

LLOYD ELECTRIC & ENGG LTD
 BSE: 517518 | Sector: ELECTRICAL EQUIPMENT

vScore : 65 | Rating : Buy
 CMP : Rs. 110 | Target Price: Rs. 162

BUSINESS BACKGROUND

Lloyd Electric & Engineering Limited (LEEL) is an established diversified engineering player and is an acknowledged name in the Heating Ventilation Air Conditioning and Refrigeration (HVAC&R) industry and the Consumer Durable goods segment. Lloyds is a leading manufacturer of heat exchanger and evaporator coils serving the entire spectrum of HVAC&R industry.

LEEL is an original equipment manufacturer (OEM) to major AC giants in India and exporters to leading brands in the rapidly growing markets of Africa and the Middle East. LEEL also provides customized AC solutions for institutional clients like railways, defense and the metro rails transport segment.

INVESTMENT HIGHLIGHTS

Strong Q4 & FY14 Performance –

LEEL reported a sales growth of 55% yoy in Q4 FY14 led by better product mix. This was reflected in a higher EBIDTA growth of 72% at Rs 76.87 crs from Rs 44.71 crs in Q4 last year and a strong 123% increase in PAT. The PAT for Q4FY14 stood at Rs 37.71 crs as compared to Rs 16.89 crs in Q4 last year.

For FY14 the company has recorded a topline of Rs 1785.62 crs, - up by 21%, a EBIDTA of Rs 175 crs (after excluding one time other income of Rs 39.4 crs) from Rs 155 crs – up by 12% while PAT is placed at Rs 89. crs. LEEL has paid a dividend of 10% for FY14.

LEEL is a fully integrated player across the HVAC Value Chain –

LEEL enjoys a presence across the entire value chain (from coils to brand) and hence enjoys better control on input costs, and a lower volatility on its profit margins. LEEL is a leading manufacturer of Coils & Heat Exchangers to several large domestic AC and Refrigeration product manufacturers like Godrej, Samsung, Hitachi, LG, and Panasonic. Further LEEL also undertakes outsourcing of AC production for key domestic AC players like LG, Voltas Godrej, Onida and Whirlpool India.

In the global markets LEEL has a sizeable presence in Europe and Czech Republic via two 100% subsidiaries namely .Lloyds Coils Europe s.r.o. & Janka Engineering s.r.o. The European unit covers key markets like France, Germany, Spain, Germany, UK, Slovakia and makes products like condenser & evaporator coils for HVAC, reversible coils for heat pumps and aluminum coils. The Czech unit is the single supplier of cooling units to nuclear power projects in Slovakia and has also developed a new range of

KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		0.90
52 WK HI/LOW		131/25
NSE CODE		LLOYDELENG
BSE CODE		LLOYDELE
MARKET CAP	RS	391 CRS

SHAREHOLDING PATTERN

PROMOTERS	- 39%
BANKS, MFs & DIs	- 1%
FIs	- 11%
PUBLIC	- 49%

KEY FUNDAMENTALS

Year Ending	FY14	FY15	FY16
Sales Gr%	21	18	15
PBT Gr%	36	38	16
PAT Gr%	68	18	20
EPS Gr%	68	18	20
Roe %	9	10	11
Roce %	11	12	13
EPS (Rs)	15.5	18.4	22
P/E(x)		6	5

Focus on brand extension across Consumer Electronics & Consumer products to help LEEL grow strongly ahead –

LEEL under its Lloyd brand has introduced Ultra High Definition Smart 3D LED's, clothes dryers, garments steamers, chest freezers including a new and exciting range of room air conditioners in the premium and mass premium segment. LEEL has also introduced split air conditioners with R22 refrigerant for domestic and export market. Also new star rated room air conditioners meeting with the high energy efficiency norms have also introduced during the year. LEEL has also appointed celebrity director Karan Johar as its brand ambassador for its consumer products division for greater brand pull and higher brand visibility from customers.

Going ahead LEEL is focusing on the development of the split air-conditioners with inverter technology. At the same time LEEL is also constantly strengthening its after sales service network while on the distribution front, it is expanding beyond the larger cities into fast growing Tier –III and Tier IV markets.

Presently LEEL's after sales service network operates through a comprehensive CRM module of 525 Lloyd authorized service centres with over 5000 dealers nationwide.

Overall Outlook for the Indian HVAC & Consumer product segments looks bright –

In the current financial year that is FY15, the Indian room air conditioning industry is likely to see a healthy volume growth of around 10-11%. Also a severe heat wave witnessed this year has also been largely responsible for this higher volume growth. The market size for Indian air conditioning industry during the next 2 years starting FY14-16 is estimated around Rs. 170 bn, of this, the market for room airconditioners comprise of Rs 77 bn, while the market for central plants, packaged/ducted systems was about Rs.93 bn.

However, as per the industry sources the current penetration level of air conditioners in the country is merely 3-5%. With the pace of growth of the economy and the economic as well as geographic climate being favorable in future, air conditioner business has its long term potential intact of around 10-12% per annum going ahead.

LEEL is also a large vendor to the Indian Railways & Metros where growth prospects are strong –

LEEL is a qualified Category I supplier for Indian Railways and 80% of the tenders are awarded to Category I players. During recent years the metro segment business has also offered a big opportunity to players in HVAC&R industry as more and more cities are coming out with metro projects.

To keep up with the pace of growth offered by metro segment, LEEL has developed prototype Roof Mounted HVAC unit for Delhi Metro and HVAC units and new generation PLC based controllers for metro rail HVAC units. Lloyd has also developed roof mounted packaged units with environment friendly refrigerants for LHB and conventional coaches for Indian railways.

Some of the other additions made by LEEL to its product portfolio include Roof Mounted ventilation unit for EMU coaches of MRVC II project, for Bombardier; Oil Cooling unit for electric loco engines for Indian Railways and HVAC unit for Diesel Loco made by DLW, Varanasi.

Solid financial performance - topline growth and margin expansion –

We estimate LEEL's earnings to witness a CAGR of 20% over FY13-16E. This will be driven by strong revenue growth (15-18% CAGR over FY13-16E) and a steady EBITDA margin expansion over the same period.

Over the last 3 years starting 2011 onwards, LEEL has maintained its operating margins between 9% to 10% since last 3 years. Also it has been able to maintain a return on equity of 10% and a ROCE of over 11%.

Also, considering the fact that LEEL is largely a domestic AC player where working capital requirements are large, LEEL has a D :E of 1.01:1 as on Mar 2014 on a net worth of Rs 640 crs as on March 2014 which is quite good.

Business Outlook & Stock Valuation

On a rough cut basis, in FY15, Topline will see a steady rise wherein Topline is expected to touch Rs 2107 crs. On the bottomline level we expect the company to record a PAT of Rs 65 crs in FY15E. Thus on a conservative basis, LEEL should record a EPS of Rs 18.4. for FY15E. For FY16 our expectation is that earnings traction for LEEL would continue to be robust wherein we expect a EPS of Rs 22. Last year that is for FY14 LEEL had posted a reported PAT of Rs 89 crs giving a EPS of Rs 25, but this included a onetime insurance claim of Rs 39.4 crs from the subsidiaries. Hence if we exclude these one off gains then the actual PAT would be Rs 55 crs giving a EPS of Rs 15.57.

We have factored in a very conservative topline and profit guidance for FY15 and FY16 and are confident that these numbers by LEEL are achievable. Also another attractive point for LEEL is that EPS growth over the next three years between FY14 to FY16 is expected to average 20% YoY and it is a strong cyclical play where an upturn in the economy could impact it positively. Also valuation multiples look quite low between 6x on FY15 and 5x on FY16E. To add this the current market cap of LEEL at Rs 391 crs, the LEEL stock trades a market cap to sales multiple of just 0.18x on FY15E whereas the potential revenue over the next 2 years is around Rs 2400 crs.

Also the present market cap of Rs 391 crs. looks quite low as compared to its balance sheet size of Rs 1640 crs as on Mar 2014 and a Net worth of Rs 639 crs. We believe the current price seems to have discounted the worst and any chances of rate cuts and favourable sector announcements in the coming union budget in July 2014 can make the stock move upwards.

Hence we believe that the LEEL stock should be purchased at the current price for a price target of around Rs 162 keeping a financial stop loss of Rs 95.

FINANCIALS

For the Year Ended March RsCrs	FY13A	FY14A	FY15E	FY16E
Net Sales	1479.33	1785.62	2107.0	2423.0
EBIDTA	155.87	175.0	206.5	239.9
EBIDTA %	10.54	9.80	9.80	9.90
Interest	52.7	85.51	95.0	115.0
Depreciation	31.62	31.76	32.0	33.0
Non Operational Other Income	0.0	0.0	0.0	0.0
Profit Before Tax	71.66	97.13	79.48	91.88
Profit After Tax	52.79	89.12	65.0	78.0
Reported EPS (Rs)	14.95	25.23		
Diluted EPS (Rs) Without EO Other Income	14.95	15.57	18.40	22.08
Equity Capital	35.32	35.32	35.32	35.32
Reserves	515.69	604.57	665.57	743.57
Borrowings	446.56	648.27	660.0	675.0
GrossBlock	401.69	429.63	450.0	480.0
Investments	0.0	0.0	0.0	0.0

Source – Niveza Research Desk

KEY CONCERNS

Any sharp rise in input costs can affect the company's profitability as the company operates in a highly competitive market.

Any further sharp rise in interest rates can also impact and dampen the company's profitability. However we believe that any incremental sharp rise in rate cuts look unlikely and going ahead over the next six months we expect rates cuts to start moving downwards.

Product Definition

This Stock Recommendation is ideally for a 3 month time frame with a Return expectation of between 10-15% in this period. Along with the TP a financial stop is also mentioned which is meant to be used if the stock fails to deliver the desired rate of returns in the timeframe mentioned above

vScore:

vScore (Value Score) is our proprietary company rating system for NSE and BSE stocks with value investing philosophy at its core. Technical analysis, macroeconomic indicators and recent developments provide it 360 degree view.

vScore algorithm crunches hundreds of numbers along with the current market price from quarterly and yearly financial results like balance sheet, profit and loss statement, cash flow statement etc. for last 5 years.

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(Source : Niveza Research Desk)