



(Investment Idea

Kerala Chemicals & Proteins Ltd (KCPL)

Kerala Chemicals & Proteins has staged a turnaround and put up an excellent performance for Quarter ended December 2006. Net Sales grew @22.4% to Rs.31.96 crore. OPM% zoomed to 14.2% (2.2%) mainly due to decline in raw material cost to 47% of sales (58.2%). Higher net sales coupled with improved OPM% led to PBT (before extraordinary items) of Rs.2.63 crore as against loss of Rs.1.4 crore. After taking into account extraordinary income on account of interest on refund of excise duty which is pending final determination by assessing authorities, PBT (after extraordinary item) spurted to Rs.3.56 crore (Loss of Rs.1.40 crore). PAT stood at Rs.2.89 crore (Loss of Rs.1.42 crore).

KCPL is engaged in manufacture of Gelatin, Ossein (intermediate product in process of making gelatin from crushed bones) and Dicalcium Phosphate (a byproduct). Company's products find application in photo, food and pharmaceutical industry both in domestic and international market. Exports constitute ~60% of Net Sales with company's products being sold in USA and Europe.

Going forward, company is shifting its focus to high margin - pharmaceutical grade of gelatin on back of robust demand for this grade both in domestic as well as global markets. Moreover, Ossein exports to Nitta Gelatin Inc (holding 46.4% stake), which were earlier hit due to reduced demand for Gelatin, are picking up with recovery in international gelatin market.

At CMP of Rs.68.25, the share is trading at 8.5 times FY 2007 expected EPS of Rs.8 and 6.2 times FY2008 expected EPS of Rs.11. In view of good future prospects, we recommend to "BUY" the share at CMP.

Disclosures:

The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment and information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.

January 29, 2007