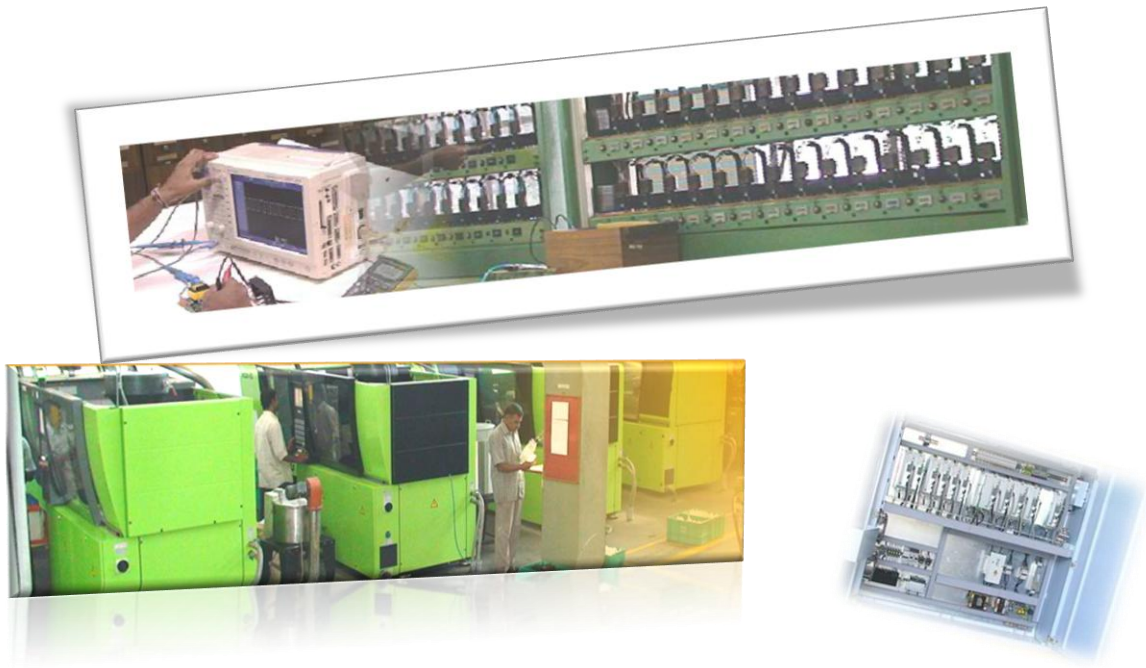
March 10, 2014

Lakshmi Electrical Control Systems Ltd.

"Deep asset value"



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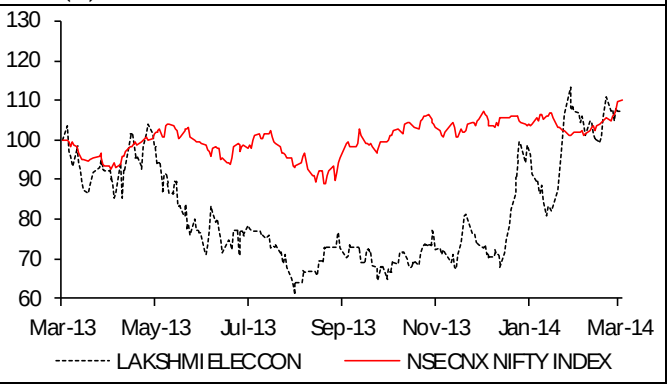
Stock Idea — Lakshmi Electrical Control Systems Ltd.

Recommendation	**BUY**
CMP (Rs.)	**Rs.175**
Target Price (Rs.)	**Rs.235(Upside 34%)**

Stock Details

BSE Code	504258
Bloomberg Code	IN LEC
Market Cap (Rs. cr)	43
Free Float (%)	74
52- wk HI/Lo (Rs)	190/99
Avg. Volume (Fortnightly)	1782
Face Value (Rs)	10.0
Dividend(%) (FY 13)	20
Shares o/s (Crs)	0.246

Relative Performance	1Mth	6Mth	1Yr
LEC IN(%)	(2.2)	48.7	4.6
NIFTY(%)	7.9	10.8	9.9



Shareholding Pattern as on 31 December 2013

Promoters Holding	26.1%
Institutional (Incl. FII)	0.9%
Corporate Bodies	13.5%
Public & others	59.4%

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Snapshot

Incorporated in the year 1981, Lakshmi Electrical Control Systems (Lakshmi Electricals) is one of the leading suppliers of control panels to Lakshmi Machine Works.

Investment Rationale

- **Improving prospects of the end-user industry augurs well for the company:** Textile companies have announced capex to the tune of Rs.4000 crore and the demand for the same is expected to benefit LMW, being the leader with 60-65 per cent domestic market share.
- **Signs of improvement visible in the latest results:** During Q3FY'14, Lakshmi Electricals registered a 55.9 per cent y-o-y growth in net sales at Rs.45.7 crore. EBITDA zoomed ~5x to Rs.5.3 crore compared to Rs.1.1 crore during the same quarter last year. PAT for the quarter stood at Rs.3.16 crore compared to Rs.0.59 crore during Q3FY'13.
- **Significant value in the company:** The company has intrinsic asset value. The same has been summarized below:
  1. Debt-free Balance Sheet with **net cash of Rs.47.5 crore**, higher than the present market-cap of the company. The figure is expected to improve further on the back of improvement in the P&L, signs of which are visible from the latest quarterly results.
  2. The company holds close to 89k shares of group company, Lakshmi Machine Works(LMW). At the present price, the realizable value of this investment works out to ~**Rs.25 crore**.
  3. The company's manufacturing facility is located in the peak industrial area of Arasur, Coimbatore. Lakshmi Electricals has shut down the switchgear manufacturing facility in the year 2012 and the same is unused right now. In the absence of any concrete plan as to how utilise the same productively, we have not assigned any value to the same.

Valuation & Recommendation

The company posted net sales of Rs.130.1 crore during FY'13, a decline of 20.5 per cent y-o-y which led to the PAT declining by 55.8 per cent y-o-y to Rs.4.1 crore.

During Q3FY'14, the company posted an almost 5x jump in PAT to Rs.3.1 crore on net sales of Rs.45.7 crore, an increase of 55.9 per cent y-o-y.

The company trades at 0.6x FY'13 book value of Rs.300.

Being the sole supplier to the third-largest textile machinery manufacturer in the world, with earnings showing signs of a turnaround, backed by strong Balance Sheet with inherent intrinsic value, we expect the share price to appreciate 34 per cent to Rs.235 over the next 6 to 9 months.

Particulars (Rs Cr)	Net Sales	*Growth (%)*	PAT	EPS (Rs)	P/E (x)
FY'10	98.3	*-2.9%*	7.3	29.5	5.9
FY'11	146.5	*49.0%*	9.6	36.7	4.8
FY'12	163.7	*11.7%*	9.1	42.1	4.2
FY'13	130.1	*-20.5%*	4.0	15.4	11.4

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INVESTMENT RATIONALE

Improving prospects of the end-user industry augurs well for the company

Lakshmi Electrical Control Systems Limited (Lakshmi Electricals) is the key supplier to Elgi Equipments and group company, Lakshmi Machine Works.

The buoyant prospects in the textile sector augur well for Lakshmi Machine Works. Lakshmi Electricals, in turn being the key supplier of control panels to Lakshmi Machine Works should do very well going forward.

Significant improvement visible in the end-user industry; augurs well for Lakshmi Electricals

Another major customer, Elgi Equipments, to which Lakshmi Electricals caters to, has been performing well. During 9MFY'14, Elgi Equipments posted net sales of Rs.990.5 crore, an increase of 27.7 per cent y-o-y. EBITDA registered a growth of 10.4 per cent y-o-y at Rs.86.8 crore.

Signs of improvement visible in the latest results

The improvement in the prospects of the end-user industry has started getting reflected in the performance of the company. During Q3FY'14, Lakshmi Electricals registered a 55.9 per cent y-o-y growth in net sales at Rs.45.7 crore. EBITDA zoomed ~5x to Rs.5.3 crore compared to Rs.1.1 crore during the same quarter last year. PAT for the quarter stood at Rs.3.16 crore compared to Rs.0.59 crore during Q3FY'13.

Particulars (Rs.Cr)	Q3FY'14	Q3FY'13	% Change
Net Sales	45.7	29.3	*55.9%*
Total Revenues	46.8	30.3	*54.5%*
Total Expenditure	41.5	29.2	*42.1%*
EBITDA	5.3	1.1	*381.8%*
% Margins	11.6%	3.8%	*7.8%*
PBDT	5.3	1.1	*380.0%*
Interest	0.0	0.0	*0.0%*
Depreciation	0.6	0.7	*-15.5%*
Minority Interest	0.0	0.0	*0.0%*
PBT	4.7	0.4	*1102.6%*
Tax	1.6	0.0	*0.0%*
Deferred Tax	0.0	0.0	*0.0%*
Reported PAT	3.1	0.6	*0.0%*
Minority Interest	0.0	0.0	*-100.0%*
Extra-ordinary items	-0.1	0.0	*0.0%*
Adj. PAT	3.2	0.6	*435.6%*

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Significant value in the company

The company has a lot of inherent asset value. The present market-cap of the company does not captures the same.

1. The company is debt-free with **net cash of Rs.47.5 crore** as on September 30, 2013. This is higher than the present market-cap of the company which stands at Rs.43 crore. With the improving prospects on the operational front, we expect this figure to improve going forward.
2. Among other investments in group companies, Lakshmi Electricals has close to 89k shares in group company, **Lakshmi Machine Works, whose present value stands at Rs.25 crore.** Being a group company, we do not expect liquidation of these shares. With the buoyancy in textile sector and capex announced to the extent of Rs.4000 crore by textile companies, we expect Lakshmi Machine Works to quote at Rs.3360 over the next 6 to 9 months, providing an upside of around 20 per cent from the present levels.
3. The company's facility is located in the peak industrial area of Arasur, Coimbatore. Lakshmi Electricals has shut down the loss-making switchgear division in 2012 itself. The same facility is unused as on date. In absence of any concrete plan to effectively utilize the same, we are not assigning any monetary value to this portion of land.

COMPANY BACKGROUND

Incorporated in December 1981 and promoted by Mr. G K Devarajulu and Mr. D. Jayavarthanavelu (both of Lakshmi Machine Works), Lakshmi Electrical Control Systems (Lakshmi Electricals) commenced commercial operations in November 1984.

RISKS & CONCERNS

Any significant deviation in the prospects of end-user industry

The company's products cater to companies like Lakshmi Machine Works and Elgi Equipments. Any significant deviation in the prospects of these companies will have a negative impact on the financial performance.

Proper utilisation of cash

The company's strength in the form of cash in the Balance Sheet, being higher than the market-cap depends on the effective deployment of the same. Any unrelated diversification, which does not provide the expected returns, will not be taken well by the markets.

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Particulars (Rs.Cr)	FY'10	FY'11	FY'12	FY'13
Equity Share Capital	2.5	2.5	2.5	2.5
Reserves	51.6	59.3	68.2	71.5
Loan Funds	11.0	0.0	0.0	0.0
Other Liabilities	0.0	0.3	0.4	0.6
Gross Block	55.1	59.7	51.7	46.1
Net block	16.7	16.7	13.8	11.7
Capital work-in-progress	4.5	0.4	0.1	0.1
Investments	10.7	10.7	11.7	11.3
Inventories	10.6	13.6	10.5	11.2
Sundry Debtors	23.0	32.9	27.0	21.0
Loans & Advances	21.6	1.6	2.4	4.4
Current Liabilities	15.7	27.6	25.9	27.5
Provisions	8.1	1.5	2.4	1.4
Other Assets	0.0	2.7	0.2	0.1

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