



LMW®

LAKSHMI MACHINE WORKS LIMITED

Annual Report 2014-15

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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.

There are a number of ways in which we can describe what we do at LMW.

The most revealing is that ‘We listen.’

We listen to what is spoken and what is left unsaid.

We listen to our customers and our customer’s customers.

We listen to their challenges of today and their wish list for tomorrow.

We have been doing this faithfully for the past five decades.

We do so now and will continue to do so.

P.S. It is not a coincidence that we are among the three largest textile spinning machinery players in the world.

Lakshmi Machine Works Limited.

More than a company. A brand that stands for complete integrity, cutting-edge technology, a wide portfolio and responsive service.

To enhance customer satisfaction and our image globally, achieve exponential growth, and attain leadership through world-class products and services.

Vision

To deliver greater value to our customers by providing complete, competitive solutions through technological leadership, manufacturing excellence and dynamic responsiveness to market needs.

Mission

- Excellence
- Integrity
- Learning and sharing
- Contribution to industry and society

Values

Lakshmi Machine Works Limited (founded in 1962) is the only Indian company with a prominent presence across the textile spinning machinery value chain – from the Blow Room to the Ring Frame – making it possible to service customers from a single location.

The business of LMW is spread across four business verticals – Textile Machinery, Machine Tools, Castings and Aerospace.

LMW is headquartered in Coimbatore (India) with five manufacturing

locations. The Company has on its rolls more than 3,300 employees and has a presence in 15 countries globally. The Company's shares are listed on the Mumbai and National Stock Exchanges.



At LMW, listening patiently to customers has proved to be rewarding.

(Percentage increase over the previous year)

5.99%
Growth in revenues

5.88%
Growth in EBITDA

12.93%
Growth in profit after tax

14.13%
Growth in networth

10.51%
Growth in profit before tax

4.24%
Growth in gross block

28.60%
Growth in dividend payout

12.94%
Growth in earnings per share



Revenues (₹ Lakhs)

2012-13	2,11,146.15
2013-14	2,42,577.86
2014-15	2,57,119.95

EBIDTA (₹ Lakhs)

2012-13	28,840.99
2013-14	36,313.30
2014-15	38,450.24

Profit after tax (₹ Lakhs)

2012-13	11,747.95
2013-14	18,369.24
2014-15	20,745.09

Dividend payout (₹ Lakhs)

2012-13	2,636.25
2013-14	3,954.37
2014-15	5,085.14

Fixed assets (₹ Lakhs)

March 31, 2013	1,66,102.06
March 31, 2014	1,67,750.48
March 31, 2015	1,74,856.32

Reserves and surplus (₹ Lakhs)

March 31, 2013	94,902.13
March 31, 2014	1,09,317.00
March 31, 2015	1,24,920.20



Listening to the customer...

...inspired decisive solutions.

When LMW listened to its customers, this is what it heard:

'We want machines that do much more than simply spin fibre into yarn.'



This made it imperative for us to do more than get it right just once; it became critical to get it right each time, every time.

The Company focused concurrently on a number of priorities. Qualitative consistency. Enhanced automation. Lower operating costs. Superior output. Minimal maintenance costs.

The result is that we graduated each LMW machine across the spinning value-chain to the next generation.

RESULT: LMW's revenues increased at a rate of 34.82% CAGR over the last three years leading to 2014-15.





Listening to the customer...

...enhanced emergency preparedness.

When LMW listened to the customer, this is what kept coming back: ‘

We want your spares shop to work as our back office.’



LAKSHMI MACHINE WORKS LIMITED

This requirement became increasingly articulated in a business where spares are expensive, working capital is precious and fund costs, expensive.

LMW created an e-spares portal to enhance the convenient requisitioning of spares; we created an app to facilitate order placement.

The result is that LMW made it possible for customers to remain inventory-light, for spares to be always in stock and spares to be delivered with speed wherever needed.

RESULT: we shrunk the delivery lead time significantly and expect this to progressively decline in future.

Listening to the customer...

...graduated our service into a brand.

When LMW continued to engage with its customers, this is what it picked up:

'We want best-in-class machinery combined with round-the-clock connectivity.'



When LMW continued to engage with its customers, this is what it picked up: 'We want best-in-class machinery combined with round-the-clock connectivity.'

The combination of technology and uptime could not be more critically needed.

In a capital-intensive business, superior returns are derived from high production efficiency; high production efficiency is derived from high equipment uptime; high equipment uptime is derived from technological robustness and the ability to respond with speed in the event of an occasional downtime.

LMW developed multi-level connectivity solutions that translated into enhanced customer proximity leading to a complete peace-of-mind.

RESULT: LMW established a meaningful footprint across international spinning hubs like Bangladesh, Turkey, Indonesia, Vietnam, Pakistan and China.



An eagle-eye perspective

“We are evolving from a conventional manufacturing company to a service-driven organisation with a manufacturing back-end.”

In a world that is increasingly competitive, success is derived from the ability to extract the most value from the given resources.

The result is that even a basis point improvement in operating efficiency can translate into an attractive edge when complemented by sizeable production throughput.

This growing requirement is clearer in our business for some cogent reasons. The textile industry is capital-intensive; the cost of funds required to invest in and grow the business is prohibitively high. When one purchases capital-intensive equipment they expect it to last at least a decade. Spinning is a low-margin business where machine

downtime of even a single day can impact productivity and profitability. Downstream product needs are changing faster than before, mandating a syncing of the contemporary with the conventional.

LMW's business dynamics have transformed extensively across a number of fronts over the last few years. Customer needs have extended beyond cutting-edge technology; this is now more of a given and available off-the-shelf in today's competitive environment. Global brands, once distant, are literally competing with us next door. Customers don't wish to buy another product; they demand outstanding service.

LMW made a successful transformation from a company that was respected for its equipment quality to a company admired for its service quality. We shifted the gravity centre of our business model towards service orientation. Within this orientation, the customer's voice emerged as the principal change driver. This voice became the inspiration behind equipment development, component manufacture and machine assembly. We created a dedicated service team to address customer queries. We implemented globally-benchmarked IT solutions to enhance connectivity with customers and their machines. We graduated from customer-distant to their back-office.



LAKSHMI MACHINE WORKS LIMITED

8%

The Government of India has set a goal of doubling India's share in the global textile trade to 8% by 2020.

The result is that despite intensifying competition, we protected our domestic market share, established a strong presence in key global spinning hubs and our Chinese operations carved out a strong market foothold within a short period.

The Company is working to introduce a KYC solution to add significant customer value and create a spares management solution to shrink the requisition-to-receipt cycle.

The Company is confident of providing prompt service and enhancing customer satisfaction.

Looking ahead

LMW is attractively placed to grow its business.

The Indian spinning industry is expected to add about 7-8 million spindles between FY14 and FY19 catalysed by favourable investment policies instituted by the Central and State Governments. The Textile Machinery Manufacturers Association suggests that of the 53 million spindles installed in India, only 35 million are operational, indicating an annual replacement demand of 0.5-1 million spindles.

LMW has proactively evolved from a conventional equipment manufacturing company into a service-driven organisation with a robust manufacturing back-end.

This reorientation represents the backbone of the new LMW, which is fully equipped to address emerging opportunities across the global spinning landscape.



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Management discussion and analysis report



Economy Overview:

The Central Statistical Organisation (CSO) estimates India's economy to have grown during 2014-15 at the rate of 7.4% per annum. For 2015-16 Government estimates the Indian economy to grow by 8%.

The Index of Industrial Production (IIP) indicates that industrial growth within the country has risen to a nine month high of 5% in February 2015 on better performance of the manufacturing sector and with higher offtake of consumer as well as capital goods. The manufacturing sector, which constitutes 75% of the index of industrial production, grew by 5.2% in February against a contraction of 3.9% in the same month a year ago. The consumer and capital goods offtake grew by 5.2% and 8.8% respectively. The growth in capital goods offtake is an indicator of investment activity improving on account of positive business sentiment. However, these numbers seem to have slipped during March, 2015. But given the resolve of the government to boost manufacturing activity in the country, industrial activity is expected to consolidate and grow further in the months to come.

During the year under review, India's

consumer price index dipped to 5.17% year on year in March, 2015 from 5.37% a month earlier and from 8.25% during March 2014. Inflation outlook at this stage suggests an average of 5.8% rate during 2015-16. Stability in inflation rates would prompt the Reserve Bank of India to further cut interest rates and provide the necessary fiscal stimulus to economic activity.

Lower Oil prices have immensely benefited the Indian economy. What used to be an annual oil import bill of USD 125 billion is now only USD 60-70 billion. The resultant savings of USD 55-65 billion will enable the country to not only bridge the trade gap but also ensure the stability of the Indian Rupee.

Meanwhile the Government has initiated several policy measures aimed at improving the ease of doing business and to support the Make in India campaign. Some of the measures like full implementation of GST from

April, 2016 onwards, investment in infrastructure, implementation of novel schemes like Pradhan Mantri Jan Dhan Yojana, creation of MUDRA Bank- a MSME financial institution, Gold Monetisation Scheme, a rational Foreign Trade Policy etc. is expected to provide the necessary impetus for the growth of industry, services, trade and employment opportunities within India.

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. All these divisions are located in and around Coimbatore, Tamil Nadu, India.



01 Textile machinery division



Industry Overview

The Indian textiles industry currently estimated at around USD 108 billion is expected to reach USD 141 billion by 2021.

The industry is the second largest employer after agriculture, providing direct employment to over 45 million and 60 million people indirectly. The Indian Textile Industry contributes approximately 5% to GDP, and 14% to overall Index of Industrial Production (IIP). India has about 22% of the world's installed spinning capacity.

India's textiles sector is one of the mainstays of the national economy. It is also one of the largest contributors to India's exports contributing about 11% to the country's total exports basket. The textile industry is labour intensive and is one of the largest employer. The industry realised export earnings worth USD 41.57 billion in 2013-14. The global trade of Textiles and Garments was around USD 781 billion, while the size of total global garment market is around USD 1.15 trillion. Almost 75% of this market is concentrated in the Eurozone, US, China and Japan.

Meanwhile the domestic textiles consumption in India is at USD 66 billion and given the country's population size, India has the lowest domestic per capita spend on garments at USD 37 which is only 3% of the highest spender Australia at USD 1,131. Meanwhile in the exports front, the top five textiles and garment exporting nations are China, India, Italy, Germany and Turkey. China is the single largest

exporter with 39% share while India stood at a distant second place with a 5% share.

Despite the huge size of the Indian Textile Industry within India, it still has a very small presence across the globe. There are inherent weaknesses like inadequate infrastructure, insufficient power, shortage of trained manpower, non-availability of low cost credit etc. that inhibit further growth.

Prospects

The Indian Textile Industry is expected to grow in the coming years considering the following factors:

Given its current size and stature, the Textile Industry will play an important role in the Make in India initiative. Already encouraging signs emanate from various policy initiatives put in place by the Central and State Governments.

As the Indian economy continues to grow, the domestic per capita expenditure on textiles will increase. This will have the effect of 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 is an opportunity for India, given the rising labour costs and



compliance issues expected in other major garment manufacturing nations. The total global garment market is expected to be around USD 2.11 trillion by 2025.

Challenges

Technological backwardness especially in weaving, processing and garmenting segments.

Low share in global exports.

India has volume of scale disadvantage vis-a-vis competing countries.

Slow pace of infrastructure development, inadequate power etc.

High interest cost and low availability of finance to SME sector.

Preferential tariff regimes for close competitors in certain major markets.

Outlook

The US and EU are the dominant export markets for Indian Textile and Garment products. However the government has recently taken steps under the Focus Market Scheme to develop new destinations for Indian exports. Under the scheme, duty credit scrip is now available to textile exporters on export to 26 additional countries.

The Government has also recently passed the Textile Undertakings

(Nationalisation) Laws (Amendment and Validation) Bill, 2014 to provide impetus to the revival of sick textile units.

In this year's Union Budget, a sum of ₹500 Crores has been allocated for developing textile mega-clusters at six locations across the country. Also a sum ₹10 Crores has been allocated for setting up of a Trade Facilitation Centre to promote handloom products.

Also the 'Make in India' campaign launched by the government intends to provide a further boost to the Indian textile industry and enable it to achieve 20% growth in exports and sustain a 12% growth rate in domestic market till 2024-25. Various policy initiatives taken by the Central and State Governments are also expected to provide a boost to the textile industry. Recent developments in the global market provide for encouraging signals towards increased global demand for textile products.

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

TMD Segment performance

Type of machinery	2014-15		2013-14	
	Nos	₹ in Lakhs	Nos	₹ in Lakhs
Spinning preparatory machines	2,576	79,714.29	2,497	75,921.40
Yarn making machine	1,843	99,197.19	1,589	90,414.38
Accessories and spares		24,760.29		26,605.30