

## INDIA RESEARCH

Sector: Diversified  
Group: Private  
Date: 21-09-06  
CMP: Rs. 458  
Price Target: Rs.622 (12 mts)

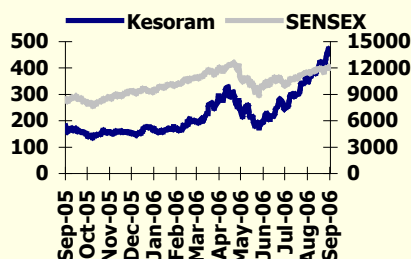
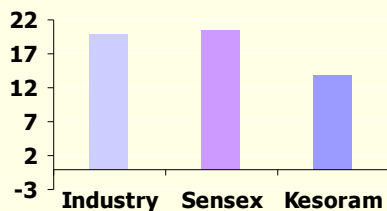
### OUTPERFORMER

BSE Sensex	12265
NSE-50	3551
Eq. Cap	Rs.45.7cr
Face Value	Rs.10
# of Shares	4.57cr
Mkt. Cap.	Rs.20.93bn
BSE Code	502937
NSE Code	KESORAMIND
Bloomberg	KSI@IN
Book Val (FY07E)	Rs.121
Price / Bk Val	3.7X
52 wk Hi / Lo	478/128
Avg.DAloky Vol	143535
P/E (FY07E)	13.7X
PEG	0.06x
EV / Sales (FY07E)	1.4 x

#### Share Holding Pattern @ 31.03.06

Promoters	21.87
Institutional	62.74
Others	15.39

#### P/E Comparison



## KESORAM INDUSTRIES LTD. (KIL)

### KEY HIGHLIGHTS

- A diversified flagship company of B K Birla Group with major revenue contributed by tyre and cement business is now heading its way with increased focus on its cement division.
- Kesoram Industries is operating through two cement plants at AP and Karnataka with total capacity of 2.9 mn tones and caters to mainly to Maharashtra and Karnataka regions.
- The firm is one of the few companies who have recognized infrastructure boom. It is one of the few beneficiaries of cement industry upturn as its capacity expansion would get commenced by December 06. It has undertaken expansion of clinker capacity by 1.25mn tones and cement capacity by 1.6 mn tonnes along with captive thermal power plant of 17MW expected to be completed by December 2006. At present majority of power requirement is served captively.
- Total capex of Rs425cr is funded through both i.e Rs115cr through internal accruals and Rs310cr through loan @ 7.1% from SBI and Associates.
- The outlook for the tyre division is looking positive with natural rubber prices stabilizing. Natural rubber prices have fallen by 20% in the near future which has made the tyre industries outlook positive.
- Kesoram Industries has total capacity of 17 lakh tyres and has core competency in truck tyres and the firm has diversified its tyre portfolio into steel radial passenger and LCV tyres. The company also has good reach in replacement market which we expect to grow further.
- Kesoram Industries is expanding its tyre capacity by 55000 tyres at a total cost of Rs65 cr by November 06. With booming export market for tyre industry and improving margins this expansion would prove beneficial for the firm.
- Kesoram Industries' other sections such as rayon & transparent paper, spun pipes and heavy chemicals account not more than 5-6% of the total revenue. These being loss making units company is planning to hive off these divisions. Hindustan Heavy Chemical division is on the verge of getting hived off at a total cost of Rs35-40cr.
- Kesoram Industries has reduced its freight cost substantially as it has shifted its mode of transport to rail rather than road.
- Kesoram Industries enjoys one of the highest EBITDA/tonne of Rs1039. We expect earnings of the firm to grow at 14% CAGR over FY06-08 and EPS to grow at 65% CAGR over the same period. The net cost of debt cost the company is at a comfortable level of 7.1%.
- **VALUATION:** The sharp run up in the stock price of Kesoram Industries in the last two months has discounted its potentials upto some extent. However, through our sum-of-parts valuation technique we have arrived at the fair value of Rs622 which shows further upside of 36%. **We rate this stock 'BUY' at every dip.**

**SUM OF THE PARTS**

(Rs Cr.)

<b>Cement</b>	<b>FY07E</b>	<b>FY08E</b>
Total volumes	3.6	5.0
Net realn	2850	2850
Sales	1026	1411
EBITDA %	30%	30%
EBITDA	307.8	423.2
<b>EV</b>	<b>3078.0</b>	<b>4232.3</b>

<b>Tyres</b>	<b>FY07E</b>	<b>FY08E</b>
Sales	1003.2	1253.7
EBITDA%	6%	6%
EBITDA	58.2	75.2
<b>EV</b>	<b>290.9</b>	<b>376.1</b>

<b>Others</b>	<b>FY07E</b>	<b>FY08E</b>
Sales	127.2	135.0
Loss	-6.4	-6.8
<b>EV</b>	<b>-31.8</b>	<b>-33.8</b>

**FAIR VALUE**

<b>Particulars</b>	<b>FY07E</b>	<b>FY08E</b>
EV	3337	4575
Debt	539	431
Cash	48	96
M Cap	2846	4240
<b>Fair Value (Rs)</b>	<b>622</b>	<b>927</b>

**FINANCIAL SUMMARY**

(Rs. in Cr.)

<b>INCOME STMT.</b>	<b>CY04(A)</b>	<b>CY05(A)</b>	<b>CY06(A)</b>	<b>CY07E</b>	<b>CY08E</b>
<b>Net Sales</b>	1295.8	1422.0	1613.2	2155.2	2799.5
<b>Total Expenditure</b>	1203.2	1369.4	1502.4	1808.4	2307.8
<b>Raw material cost</b>	598.6	652.2	749.7	686.0	1099.2
<b>PBIDT</b>	92.6	52.6	110.8	346.8	491.7
<b>Other Income</b>	78.4	72.1	54.4	60.0	62.0
<b>Interest</b>	34.3	27.7	32.8	48.0	54.5
<b>PBDT</b>	136.6	97.0	132.5	358.8	499.2
<b>Depreciation</b>	53.6	53.5	51.6	81.7	108.3
<b>PBT</b>	83.0	43.5	80.9	277.1	390.9
<b>Tax</b>	20.0	10.0	35.2	124.7	156.4
<b>PAT</b>	63.0	33.5	45.7	152.4	234.5
<b>EPS (Rs.)</b>	13.8	7.3	10.0	33.3	51.3
<b>Cash EPS</b>	25.49	19.02	21.27	51.17	74.96

(Rs. in Cr.)

<b>BALANCE SHEET</b>	<b>CY04(A)</b>	<b>CY05(A)</b>	<b>CY06(A)</b>	<b>CY07E</b>	<b>CY08E</b>
Share Capital: Equity	45.7	45.7	45.7	45.7	45.7
Reserves & Surplus	302.7	331.4	370.3	509.0	729.8
Net Worth	348.5	377.1	416.1	554.7	775.6
Secured loans	307.7	260.5	413.4	331.0	331.0
Unsecured loans	139.0	244.0	208.0	208.0	100.0
Total Debt	446.6	504.6	621.4	539.0	431.0
Deferred tax Liab.	124.5	117.9	107.2	170.0	129.8
<b>Sources of fund</b>	<b>919.6</b>	<b>999.6</b>	<b>1144.6</b>	<b>1263.7</b>	<b>1336.4</b>
Gross Assets	1146.8	1151.5	1215.3	1465.3	1540.3
Less: Dep	584.8	632.9	680.3	762.0	870.3
Net Assets	562.0	518.6	535.0	703.3	670.0
CWIP	7.9	52.9	208.2	75.0	10.0
Investments	25.0	28.2	29.0	30.0	40.0
<b>Current Assets</b>	<b>539.5</b>	<b>630.6</b>	<b>611.2</b>	<b>808.0</b>	<b>1006.3</b>
Debtors	200.8	201.4	184.4	270.0	310.0
Cash & Bank	24.4	19.8	24.8	48.0	96.3
Inventory	203.1	230.2	255.2	320.0	380.0
Advances	111.3	179.2	146.8	170.0	220.0
<b>Current Liabilities</b>	<b>145.4</b>	<b>185.6</b>	<b>161.2</b>	<b>250.0</b>	<b>330.0</b>
Provisions	69.4	45.1	77.3	102.6	60.0
Working Capital	324.7	399.9	372.7	455.4	616.3
Misc Expenditure	0.0	0.0	-0.3	0.0	0.0
<b>Uses of Funds</b>	<b>919.6</b>	<b>999.6</b>	<b>1144.6</b>	<b>1263.7</b>	<b>1336.3</b>

(Rs. in Cr.)

RATIO ANALYSIS	CY04(A)	CY05(A)	CY06(A)	CY07E	CY08E
<b>Profitability Ratios</b>					
PBIDT(%)	7.1%	3.7%	6.9%	16.1%	17.6%
PBDT(%)	10.5%	6.8%	8.2%	16.6%	17.8%
PBT(%)	6.4%	3.1%	5.0%	12.9%	14.0%
PAT(%)	4.9%	2.4%	2.8%	7.1%	8.4%
Tax Rate(%)	24.1%	23.0%	43.5%	45.0%	40.0%
RoCE(%)	14.8%	8.1%	11.0%	29.7%	36.9%
RONW(%) / RoE	18.1%	8.9%	11.0%	27.5%	30.2%
<b>Valuation Ratios</b>					
EPS (Rs)	13.77	7.33	9.99	33.32	51.28
Price (Rs)	458.00	458.00	458.00	458.00	458.00
P/E (x)	33.25	62.50	45.83	13.75	8.93
CEPS (Rs)	25.49	19.02	21.27	51.17	74.96
CPER (x)	17.97	24.08	21.53	8.95	6.11
BV (Rs)	76.19	82.45	90.96	121.28	169.56
PBR (x)	6.01	5.55	5.04	3.78	2.70
DPS (Rs)	1.00	1.20	4.00	4.00	4.00
EV (Rs Mn)	2726.68	2712.76	2899.48	2932.63	3105.16
EV/EBITDA (x)	29.46	51.61	26.16	8.46	6.32
Debt/NW (x)	1.28	1.34	1.49	0.97	0.56
<b>Expense Ratios</b>					
RMC/Net Sales (%)	46.2%	45.9%	46.5%	31.8%	39.3%
O.H. to Net Sales(%)	92.9%	96.3%	93.1%	83.9%	82.4%
<b>Growth Ratios</b>					
Net Sales	-	9.74%	13.45%	33.60%	29.90%
PBIDT	-	-43.21%	110.84%	212.90%	41.80%
PAT	-	-46.79%	36.37%	233.42%	53.90%
Net Sales to Net FA (x)	-	2.74	3.02	3.06	4.18
<b>Liquidity Ratios</b>					
Inventory (Days)	56.21	55.61	54.92	48.71	45.63
Debtors (Days)	49.91	51.62	43.64	38.48	37.81
Cash Conversion Cycle	106.12	107.23	98.56	87.18	83.44
Interest Coverage	3.42	2.57	3.47	6.77	8.18
Current Ratio	3.71	3.40	3.79	3.23	3.05

CASH FLOW STATEMENT	CY04(A)	CY05(A)	CY06(A)	CY07E	CY08E
<b>EBITDA</b>	<b>92.55</b>	<b>52.56</b>	<b>110.82</b>	<b>346.76</b>	<b>491.70</b>
Changes in working capital	(64.04)	(79.80)	32.28	(59.55)	(112.60)
Other Income	78.36	72.10	54.43	60.00	62.00
Interest / Taxes paid	(50.85)	(54.32)	(37.65)	(67.97)	(172.70)
<b>CF from Operations</b>	<b>56.02</b>	<b>(9.46)</b>	<b>159.88</b>	<b>279.24</b>	<b>268.40</b>
Net capital expenditure	73.62	51.96	(120.18)	46.54	206.63
Net investments	14.69	(3.20)	(0.83)	(0.98)	(10.00)
<b>CF from Investments</b>	<b>88.31</b>	<b>48.76</b>	<b>(121.01)</b>	<b>45.56</b>	<b>196.63</b>
Dividends paid	(11.44)	(11.44)	(13.72)	(13.72)	(13.72)
Equity issued	(0.19)	0.00	0.00	0.00	0.00
Inc./(dec) in debt	5.74	57.91	116.81	(82.36)	(108.00)
Non-recurring / Other items	(133.90)	(90.40)	(136.90)	(205.60)	(295.00)
<b>CF from Fin. Activities</b>	<b>(139.79)</b>	<b>(43.93)</b>	<b>(33.81)</b>	<b>(301.68)</b>	<b>(416.72)</b>
<b>Inc./(dec) in net cash</b>	<b>4.54</b>	<b>(4.63)</b>	<b>5.06</b>	<b>23.12</b>	<b>48.31</b>
<b>Opening net cash</b>	<b>19.86</b>	<b>24.37</b>	<b>19.78</b>	<b>24.83</b>	<b>48.00</b>
<b>Closing net cash</b>	<b>24.40</b>	<b>19.74</b>	<b>24.84</b>	<b>47.95</b>	<b>96.31</b>
<b>Gross Cash Flow</b>	<b>56.02</b>	<b>(9.46)</b>	<b>159.88</b>	<b>279.24</b>	<b>268.40</b>
<b>Free Cash Flow</b>	<b>129.64</b>	<b>42.50</b>	<b>39.70</b>	<b>325.78</b>	<b>475.03</b>

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