Batlivala & Karani

B&K Securities

INITIATING COVERAGE

Share Data

Market Cap.	Rs. 43.4 bn (US$ 935.2 mn)
Price	Rs. 410
Target Price	Rs. 450
BSE Sensex	10071
Reuters	KRBR.BO
Bloomberg	KKB IN
Avg. Volume (6 mth)	(US$ 0.4 mn)
52-week High/Low	Rs. 545/106
Issued Shares	106 mn

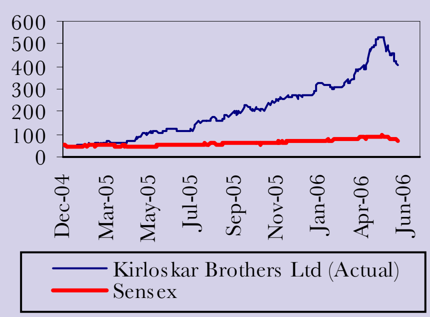
Valuation Ratios

Year to 31 Mar.	2007E	2008E
EPS (Rs.)	21.2	27.2
+/- (%)	45.2	28.5
PER (x)	19.4	15.1
PBV (x)	7.1	4.8
Dividend/Yield (%)	1.2	1.2
EV/Sales (x)	2.0	1.6
EV/EBITDA (x)	15.4	11.7

Shareholding Pattern (%)

Promoters	62.0
FIIs	3.0
MFs	9.5
Public & Others	25.5

Relative Performance



Kirloskar Brothers Ltd.

Market Performer

From supplier to solution provider

Kirloskar Brothers Limited (KBL), the largest domestic pump manufacturer has evolved into an engineering procurement and contractor, providing turnkey pumping solutions. As an EPC player, it capitalised splendidly on the Andhra Pradesh state sponsored lift irrigation schemes and realised 32% revenue CAGR in the last two years. Lift irrigation schemes continue to flow unabated from that particular state and other water arid states too are following suit with their irrigation schemes. Kirloskar Brothers has in the interim reinforced its industrial pumps portfolio and in all likelihood will continue to grow at the same rate.

Year to March	FY05	FY06	FY07E	FY08E	CAGR (%)
P&L Data (Rs. mn)					**FY06-08E**
Revenues	13,071	14,882	20,971	25,233	30.2
EBITDA	950	1,771	2,766	3,527	41.1
Net Profits	665	1,543	2,240	2,879	36.6
Margins (%)					
EBITDA Margin	7.3	11.9	13.2	14.0	–
Net Profit Margin	5.1	10.4	10.7	11.4	–
Balance Sheet (Rs. mn)					
Total Assets	10,045	11,631	15,267	18,857	27.3
Shareholders' funds	3,645	5,198	6,840	9,120	32.5
Per Share Data (Rs.)					
Adjusted EPS	6	15	21	27	36.6
CEPS	9	17	24	30	33.1
Dividend	2	4	5	5	11.8
Returns (%)					
ROCE	22	34	40	40	–
ROE	22	35	37	36	–

- We expect revenues to post a CAGR of 30.2% (FY06-08E), as the company capitalises on power and petrochemical capacity creation through its expanded capacity in industrial products and leverages its near monopoly status in the lift irrigation. Corresponding to revenue growth of 30.2%, we expect earnings growth of 36.6%.
- We initiate coverage on the stock with a Market Performer rating with a target price of Rs. 450 based on 16.5x FY08E consolidated earnings of Rs. 27.2. However, we believe that if anticipated order from irrigation/industry projects materialise, there could be upsides to our FY08E earnings estimates.

Gagan Thareja
gagan.thareja@bksec.com
Tel.: 91-22-4007 6230

5th June 2006

Analyst Declaration: I, Gagan Thareja, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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Investment arguments

Product profile

Leader in concrete volute and vertical turbine pump market

KBL has the capacity to undertake design & manufacturing of two products which have an indelible presence in infrastructure projects, namely the concrete volute and vertical line shaft turbine pumps. Invariably any large scale lift irrigation, water supply or thermal power plant raw water supply project will involve one or both of these products. Worthington Pumps is the only other company which undertakes manufacturing of vertical turbine pumps and concrete volute pumps. Jyoti Pumps is another small player in vertical turbine pumps. Considering the fact that a significant part of demand for pumps in the next three-four years will be from lift irrigation schemes, water supply projects and power generation, KBL inevitably becomes the major or full beneficiary from these markets.

Capacity expansion

70% increase in capacity for industrial pumps

KBL is incurring a capex of Rs. 800 mn to increase capacity for its industrial pumps group. On execution, it will increase capacity by 70% from the existing base. This will not only increase the revenues, but being a higher margin business than the agri-domestic segment, it will improve the bottomline margin. The industrial pumps business has high entry barriers in form of technology and is characterised by fewer players' vis-à-vis agri-domestic business.

Significant value in subsidiaries/JV's/associates

- Its British subsidiary SPP has turned around this financial year. It has also opened a facility in the US and received FMUL approval for supply of pumps in that market.

Capitalising on capex in oil refineries

- Its JV with Ebara is introducing a product line in boiler feed water pumps, a business segment whose vast potential is borne out by the fact that 1% of investment in new thermal power plants is made for boiler feed pumps alone. KSB and BHEL are the only other entities present in this market. Ebara's existing product line of API certified process pumps is aligned to the mandated requirement of petroleum refineries. Along with KSB and Sulzer, it will be the major beneficiary of the upcoming capex in this segment.

Restructuring and indigenisation to improve margins

- Its associate company Kirloskar Pneumatic, catering to industrial gas & air compression market has completed its restructuring and implemented indigenisation of significant product lines. This will lead to significant margin improvement and also make it the most economical supplier for gas compression, as it will become the only domestic manufacturer competing with relatively expensive imported products.

Budgetary support for irrigation projects and farm credit

Fresh impetus on lift irrigation schemes

In budget 2006-07, the outlay for Accelerated Irrigation Benefit Programme has been raised to Rs. 71.2 bn with a grant of Rs. 23.5 bn (from an outlay of Rs. 45 bn and a grant of Rs. 16.8 bn in 2005-06). Farm credit allocation has also been increased from Rs. 1,253 bn to Rs. 1,750 bn.

Strong order flow

Pre-dominant EPC/Electro-mechanical supplier to lift irrigation schemes

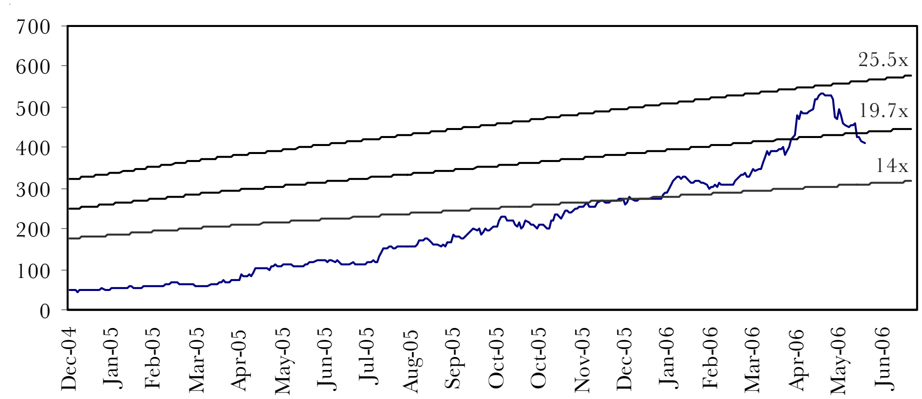
The company's unexecuted order book at the beginning of FY07 stood at a healthy Rs. 12,230 mn, the company has bid for a further Rs. 120 bn worth of projects. With a spate of lift irrigation projects to be executed in the states of Andhra Pradesh, Karnataka, Madhya Pradesh and Maharashtra, the order flow momentum is unlikely to abate for the next two-three years.

Investment concerns

1. The bulk of growth experienced by the company has arisen from large lift irrigation and water supply schemes. This segment cannot possibly form a long-term sustainable growth proposition. Future prospects from these markets are also dependent on prompt implementation of these schemes.
2. 40% of the total pump market being in agricultural market is exposed to seasonality and the industrial market being heavily dependent on new capacity creation is cyclical in nature.
3. Dependence on the government sectors, PSU's, especially for large capacity pumps is high.
4. 30% of the raw material used is non-ferrous, copper or copper based alloys, prices of which have almost doubled in the last eight months.

Valuations

PER band



Basic data

Valuation sheet	Price	Mkt. Cap.	Beta	EBITDA (%)			CAGR (%)	ROE (%)		
	(Rs.)	(Rs. mn)	(x)	FY06	FY07E	FY08E	FY06-08E EPS	FY06	FY07E	FY08E
Kirloskar Brothers Ltd.	**410**	**43,378**	**1.15**	**11.9**	**13.2**	**14.0**	**36.6**	**34.9**	**37.2**	**36.1**
Bharat Heavy Electricals	1,903	465,852	1.01	18.0	20.0	20.9	31.7	24.3	27.0	27.6
Honeywell Automation India	1,457	12,880	1.13	10.3	11.5	12.3	47.5	29.4	37.9	38.1
KSB Pumps	492	8,558	0.89	18.1	19.0	19.3	26.3	26.9	27.5	27.9
Thermax	287	34,180	0.71	9.7	10.4	10.6	36.0	21.5	28.6	32.2
Alfa Laval	975	17,709	0.87	16.7	20.2	20.4	36.5	30.9	42.4	46.6
ABB	2,222	94,177	1.01	10.7	11.8	12.3	41.9	26.8	30.2	32.4

Basic data

Valuation sheet	PER (x)			Dividend Yield (%)			P/BV (x)
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY07E
Kirloskar Brothers Ltd.	**28.1**	**19.4**	**15.1**	**0.9**	**1.2**	**1.2**	**4.8**
Bharat Heavy Electricals	28.7	18.5	14.2	0.6	0.8	1.0	5.1
Honeywell Automation India	33.4	20.4	15.3	0.8	1.1	1.4	7.2
KSB Pumps	21.2	16.7	13.3	0.7	1.1	1.3	4.3
Thermax	32.9	22.6	17.8	1.2	1.7	2.2	6.5
Alfa Laval	27.4	18.3	14.7	2.5	3.5	4.0	7.4
ABB	43.1	30.1	21.4	0.3	0.4	0.5	8.2

Comparitive valuation

	Beta (x)	CAGR (%) FY06-08E EPS	Yield (%)	FY08E PER (x)
Kirloskar Brothers Ltd.	**1.15**	**36.6**	**1.2**	**15.1**
Bharat Heavy Electricals	1.01	31.7	1.0	16.9
Honeywell Automation India	1.13	47.5	1.4	17.2
KSB Pumps	0.89	26.3	1.3	14.2
Thermax	0.71	36.0	2.2	18.2
Alfa Laval	0.87	36.5	4.0	14.7
ABB	1.01	41.9	0.5	24.3

On a consolidated basis, the EPS stands at Rs. 21.2 and Rs. 27.2 for FY07E and FY08E. We assign the stock a target price of Rs. 450 based on 16.5x FY08E earnings. This represents a 9.5% upside from the present stock price. We initiate coverage with a Market Performer.

Upside to FY08E earnings possible

A total of Rs. 250 bn worth of projects in water supply and lift irrigation are in the announced and proposed stage. As and when these projects come into implementation, KBL is likely to see its order book grow. Contingent to prompt implementation of these projects there are upsides to our earnings estimates in FY08E.

Business background (Kirloskar Group)

Group has strong presence in basic mechanical engineering equipments like motors, compressors, engines and pumps

Kirloskar Brothers (KBL) is one of the eight companies constituting the Kirloskar group. The group with a turnover of Rs. 33.8 bn in 2005 is among the premier engineering groups in India and provides products and solutions in areas such as manufacturing, oil & gas, power, construction & mining, agriculture, industry and transport. The group has turnkey project capability in water supply, air-conditioning and refrigeration, captive and small power plants.

The major listed group companies along with their product profiles are:

Kirloskar Brothers Limited

- Industrial pumps.
- Projects and engineered pumps.
- Agriculture and domestic pumps.
- Valves.
- Hydro-turbines.

Kirloskar Ferrous Industries

- Grey iron castings.
- Pig iron.

Kirloskar Oil Engines

- Diesel/gas engines.
- Thin walled bearings.
- Engine valves.

Kirloskar Pneumatic Company Ltd.

- Reciprocating compressors.
- Screw compressors.
- Turbo compressors.
- Industrial & marine gears.
- Air-conditioning and refrigeration projects.
- Ice plants.

Business background (Kirloskar Brothers)

With a turnover of Rs. 14,883 mn (consolidated FY06) and Rs. 9,246 mn (standalone FY06) Kirloskar Brothers is the largest pump manufacturer and exporter in India. It has four manufacturing plants, three of which are based in Maharashtra and one in Madhya Pradesh. The company has a comprehensive network of 900 domestic dealers and 45 overseas dealers.

The company has the following subsidiaries and JV's

Company	Product
Kirloskar Copeland ***(51% subsidiary***)	Hermetically sealed compressors (Rs. 3.3 bn)
SPP Pumps, UK ***(97.5% subsidiary***)	Centrifugal & fire pump packages (Rs. 2.2 bn)
Kirloskar Ebara Pumps ***(JV KBL & Ebara 45% each)***	API 610 process & boiler feed water pumps, Elliot steam turbines (Rs. 0.33 bn)
Kirloskar Corrocoat Pvt. Ltd. ***(JV KBL 65%)***	Anti-corrosion products

Business areas

1. Fluid handling.
2. Turnkey fluid-handling projects in irrigation, power, process, water supply and sewerage.
3. Turnkey small hydel projects.
4. Protective surface coatings.

Major sectors that the company caters to

1. Utilities (power & water supply).
2. Irrigation.
3. Fire fighting.
4. Process Industries (refineries, petrochemicals, fertilisers, chemicals, sugar).
5. Domestic.

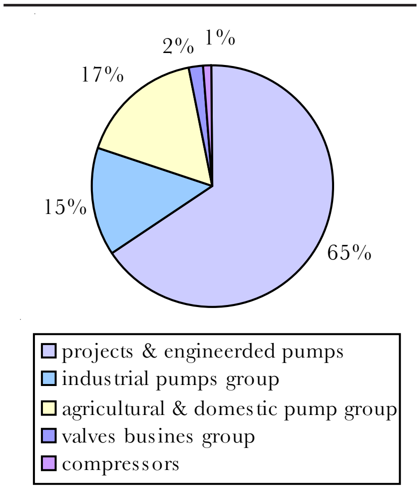
Product range

Centrifugal pumps, valves, anti-corrosion products, hydel turbines and turnkey projects.

Business segments

	Market served
Industrial pumps (IPG)	Food processing, refineries, mining, pharma, petrochem, captive power, textile, chemicals, water supply, steel & metals, building industry, sewage.
Projects & Engineered pumps (PEPG)	Power, water supply, lift irrigation.
Valves	Water supply, irrigation, power, sugar, industries.
Agricultural & Domestic pumps (ADPG)	Domestic, agriculture, industries.

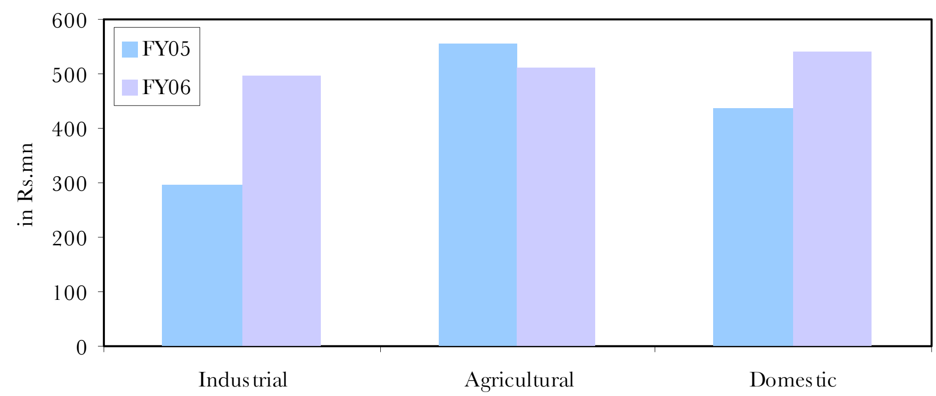
Revenue mix



Sectoral split of business segments

1. Agricultural & Domestic Pump Group

Break-up for ADPG



From the chart above it can be observed that sales of agricultural pumps dropped from FY05 to FY06. Growth has been observed in domestic and industrial end users. Growth in domestic and industrial applications will dovetail growth in residential and commercial construction.

Exports account for 4-5% of total agri-domestic sales. 90% of the sale for agri-domestic products is through dealership.

Seasonal low growth market with low entry barriers and plethora of manufacturers

The market for agricultural pumps is seasonal in nature and dependent upon monsoons. It generally exhibits a slow growth of 5-6% annually. It is also regional in nature with local clusters of manufacturers catering to specific regions .The market is cluttered with small scale manufacturers in the unorganised sector who enjoy a 30% cost advantage since they do not have to pay excise and sales tax. They account for 50% of the market. Subsidised power supply and lack of implementation of energy efficiency norms further impinge upon the organised market players. Among the organised players, KBL faces stiff competition from CRI, Fisher, Aquasub, Texmo and Crompton Greaves for mono-blocs and jet pumps. In submersibles it competes with CRI, KSB and Shakti Pumps.

Outlook

Timely monsoons and increased farm credit augur well

Increase in farm credit and implementation of micro-irrigation projects by state governments will help this market recover, as not only will it aid the offtake of pumps but also enable sinking of new bore wells. Moreover, the excise duty exemption on pumps extended to small enterprises can now be availed only if pump efficiency parameters conform to BIS norms. Small scale industry manufacturers will have to compulsorily comply with this from July 31st 2006. This will help organised players to increase market shares to some extent.

End user profile

Agricultural

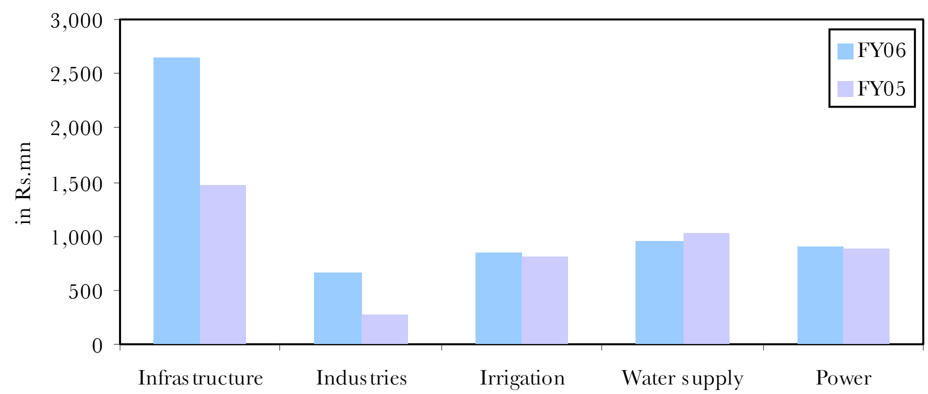
- State agro industrial development corporations.
- State irrigation departments.
- Individual and co-operative farms.
- Floral and horticulture.

Domestic and Industrial

- Residential units.
- Hospitals.
- Hotels and resorts.
- Commercial complexes.
- IT & industrial parks.

2. Projects & Engineered Pumps Group

Break-up for PEPG



Exports account for 10% of projects & engineered pumps. 90% of the sales are direct and only 10% through dealership.

Limited competition from other pump manufacturers

This business segment undertakes installation of pumping systems and pump housing on a turnkey basis for lift irrigation schemes, water supply and power generation projects. Among the domestic pump manufacturers, the company hardly faces any competition. Whatever limited competition exists, comes from Jyoti Pumps and Mather & Platt Pumps.

Enough in pipeline to sustain growth at present pace

Kirloskar Brothers' stupendous revenue growth in the last two years can be pre-dominantly attributed to this business segment. There are compelling reasons to believe that KBL will continue to enjoy a monopoly status in this area. Most infrastructure projects, especially in lift irrigation and large water supply schemes involve concrete volute and vertical turbine pumps. WPIL and Jyoti Pumps are the only other manufacturers of vertical turbine pumps. Jyoti Pumps undertakes only turnkey projects for small lift irrigation schemes, whereas WPIL does not undertake turnkey projects.

End user profile

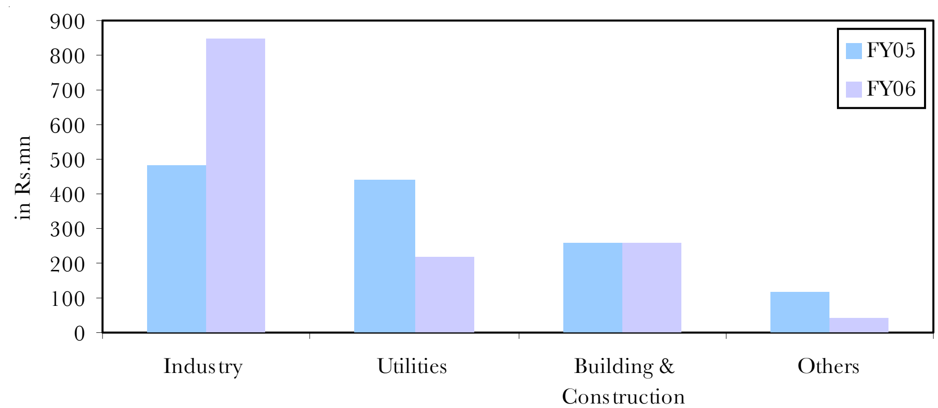
- Sardar Sarovar Nigam Limited.
- State water supply and sewerage boards.
- State irrigation departments.
- Municipal corporations.
- NTPC, BSES, NPCIL.
- State electricity boards.
- MKVDC.

Outlook

The growth within projects and engineered pump applications has come mostly from infrastructure, specifically lift irrigation schemes and industry. A substantial number of lift irrigation schemes are being implemented by state governments in Andhra Pradesh, Karnataka and Madhya Pradesh which can continuously supply KBL with orders in the coming two years. KBL has already bid for Rs. 120 bn worth of infrastructure projects.

3. Industrial Pumps Group

Break-up for IPG



Exports account for 30% of the sales in the industrial pumps.

60% of the sales are done through dealerships and the balance direct.

Broad based market whose growth is dependent on new capacity creation

The pumps supplied in this business segment cater to the widest base of end users. The prospects of this segment are closely interrelated with new capacity creation in industrial end users as replacement market is relatively poor. KBL's order book for industrial pumps is significantly higher than the past fiscal. Moreover, the company is incurring capex of Rs. 800 mn to put in place new capacities for industrial pumps. Competition in this market comes from companies like KSB pumps, Sulzer, Grundfos.

End user profile

ABB, Siemens, Bharat Petroleum, Reliance Industries, Gujarat State Fertilizer Corporation, Tata Chemicals, Asian Paints, Indian Rayon, BILT, IPCL, sugar mills.

Outlook

Capacity creation in ferrous/ non-ferrous metals and oil refineries will contribute to market growth

New project investment in FY06 grew by 22% y-o-y. Manufacturing sector accounts for 46.3% (38.4% in FY05) and power projects account for 25.7% (8.1% in FY05). This augurs well for industrial pump manufacturing. The top five industry groups with regard to fresh investment in FY06 were thermal power, iron & steel, non-ferrous metals, roadways, chemicals and textiles. Other than roadways, all these sectors involve considerable amount of fluid transport and circulation. KBL's spurt in orders for industrial pumps and its capex aimed at this market vindicates the promising outlook.

Industry overview

Plethora of end users

Pumps are vital elements in an enormous range of fluid handling applications and range from small household pumps to immense units utilised in the water, chemical and energy industries. Pump performance requirements and duties vary considerably in terms of material of construction, wide range of temperature, pressure, viscosity, density, etc.

Pump industry depends very much on health of other industries like:

Demand mostly of a derived nature

Refining Industry.

Petrochemical Industry.

Fertiliser Industry.

Drugs & Pharmaceuticals.

Caustic Soda.

Coating Industry.

Perfumery & Chemicals Industry.

Cement Industry.

Agriculture Industry.

Market size and structure

The domestic pump market stands at a cumulative value of Rs. 35,000 mn. The total market is categorised in four segments – agricultural, industrial, utilities (like municipal water supply) and services. The size of these markets is as follows:

1. Agricultural Rs. 20,000 mn
2. Industrial Rs. 8,000 mn
3. Utilities Rs. 4,000 mn
4. Services Rs. 3,000 mn

Players

The pump market is fragmented in nature. More than 450 manufacturers operate in India. Around 72 players are in the organised sector. Unorganised sector accounts for 30% of aggregate production. Imports are negligible – only as systems. Peak customs duty has been reduced from 15% to 12.5% in the union budget 2006-07. Also, since pumps are largely used as final products, the effective import duty on pumps has been increased from 15% to 17% (12.5%+4%CVD, which is modvatable but not for final consumers and traders).

Fragmented market

Organised sector manufacturers focusing on the industrial sector as process industry requires specialised pumps which are technology intensive. This sector has very few large players. Some major players – Kirloskar Brothers Ltd., KSB Pumps, Bharat Heavy Electricals Ltd., Sulzer and Grundfos. Small scale players mainly restricted to the agricultural sector – water handling pumps; located mainly in Rajkot, Coimbatore due to strong cluster of foundries and small scale machining outfits in these areas.

Imports from China offer insignificant competition to the domestic industry due to a lack of after-sales service and also their domain is limited as they offer only a single voltage portfolio.

User segments

Civil engineering works	Sprinkler irrigation
Dewatering	Heat transfer liquids
Excavation	Fire fighting
Chemical handling	Air-conditioning
Petroleum products	Drainage systems
Water curing for building construction	Storm water handling

- Agricultural sector is a major user of pumps.
- Other sectors – onshore and offshore production of oil, natural gas, petroleum refining, petrochemicals, mining, ship building, marine, power generation, public water supply & sanitation and other process industries.
- 40% of the pumps produced are used in irrigation, rest for domestic and industrial purposes.
- Within industrial sector, 45% market share comes from oil refineries, 35% from water & sewage handling and 20% from power.

Various applications of pumps

- ***Transportation*:** It is a prime function.
- ***Circulation*:** For homogenising the temperature and/or composition of fluid.
- ***Mixing*:** Two or more streams can be connected at the suction of pump and mixing can be achieved.
- ***Injecting*:** High pressure can be developed by using pump and fluid can be injected in pipe or tank.
- ***Metering*:** Pumps can be used as metering device.
- ***Pressure Reducing Device*:** Rotary pumps can be used for reducing the pressure in polymers.
- ***Agitator Pump*:** Submersible pump keep the solids in suspension and prevent setting.
- ***Vacuum Generation*:** Liquid ring vacuum pumps are well known. Dry vacuum pumps are also developed.
- ***Reactor*:** When two liquids are to be reacted with very small residence time then pump can be used.
- ***Cavitation Reactor*:** When one in liquid and another in vapour form are to be reacted, the principle of cavitation can be used.

Product markets

Centrifugal pumps	• Transfer large quantity, corrosive, less viscous (<300 CST) chemicals under high pressure & temperature (250^0C) and flow rates up to $800m_3$/hr. • Market dominated by the organised sector. Major players – Kirloskar and KSB. Others: MPPL, BDK, SAM, Antico and Goldstar
Reciprocating pumps	• Usage high. Used in oil wells, compressors (auto service stations). · Proliferation of players. Unorganised sector activity high in this product category.
Diaphragm pumps	• Usage and awareness low. Gaining popularity in the paint industry. • Used for special application, design, metering, transferring high viscous fluids, temperature range max. 175^0C. • Relatively nascent industry. Dominated by international players – mainly Wilden, Sand Piper, Blagdon. Others: Yamada, Aro and Depa. Anti-corrosive – a major Indian manufacturer.
Gear pumps	• Widely used in paints industry. Transfer high viscous fluids (>130 cst) at temperature < 200^0C. Used to transfer slurry, fluid with solid particles. • AODD replacing gear pumps in paints. • Characterised by many manufacturers – Kirloskar major player. Others: KSB pumps, Shanti, Stoke, Delta, Airauto, Neel Tech, etc.
Dosing pumps	• Used for dosing chemicals, fluids in boiler, water treatment plants, cooling towers, etc. • 15-20 players. Major ones are Asia LMI, VK Pumps, Swellore, etc.

Demand drivers

1. Dependent on the growth in fluid handling industries like petrochemicals, chemicals, dyes, etc.
2. Performance of the agricultural sector, a major demand determinant. Demand also driven by investments in drinking water supply drainage, housing and construction sector.
3. Demand mainly from new projects. Replacement demand low as most pumps last for >15 years.
4. Technology improvements, process automation in user industries also driving need for better technology products.

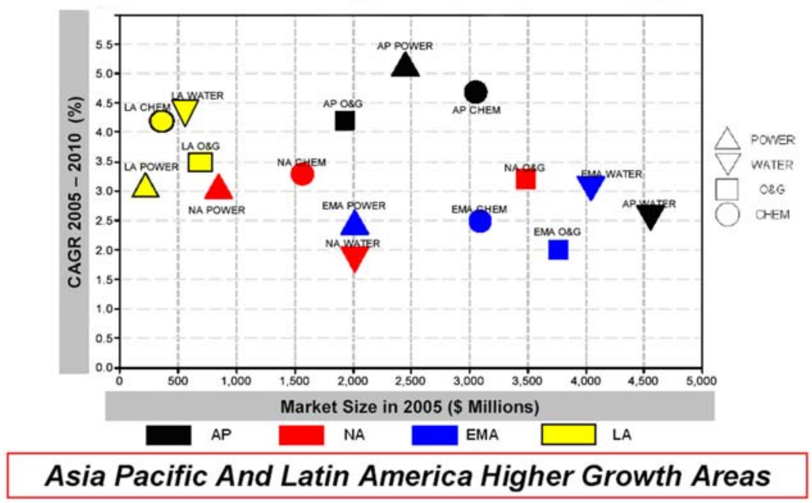
Key success factors

1. To create barriers through technology.
2. Focus on high end applications, higher capacity pumps.
3. Growth mainly from new projects. Hence, accreditation with consultants could ensure place in the consideration set for new projects.
4. Need to emphasise on quality control for minimising power consumption.
5. All India reach critical. Strong distribution network essential to address all applications, especially in smaller size pumps catering to agricultural and domestic applications.

Business concerns

1. Input costs have seen a sharp rise in the last few months. Copper prices have moved to Rs. 380 from Rs. 187 per unit during this time. The price of other key raw materials used by the industry, including stampings, stainless steel rods, aluminium and pig iron have gone up by 40-100%.
2. Increasing competition especially from multinationals puts margins under pressure.
3. Dependence on the government sectors, PSUs, especially for large capacity pumps is high.
4. Slowdown in new capacity creation and monsoons has a direct bearing on the welfare of the industry

Estimated 5-year market growth



AP-Asia Pacific

LA-Latin America

NA-North America

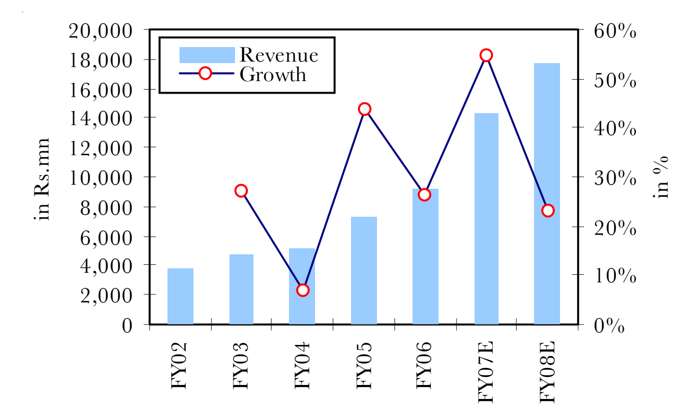
EMA-Europe.

In 3 of the 4 markets, Asia Pacific has not only the largest size but also the highest expected CAGR up to 2010.

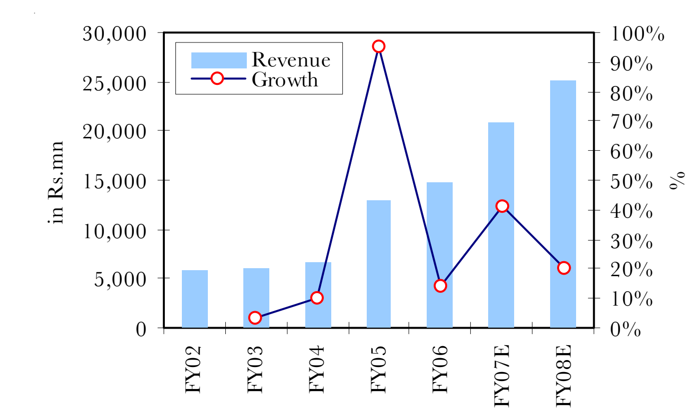
Financial performance

Revenues

Standalone



Consolidated



Revenues

KBL is expected to post a revenue CAGR (FY06-08E) of 38% on standalone basis and 30% on consolidated basis. Its unexecuted order book at the start of FY07 stood at Rs. 12.23 bn.

Business segment-wise, the revenue growth can be analysed as follows:

Projects and Engineered Pumps segment

Comfortable order book

Out of the order book of Rs. 12.2 bn, Rs. 975 mn is accounted by the Projects and Engineered pumps business segment, bulk of which comes from orders on which work was started in FY05-06. The company has bid for projects worth Rs. 120 bn and is likely to see more sustained order flow from lift irrigation schemes and power plant based pump system projects in the coming two-three years.

Industrial pumps segment

Experiencing spurt in demand

The industrial pumps segment has an all time high order book of Rs. 2,330 mn, with a delivery schedule of six-eight months. The revenue from this segment in FY06 was Rs. 1,370 mn; consequently this segment is expected to see a growth in the range of 60-70%.

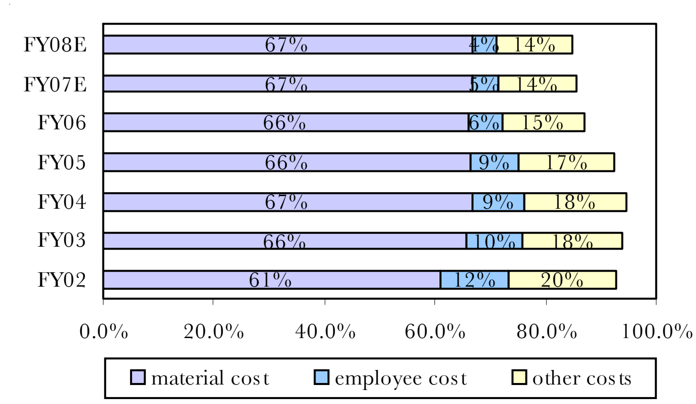
Expanding capacity

- The company has also planned a capex of Rs. 800 mn to increase capacity for the industrial pumps by 70% in FY07. The increased focus on this segment comes in the light of increased demand being experienced from industrial end users and higher margins that materialise in this segment due to customised nature of the product and relatively less competition.
- Other than increasing capacity, the company is also introducing a line of boiler feed water pumps through its JV with Kirloskar Ebara. Boiler feed water pumps account for almost half the pump consumption in power plants and a significant part in any process plant. The company is seeking empanelment for this product with companies which execute power and process plant projects on a turnkey basis, like EIL. It already has strong accredition with a significant number of project execution companies for its concrete volute and vertical turbine variety of pumps.

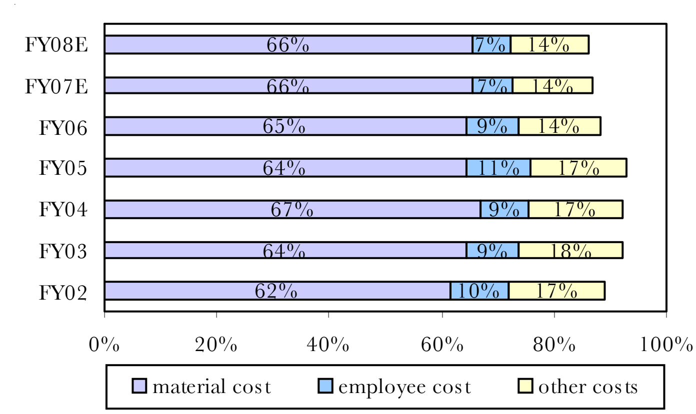
- KBL will also be introducing a line of fire safety pumps through its British subsidiary, SPP pumps for which it has gained approval from the requisite authorities in India and US. Most commercial complexes and office buildings must comply with requisite fire safety norms which would imply incorporation of fire safety systems. In India only Mather & Platt Pumps is the other company involved with this line of products. Demand growth is dependent on commercial building construction.

Cost structure

Costs (Standalone)



Cost (Consolidated)



Raw material to sales ratio

(%)	FY02	FY03	FY04	FY05
Pig iron	1.2%	0.8%	0.9%	1.0%
Castings	2.2%	2.5%	1.3%	1.6%
Laminations	0.4%	0.3%	0.3%	0.2%
Stator stacks	1.0%	0.8%	0.4%	0.9%
Rotors	0.7%	0.6%	0.5%	1.3%
Copper wires	0.8%	0.7%	1.1%	0.1%
Motors	8.5%	7.1%	6.2%	6.1%
Engines	1.2%	1.6%	1.6%	1.3%
Others	21.4%	22.6%	27.7%	23.4%
Traded articles	23.3%	28.9%	26.8%	30.6%

Traded articles consist of brought out pumps, valves, transformers, alternators, motors, compressors and other components.

CAGR change (FY02-05)

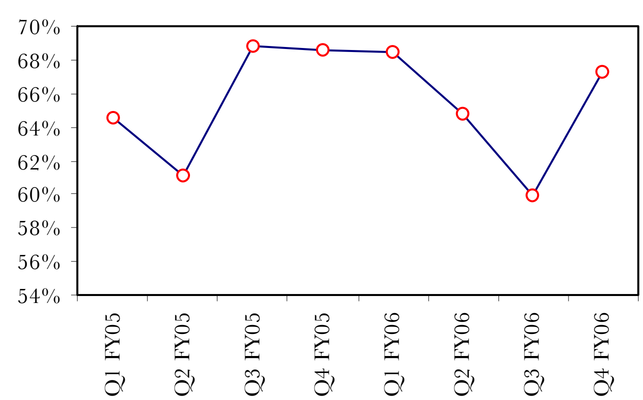
(%)	Quantity	Value	Cost/Unit
Pig iron	(7)	17	25
Castings	(11)	13	26
Laminations	(26)	(3)	31
Stator stacks	1	17	16
Rotors	5	54	46
Copper wires	33	(31)	(48)
Motors	10	12	2
Engines	33	29	(3)
Others		29	

Material cost hikes have forced manufacturers to increase prices

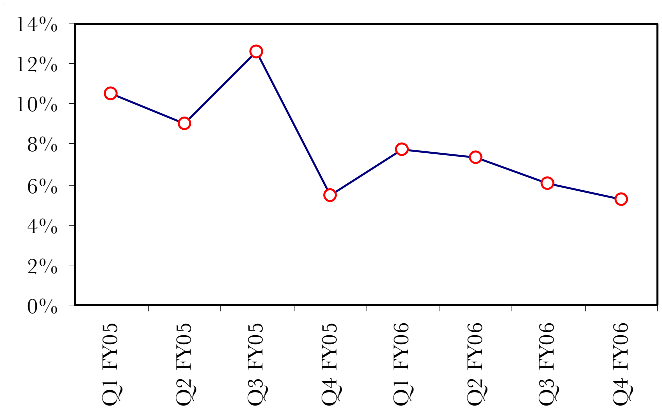
The pressure on raw material prices, especially non-ferrous metals and alloys like copper and bronze is likely to remain. Even if prices remain flat hereon the full year raw material prices would be higher vis-à-vis the last year. On customised and engineered pumps, the company will be able to pass on the price escalation. On the agri-domestic products the extent to which increase in price can be passed on will depend upon the numerous manufacturers clustered around Coimbatore and Rajkot. The manufacturers clustered around Coimbatore, represented by SIEMA (Southern India Engineering Manufacturers Association) have decided to increase pump prices by 8-12% in the wake of increase in raw material costs of 15-18% over the last eight months. This will provide some succour to the organised sector manufacturers as well.

Cost trends on quarterly basis

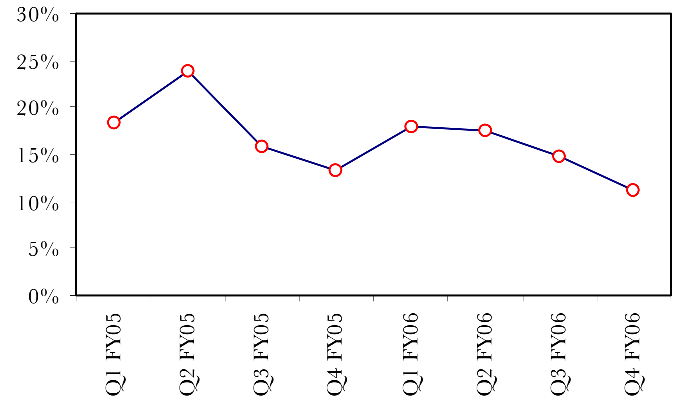
RM to sales



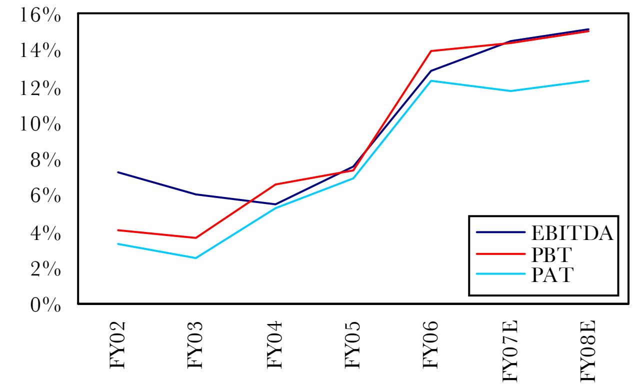
Employee to sales



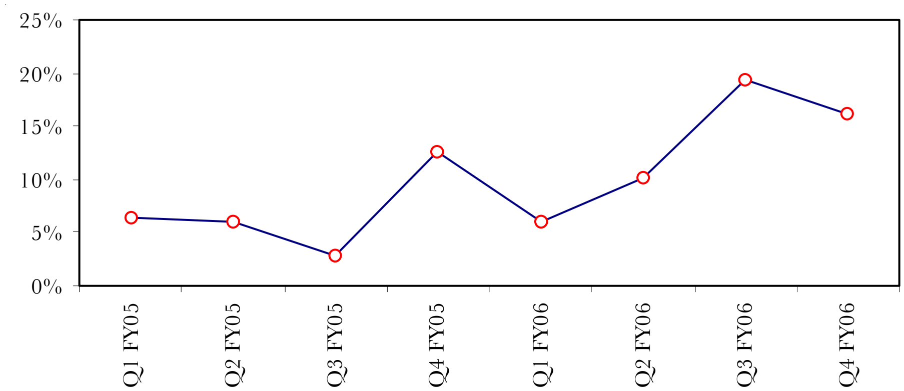
Other exp to sales



Margins



Operating margins



Subsidiaries/JV's and Associate Companies

Kirloskar Copeland Limited (Subsidiary 51%)

2nd largest market share in hermetically sealed reciprocating compressors

Kirloskar Copeland Limited is a joint venture between Kirloskar Brothers Limited and Copeland Corporation, USA, a leading manufacturer of air-conditioning and refrigeration compressors. KCL after Tecumseh India is the second largest manufacturer of hermetically sealed reciprocating compressors in India and enjoys a market share of 40% and above in the refrigeration and air-conditioning market, commercial refrigeration and commercial air-conditioner market. It also has some export market in the Middle East. Other than manufacturing and sale of hermetically sealed compressors, the company also undertakes distribution and sale of semi-hermetic and scroll compressors from Copeland Corporation.

The refrigeration market in India is classified in two segments, namely:

- **Commercial refrigeration** subdivided as:
  1. Cold storages.
  2. Coolers.
  3. Freezers.
  4. Transport refrigeration and bus air-conditioning.

Commercial refrigeration products form the largest market share in the refrigeration field, spurred by growth in consumption of carbonated beverages, bottled water, ice creams and frozen foods.

- **Industrial refrigeration** in the form of water/brine chilling packages of smaller capacity is employed in the plastic processing. Large chillers are used by chemical, pharmaceutical, rubber, synthetic fibre and food-processing industry. Large screw chillers are displacing traditional reciprocating compressors.

The refrigeration market is expected to grow at 10-12% as an outcrop of 9-12% growth in the food processing industry. The industrial market is also expected to grow at around 10%. In the air-conditioning segment, the market for room AC's is expected to continue growing at its present pace of 20% and the commercial & industrial refrigeration is expected to grow at 10%.

In light of the market growth anticipated, we have assumed a 15% and 12% revenue growth for the company in the coming two years as feasible.

In FY06, the company reported sales of Rs. 3,341 mn, a growth of 1.3% over Rs. 3,297 mn worth of sales in FY05. However, EBITDA margins which had fallen to 12.7% in FY05 moved up to 15.6% in FY06. The company also reported a reduction in loan funds from Rs. 211 mn to Rs. 69.4 mn.

Kirloskar Copeland

(Rs. mn)	FY04	FY05	FY06	FY07E	FY08E
Sales	2,845	3,297	3,341	3,842	4,303
EBITDA	460	419	521	585	665
EBITDA margins (%)	16.2	12.7	15.6	15.2	15.5
Net Profit	248	210	254	363	467
Net Profit margin (%)	9	6	8	9	11
Minority share in PAT	–	102	129	181.5	233.5

SPP Pumps (Subsidiary 97%)

Entering the US market

SPP is a longstanding manufacturer and supplier of pumps and associated equipment with applications in:

- Fire protection and fire fighting.
- Water supply, circulation and distribution.
- HVAC (Heating, Ventilation, Refrigeration and Air Conditioning).
- De-watering, drainage and irrigation.

It has a market presence in Europe and commonwealth countries. In November 2003, KBL brought out a majority stake of 97.5% in the company for Rs. 500 mn. The amount included a loan of Rs. 350 mn to SPP which has now been repaid. SPP made operational losses in FY04 and FY05. In FY06, the company turned around with EBITDA margins of 5.2%, with a sales growth of 7%. The company also reported a drop in debt/equity ratio from 1.6 to 1.2. It has an un-executed order book of Rs. 940 mn with a sales target of Rs. 2,730 mn for FY07.

SPP Pumps

(Rs. mn)	FY05	FY06	FY07E	FY08E
Sales	2,384	2,180	2,616	3,008
EBITDA	17	113	144	181
EBITDA margins (%)	0.7	5.2	5.5	6.0
Net Profit	20	59	62	88
Net Profit margin (%)	1.0	2.7	2.4	2.9

Kirloskar Ebara (Associate 45%)

Breaking into the boiler feed water market

It is a 45:45 JV with Ebara Corporation, Japan. Kirloskar Ebara is licensed to manufacture API standard process pumps, high pressured pumps and steam turbines. The company expects good business for process pumps from petroleum refining and petrochemical industry which are undertaking new capacity creation. Apart from KSB and Sulzer it is the only other company with API standard pumps which are mandatory in this industry.

Also, with an eye on the huge market for boiler feed pumps and steam turbines arising from increasing power generation capacity, the company has introduced product lines to cater to this segment and is seeking empanelment and license for manufacturing.

In FY06, the revenue grew by 34% to Rs. 720 mn. We believe that Kirloskar Ebara will be able to maintain a sales growth of 25-30% in the coming two years as a consequence of the new capacity creation in the end user segments. Industrial pumps are generally high margin business and the company should be comfortably able to maintain EBITDA margins of 16-17%.

Kirloskar Ebara

(Rs. mn)	FY05	FY06	FY07E	FY08E
Sales	242	326	424	530
EBITDA	38.5	52.5	67.8	84.8
EBITDA margin (%)	15.9	16.1	16.0	16.0
Net Profit	23	63	45.4	57.5
Net Profit margin (%)	9.5	19.3	10.7	10.8

Associates companies

Kirloskar Pneumatic Limited (Associate 35%)

It is a leading domestic manufacturer of compressors. The companies business is classified in four business segments namely:

Business break-up

Segment	Revenue share (%)	Products	Applications	Competition
Air compression	40	• Reciprocating • Screw • Centrifugal		Ingersoll Rand, Atlas Copco and Elgi Equipment
RAC	35	Reciprocating	Cold storage & Industrial cooling	Tecumseh
Process gas	10	Screw	Gas exploration & transmission	Ingersoll Rand, Atlas Copco
Transmission	15	Windmill, marine & rail traction gear boxes	Windmills, railways and marine	Shanthi Gears, Elecon and Premium Transmission.

Air compression

Within the air compression business, the company has a market share of approximately 20%. Compressed air, often denominated as the 4th utility, finds extensive application in construction, cement, glass, plastic processing, chemicals & pharmaceuticals, foundry and forge shops, textile and automotive manufacture. The air is typically used for control applications where it triggers, starts, stops, modulates or acts otherwise for controlling a motion or process. Air compressors are also extensively used in well water drilling equipment. The sales in this area are dependent on sinking of new bore wells which in turn is dependent on monsoons, water table levels and farm credit. The market is centered in the water scarce states like Tamil Nadu, Andhra Pradesh, Gujarat, Central Maharashtra, Rajasthan and parts of Karnataka. Recovery in this market is expected on account of normal monsoons.

For centrifugal compressors, the company currently imports 70% of the components and therefore margins are inadequate. But indigenisation is underway and by FY08 the import content is expected to go down to 30% thereby expanding margins. The company is also planning to introduce PET blowing compressors by FY08.

Refrigeration and air conditioning

In refrigeration and air conditioning, the company manufactures reciprocating compressors for cold storages, industrial cooling and transport air conditioning. Dairies, refineries and chemical industries also form the end user base of these compressors. KPL has a dominant share in this oligopolistic market. It also has export market in the Middle East.

Process gas compression

Gas compressors find use in any industry where gases are handled as part of manufacturing process, such as vegetable oils, fertilisers, refineries, oil & gas, gas purification and bottling, LPG bottling, etc. Presently, the company does not manufacture the high speed centrifugal and API standard geared integral compressors, which are intensively used in oil & gas upstream and transport applications. Cost reductions are planned by indigenising majority of the components incorporated by the end of FY07 by way of technology transfer.

Outlook

The company, which was erstwhile beset with operational problems, has undertaken substantial restructuring and employee cut down. This is expected to help them improve operational margins significantly. Its effect can be seen in the last two quarter results for FY06. The company is also introducing new products such as PET blowing and rotary refrigeration compressors, which will help it enter new markets. More significantly, it intends to reduce import content substantially from the existing level of 70% to 30% in centrifugal air compressors and process gas compressors. Presently, in this area it is more in the business of packaging imported kits, consequently margins are paltry at 2-3%. With 70% indigenisation, the company can ultimately achieve margins in the range of 12-13%.

Kirloskar Pneumatic Financials

(Rs. mn)	FY01	FY02	FY03	FY04	FY05	FY06
Net sales	**1,092**	**1,727**	**1,940**	**2,165**	**2,641**	**3,037**
Sales growth (%)		58	12	12	22	15
Expenditure:						
Change in stock	(21)	22	19	(38)	(12)	(18.8)
Raw material	616	891	1,091	1,247	1,589	1,763.4
Employee cost	167	360	312	333	368	359.8
Other operating exp.	278	632	470	614	668	810.3
Total Expenditure	**1,040**	**1,905**	**1,891**	**2,156**	**2,613**	**2,915**
EBITDA	**52**	**(178)**	**48**	**9**	**28**	**122**
EBITDA margin (%)	4.8	(10.3)	2.5	0.4	1.1	4.0
Other income	24	242	65	81	62	73.7
Interest	38	146	85	59	52	48.9
Depreciation	5	28	22	22	23	24.9
PBT	33	(109)	6	10	15	122
Tax provision	3	0	1	0	0	13.6
PAT	29	(110)	5	10	15	108
Extraordinary	19					
Net profit	**11**	**(110)**	**5**	**10**	**15**	**108**
EPS (Rs.)	**0.8**	**(8.5)**	**0.4**	**0.8**	**1.2**	**8.4**

Kirloskar Oil Engines (Associate 45%)

KOEL, established in 1946, is one of the largest manufacturers of diesel engines in India. 78% of its revenues accrue from engines and the balance from auto components wherein it manufactures bi-metallic bearings and engine valves. It manufactures engines in the range of 3 HP to 11,000 HP.

- Small engines up to 20 HP find application in the agricultural sector. Sales growth is dependent upon monsoons and there is stiff competition from the unorganised manufacturers. Contingent to normal monsoon growth this year can be expected in the range of 13-15%. The company has undertaken significant design changes for these engines leading to a weight reduction of almost 60%.
- Engines in the range of 20 HP to 750 HP are classified as medium range engines with applications in power generation, industrial and construction machinery. Peak power deficit of up to 12% along with poor quality suppliers creates a promising market scenario for top of the line manufacturers like KOEL and Cummins. Tractor engine segment is anticipated to grow at 15% and construction and material handling engine market is expected to grow in the range of 20-25%. This market is growing from a small base and is riddled with strong competition from multinationals. Overall, the medium engine segment is expected to grow in the range of 25%.
- Engines above 750 HP are classified as large engines. This is relatively a smaller market with competition available from well entrenched multinationals like Wartsila, MAN, Caterpillar. KOEL in collaboration with Pielstick, France manufactures large engines for the Indian navy. Growth in the domestic market is dependent on large DG set market, Heavy Industrial Machinery and shipping. Market growth is expected in the range of 20%.
- In the auto components business growth in the recent past was constraint by capacity limitations. Capacity expansion has been undertaken in this segment along with supply tie ups with OEM's is expected to yield growth of 16-17% CAGR for FY06-08E. The company is undertaking a capex of Rs. 1,500 mn of which Rs. 600 mn is devoted to setting up a new plant for automotive components. This new plant will be treated as an EOU.

Outlook

KOEL is expected to post earnings CAGR (FY06-08E) of 20.7% and revenue CAGR (FY06-08E) 17.8% CAGR for FY06-08E on the back of positive demand outlook for its products. Engine business which contributes 78% of the net sales is expected to post robust earnings growth of 25.3% CAGR for FY06-08E on the back of strong demand outlook of DG sets, construction equipment and agricultural equipments. Auto component segment which contribute 7% to the revenues is expected to post earnings growth of 16.5% CAGR for FY06-08E, as the company overcomes the capacity constraints.

Income Statement

Year ended 31 Mar. (Rs. mn)	FY03	FY04	FY05	FY06	FY07E	FY08E
Net sales	8,813	10,413	11,826	14,438	17,092	20,027
Growth (%)	16.3	18.2	13.6	22.1	18.4	17.2
Operating expenses	(8,222)	(9,301)	(10,746)	(12,849)	(15,196)	(17,595)
Operating profit	590	1,112	1,080	1,589	1,896	2,431
EBITDA	590	1,112	1,080	1,589	1,896	2,431
Growth (%)	14.1	88.4	(2.9)	47.1	19.3	28.2
Depreciation	(343)	(260)	(266)	(280)	(326)	(383)
Other income	224	238	234	274	188	188
EBIT	470	1,090	1,048	1,583	1,758	2,236
Interest paid	(87)	(35)	(32)	(97)	(129)	(130)
Pre-tax profit (before non-recurring items)	383	1,055	1,016	1,486	1,629	2,106
Non-recurring items	–	(1)	996	974	–	–
Pre-tax profit (after non-recurring items)	383	1,054	2,012	2,460	1,629	2,106
Tax (current + deferred)	32	(348)	(274)	(454)	(464)	(600)
Net profit	416	706	1,739	2,006	1,165	1,506
Adjusted net profit	416	707	742	1,032	1,165	1,506
Growth (%)	207.6	28.5	148.0	174.7	22.5	43.3
Net income	416	706	1,739	2,006	1,165	1,506

Other associate companies considered in consolidated financial statements

Name	Proportion of ownership (%)	Share in profit (FY06) (Rs. mn)
Hematic Motors Pvt. Ltd.	50	8
Pressmatic Electrostampings.	50	12
Quadramatic Engg.	50	3

Detailed financials (Consolidated)

Income Statement

Year ended 31 Mar. (Rs. mn)	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E
Net Sales	5,894	6,094	6,696	13,071	14,882	20,971	25,233
Raw Material	(3,520)	(3,877)	(4,469)	(8,889)	(9,592)	(13,736)	(16,528)
Dec./Inc. in stock	(112)	(47)	(15)	476	(18)	0	0
Employee Expenses	(602)	(568)	(577)	(1,484)	(1,379)	(1,517)	(1,668)
Selling & distribution expenses	(255)	(313)	(302)	(520)	(540)	(720)	(870)
Other operating expenses	(517)	(353)	(403)	(728)	(726)	(981)	(1,170)
EBITDA	**649**	**480**	**514**	**950**	**1,771**	**2,766**	**3,527**
Other income	55	68	195	296	389	264	287
Interest	(121)	(77)	(68)	(88)	(79)	(65)	(65)
Depreciation	(154)	(128)	(155)	(252)	(234)	(259)	(267)
Non-recurring expenses	0	0	0	0	499	0	0
PBT	**429**	**344**	**486**	**905**	**1,848**	**2,706**	**3,482**
Tax	(125)	(127)	(139)	(161)	(327)	(495)	(637)
PAT	**429**	**344**	**486**	**905**	**1,848**	**2,706**	**3,482**
Prior Period Adjustments	(0)	21	(2)	(0)	0	0	0
Adjusted EPS (Rs.)	**1.8**	**2.2**	**3.4**	**6.3**	**14.6**	**21.2**	**27.2**

Balance Sheet

Year ended 31 Mar. (Rs. mn)	FY02	FY03	FY04	FY05	FY06E	FY07E	FY08E
Current Assets	**4,004**	**3,867**	**4,697**	**7,568**	**9,185**	**12,368**	**16,114**
Cash & Bank	567	391	145	821	1,233	1,410	3,021
Debtors	1,986	2,014	2,394	3,665	4,485	6,320	7,604
Inventory	835	708	743	1,515	1,712	2,413	2,904
Loans& Advances	608	750	1,011	956	1,056	1,427	1,687
Other Current Assets	9	4	405	611	698	798	898
Investments	682	873	1,089	779	779	779	779
Fixed Assets (Net Block)	1,457	1,066	1,000	1,619	1,588	2,040	1,885
Gross Block	2,442	2,041	2,064	3,139	3,330	4,030	4,130
Land & Buildings	435	371	383	680	680	680	680
Plant & Eqpt.	1,914	1,557	1,500	2,211	2,387	3,072	3,157
Other FA	93	113	181	248	263	278	293
Less: Depreciation	(1,007)	(986)	(1,087)	(1,544)	(1,766)	(2,013)	(2,269)
Add:CWIP	22	11	22	23	24	24	24
Total Assets	**6,195**	**5,853**	**6,842**	**10,045**	**11,631**	**15,267**	**18,857**
Current Liabilities	2,151	2,282	3,033	5,013	5,450	7,444	8,754
Creditors	1,547	1,711	1,956	3,285	3,520	4,888	5,828
Other Current Liabilities & provisions	540	534	960	1,501	1,451	1,958	2,327
Non-current Liabilities	1,617	1,312	1,329	1,387	983	983	983
Total Debt	1,372	1,124	1,170	1,177	773	773	773
Short-term Debt	20	27	631	410	150	150	150
Long-term Debt	1,352	1,097	539	768	624	624	624
Deferred Tax Liabilities	246	188	159	210	210	210	210
Total Liabilities	**3,768**	**3,594**	**4,361**	**6,400**	**6,433**	**8,427**	**9,737**
Total Shareholders' Funds	**2,428**	**2,259**	**2,481**	**3,645**	**5,198**	**6,840**	**9,120**
Paid-up Capital	71	71	71	71	212	212	212
Reserves & Surplus	1,856	2,223	2,410	2,847	4,259	5,901	8,181
Share Premium	396	396	396	396	396	396	396
Retained Earnings	1,453	1,816	2,003	2,433	3,844	5,486	7,767
Less: Misc. Exp.	(12)	(34)	0	0	0	0	0
Total Equity & Liabilities	**6,196**	**5,853**	**6,842**	**10,045**	**11,631**	**15,267**	**18,857**

Cash Flow Statement

Year ended 31 Mar. (Rs. mn)	FY02	FY03	FY04	FY05	FY06E	FY07E	FY08E
Pre-tax profit	429	344	486	905	2,347	2,706	3,482
Depreciation	1,007	(21)	101	457	222	248	255
Chg in debtors	(1,986)	(28)	(380)	(1,271)	(820)	(1,835)	(1,284)
Chg in inventory	(835)	127	(35)	(772)	(198)	(701)	(490)
Chg in loans & advances	(608)	(143)	(260)	55	(100)	(371)	(260)
Chg in other current assets	(9)	5	(401)	(206)	(87)	(100)	(100)
Chg in current liabilities	2,032	175	631	1,700	339	1,874	1,310
Chg in provisions	55	(16)	40	170	(153)	0	0
Total tax paid	68	(180)	(143)	(115)	(378)	(495)	(637)
Cash flow from operations (a)	**154**	**263**	**37**	**922**	**1,171**	**1,326**	**2,275**
Capital expenditure	(2,464)	412	(35)	(1,076)	(191)	(700)	(100)
Chg in investments	(682)	(191)	(216)	310	0	0	0
Cash flow from investing (b)	**(3,146)**	**222**	**(251)**	**(766)**	**(191)**	**(700)**	**(100)**
Free cash flow (a+b)	**(2,992)**	**484**	**(214)**	**156**	**980**	**626**	**2,175**
Equity raised/(repaid) [incl. chg in share premium]	455	(23)	34	0	141	0	0
Chg in minorities	405	(513)	0	624	0	0	0
Debt raised/(repaid)	1,372	(248)	46	7	(404)	(0)	0
Dividend (incl. tax)	(21)	(48)	(112)	(141)	(154)	(449)	(564)
Other financing activities	1,349	172	0	30	(151)	0	0
Cash flow from financing (c)	**3,559**	**(660)**	**(31)**	**521**	**(568)**	**(450)**	**(564)**
Net chg in cash (a+b+c)	**567**	**(176)**	**(246)**	**677**	**412**	**177**	**1,611**

Detailed financials (Standalone)

Income Statement

Year ended 31 Mar. (Rs. mn)	FY02	FY03	FY04	FY05	FY06	FY07E	FY08E
Net Sales	**3,746**	**4,757**	**5,078**	**7,309**	**9,246**	**14,310**	**17,642**
Raw Material	(2,447)	(2,953)	(3,436)	(4,942)	(6,093)	(9,559)	(11,785)
Dec/Inc in stock	168	(173)	43	83	0	0	0
Employee Expenses	(461)	(475)	(477)	(642)	(596)	(686)	(788)
Selling & distribution expenses	(197)	(266)	(267)	(357)	(429)	(631)	(754)
Other operating expenses	(377)	(265)	(306)	(342)	(429)	(660)	(807)
EBITDA	**273**	**285**	**280**	**554**	**1,190**	**2,063**	**2,665**
Other income	83	73	225	132	250	150	150
Interest	(121)	(92)	(65)	(48)	(55)	(21)	(21)
Depreciation	(83)	(94)	(107)	(100)	(99)	(137)	(137)
Non-recurring expenses	0	0	0	0	499	0	0
PBT	**151**	**172**	**333**	**538**	**1,286**	**2,056**	**2,657**
Tax	(28)	(52)	(68)	(31)	(156)	(376)	(486)
PAT	**123**	**120**	**265**	**507**	**1,131**	**1,679**	**2,171**
Prior period Adjustments	0	23	0	0	0	0	0
Adjusted EPS (Rs.)	**1.2**	**1.1**	**2.5**	**4.8**	**10.7**	**15.9**	**20.5**

Balance Sheet

Year ended 31 Mar. (Rs. mn)	FY02	FY03	FY04	FY05	FY06E	FY07E	FY08E
Current Assets	2,884	3,159	3,964	4,945	6,486	9,293	12,364
Cash & Bank	291	340	87	583	1,045	1,267	2,619
Debtors	1,653	1,815	2,136	2,691	3,420	5,293	6,525
Inventory	412	317	420	485	633	941	1,160
Loans& Advances	491	685	902	758	890	1,295	1,561
Other Current Assets	37	3	419	429	498	498	498
Investments	695	691	924	828	828	828	828
Fixed Assets(Net Block)	652	681	586	547	649	1,214	1,079
Gross Block	1,354	1,462	1,402	1,450	1,651	2,341	2,331
Land & Buildings	229	250	249	251	251	251	251
Plant & Eqpt	1,048	1,073	995	1,025	1,221	1,906	1,891
Other FA	76	99	106	115	120	125	130
Less: Depreciation	(701)	(781)	(831)	(914)	(1,002)	(1,127)	(1,253)
Add: CWIP	0	0	14	11	0	0	0
Total Assets	**4,269**	**4,564**	**5,521**	**6,382**	**7,964**	**11,335**	**14,271**
Current Liabilities	1,699	1,989	2,797	3,760	4,653	6,943	8,305
Creditors	1,191	1,459	1,734	2,355	2,759	4,160	5,047
Other Current Liabilities & provisions	476	494	946	1,186	1,253	1,808	2,173
Non-current Liabilities	1,148	1,046	1,088	720	257	257	257
Total Debt	1,067	953	1,015	656	257	257	257
Short-term Debt	20	21	547	323	63	63	63
Long-term Debt	1,047	932	468	333	194	194	194
Deferred Tax Liabilities	80	92	73	63	0	0	0
Total Liabilities	**2,847**	**3,034**	**3,885**	**4,480**	**4,910**	**7,200**	**8,563**
Total Shareholders' Funds	**1,423**	**1,530**	**1,636**	**1,902**	**3,053**	**4,135**	**5,708**
Paid-up Capital	71	71	71	71	212	212	212
Reserves & Surplus	1,353	1,459	1,565	1,832	2,842	3,923	5,496
Share Premium	396	396	396	396	396	396	396
Retained Earnings	953	1,059	1,165	1,432	2,442	3,523	5,096
Total Equity & Liabilities	**4,270**	**4,564**	**5,521**	**6,382**	**7,964**	**11,335**	**14,270**

Cash Flow Statement

Year ended 31 Mar. (Rs. mn)	FY02	FY03	FY04	FY05	FY06E	FY07E	FY08E
Pre-tax profit	151	172	333	538	1,785	2,056	2,657
Depreciation	81	80	50	84	87	126	125
Chg in debtors	(265)	(161)	(321)	(555)	(729)	(1,873)	(1,233)
Chg in inventory	(87)	96	(104)	(64)	(149)	(308)	(219)
Chg in loans & advances	(70)	(194)	(217)	144	(132)	(405)	(267)
Chg in other current assets	(10)	34	(417)	(10)	(69)	0	0
Chg in other non-current assets	9	9	0	0	0	0	0
Chg in current liabilities	558	275	695	828	503	1,956	1,252
Chg in provisions	(4)	11	32	33	(31)	0	0
Total tax paid	24	(45)	(63)	(34)	(53)	(162)	(376)
Cash flow from operations (a)	**387**	**275**	**(12)**	**963**	**1,212**	**1,390**	**1,940**
Capital expenditure	(75)	(108)	45	(45)	(190)	(690)	10
Chg in investments	(150)	4	(233)	96	0	0	0
Cash flow from investing (b)	**(224)**	**(104)**	**(188)**	**51**	**(190)**	**(690)**	**10**
Free cash flow (a+b)	**162**	**171**	**(199)**	**1,014**	**1,022**	**700**	**1,950**
Equity raised/(repaid) [incl. chg in share premium]	0	0	0	(0)	141	0	0
Debt raised/(repaid)	(91)	(114)	62	(359)	(399)	0	0
Dividend (incl. tax)	(35)	(32)	(115)	(159)	(161)	(478)	(598)
Other financing activities	(59)	24	0	0	(141)	0	0
Cash flow from financing (c)	**(185)**	**(122)**	**(53)**	**(518)**	**(560)**	**(478)**	**(598)**
Net chg in cash (a+b+c)	**(22)**	**49**	**(253)**	**496**	**463**	**221**	**1,352**

Income Statement (Consolidated)

Yr. ended 31 Mar. (Rs. m)	FY05	FY06	FY07E	FY08E
Net sales	13,071	14,882	20,971	25,233
Growth (%)	95.2	13.9	40.9	20.3
Operating expenses	(12,121)	(13,111)	(18,205)	(21,706)
Operating profit	950	1,771	2,766	3,527
EBITDA	**950**	**1,771**	**2,766**	**3,527**
Growth (%)	84.9	86.4	56.2	27.5
Depreciation	(252)	(234)	(259)	(267)
Other income	296	389	264	287
EBIT	**994**	**1,926**	**2,771**	**3,547**
Interest paid	(88)	(79)	(65)	(65)
Pre-tax profit (before non-recurring items)	905	1,848	2,706	3,482
Non-recurring items	–	499	–	–
Pre-tax profit (after non-recurring items)	905	2,347	2,706	3,482
Tax (current + deferred)	(161)	(327)	(495)	(637)
Net profit	744	2,020	2,211	2,845
Adjusted net profit	**665**	**1,543**	**2,240**	**2,879**
Growth (%)	86.1	132.1	45.2	28.5
Minority interests	(104)	–	–	–
Share in Associate profits	24	22	29	34
Net income	**665**	**2,042**	**2,240**	**2,879**

Balance Sheet (Consolidated)

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Current assets	7,568	9,185	12,368	16,114
Investments	779	779	779	779
Net fixed assets	1,619	1,588	2,040	1,885
Other non-current assets	80	80	80	80
Total assets	**10,045**	**11,631**	**15,267**	**18,857**
Current liabilities	5,013	5,450	7,444	8,754
Total debt	1,177	773	773	773
Other non-current liabilities	210	210	210	210
Total liabilities	**6,400**	**6,433**	**8,427**	**9,737**
Share capital	71	212	212	212
Reserves & surplus	2,847	4,259	5,901	8,181
Shareholders' funds	2,917	4,470	6,112	8,393
Minorities interests	728	728	728	728
Total equity & liabilities	**10,045**	**11,631**	**15,267**	**18,857**

Cash Flow Statement (Consolidated)

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Pre-tax profit	905	2,347	2,706	3,482
Depreciation	457	222	248	255
Chg in working capital	(325)	(1,019)	(1,132)	(825)
Total tax paid	(115)	(378)	(495)	(637)
Cash flow from oper. (a)	**922**	**1,171**	**1,326**	**2,275**
Capital expenditure	(1,076)	(191)	(700)	(100)
Chg in investments	310	0	–	–
Cash flow from inv. (b)	**(766)**	**(191)**	**(700)**	**(100)**
Free cash flow (a+b)	**156**	**980**	**626**	**2,175**
Equity raised/(repaid)	0	141	–	–
Chg in minorities	624	–	–	–
Debt raised/(repaid)	7	(404)	(0)	–
Dividend (incl. tax)	(141)	(154)	(449)	(564)
Other financing activities	30	(151)	–	–
Cash flow from financing (c)	**521**	**(568)**	**(450)**	**(564)**
Net chg in cash (a+b+c)	**677**	**412**	**177**	**1,611**

Key Ratios (Consolidated)

Yr. ended 31 Mar. (%)	FY05	FY06	FY07E	FY08E
EPS (Rs.)	6.3	14.6	21.2	27.2
EPS growth	86.1	132.1	45.2	28.5
EBITDA margin	7.3	11.9	13.2	14.0
EBIT margin	7.6	12.9	13.2	14.1
ROCE	22.5	34.4	39.6	39.6
Net debt/Equity	9.8	(8.8)	(9.3)	(24.6)

Valuations (Consolidated)

Yr. ended 31 Mar. (x)	FY05	FY06	FY07E	FY08E
PER	73.4	31.6	21.8	16.9
PCE	53.2	27.4	19.5	15.5
Price/Book	13.4	9.4	7.1	5.3
Yield (%)	0.5	0.9	1.1	1.1
EV/Net sales	3.8	3.2	2.3	1.8
EV/EBITDA	51.7	27.3	17.4	13.2

Du Pont Analysis – RoE (Consolidated)

Yr. ended 31 Mar. (x)	FY05	FY06	FY07E	FY08E
Net margin (%)	5.1	10.4	10.7	11.4
Asset turnover	1.5	1.4	1.6	1.5
Leverage factor	2.8	2.5	2.2	2.1
Return on equity (%)	21.7	34.9	37.2	36.1

Income Statement (Standalone)

Yr. ended 31 Mar. (Rs. m)	FY05	FY06	FY07E	FY08E
Net sales	7,309	9,246	14,310	17,642
Growth (%)	43.9	26.5	54.8	23.3
Operating expenses	(12,121)	(13,111)	(18,205)	(21,706)
Operating profit	554	1,190	2,063	2,665
EBITDA	**554**	**1,190**	**2,063**	**2,665**
Growth (%)	98.1	114.8	73.4	29.1
Depreciation	(100)	(99)	(137)	(137)
Other income	132	250	150	150
EBIT	**586**	**1,341**	**2,076**	**2,678**
Interest paid	(48)	(55)	(21)	(21)
Pre-tax profit (before non-recurring items)	538	1,286	2,056	2,657
Non-recurring items	–	499	–	–
Pre-tax profit (after non-recurring items)	538	1,785	2,056	2,657
Tax (current + deferred)	(31)	(156)	(376)	(486)
Net profit	**507**	**1,629**	**1,679**	**2,171**
Adjusted net profit	507	1,131	1,679	2,171
Growth (%)	91.5	122.8	48.5	29.3
Net income	**507**	**1,629**	**1,679**	**2,171**

Balance Sheet (Standalone)

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Current assets	4,945	6,486	9,293	12,364
Investments	828	828	828	828
Net fixed assets	547	649	1,214	1,079
Other non-current assets	61	–	–	–
Total assets	**6,382**	**7,964**	**11,335**	**14,271**
Current liabilities	3,760	4,653	6,943	8,305
Total debt	656	257	257	257
Other non-current liabilities	63	–	–	–
Total liabilities	**4,480**	**4,910**	**7,200**	**8,563**
Share capital	71	212	212	212
Reserves & surplus	1,832	2,842	3,923	5,496
Shareholders' funds	**1,902**	**3,053**	**4,135**	**5,708**
Total equity & liabilities	**6,382**	**7,964**	**11,335**	**14,270**

Cash Flow Statement (Standalone)

Yr. ended 31 Mar. (Rs. m)	FY05	FY06E	FY07E	FY08E
Pre-tax profit	538	1,785	2,056	2,657
Depreciation	84	87	126	125
Chg in working capital	376	(607)	(629)	(466)
Total tax paid	(34)	(53)	(162)	(376)
Cash flow from oper. (a)	**963**	**1,212**	**1,390**	**1,940**
Capital expenditure	(45)	(190)	(690)	10
Chg in investments	96	–	–	–
Cash flow from inv. (b)	**51**	**(190)**	**(690)**	**10**
Free cash flow (a+b)	**1,014**	**1,022**	**700**	**1,950**
Equity raised/(repaid)	(0)	141	–	–
Debt raised/(repaid)	(359)	(399)	–	–
Dividend (incl. tax)	(159)	(161)	(478)	(598)
Other financing activities	–	(141)	–	–
Cash flow from fin. (c)	**(518)**	**(560)**	**(478)**	**(598)**
Net chg in cash (a+b+c)	**496**	**463**	**221**	**1,352**

Key Ratios (Standalone)

Yr. ended 31 Mar. (%)	FY05	FY06	FY07E	FY08E
EPS (Rs.)	4.8	10.7	15.9	20.5
EPS growth	122.8	48.5	29.3	–
EBITDA margin	7.6	12.9	14.4	15.1
EBIT margin	8.0	14.5	14.5	15.2
ROCE	21.9	45.2	53.9	51.7
Net debt/Equity	3.9	(25.8)	(24.4)	(41.4)

Valuations (Standalone)

Yr. ended 31 Mar. (x)	FY05	FY06	FY07E	FY08E
PER	85.5	38.4	25.8	20.0
PCE	71.4	35.3	23.9	18.8
Price/Book	22.8	14.2	10.5	7.6
Yield (%)	0.5	1.0	1.2	1.2
EV/Net sales	5.9	4.6	3.0	2.3
EV/EBITDA	78.4	35.8	20.5	15.4

Du Pont Analysis – RoE (Standalone)

Yr. ended 31 Mar. (x)	FY05	FY06	FY07E	FY08E
Net margin (%)	6.9	12.2	11.7	12.3
Asset turnover	1.2	1.3	1.5	1.4
Leverage factor	3.4	2.9	2.7	2.6
Return on equity (%)	28.7	45.6	46.7	44.1