

Company Update

Lakshmi Machine Works Ltd

Bloomberg Code: LMW IN

India Research - Stock Broking

SELL

TMD Segment to Recover Gradually

LMW revenue grew by 10.1% YoY on the back of good numbers from machinery and foundry division. The textile machine division degrew by 33% due to lower orders from textile players. EBITDA margin expanded by 58 bps YoY to reach 9.0% in Q4FY18. The employee expenses were lower aiding the EBITDA margins improvement. The PAT stood at Rs. 612 mn showing a degrowth of 10.9% due to decline in other income by 36.3%. The PAT margins were 8.2% showing a decline of 194 bps.

Textile machinery segment: Sales in the Textile machinery segment for the quarter were at Rs.5556 mn, down by 4.7% YoY. Segmental EBIT for the quarter was at Rs. 437 mn with consequent EBIT margins at 7.9%. The margins have degrown marginally by 4 bps. There seems to be a positive movement in the industry as major textile players are in mode of expansion. The company has entered new global markets such as South East Asia, Middle East and Africa. Expansion shall cover up the decline in domestic markets.

Robust performance of Machinery Tools Segment: LMW's machinery tool segment had a healthy performance by growing 37.8% YoY. The growth in MTD segment aided the overall revenues to grow at 10.1%.The absolute EBIT has grown by 43.8% with margins at 16.5% showing a 100 bps improvement. For full year, segment has shown a growth of 41.7% with EBIT margins at 14.2% showing an improvement of 107 bps over FY17.

Advanced Technology Segment: ATC segment revenue for Q4FY18 was at Rs. 83 mn showing a degrowth of 17.5% YoY. The segment revenue for FY18 has grown by 58.1% whereas segment margins came in at 2.1% which was negative last year. The segment is in the growth phase and has won orders from DRDO and HAL for developing complex components in last year.

Valuation and Risks

LMW has a healthy balance sheet with surplus cash of over Rs. 90000 mn as of FY17. We expect the demand for textiles to pick up among the youth and on the back of increased focus of government on textiles segment. Due to price run up in the recent times and stretched valuations (33x FY20E EPS) we give a "SELL" rating valuing the stock at 30x (3yrs avg PE) for a target price of Rs. 7321.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	28631	24992	26430	28833	30685
EBITDA	3377	2594	2755	3027	3529
EBITDA Margin (%)	11.8	10.4	10.4	10.5	11.5
Net Profit	2273	1864	2146	2285	2673
EPS (Rs.)	201.8	165.5	195.9	208.6	244.0
RoE (%)	14.8	12.0	12.3	11.7	12.6
PE (x)	18.9	24.8	35.2	38.6	33.0

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

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Recommendation (Rs.)

CMP (as on Jun 07, 2018)	8060
Target Price	7321
Previous Target Price	6310
Downside (%)	9

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	88301 / 1317
52-wk High/Low (Rs.)	9384 / 4810
3M Avg. daily volume (No.)	11592
Beta (x)	0.9
Sensex/Nifty	35463 / 10768
O/S Shares(mn)	11.0
Face Value (Rs.)	10.0

Shareholding Pattern (%)

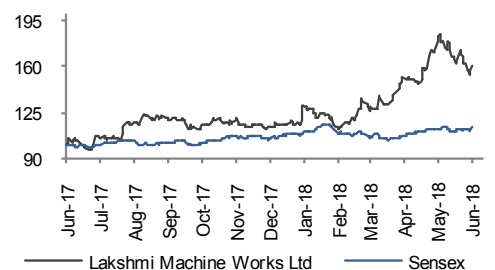
Promoters	30.1
FII's	0.0
DII's	23.1
Others	46.8

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(10)	28	41	60
Relative to Sensex	(11)	19	31	41

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

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The revenue grew 10.1% on the strong growth of MTD segment. The PAT was lower due to lower other income.

Healthy growth in MTD segment stabilize the overall performance of the company.

Exhibit 2: Q4FY18

YE Mar (Rs. Mn)	Q4FY18	Q3FY18	QoQ %	Q4FY17	YoY %
Turnover (net)	7473	5424	37.8	6785	10.1
Op. Expenditure	6798	4776	42.3	6211	9.5
EBITDA	675	648	4.2	574	17.7
Depreciation	166	142	17.3	241	(31.0)
Interest	1	2	(52.3)	1	104.1
Other Income	340	327	3.9	534	(36.3)
PBT	848	831	2.0	867	(2.2)
Tax (net)	202	265	(23.7)	181	11.4
Extraordinary item	(33)	122	(127.4)	2	NA
PAT	612	688	(11.0)	687	(10.9)
EBITDA Margin (%)	9.0	11.9	(291) bps	8.5	58 bps
EBIT Margin (%)	11.4	15.4	(401) bps	12.8	(142) bps
Net Profit Margin (%)	8.2	12.7	(449) bps	10.1	(194) bps

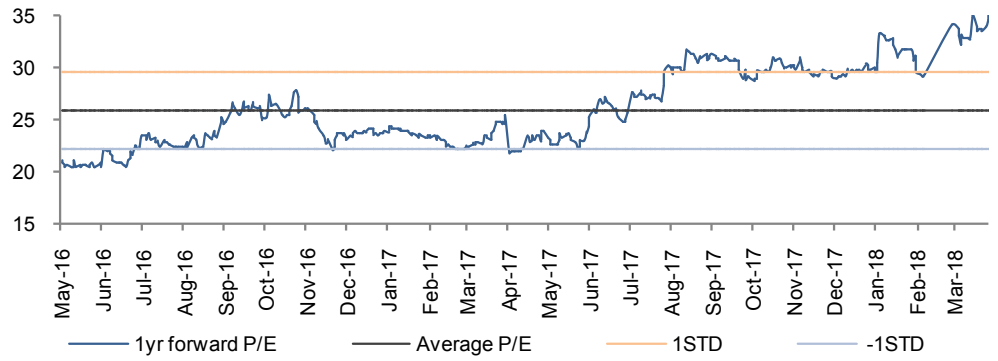
Source: Company, Karvy Research

Exhibit 3: Segmental Financials

YE Mar (Rs. Mn)	Q4FY18	Q3FY18	QoQ %	Q4FY17	YoY %
Segment-wise revenues					
Textile Machine Division	5556	3911	42.1	5833	(4.7)
Machinery Tools & Foundry Division	1530	1432	6.8	1110	37.8
Advanced Technology Centre	83	256	(67.5)	101	(17.5)
Segment-wise EBIT					
Textile Machine Division	437	346	26.4	462	(5.3)
Machinery Tools & Foundry Division	253	241	4.8	176	43.8
Advanced Technology Centre	(0)	68	(100.1)	33	(100.3)
Segment-wise EBIT Margin (%)					
Textile Machine Division	7.9	8.9	(98) bps	7.9	(4) bps
Machinery Tools & Foundry Division	16.5	16.8	(32) bps	15.8	100 bps
Advanced Technology Centre	(0.1)	26.6	(2674) bps	32.3	(563) bps

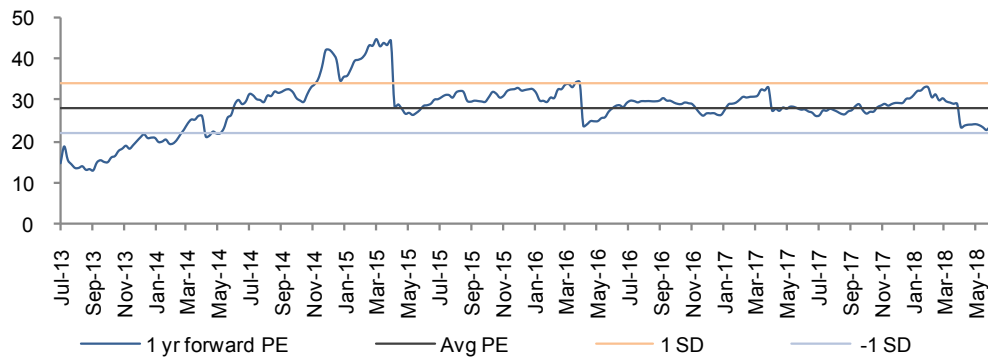
Source: Company, Karvy Research

Exhibit 4: Lakshmi Machine Works-3yr PE Band



Source: Bloomberg, Karvy Research

Exhibit 5: BSE Capital Goods Index - 5yr PE Band



Source: Bloomberg, Karvy Research

Financials

Expect the revenues to grow at 8% CAGR on the back of recovery in Textile machinery division.

Exhibit 6: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	28631	24992	26430	28833	30685
Growth (%)	14.2	(13.8)	5.8	9.1	6.4
Operating Expenses	25253	22398	23675	25805	27156
EBITDA	3377	2594	2755	3027	3529
Growth (%)	8.0	(23.2)	6.2	9.9	16.6
Depreciation & Amortization	881	803	759	796	836
Other Income	933	885	1075	1182	1300
EBIT	3429	2676	3071	3413	3993
Interest Expenses	10	4	8	2	2
PBT	3369	2624	3023	3411	3990
Tax	1095	760	877	1125	1317
Adjusted PAT	2273	1864	2146	2285	2673
Growth (%)	3.4	(18.1)	15.1	6.5	17.0

Source: Company, Karvy Research

Exhibit 7: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Cash & Equivalents	9675	9230	10320	11401	12439
Sundry Debtors	2364	1901	2467	2370	2522
Inventory	3387	3640	3463	3984	4240
Loans & Advances	2423	2516	2860	2807	3025
Investments	876	611	828	828	828
Net Block	4714	5256	5916	6212	6522
Miscellaneous	402	386	393	413	434
Total Assets	23842	23538	26248	28014	30011
Current Liabilities & Provisions	7615	7082	7933	7590	7981
Debt	0	0	0	0	0
Other Liabilities	883	872	848	848	848
Total Liabilities	8497	7954	8781	8438	8829
Shareholders Equity	113	113	113	113	110
Reserves & Surplus	15232	15474	17357	19463	21068
Total Networth	15345	15587	17470	19576	21178
Total Networth & Liabilities	23842	23538	26248	28014	30011

Source: Company, Karvy Research

Exhibit 8: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	3369	2624	3023	3411	3990
Depreciation	881	803	759	796	836
Interest	10	4	8	2	2
Inc/dec in Net WC	(242)	(365)	7	69	(67)
Other Income	(807)	(667)	(1075)	(1182)	(1300)
Other non cash items	21	(138)	0	0	0
Tax	(1116)	(902)	(877)	(1125)	(1317)
Cash flow from operating activities	2117	1360	1845	1971	2145
Inc/dec in capital expenditure	(1195)	(1358)	(1450)	(1400)	(1400)
Others	555	2041	656	(399)	(58)
Cash flow from investing activities	(640)	683	(794)	(1799)	(1458)
Dividend paid	(510)	(549)	(517)	(550)	(644)
Interest paid	(10)	(4)	(8)	(2)	(2)
Cash flow from financing activities	(520)	(554)	(525)	(553)	(646)
Net change in cash	957	1489	526	(381)	41

Source: Company, Karvy Research

Exhibit 9: Key Ratios

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	11.8	10.4	10.4	10.5	11.5
EBIT Margin (%)	12.0	10.7	11.6	11.8	13.0
Net Profit Margin (%)	7.9	7.5	8.1	7.9	8.7
Dividend Payout Ratio (%)	19.8	24.2	20.4	19.2	16.4
Net Debt/Equity (x)	(0.63)	(0.59)	(0.59)	(0.58)	(0.59)
RoE (%)	14.8	12.0	12.3	11.7	12.6
RoCE (%)	22.3	17.2	17.6	17.4	18.9

Source: Company, Karvy Research

Exhibit 10: Valuation Parameters

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs.)	201.8	165.5	195.9	208.6	244.0
DPS (Rs.)	40.0	40.0	40.0	40.0	40.0
BVPS (Rs.)	1327.1	1376.3	1509.2	1691.3	1860.8
PE (x)	18.9	24.8	35.2	38.6	33.0
P/BV (x)	2.9	3.1	4.6	4.8	4.3
EV/EBITDA (x)	9.9	14.3	23.7	25.4	21.5
EV/Sales (x)	1.2	1.5	2.5	2.7	2.5

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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