

November 1, 2011

<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs1,935	Rs2466

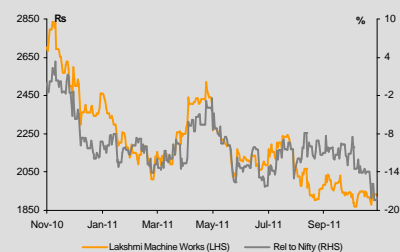
EPS change FY12E/13E (%)	-2.2/ +2.5
Target Price change (%)	-3
Nifty	5,258
Sensex	17,481

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(0)	(7)	(19)	(28)
Rel. to Sensex	(6)	(2)	(15)	(17)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods
Bloomberg	LMW@IN
Equity Capital (Rs mn)	113
Face Value(Rs)	10
No of shares o/s (mn)	11
52 Week H/L	2,920/1,809
Market Cap (Rs bn/USD mn)	22/446
Daily Avg Volume (No of sh)	9595
Daily Avg Turnover (US\$m)	0.4

### Shareholding Pattern (%)

	Jun-11	Mar-11	Mar-11
Promoters	28.3	28.3	28.3
FII/NRI	6.3	6.2	6.2
Institutions	23.4	23.2	23.2
Private Corp	16.3	16.2	16.2
Public	25.7	26.0	26.1

Source: Capitaline

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- **Strong revenue growth of 31.2% yoy to Rs5814mn (our est. of Rs5247mn), driven by robust performance in both Textile and machine tools division**
- **EBITDA at Rs889mn grew 14.3% yoy with margin at 15.3% (our est. of 13.9%) down 226bps yoy but improved 142bps qoq. PAT at Rs492mn was better than our est. of Rs429mn**
- **Order inflow moderates to Rs2.2bn v/s Rs5.9bn in Q1FY12 and total order book stands at Rs47bn v/s Rs49bn in Q1FY12**
- **Maintain ACCUMULATE with revised TP of Rs2466 (earlier Rs2535). Valuations at 11.4x /9.4x EPS of Rs169.5 /206.6 for FY12/13E**

### Better than expected results

LMW reported strong set of numbers for Q2FY12. Revenue for the quarter stood at Rs5814mn (our est. of Rs5247mn) up 31.2% yoy. Revenue from Textile and machine tool segment grew by 28.7% and 48% yoy, respectively. Led by strong revenue growth it reported robust EBITDA of Rs889mn (our estimate of Rs732mn). EBITDA margin at 15.3% declined 226bps yoy but improved 142 qoq. Margin decline was primarily due to high raw material cost which grew 39.2% yoy. PAT at Rs492mn improved 7.4% yoy. Other income at Rs114mn declined 24.9% yoy due to lower cash on the balance sheet.

### Order inflow moderates, order book at Rs47bn v/s Rs49bn in Q1FY12

Order inflow during Q2FY12 has seen signs of moderation. Order inflow for the quarter stood at Rs2.2bn v/s Rs5.9bn in the last quarter. Order book at the end of quarter stood at Rs47bn v/s Rs49bn in Q1FY12. Healthy order book of LMW provides adequate revenue visibility for the next 18-24months.

### Price hike aids margin erosion

Despite of strong rev. growth in past quarters LMW reported decline in EBITDA margin, primarily due to 1) Continued rise in price of raw material (Pig Iron and other iron & steel products) and 2) LMW did not take price hike due to intense competition from international players. In Q2FY12 company reported 15.3% EBITDA margin which was a decline of 226bps yoy but 142bps improvement qoq. This indicates that margin pressure on the company is easing and partial impact of price taken in April, 2011 is visible nevertheless, going forward it would mitigate the negative impact of cost escalations.

### Revision in estimates

On the back of strong revenue growth, we have revised our revenue estimates upward by 2.5% and 6.0% for FY12E and FY13E, respectively. With the visible positive impact of price hike taken in Q1FY12, we revise EBITDA est. upwards by 3.3%/5.9% for FY12E/FY13E. Management remains positive on achieving higher than its earlier guidance of 20% revenue growth for FY12E. However, we revise our PAT estimate downwards for FY12E largely due to lower other income since the cash has been utilized for buy back of shares and acquisition of 50% stake in JV from Rieters.

### Maintain ACCUMALATE with revised TP of Rs2466 (earlier Rs2535)

Maintain ACCUMULATE rating on the stock with revised price TP of Rs 2466, based on 9x FY13E core EPS of Rs170.7 and net cash of Rs930 per share (earlier Rs1178). At CMP of 1935, LMW trades at 11.4x and 9.4x FY12/13E EPS of Rs169.5/ 206.6.

Y/E-	Net	EBITDA	PAT	EPS	EPS	ROE	P/E	EV/		
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	%chg	(%)	EBITDA	P/BV	
FY10	11538	1832	15.9	999	88.7	-6.6	11.3	21.8	9.1	2.4
FY11	18316	2608	14.2	1533	136.0	53.4	17.7	14.2	5.5	2.7
FY12E	22604	3461	15.3	1910	169.5	24.6	21.6	11.4	4.1	2.3
FY13E	24910	4082	16.4	2328	206.6	21.9	22.0	9.4	2.8	1.9

## Quarterly results

Results	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	4,430	4,909	5,390	5,111	5,814	31.2	13.7	10,925	7,886	38.5
Raw material cost	2496.5	2857.0	3382.4	3076.8	3476.0	39.2	13.0	6,553	4,481	46.2
as % of sales	56.4	58.2	62.8	60.2	59.8			60.0	56.8	
Employee Expenses	381.4	395.2	538.9	441.4	487.4	27.8	10.4	929	749	24.0
as % of sales	8.6	8.1	10.0	8.6	8.4			8.5	9.5	
Administrative expenses	774.8	900.5	776.3	884.4	961.9	24.2	8.8	1,846	1,321	39.8
as % of sales	17.5	18.3	14.4	17.3	16.5			16.9	16.8	
Total operating expenditure	3653	4153	4698	4403	4925	34.8	11.9	9328	6551	42.4
<b>EBITDA</b>	<b>777.0</b>	<b>756</b>	<b>692</b>	<b>709</b>	<b>889</b>	<b>14.3</b>	<b>25.4</b>	<b>1,597</b>	<b>1,335</b>	<b>19.7</b>
Depreciation	251.4	263.3	283.8	248.1	280.1	11.4	12.9	528.2	494.0	6.9
<b>EBIT</b>	<b>525.7</b>	<b>492.8</b>	<b>408.3</b>	<b>460.7</b>	<b>608.4</b>	<b>15.7</b>	<b>32.1</b>	<b>1069</b>	<b>841</b>	<b>27.2</b>
Other Income	151.7	175.4	185.6	145.7	114.0	(24.9)	(21.8)	259.6	288.9	(10.1)
Interest	0.0	0.0	0.0	0.0	0.0					-
PBT	677.4	668.3	593.9	606.4	722.4	6.6	19.1	1328.8	1129.5	17.6
Tax	218.8	210.0	151.8	195.0	230.0	5.1	17.9	425.0	370.0	14.9
<b>PAT</b>	<b>458.6</b>	<b>458.3</b>	<b>442.0</b>	<b>411.4</b>	<b>492.4</b>	<b>7.4</b>	<b>19.7</b>	<b>903.8</b>	<b>759.5</b>	<b>19.0</b>

Margins %						(bps)	(bps)				(bps)
EBIDTA	17.5	15.4	12.8	13.9	15.3	(226)	142	14.6	16.9	(230)	
EBIT	11.9	10.0	7.6	9.0	10.5	(140)	145	9.8	10.7	(87)	
EBT	15.3	13.6	11.0	11.9	12.4	(287)	56	12.2	14.3	(216)	
PAT	10.4	9.3	8.2	8.0	8.5	(188)	42	8.3	9.6	(136)	
Effective Tax rate	32.3	31.4	25.6	32.2	31.8	(46)	-32	32.0	32.8	(77)	

Segment Revenues	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Textile Machinery	3,847	4,247	4,537	4,381	4,951	28.7%	13.0%	4,381	3,030	44.6
Machine tools	596	695	870	755	883	48.0%	16.9%	755	447	69.0
Inter-segment	14	33	17	25	19			25	20	
Net sales	4,430	4,909	5,390	5,111	5,814	31.2%	13.7%	5,111	3,456	47.9

Segment EBIT	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Textile Machinery	518	453	360	423	550	6.0%	29.9%	423	312	35.7
Machine tools	31	63	85	55	83	165.9%	50.8%	55	28	95.2
EBIT	549	516	444	478	632	15.1%	32.2%	478	340	40.6

Segment EBIT %						bps	bps				bps
Textile Machinery	13.5	10.7	7.9	9.7	11.1	(237)	144	9.7	10.3	(64)	
Machine tools	5.2	9.1	9.7	7.3	9.4	415	210	7.3	6.3	98	
EBIT %	12.4	10.5	8.2	9.4	10.9	(153)	152	9.4	9.8	(49)	

Source: Company, Emkay Research

## Revision in estimates

	FY12E			FY13E		
	Old	New	Var %	Old	New	Var %
Net Sales	22,049.3	22604.0	2.5	23,490.6	24909.8	6.0
EBIDTA	3,349.4	3461.5	3.3	3,853.6	4081.9	5.9
EBIDTA %	15.2	15.3	12 bps	16.4	16.4	0 bps
PAT	1951.9	1909.6	(2.2)	2270.8	2328.2	2.5
EPS (Rs)	173.2	169.5	(2.2)	201.6	206.6	2.5

Source: Company, Emkay Research

## Financials

## Profit &amp; Loss

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>11,538</b>	<b>18,316</b>	<b>22,604</b>	<b>24,910</b>
<i>Growth (%)</i>	-16.0	58.7	23.4	10.2
Raw Material exp	6,567	10,841	13,560	14,697
Employee cost	1,180	1,761	1,948	2,193
Marketing expenses	1,959	3,106	3,634	3,938
<b>Total expenditure</b>	<b>9,706</b>	<b>15,708</b>	<b>19,143</b>	<b>20,828</b>
<b>EBITDA</b>	<b>1,832</b>	<b>2,608</b>	<b>3,461</b>	<b>4,082</b>
<i>Growth (%)</i>	-15.6	42.4	32.7	17.9
Depreciation	962	1,050	1,140	1,250
EBIT	870	1,558	2,321	2,832
<b>EBIT margin (%)</b>	<b>7.5</b>	<b>8.5</b>	<b>10.3</b>	<b>11.4</b>
Other Income	588	706	509	643
Interest expenses	0	0	0	0
<b>PBT</b>	<b>1,458</b>	<b>2,264</b>	<b>2,830</b>	<b>3,475</b>
Tax	459	732	920	1,147
<i>Effective tax rate (%)</i>	31.5	32.3	32.5	33.0
<b>PAT</b>	<b>999</b>	<b>1,533</b>	<b>1,910</b>	<b>2,328</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	124	113	113	113
Reserves & surplus	9,081	7,975	9,496	11,429
<b>Net worth</b>	<b>9,205</b>	<b>8,088</b>	<b>9,609</b>	<b>11,541</b>
Loan funds	0	0	0	0
Net deferred tax liab	331	276	276	276
<b>Total Liabilities</b>	<b>9,536</b>	<b>8,364</b>	<b>9,885</b>	<b>11,817</b>
Gross Block	13,699	14,392	15,692	16,592
Less: Depreciation	9,217	10,084	11,224	12,474
<b>Net block</b>	<b>4,482</b>	<b>4,308</b>	<b>4,468</b>	<b>4,119</b>
CWIP	35	105	105	105
<b>Investment</b>	<b>1,038</b>	<b>768</b>	<b>1,548</b>	<b>1,548</b>
<b>Current Assets</b>	<b>10,376</b>	<b>13,303</b>	<b>14,770</b>	<b>18,291</b>
Inventories	1,186	2,907	3,226	3,400
Sundry debtors	582	841	1,142	1,259
Cash & bank balance	7,330	7,568	7,582	10,477
Loans & advances	1,040	1,634	2,296	2,518
Other current assets	237	354	524	637
<b>Current lia &amp; Prov</b>	<b>6,395</b>	<b>10,121</b>	<b>11,007</b>	<b>12,246</b>
Current liabilities	6,156	9,674	10,522	11,595
Provisions	239	446	485	651
<b>Net current assets</b>	<b>3,981</b>	<b>3,182</b>	<b>3,763</b>	<b>6,045</b>
<b>Total Assets</b>	<b>9,536</b>	<b>8,364</b>	<b>9,885</b>	<b>11,817</b>

## Cash Flow Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>PBT</b>	870	1,558	2,321	2,832
Depreciation	962	1,050	1,140	1,250
Interest	0	0	0	0
Other Non-Cash items	-151	-2,300	6	0
Chg in working cap	-346	1,036	-566	613
Tax paid	-459	-732	-920	-1,147
<b>Operating Cashflow</b>	<b>876</b>	<b>612</b>	<b>1,981</b>	<b>3,548</b>
Capital expenditure	-189	-947	-1,300	-900
<b>Free Cash Flow</b>	<b>687</b>	<b>-335</b>	<b>681</b>	<b>2,648</b>
Other income	588	706	509	643
Investments	0	270	-780	0
<b>Investing Cashflow</b>	<b>399</b>	<b>29</b>	<b>-1,571</b>	<b>-257</b>
Equity Capital Raised	0	-11	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-216	-393	-395	-395
<b>Financing Cashflow</b>	<b>-216</b>	<b>-404</b>	<b>-395</b>	<b>-395</b>
<b>Net chg in cash</b>	<b>1,058</b>	<b>237</b>	<b>14</b>	<b>2,895</b>
Opening cash position	6,272	7,330	7,568	7,582
Closing cash position	7,330	7,568	7,582	10,477

## Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	15.9	14.2	15.3	16.4
Net Margin	5.2	5.8	6.9	7.6
ROCE	15.8	25.3	31.0	32.0
ROE	11.3	17.7	21.6	22.0
RoIC				
<b>Per Share Data (Rs)</b>	88.7	136.0	169.5	206.6
EPS (adjusted)	174.1	229.2	270.7	317.6
CEPS	817.0	717.9	852.8	1024.4
BVPS	16.5	30.0	30.0	30.0
<b>Valuations (x)</b>				
PER	21.8	14.2	11.4	9.4
P/CEPS	11.1	8.4	7.1	6.1
P/BV	2.4	2.7	2.3	1.9
EV / Sales	1.4	0.8	0.6	0.5
EV / EBITDA	9.1	5.5	4.1	2.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.8	-0.9	-0.8	-0.9
Net Debt/EBIDTA	0.0	0.0	0.0	0.0

**Recommendation History: Lakshmi Machine Works – LMW IN**

Date	Reports	Reco	CMP	Target
10/08/2011	<a href="#">LMW Q1FY12 Result Update</a>	Accumulate	2,056	2,535
23/05/2011	<a href="#">LMW Q4FY11 Result Update</a>	Accumulate	2,126	2,535
01/02/2011	<a href="#">LMW Q3FY11 Result Update</a>	Accumulate	2,138	2,660
26/10/2010	<a href="#">LMW Q2FY11 Result Update</a>	Hold	2,766	2,660

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
24/10/2011	<a href="#">Jagran Prakashan Q2FY12 Result Update</a>	Buy	107	135
24/10/2011	<a href="#">HT Media Q2FY12 Result Update</a>	Buy	140	172
21/10/2011	<a href="#">Idea Cellular Q2FY12 Result Update</a>	Accumulate	91	105
21/10/2011	<a href="#">DB Corp Q2FY12 Result Update</a>	Accumulate	230	271

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