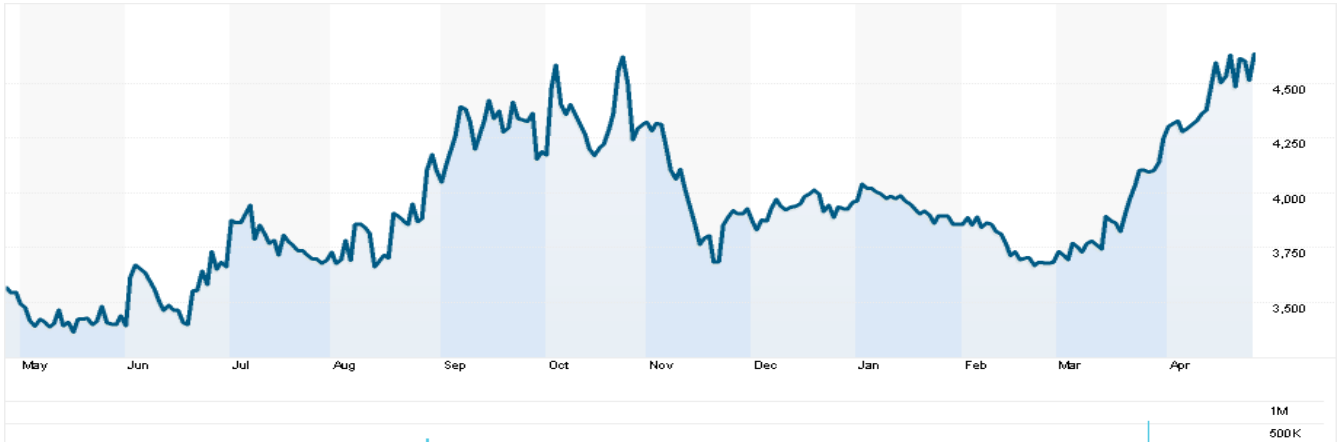
LAKSHMI MACHINE WORKS LIMITED

Recommendation	BUY
Target Price	4703
Current Price	4489
Upside/Downside %	5%

Stock Data	
CMP as on 26th April, 17	4489
52 Week High	4747
52 Week Low	3333
Share Outstanding	1,12,66,504
Market Capitalization (in lacs)	505793
Beta	1.01
Dividend Pay-out ratio	23%
Retention Ratio	77%
Cons. Long-Term Growth Rate	13%

Company Information	
Sector	Industry Machinery
Country	India
BSE/NSE Code	LAXMIMACH/LAXMIMACH
Market Index	A / S&P BSE 500
Year End	March 2016
Reporting Currency	INR
Corporate Office	Coimbatore
Website	www.lakshmimach.com

1 Year share price movement



Source : Reuters

(All amounts in lacs except per share data)

Year	2013 A	2014 A	2015 A	2016 A	2017 E	2018 E	2019 E	2020 E	2021 E
Revenue	221148	252200	267455	285534	308688	329529	350371	371212	392053
%		14.04%	6.45%	6.76%	8.11%	6.75%	6.32%	5.95%	5.61%
EPS	115	168	195	201	242	272	308	344	386
%		46%	16%	3%	20%	12%	13%	12%	12%

Summary : I recommend a buy rating with a target of INR 4703. LMWL is significantly undervalued as I believe that the company's long term growth rate is 13% as well as the company has no borrowing even though it falls into capital goods/industrial machinery segment. Additionally, I expect the variable expenses to decrease gradually going forward as the company has acquired economic of scale in it. The company is always poised to give its stakeholders the good return that can be reflected thru the ROE and Stock price. Even though the company can be valued thru relative valuation techniques as there are comparables available, however I have used DCF based valuation technique that provides the best way to value the stock.

Company Overview

Lakshmi Machine Works Limited founded in 1962 is India-based BSE and NSE listed holding company. The Company is engaged in the manufacturing and selling of textile spinning machinery, computer numerical control machine tools, heavy castings, and parts and components for aerospace industry. Its segments include Textile Machinery Division; Machine Tool & Foundry Division, and Advanced Technology Centre for Aero Space-Parts & Components. Its textile machinery range of products includes Card Sliver System, such as Vario Clean LB9/2; Combing System, including Comber LK69, and Ring Spinning System, such as Ring Frame LR60 Series. It offers machine tool products, such as turning, milling and turn mills. Its foundry products include ductile iron castings and grey iron castings. The Advanced Technology Centre specializes in the manufacture and supply of parts and components required for the aerospace industry. Its products and services include aero structure components, aero engine components and sheet metal fabrications.

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Key Management

The company is run by an effective management and key personnel for years whose contribution has been tremendous for the company's growth.
Sri Sanjay Jayavarthanavelu is the Chairman and Managing Director.
Sri S. Pathy is one of the Director.
Sri Basavaraju is one of the Director.
Sri Aditya Himatsingka is one of the Director.
Dr. Mukund Govind Rajan is one of the Director.
Sri C. B. Chandrasekar is the Chief Financial Officer of the company.

Sector Overview

Indian textile industry is one of the remarkable instances of a sector achieving the national objectives of 'Make in India', international competitiveness and grassroots employment. At LMW, the company see it self as a catalyst of this economy-driving sector. Over the decades, the company has leveraged the country's resident engineering excellence to manufacture world-class textile spinning machinery. Its products have facilitated the competitiveness of the country's textile sector. With this LMW is the only global textile spinning machinery company manufacturing the entire spinning value chain – from Blow Room to Winders. LMW's machines spin the yarn that is used by one of the world's finest fabric maker, which sells more than 50% of its products to leading global fashion labels. LMW has 300+ global customers some of whom are leading spinning and fabric manufacturers in their geographies. Besides this LMW is renovating the Periyanaickenpalayam Railway Station, among the first instances of a private sector company renovating national railway infrastructure.

The Government of India desires to shift the global textile industry's centre of gravity to India. For this to transpire, companies will need to fundamentally build their foundations around the efficient conversion of abundant cotton being grown within the country. This foundation will need to be reinforced through investments in larger spinning capacities, cutting-edge technologies, equipment versatility and maximised machine uptime. The company proactively built its business around a singular focus: empower customers and make their businesses successful. In doing so, it has transformed from a company respected for equipment quality to one admired for its service commitment. The result is that despite increased competition, LMW has protected their domestic market share and established a strong presence in key global spinning hubs. While being commissioned as a backward integration to support the infrastructure of its core business, the machine tools division has emerged as a value-leader. Going forward, this unit promises to strengthen India Inc.'s resolve in establishing a more meaningful global role with the launch of technology-intensive mother machines. Castings form the essential backbone of industrial production. Specialised in heavily-cored, thin-walled castings, our foundry unit's products find application in engine blocks, compressors, transmission systems, locomotives and traction motor housings as well as heavy castings for machine tools. As the products gain acceptance from global MNCs operating in India, this unit is expected to strengthen India's global image in the global manufacturing space as a quality-respecting manufacturing base. LMW's recent venture in the aerospace sector was also driven by the philosophy to prioritise national interests. This extension was inspired by the perception that when India purchases aircraft from global aircraft suppliers, there will be a growing need for offset programmes. Over the years, the company received component -

approvals from leading global aircraft manufacturers, providing it with a window of opportunity in the global aerospace sector. LMW is optimistic that this vertical will make an attractive contribution to its growth. Looking ahead The Government of India has outlined the aspiration to double India's share of the global textile trade to8% by 2020. The company believe that this acceleration in a compressed time-frame will necessitate significant investments across the sector's value chain. LMW is prepared for what lies ahead. Over the years, the Company has proactively reoriented from a conventional equipment manufacturing company into a modern service-driven organisation with a robust manufacturing back-end.

Segment Overview

Company has four major product segments, comprising the Textile Machinery Division (TMD), Machine Tools Division (MTD), Foundry Division (FDY), Advanced Technology Centre (ATC) and a Wind Energy Division. All these divisions are located in and around Coimbatore, Tamil Nadu, India.

Textile Machinery Division

The Indian Textile Industry is expected to grow significantly both in volume and value terms during 2016-17 considering numerous initiatives being undertaken by the Government.

Going Forward

The Indian Textile Industry is expected to grow in the coming years, considering the following factors:
- Increased penetration of organised retail, favourable demographics and rising income levels that will drive textile demand.
- Abundant availability of raw material like cotton, silk, wool and jute.
- India enjoys a comparative advantage in terms of skilled manpower and cost of production in relation to many other textile producing countries.
- Domestic per capita expenditure on textiles will increase with the growth of the Indian economy, thereby increasing the size of India's domestic textile market. It is expected that by 2025, India's domestic per capita expenditure on garments will rise to USD 129.
-The huge size of the international textile market, expected to be around USD 2.11 trillion by 2025, is a growth opportunity for India.
- Numerous pro-industry measures announced by the Central Government, along with a number of State Governments, are expected to increase the rate of investments within the sector.

Major Challenges Ahead

- Technological backwardness, especially in the weaving, processing and garmenting segments.
- Low share in global exports.
- Disadvantage of low volume of scale, vis-a-vis competing countries.
- Slow infrastructure development and inadequate power, among others.
- High interest cost and limited availability of finance to the SME sector.
- Preferential tariff regimes that favour competing countries.

Future Outlook

The government is likely to soon unveil the new National Textile Policy. This new policy will aim to achieve USD 300 billion through textile exports by 2024-25 and will aim to add an additional 35 million jobs. It is encouraging that the Government is undertaking various initiatives to not only ramp the production of textile products but is also ensuring that Indian textile products climb the textile value chain. Such measures, undertaken through the Make in India programme, promise to enhance demand and enable Indian textile products to access newer markets. India's population is expected to reach 1.34 billion by 2018-19. Correspondingly, the demand for textiles is likely to increase, being a basic necessity product. Also,

the domestic demand for textile products has been consistently buoyed by increasing disposable incomes and rising consumerism, which in turn has resulted in the rapid growth of the textile retail sector across the country. The organised apparels segment is expected to grow at a Compound Annual Growth Rate (CAGR) of 13% in the next ten years. The Government is also revamping the Focus Product Scheme and the Focus Market Scheme to enable Indian textile products to easily find markets across the globe.

Segment Performance

These developments augur well and will present the Company with growth opportunities. The Company augmented and strengthened its Research and Development, Manufacturing and Marketing efforts and is in a position to take advantage of the evolving opportunities.

Machine Tool Division

The Indian machine tool industry has around 1,000 units invested in the production of machine tools, accessories/attachments, subsystems and parts. Of these, around 25 in the large scale sector account for 70% of the turnover and the rest are in the SME sector of the industry. Approximately
, 75% of Indian machine tool producers are ISO-certified. While the large organised players cater to India's heavy and medium industries, the small-scale sector meets the demand of ancillary and other units. Many machine tool manufacturers have also obtained the CE Marking certification, in keeping with European market requirements. The Indian machine tool industry is poised for growth, given the current shortfall between demand and supply. The industry is moving towards increasingly sophisticated CNC machines, driven by demand from key user segments such as automobiles, consumer durables and aerospace,
among others.

Going Forward

- The government's 'Make in India' initiative is expected to aid the growth of domestic machine tool manufacturers.
- Development of industrial corridors across the country.
- India's growing stature in the global market as a sourcing hub for auto components as well as its emergence as a global export hub for cars.
- Strong and growing domestic demand for medical, strategic and automotive electronics, mobile phones, personal computers and other consumer durables.
- Increasing demand for telecom infrastructure equipment due to an increasing telecom usage density and internet penetration.
- Increased infrastructure development projects across the country resulting in a demand for capital goods.
- Increasing defence procurement with offset clause and greater access of defence equipment manufacturing for the private sector.
- Increasing awareness about technologically efficient products and the adaptation of the same by manufacturers.

Major Challenges Ahead

- Import of second-hand machinery poses a challenge to domestic machine tool manufacturers.
- A lack of capability in designing high-end machine tools has created technology gaps between foreign manufacturers and Indian manufacturers.
- Domestic machine tool manufacturers face a reducing price advantage vis-à-vis foreign players, on account of global companies setting up manufacturing facilities in India.
- Availability of skilled manpower in sufficient numbers.

Future Outlook

The 'Make in India' initiative is expected to be a significant game-changer for manufacturing activities within the country. If implemented as envisaged, this initiative has the potential to accelerate manufacturing in India, increase investment in Research and Development and serve as a platform to encourage manpower development. The Make in India initiative is

expected to enhance higher levels of investment, growth and demand for machine tools.

Segment Performance

LMW has, over the years, developed several new products suitable for defence, automobile, tool and die, and aerospace requirements, which are well accepted in the market.

Foundry Division

In India there are approximately 5,000 foundry units of which 90% fit into the definition of a MSME unit. According to the Indian Institute of Foundry men, about 1,500 units enjoy International Quality Accreditation. The Indian foundry industry is labour intensive and employs about 5,00,000 people directly and about 1,50,000 people indirectly. Indian foundries not only manufacture volume based products but have also, over the years, acquired capabilities to manufacture complex castings. With a growing awareness regarding pollution, a number of foundries have started adopting environment-friendly manufacturing practices. However, no major investment for capacity addition has taken place in the last two years as projected demand from user industries did not materialise.

Going Forward

- The development of 'Smart City' projects, infrastructure, power and other core industries across the country is expected to spur demand for castings.
- Nuclear power capacity expansion will generate a significant demand for castings.
- Indigenisation of defence industry manufacturing is expected to increase the demand for castings.

Major Challenges Ahead

- A shortage of skilled manpower results in lower productivity.
- Poor road, rail and port connectivity raises product cost per ton.
- Funds required for technology up-gradation is high.

Future Outlook

The demand for castings is likely to grow rapidly in India, given the focus on infrastructure, sustainable energy generation, power, auto, auto-ancillary and construction industries. However, the foundry sector needs to upgrade to meet the projected demand from various sectors and also remain globally competitive. With low margins and increasing cost of inputs such as manpower and electricity as well as increasing environment compliance costs, the foundry industry is not able to invest in new, productive and greener technologies. There is an urgent need on the part of the Indian Government to bring in measures that promote investments in productive and green foundry technology to promote energy efficient manufacture.

Segment Information

The Company has three units with a capacity to produce 54,000 tonnes of castings per annum. A major portion of the castings produced are for captive consumption while the rest is sold in national and international markets. The Company has consistently adopted contemporary technology and lean practices which have enabled agility in manufacturing, enabling LMW to respond to market requirements. The Company has a well established brand image of being an optimal cost castings supplier recognized world-wide as a non-polluting facility.

Advanced Technology Centre

Increasing disposable incomes, decrease in Aircraft Turbine Fuel (ATF) prices, increase in tourism and visa reforms have placed India in a unique position. This is expected to bring the country closer to achieving its vision of becoming the largest aviation market by 2030.

Going Forward

- Increased passenger traffic in India and in the Asia Pacific region.
- Favourable Government policies under the Make in India initiative that will facilitate the growth of the aerospace industry.
- Defence off-set clause, impetus to indigenous defence manufacturing and modernisation of Indian Air Force over the years.

Major Challenges Ahead

- Stiff competition from global players in the Indian market.
- Lack of advanced technology matching global competitors.
- Shortage of skilled manpower.

Future Outlook

India is at the threshold of a major change in the aviation sector, with the development of 100 'Smart Cities', expansion of existing airports and with the development of more than 50 new airports across the country. The government is planning to invest over USD 120 billion in the development of airport infrastructure and navigation services.

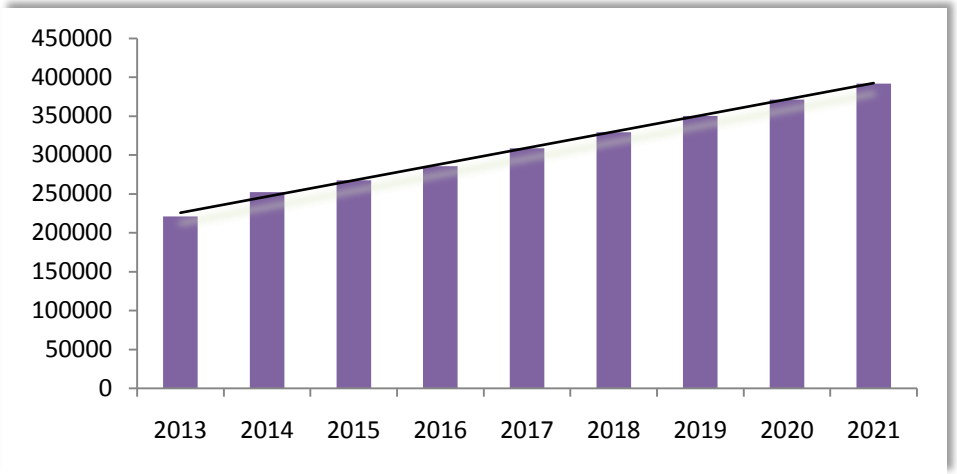
Segment performance

The Advanced Technology Centre (ATC) specialises in the manufacture and supply of high precision parts and components required for the aerospace industry. In this regard, the Company has created infrastructure and capabilities accredited with the latest quality certification and approvals. The Advanced Technology Centre is equipped with special equipment and processes the capacity to respond to any emerging market requirement.

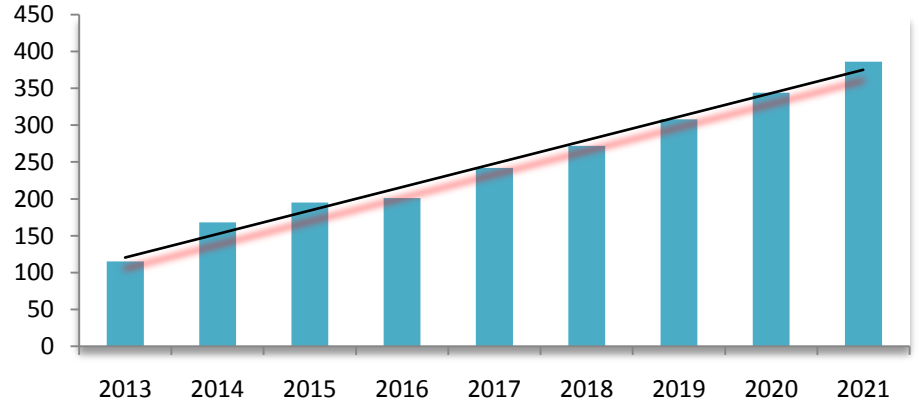
Financial Matrix

(All amounts in lacs except per share data)

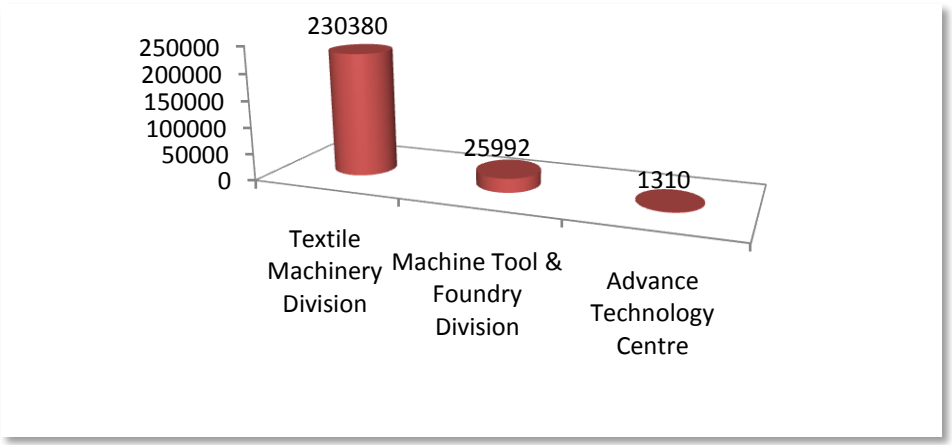
Revenue (in lacs)



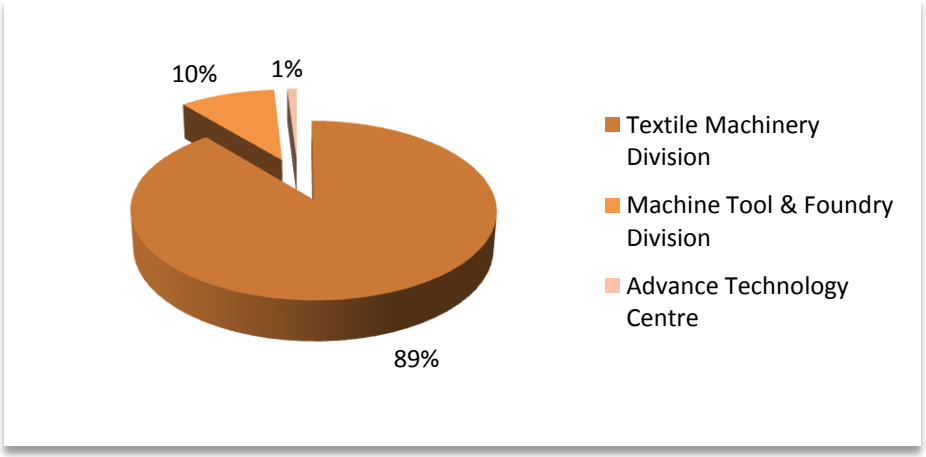
Earnings Per Share



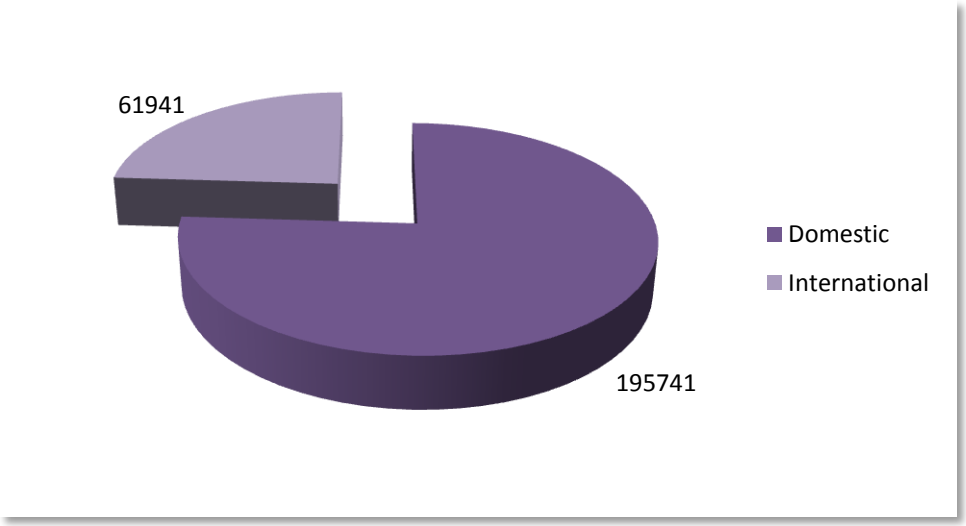
Segment Revenue (31st March 2016)



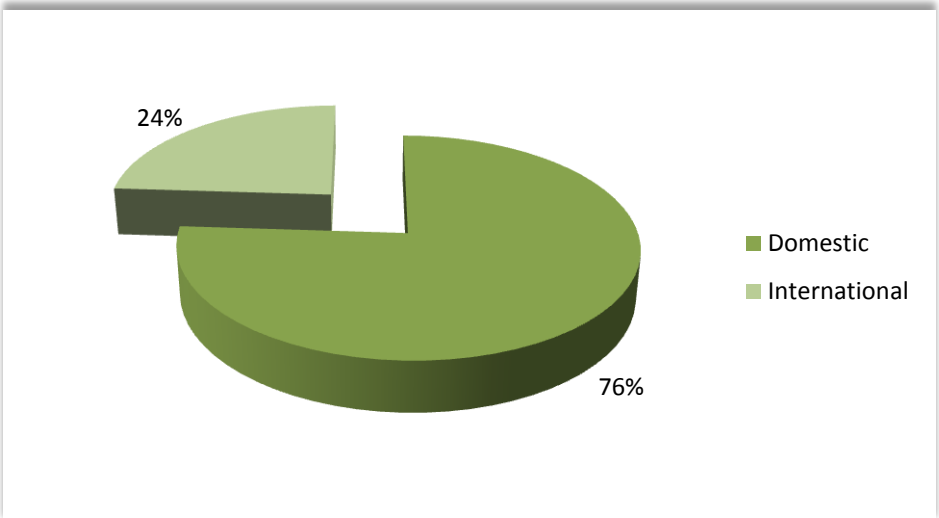
Segment Revenue (31st March 2016) %



Geographic Revenue (31st March 2016)



Geographic Revenue (31st March 2016) %



Standalone results of LMWL of last three quarters

(All amounts in lacs except per share data)

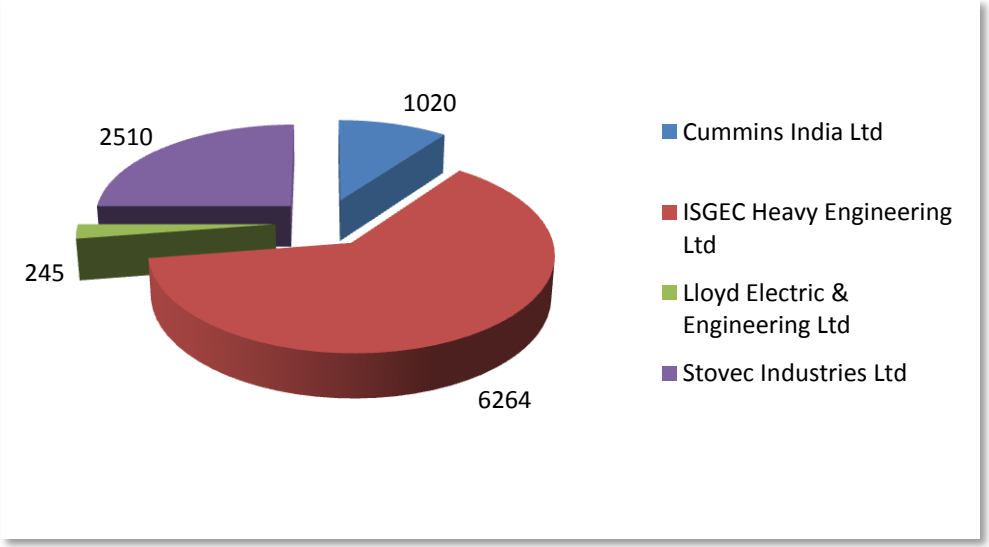
Particulars	31.12.2016	30.09.2016	30.06.2016
Revenue from Operation	56564.17	56707.49	54470.05
Other Operating Income	1639.06	1361.53	1287.90
Total Income from operations	**58203.23**	**58069.02**	**55757.96**
Expense			
Cost of materials consumed	35444.50	36231.99	35474.16
Changes in inventories of finished goods, work-in-progress and stock-in-trade	841.24	1166.20	-324.79
Employee benefits expense	5568.49	6117.98	5609.28
Depreciation and Amortization expense	1565.19	1661.91	1838.93
Other Expense	9539.20	9399.66	10497.23
Total Expense	**52958.62**	**54577.74**	**53094.81**
Profit before other income, finance cost and exceptional items	**5244.61**	**3491.28**	**2663.15**
Other Income	2706.26	2137.48	2224.90

Profit before finance costs and exceptional items	**7950.87**	**5628.75**	**4888.05**
Finance Costs	5.60	24.48	2.21
Profit after finance costs but before exceptional items	**7945.27**	**5604.28**	**4885.84**
Exceptional items	407.39	24.39	15.93
Profit from ordinary activities before tax	**7537.88**	**5579.89**	**4869.91**
Tax Expense	2412.12	1787.94	1556.00
Net Profit	**5125.76**	**3791.95**	**3313.91**

Major Competitors in India

LMWL has following competitors in India operating within the same sector.

Companies with their CMP on BSE as on 27TH April, 17



Companies with their MCap on BSE as on 27TH April, 17 (in Cr.)