LAKSHMI MACHINE WORKS LIMITED

Annual Report 2013-14

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Forward looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to know our product portfolio, business logic & direction and comprehend our prospects. This report and other statements – written and oral – that we periodically make are based on our assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'plan', 'project' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward looking statements will be realised, although we believe that we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. If known or unknown risks or uncertainties materialise, or if underlying assumptions prove inaccurate, actual results can vary materially from those anticipated, estimated or projected. Readers may bear this in mind. We undertake no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise.

AT LMW, AS WE GO FORWARD, WE GROW FORWARD.

Our story is of countering adversity and rising against the odds. It is the story of relentless pursuit of excellence through Accelerated Competency for Managerial Excellence programme (ACME).

WHAT CHANGED?

Our mindset...

We accepted that there was a better way to work. We challenged convention. We embraced the new.

Our culture...

We worked hard. We worked smart. We maximised value-addition.

Our shop-floor...

We enhanced productivity. We reinforced engineering practices. We hastened deliveries.

WHAT IMPROVED?

Our focus...

We reported a sizeable reduction in set-up time for components.

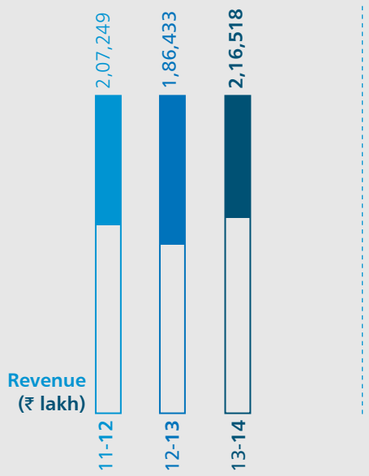
Our drive...

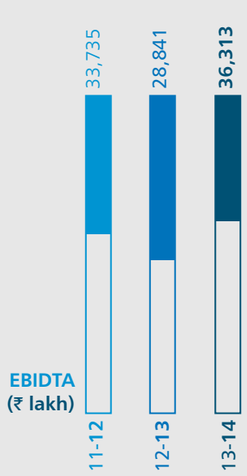
We counted an increase in delivery of machines.

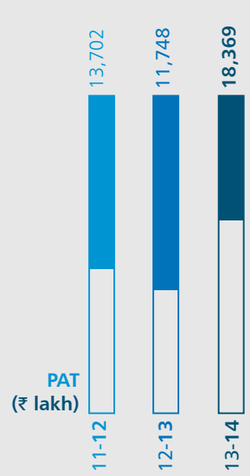
Our momentum...

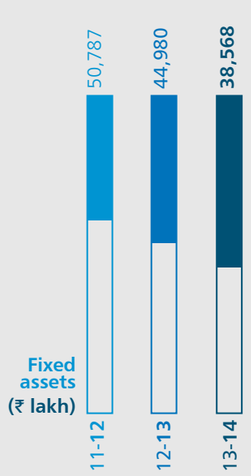
We recorded reduction in cycle time to manufacture and assemble our machines.

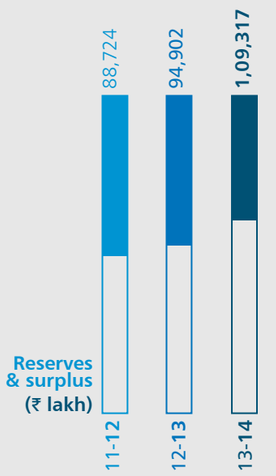
THE STORY IN OUR NUMBERS...

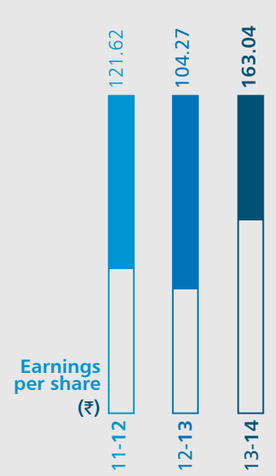












UN COMPLICATE

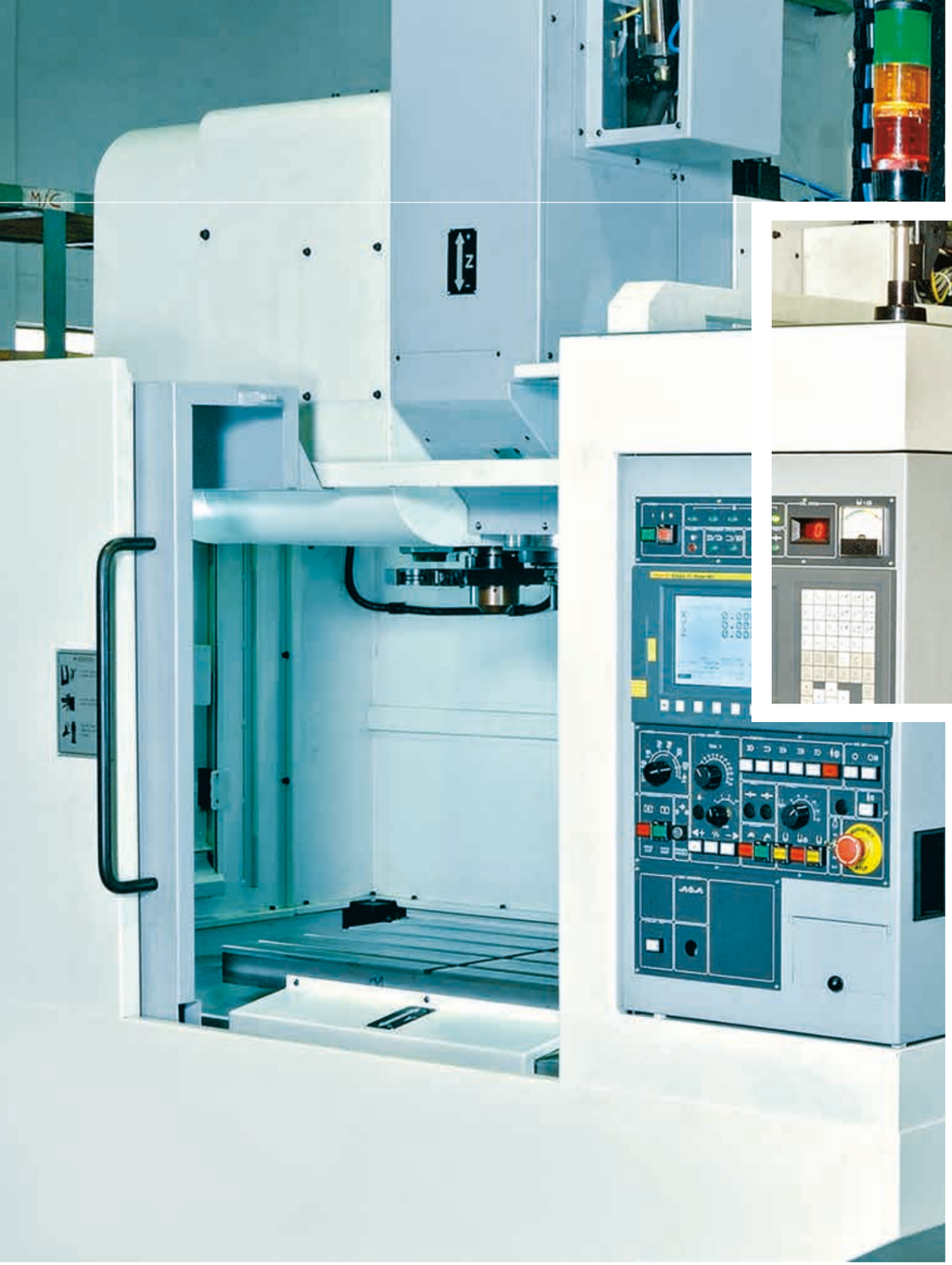
Decrease mechanical components in favour of electronic solutions, which made our machines more 'intelligent'

Standardise a number of parts across machines and their variants. We also standardised the thickness of sheet metal in components and sub-assemblies and effected a single display unit for all spinning machines, resulting in faster assembly and leaner inventory

Alter the design of machines to make them more cost-effective for our customers. We replaced cast iron parts with sheet metal variants, optimising cost and machining time.

As a result of these initiatives, our customers were supplied globally-benchmarked machines.

We altered the design of machines to make them more cost-effective for our customers.



UNSHACKLE

We facilitated high machine uptime by institutionalising an SOP-based preventive maintenance of all machines.

We manufactured only critical and technology-intensive components

We improved machine utilisation by:

Investing in hydraulic fixtures and high-strength cutting tools (used in CNC machines) and pneumatic tools for more accurate component formation

Possessing in 'all-in-one' CNC machines to undertake multiple operations on components, saving set-up time

Having dedicated machines for high-volume components/ machine variants

We automated time-consuming operations through:

Implementing laser-cutting for a majority of the sheet metal jobs and by having dedicated machines for sheet metal bending

Using robots for welding jobs, reinforcing accuracy and reporting almost 4x speeds over manual operations

As a result, our cycle time for component manufacturing has reduced and our component quality improved, thereby improving our productivity.

We are using robots for welding jobs, reinforcing accuracy and reporting almost 4x speeds over manual operations.

UNINTERRUPTED

We developed a bar-coding system for all components coming into the unit, facilitating accurate and real-time inventory management

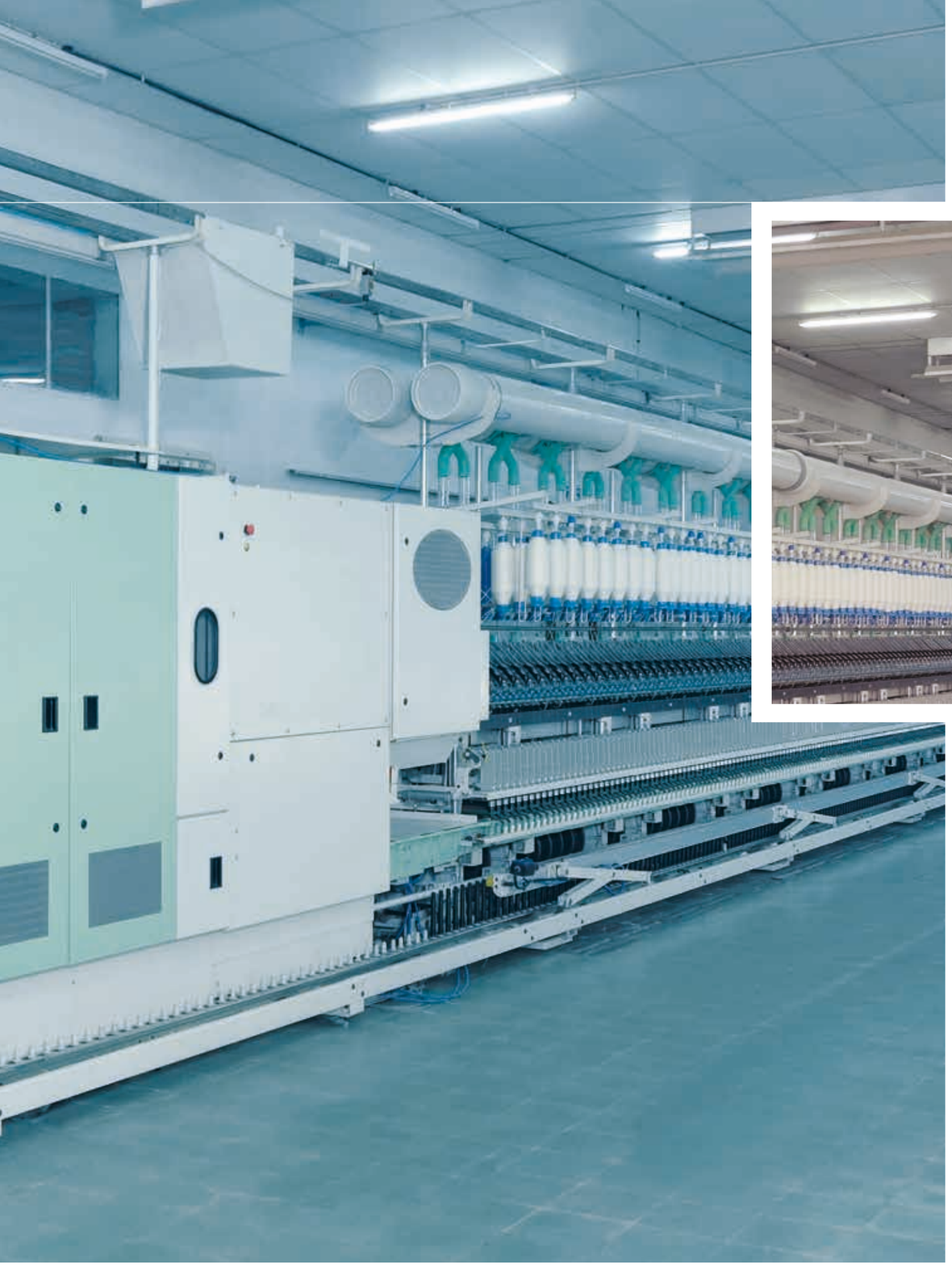
We adopted a global method for parts replenishment. Under this, we compartmentalised components into three categories (based on usage and value) and adopted different sourcing strategies for each category for accurate and timely component sourcing

We analysed vendor manufacturing processes to optimise their manufacturing cycle time, creating a seamless flow of material into our warehouses

We are implementing the 'milk run collection' system, an institutionalised logistics management system where vehicles are designated definite component collection routes, making material inflow predictable

As a result, we made our inventory leaner, we optimised our working capital usage, we ensured uniform supplies to the shopfloor and delivered machines faster.

We adopted a global method for parts replenishment. Under this, we compartmentalised components into three categories and adopted different sourcing strategies for each category.



UNLEARN

Institutionalised a system of component movement on trollies, sequentially arranged - facilitating seamless and accurate assembly

We reduced movement on the shopfloor:

Ensured that sub-assemblies were readied and tested before they came to the assembly line

We minimised assembler fatigue:

Created vertically-mobile assembly platforms, facilitating assembly operations at the eye-level

Invested in superior fixtures for better component holding, freeing both hands of the assembler for superior operational flexibility

Provided pneumatic tools for faster and more accurate assembly operations

We released assembler time:

Introduced the base platform concept for auto-levelling of components during assembly

Provided tools, gauges and fixtures, which allowed the assembler to check tolerances while assembling, thereby liberating time otherwise spent on post-assembly quality checks

We created vertically-mobile assembly platforms, facilitating assembly operations at the eye-level.

FROM THE CHAIRMAN'S DESK

"GROWING GLOBALLY..."

Dear Shareholders,

It is good to realise that today, we are leveraging years of rich experience to embrace newer avenues of excellence.

Despite being a benchmark in our industry space, there is an intense willingness to align ourselves with customer needs. A feeling of strength emanates from a combination of experience and energy, making us a formidable force to reckon with.

The business of today is about swiftness and agility. It is about the 'now' of things.

More than anything else, this is extremely pertinent for the textiles sector. India, on the back of its superior value-proposition (quality, cost and dependability), is readying to emerge as the world's spinning hub. This has coincided with the government framing attractive policies, giving a strong forward impetus to the sector.

This has resulted in the creation of fresh capacities and has attracted global textile machinery manufacturers to set up base in India, intensifying competition.

In 2011, we kick-started the Accelerated Competence for Manufacturing Excellence (ACME) programme with the single-minded goal of adding value to our customers.

This DNA-transformative initiative has propelled every member of the LMW team to seek novel ways of doing the same things differently thereby multiplying productivity.

The bottomline then is that we have become leaner, fitter and faster. While this is just the beginning, our achievements provide the necessary impetus to intensify our efforts in the holistic implementation of this programme, which will sustain profitable growth in future.

Our strategy is to retain leadership in domestic market while making forays in the global market.

Sanjay Jayavarthanavelu
Chairman and Managing Director

THE SOCIALLY RESPONSIBLE CORPORATE

While we grew our business, we ensured that the progressive development of society didn't come to a standstill. As a means to this end, LMW has organised a number of initiatives in the fields of health, education, sports, art and culture, environment, among others with our guiding principle being to make a meaningful contribution towards societal upliftment.

Health: An inherent obligation towards healthcare is the hallmark of the LMW culture. The Company organises eye camps in the villages of Perianaickenpalayam and Kaniyur every year. The Company also co-sponsored a half-marathon organised by the Cancer Foundation, Coimbatore for increasing awareness regarding this dreaded ailment.

Education: The Company runs a school in Perianaickenpalayam to cater to the needs for quality education. Moreover, the Company selectively funds the infrastructural needs for other schools in the hinterland.

Sports: The Company sponsors individual sports and team events with an emphasis on girls. Two schoolgirls have been sponsored for excelling in rifle shooting as a sport. The Company also sponsored various tennis tournaments at the state and national levels.

Art and culture: The Company makes a significant effort to spread awareness about India's rich artistic and cultural heritage. The Company regularly sponsors musical events conducted by reputed institutions and organises art and music competitions for children.

Differently-abled: The Company sponsors various events for the differently -abled. These include art shows, cricket tournaments and other social welfare programmes.

Rural infrastructure: The Company plays an active role in infrastructural development and as such has part-funded the construction of rural roads. The Company has also sponsored the procurement and installation of solar lanterns.

Environment: The Company has initiated afforestation programmes across all its units. Besides, the Company has also invested in setting up windmills for increasing its reliance on green power.

The Ministry of Corporate Affairs vide notification dated 27th February, 2014 has notified the Companies (Corporate Social Responsibility Policy) Rules, 2014 which is effective from 1st April, 2014. As per Sec 135 of the Companies Act, 2013 read with the said Rules every company having a net worth of ₹500 Crores or more, having a turnover of ₹1,000 Crores or more, having a net profit of ₹5 Crores or more have to spend at least 2% of its average net profits of the Company during the preceding three years for the CSR activities specified under Schedule VII of the Act. In this regard it is notable that Lakshmi Machine Works Limited had already pursued in the past various welfare activities to the society.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Economy Overview

As per the data made available by the Central Statistical Organisation (CSO) economic growth during 2013-14 is estimated to be around 4.70% as against the growth rate of 4.50% achieved during 2012-13. This is a clear indication of the fact that the Indian economy has performed far below its potential. Much of the growth during 2013-14 has happened because of robust agricultural activity due to good monsoon.

During the period under review, country's external trade has been impacted by slower than expected economic recovery in the developed markets. On the other hand, a high inflation rate has impacted prices thereby retarding domestic consumption. However the most worrying trend seen during 2013-14 is that of the projected contraction of 0.20% in manufacturing activity as against the growth of 1.10% seen during 2012-13. Given the fact that growth in manufacturing is important for employment generation and poverty eradication, this negative trend has to be reversed as early as possible. According to the Asian Development Bank (ADB), economic recovery would have to be led by improved investment and consumption, but at this stage prospects do not appear promising given the elevated inflation rate, a tight monetary stance, and a weak currency that will continue to constrain spending. Also, fiscal austerity measures adopted by the Government are likely to be an additional drag on growth.

This grim scenario is however expected to ease during 2014-15 as better growth prospects materialise within developed economies and with the Indian economy starting to experience competitive gains arising from Rupee depreciation. These developments have the potential to drive exports growth. Equally a record agricultural output made possible by good monsoon last year is expected to ease inflation and boost domestic consumption for manufactured products. This is expected to spur investment within the economy. However, during 2014-15 India however faces the threat of a bad monsoon year which in turn can strengthen inflation and dampen growth.

4.7%

India's GDP growth in 2013-14 against 4.50% achieved in 2012-13

2014-15 is expected to be a mixed bag wherein government's sound resolve is needed to convert opportunities and threats to advantage. Sound governance that lays emphasis on clear cut policies that have a definite timetable for implementation is the need of the hour. Government should also be making time-bound decisions on infrastructure development to sustain the economic growth momentum.

Economic and fiscal policies pursued by the government will also dictate the type of monetary policy that the RBI will pursue. Despite a decline in inflation over the past few months, the fight against inflation is far from over and therefore, the fiscal stance of the government and the monetary action of the RBI will have to be supportive of each other.

Segment Information

Your Company has four major product segments namely, the Textile Machinery Division (TMD), Machine Tools Division (MTD), Foundry Division and the Advanced Technology Centre. Besides these divisions, your Company has a Wind Energy Division. Manufacturing units/installation of all these divisions is located in and around Coimbatore, Tamil Nadu, India.

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TEXTILE MACHINERY DIVISION