

RESULTS REVIEW

Kirloskar Brothers Limited

Hold

Share Data

Market Cap	Rs. 48.4 bn
Price	Rs. 457.00
BSE Sensex	17,998.39
Reuters	KRBR.BO
Bloomberg	KKB IN
Avg. Volume (52 Week)	26,562.0
52-Week High/Low	Rs. 527/330.05
Shares Outstanding	105.8 mn

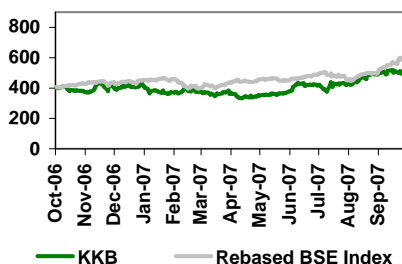
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	18.9	22.2
+/- (%)	9.8%	17.3%
PER (x)	24.2x	20.6x
EV/ Sales (x)	2.2x	1.8x
EV/ EBITDA (x)	20.4x	16.8x

Shareholding Pattern (%)

Promoters	62
FIs	2
Institutions	12
Public & Others	24

Relative Performance



Focus on the core business

In Q108, Kirloskar Brothers Limited (KBL) registered 4.7% yoy decline in sales to Rs. 3,155 mn. The sale in Q107 was exceptionally high due to a delay in recording of Senegal exports sale for Rs. 700 mn (related to Q406) for want of confirmed letter of credit. However, excluding Senegal exports, KBL's sales grew by 20.9% yoy. EBITDA decreased by 12.4% yoy to Rs. 359 mn. Decline in EBITDA was further compounded by higher effective tax rate and lower other income, which resulted in the reduction of net profit by 34.2% yoy to Rs. 257.1 mn.

KBL, in the race of being among the top five pump companies in the world by 2015, has taken the route of carefully crafted acquisitions to move up the value chain along with organic growth. Driven by its plans to double capacity by investing Rs. 1,550 mn in FY08, expected synergies from recent acquisition of Gondwana Engineers Pvt. Ltd. and Kolhapur Steel Ltd., and opportunities provided by growth of Indian pump market, we expect KBL's revenue to grow at a CAGR of 23.8% over FY07-09E.

At the current price of Rs. 457, the stock trades at a forward PE of 24.2x FY08E earnings and 20.6x FY09E earnings. At current levels, we feel the stock has limited upside potential and hence maintain **Hold**.

Result Highlights

KBL's sales fell by 4.7% yoy in Q108. Domestic sales increased by 20.4% yoy to Rs. 2,830 mn while exports declined by 66.7% yoy to **Key Figures (Standalone)**

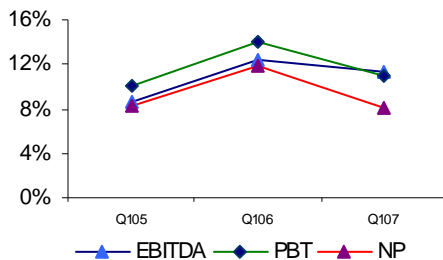
Quarterly data	Q107	Q407	Q108	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	3,310	4,486	3,155	(4.7%)	(29.7%)
EBITDA	410	389	359	(12.4%)	(7.7%)
Net Profit	391	367	257	(34.2%)	(30.0%)
Margins(%)					
EBITDA	12.4%	8.7%	11.4%		
NPM	11.8%	8.2%	8.1%		
Per Share Data (Rs.)					
Adjusted EPS	3.7	3.5	2.4	(34.3%)	(30.0%)

Please see the end of the report for disclaimer and disclosures.

*Domestic sales contributes
90% to total sales*

*Increased focus on core
business*

Margin analysis



Rs. 320 mn. The sale in Q107 was exceptionally high due to a delay in recording of Senegal exports sale for Rs. 700 mn (related to Q406) for want of confirmed letter of credit. However, excluding Senegal sales, the Company's exports grew by 23% yoy whereas overall sales increased by 20.9% yoy.

Pump segment's contribution in total sales enlarged to 98% in Q108 from 93% in Q107, despite registering a decline of 0.1% yoy in absolute terms. The increase in contribution was on account of KBL's strategy to concentrate on core business of pumps and pumping systems.

EBITDA declined by 12.4% yoy to Rs. 359.3 mn and margins dipped by 101 bps. Decline in sales coupled with higher staff cost (up by 29.9% yoy) led to a decline in EBITDA.

Maintaining EBITDA's declining trend, net profit plunged by 34.2% yoy to Rs. 257.1 mn and margins declined by 366 bps. The reasons for this steep decline were: (a) considerable increase in effective tax rate (25.8% vis-à-vis 15.7%), (b) reduction in other income (down by 45.9% yoy), (c) higher depreciation expenditure (up by 45.7% yoy) due to increased capital investment, and (d) increased interest outgo (up by 11.4% yoy) due to higher debt-equity ratio (0.08 vis-à-vis 0.05).

KBL's order book stood at Rs. 32,000 mn, which has an execution cycle of 2-2.5 years. The value of outstanding orders stands at 1.8 times its FY07 net revenues thus providing clarity on the potential revenue growth.

Key Events

- On Sep 10, 2007, KBL acquired 100% equity share capital of 'Gondwana Engineers Private Limited' for a total consideration of Rs 76.4 mn. On the same day, the Company also took over the board of Kolhapur Steel Limited.
- Kirloskar's joint venture with IVRCL & Madras Engineering Industries received an order worth Rs. 7,612.4 mn from the Government of Andhra Pradesh, irrigation and CAD department. KBL's portion in the said agreement is Rs. 1,141.6 mn.

Outlook

KBL plans to double its capacity in the next three years

Indian pump market has an estimated size of over Rs. 32,000 mn, which is expected to grow at a CAGR of 12-15%. In order to cater to this huge market potential, KBL plans to double its production capacity during the next three years. For this, the Company is planning to invest Rs. 1,550 mn in FY08. Moreover, the recent acquisition of Gondwana Engineers Private Limited and Kolhapur Steel Limited is expected to reap profits in the years to come. Additionally, in order to increase its presence in the international market, KBL had formed a wholly owned subsidiary in Netherlands which will function as an investment company.

Margins expected to remain under pressure

Driven by inorganic and organic growth, we expect KBL's revenues to grow at CAGR of 23.8% and net profit at a CAGR of 13.5%. We believe the margins will remain under pressure in the near future. However, significant planned investment is expected to provide long term benefits.

At the current price of Rs. 457, the stock trades at a forward PE of 24.2x FY08E earnings and 20.6x FY09E earnings. At current levels, we feel the stock has limited upside potential and hence maintain **Hold**.

Key risks to the rating are increase in raw material prices and lower order execution rate.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	13,071	14,883	17,819	22,761	27,309	23.8%
EBITDA	963	1,807	1,875	2,432	2,949	25.4%
Net Profit	648	1,484	1,820	1,998	2,344	13.5%
Margins(%)						
EBITDA	7.4%	12.1%	10.5%	10.7%	10.8%	
NPM	5.0%	10.0%	10.2%	8.8%	8.6%	
Per Share Data (Rs.)						
Normalised EPS	6.1	14.0	17.2	18.9	22.2	13.5%
PER (x)	14.8x	27.8x	26.6x	24.2x	20.6x	

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