

- **Net Sales increases by 45.5% to Rs6.7bn**
- **Operating profit increases by 75.5% to Rs1.1bn**
- **Operating margin increases by 280 bps to 16.3%**
- **Cement EBIT per ton increases by 58.6% to Rs995**
- **PAT increased by 154.1% to Rs706mn**

**Financials Highlights**

Period to	03/07	03/06	Growth	FY07	FY08P	FY09P
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(12)
Net Sales	6,589	4,530	45.5	22,041	25,264	26,048
Total Expenses	(5,516)	(3,918)	40.8	(18,195)	(20,162)	(21,496)
% of Net Sales	83.7	86.5	-	82.6	79.8	82.5
Operating Profit	1,073	612	75.5	3,846	5,102	4,552
% of Net Sales	16.3	13.5	-	17.4	20.2	17.5
Other Income	165	217	(23.7)	490	450	450
Interest	(113)	(113)	0.4	(335)	(400)	(400)
Depreciation	(166)	(138)	20.6	(583)	-744	-744
PBT	959	578	66.1	3,418	4,408	3,858
Tax	(254)	(300)	(15.5)	(761)	(1,058)	(965)
% of PBT	26.4	51.9	-	22.3	24.0	25.0
PAT before EO	706	278	154.1	2,657	3,350	2,893
EO	95	-	-	-	-	-
PAT after EO	801	278	188.3	2,657	3,350	2,893
% of Net Sales	12.2	6.1	-	12.1	13.3	11.1
Adjusted EPS	-	-	-	58.1	73.2	63.2
PE @ CMP of Rs387	-	-	-	6.7	5.3	6.1

**Volume growth led by capacity expansion**

KIL has increased its cement capacity from 2.9 mn ton to 4.55 mn ton in Q4FY07. This has led to increase in despatches yoy by 18.2% to 1.03 mn ton. On qoq basis despatches went up by 22.9%. Tyre volumes have seen a growth of 30% as KIL is continuously expanding its tyre capacity at Balasore, Orissa. KIL has planned to increase its cement capacity by further 1.65 mn ton by FY09 end. It is putting up a Greenfield capacity at Uttaranchal for tyre which is expected to complete by FY09. At Balasore it is planning to expand its capacity from the present 194 tpd to 322 by the end of FY08. We expect cement volumes for FY08 and FY09 to be at 4.4mt and 4.6mt respectively. We expect tyre volumes to grow by 6% for FY08 and by 12% for FY09 respectively.

**Cement realisation and margins improve but tyre margins slip**

Cement realisation at gross level has improved by 30.4% yoy to Rs3382 per ton and by 2.9% on qoq basis. Cement EBIT per ton has increased by 58.6% yoy and 6.9% qoq to Rs995. We expect cement realisation for FY08 to go up by 1% and come down by 5% in FY09. KIL has increased its tyre sales volume by 30% whereas margins have come down from 4.8% to 3.1% on yoy basis. Margin for tyre segment stood at 4.1% in Q4FY06.

**Other segments continue poor form**

KIL's other divisions like Rayon etc. and others segment constituting spun pipes etc. continue to perform poorly for Q4FY07. Realisations for VFY is increasing in the international market due to improved demand but increase in rayon grade pulp prices has removed any improvement in margin. Pipes segment continues to make losses as demand is sluggish for the same.

**Segment-wise results**

<b>Period to</b>	<b>03/07</b>	<b>03/06</b>	<b>Growth</b>	<b>(%) of</b>	<b>12/06</b>	<b>Growth</b>
<b>(Rs mn)</b>	<b>(3)</b>	<b>(3)</b>	<b>(%)</b>	<b>total</b>	<b>(3)</b>	<b>(%)</b>
<b>Revenues</b>						
Tyres	3,173	2,360	34.5	42.2	2,888	9.9
Cement	3,494	2,267	54.1	46.4	2,762	26.5
Rayon, T.P. and Chemicals	542	313	73.4	7.2	486	11.6
Others	318	285	11.8	4.2	191	66.2
<b>Total</b>	<b>7,528</b>	<b>5,224</b>	<b>44.1</b>	<b>100.0</b>		
<b>EBIT</b>						
Tyres	98	113	-13.6	8.7	119	-17.8
Cement	1,028	548	87.5	91.1	783	31.3
Rayon, T.P. and Chemicals	23	31	-24.9	2.1	21	11.3
Others	(20)	(13)	54.0	(1.8)	(9)	126.6
<b>Total</b>	<b>1,129</b>	<b>679</b>	<b>66.2</b>	<b>100.0</b>		
<b>EBIT Margin</b>						
Tyres	3.1	4.8	-	-	4.1	-
Cement	29.4	24.2	-	-	28.3	-
Rayon, T.P. and Chemicals	4.3	10.0	-	-	4.3	-
Others	(6.3)	(4.6)	-	-	(4.6)	-

**Valuations**

We have revised our FY08 EPS estimate from Rs64 to 73.2, but reduced FY09 estimate from Rs67.2 to Rs63.2 to reflect the cement pricing expectation. KIL is expected to fully benefit from the recent capacity addition in FY08 as the capacity is expected to run at near 100% utilization. We expect cement prices to be flat in FY08 with marginal increases and expect prices to fall in FY09. We expect tyre margins to pickup in the coming quarters as raw material pressure reduces. We upgrade our rating from SELL to HOLD for KIL with a target of Rs442. Our target discounts KIL's FY09 earnings by 7x.

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