
Gross Profit	767	402	90.8%	2,338	1,361	71.7%
Depreciation	172	93	85.5%	559	363	53.8%
Extraordinary Income/(Exp)	(20)	111		100	111	
PBT	576	420	36.9%	1,879	1,109	69.5%
Prov. for Tax- Cur	(10)	65	-115.2%	312	250	24.8%
Prov. for Tax- Def	(240)	53	-553.7%	86	125	-31.1%
Tax/PBT (%)	-43.3%	28.0%		21.2%	33.9%	
Reported PAT	825	303	172.7%	1,481	733	101.9%
% of net sales	21.0%	9.5%		11.2%	7.3%	
Adjusted PAT	854	223	283.2%	1,402	660	112.4%
Reported EPS	667.0	244.6	172.7%	1197.1	592.9	101.9%
Adjusted EPS	690.3	180.1	283.3%	1132.8	533.6	112.3%

Source: Company, Emkay research

# **Segmental Performance**

Rs mn	Q4FY06	Q4FY05	% Chg.	FY2006	FY2005	% Chg.
Segment Revenue						
Textile Machinery	3701.9	3059.7	21.0%	12666.4	9685.4	30.8%
Machinery Tool & Foundry	598.6	468.0	27.9%	1933.3	1635.5	18.2%
PBIT						
Textile Machinery	455.0	252.4	80.3%	1568.4	871.6	80.0%
Machinery Tool & Foundry	33.6	27.0	24.3%	86.5	113.7	-23.9%
Segment margins						
Textile Machinery	12.3	8.2		12.4	9.0	
Machinery Tool & Foundry	5.6	5.8		4.5	7.0	

Source: Company, Emkay research