

## Lloyd Electric and Engineering Ltd.

BSE: 517518 | Sector: Consumer Durables

13 January 2017

vScore : 60 | Rating: **Buy**  
 CMP : Rs. 267 | Target Price: Rs. 335

### BUSINESS BACKGROUND

With proven blend of value-added engineering, leading edge technology, flexible production capacity, and individual customer satisfaction that makes us the preferred supplier of high quality coils and heat transfer products. Since 1989, LLOYD ELECTRIC has evolved into a world class manufacturer by providing product support that is unsurpassed in the industry.

Lloyd Electric and Engineering Limited is a publicly traded company with its headquarters in New Delhi. It is the leading and largest producer of Coils / Heat Exchangers (Fin and Tube type) in India, serving the entire spectrum of HVAC & R industry in the country as well as OEM's in North America, Europe, Middle East and Australia. Lloyd Electric also manufactures Air conditioners for the Indian Railways, Metro Rail and Buses at its Bhiwadi factory.

### INVESTMENT HIGHLIGHTS

**Q2FY17 results:** It recorded sales of INR 512 Cr, compared to INR 393 Cr in Q2FY16, EBITDA of 40 Cr compared to INR 34 Crs . EBITDA margin slightly decreased at 8% compared to 8.6% last year same quarter. Net profit of INR 12 Cr compared to INR 9.7 Crs in Q2FY16 Adj. EPS: INR 3.06/share compared to INR 2.44/share last year same quarter. (All figures are on standalone basis.)

**Segment Highlights:** Lloyd operates in three segment that is Consumer durables, OEM & packaged AC, and Heat Exchangers. Under consumer business, the company recorded sales of INR 1385 Cr, for OEM it recorded sales of INR 850 Cr, while heat exchangers & components recorded sales of INR 589 Cr for FY 16.

### KEY DATA

|               |    |             |
|---------------|----|-------------|
| FACE VALUE    | Rs | 10          |
| DIVID YIELD % |    | 0.5         |
| 52 WK HI/LOW  |    | 340/175     |
| NSE CODE      |    | LLOYDELEENG |
| MARKET CAP    |    | RS 1080 Cr  |

### SHAREHOLDING PATTERN-SEP 16

|                   |   |        |
|-------------------|---|--------|
| PROMOTERS         | - | 56.22% |
| BANKS, MFs & DIIs | - | 5.38%  |
| FIIs              | - | 1.61%  |
| Others            | - | 36.79% |

### KEY FUNDAMENTALS

| Year Ending | FY16 | FY17E | FY18E |
|-------------|------|-------|-------|
| Rev Gr%     | 25   | 16    | 19    |
| EBIDTA Gr%  | 14   | 19    | 22    |
| Roe %       | 11   | 13    | 15    |
| RoCE %      | 25   | 27    | 29    |
| Adj EPS     | 24.  | 27.4  | 38    |
| P/E (x)     | 11   | 9     | 7     |

(Exceptional item loss of 45 Cr for FY16 nullified)

**Consistent growth in the B2B and B2C business recent demonetization is a short term issue and not to affect majorly for the company in long run:**

The company operates in consumer durable, OEM and Heat Exchangers segments. For last 2-3 years, the company is delivering consistent growth of 20%+ in the revenues. It operates in B2B and B2C segments. Under B2B, segment it is India's largest manufacturer of Heat Exchanger / Evaporator Coils and air-conditioners serving the entire spectrum of HVAC and Refrigeration Industry. Lloyd ventured into Consumer Durable Segment in 2011, by acquiring distribution network and Lloyd Logo from Associate Company, Fedders Lloyd Corporation Ltd. Initially the company introduced room A/c's and gradually increased the product portfolio by adding LED's, Washing machines, Refrigerators, Chest freezers and few other small appliances.

The current demonetisation is not much a bother for a company in medium to long term, as company provides its HVAC solutions to industries. From Ac's point of view it may be impacted little bit for 2 months and again it will recover according to the management of the company.

**B2B segment and advantages:**

Under B2B, the company does contract manufacturing of AC's as OEM & ODM for prestigious Indian and foreign brands. It is a supplier of customised packaged AC solutions to Indian Railways including Metro Rail. It is a first Indian company to be awarded IRIS (International Railway Industry Standard) certification. It eligible the company for international bidding in Railway business for HVAC & R industry. The company provides end to end solutions in HVAC and R industry. OEM's such as Voltas, CROMA, Godrej are key customers along with Industries, Railways and Metro Rails.

Because of the presence across value chain (Coils to brand) the company has better control on the cost. Over 50 years of experience in HVAC business and trust among its customers is another major advantage of the company. It is pioneer in PFC coils in India. The company has capability to develop heat exchangers applications for nuclear power plants with acquisition of Janka Engineering. It is qualified as category first supplier of Indian Railway and hence contract getting from railways becomes easy for the company.

**B2B segment is growth driver ahead and its advantages:**

Consumer durable business is growing for the company at a higher rate from last few quarters. Last year, from overall business 45% contributed by consumer i.e B2C and 55% by B2B business. But the situation is changing now and consumer business will overtake the traditional business in coming few quarters in terms of total revenue. The company has strong PAN India presence with dealer network of more than 7,000 dealers, 30 sales branches and 307 authorised service centres. The company's share of AC's in overall revenue has doubled in last five years and growing at a good rate. Recent tie up with Star sports for advertising within cricket matches gave some more visibility to the brand. Also the company has recently launched Air purifiers to take benefit of improved visibility in coming period. LED's and Washing machines will further continue to increase their sales though at not very aggressive rate but descent rate considering the competition in the market.

Another few advantages for consumer business is focus on top 10-15 Tier cities because of the brand awareness of population is more in these cities. The company wants to take benefit and strengthen their visibility in these top cities and further try to increase the sales. The penetration level of consumer durable is still low in India and in coming few quarters and years it is expected to increase considering the rising income levels and discretionary spending.

## Business Outlook and Valuation :

At the moment at current price of 267 the stock is trading at (TTMFY16) adjusted P/E of 11. Going ahead we expect revenue growth of 16% for FY17 and 18-19% for FY18. Hence our expectations for revenue for FY17 and FY18 are INR 3106 Crs and INR 3760 Crs respectively.

We expect company to maintain EBITDA margin around 9-10% for next two years. Going ahead we expect PAT margins of 3-4% for next two years. Our PAT expectations for FY17 and FY18 are INR 110 Crs and INR 153 Cr respectively. Our EPS expectations for FY 17 and 18 are INR 27.3 and INR 38.1 respectively.

The company has gained good market share in AC's from last 3-4 years, from around 3-4% to around 12-13% at the moment. In future also they are willing to expand it by few more percentage points. The company has recently appointed EY for shareholder wealth creation which will further come up with few strategies in medium term for shareholder wealth creation.

Looking at other companies in consumer goods industry with Industry average P/E of approx 20-25; we believe Lloyd Electrical & Engineering at forward FY17 PE of 9-10 is attractive. With EPS expectation of 27 for FY17 we expect target price as **335/share** for a short to medium term with a stop loss at 220.

## FINANCIALS:

| For the Year Ended March (INR) | FY15A | FY16A | FY17E | FY18E |
|--------------------------------|-------|-------|-------|-------|
| Net Sales (Cr)                 | 2172  | 2724  | 3106  | 3760  |
| EBIDTA (Cr)                    | 240   | 262   | 312   | 381   |
| EBIDTA %                       | 10.6  | 9.7   | 9.8   | 10    |
| Adj.Profit Before Tax (Cr)     | 111   | 110   | 164   | 229   |
| Interest (Cr)                  | 94    | 105   | 110   | 109   |
| Depreciation (Cr)              | 38    | 46    | 47    | 49    |
| Tax (Cr)                       | 23    | 23    | 54    | 75    |
| Adj.Profit After Tax (Cr)      | 88    | 87    | 110   | 153   |
| Adj.PAT%                       | 4     | 4     | 3.5   | 4     |
| Adj. Diluted EPS (INR)         | 25    | 24    | 27.3  | 38.1  |
| Shareholder's Funds (Cr)       | 756   | 780   | 893   | 1045  |
| Borrowings (Cr)                | 742   | 897   | 962   | 997   |
| Gross Block (Cr)               | 692   | 747   | 785   | 827   |

## Key Risks and Concerns:

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- ✗ Any down turn in the consumer durable industry or economy can impact company's financials.
- ✗ Substitute products from competitors' can create market share problems for the company.
- ✗ Adverse currency movements affects the earnings of the company
- ✗ Ability to manage working capital and debt levels is crucial for the company.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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*Source: Niveza Research Desk*