

Kirloskar Brothers

Relative to sector: **Outperformer**

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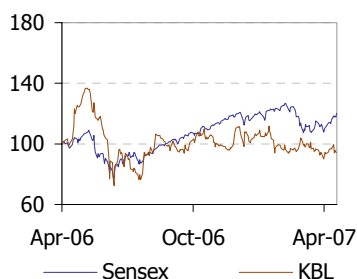
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 106mn
Market cap	: Rs 36bn
52 week high/low	: Rs 545/ Rs 274
Avg. daily vol. (6mth)	: 52,300 shares
Bloomberg code	: KKB IN
Reuters code	: KRBR.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 62.1	0.0
FII's	: 2.1	(0.8)
MFs / UTI	: 5.3	1.0
Banks / FIs	: 5.5	(0.2)
Others	: 25.1	0.0

ORDER FLOW SURPRISES

Kirloskar Brothers' (KBL) FY07 results were marginally below expectations largely due to delay in a project and insufficient price increase for input cost inflation in the project. However, the client has agreed to reimburse the escalation and the losses will be reversed in FY08. Adjusted for the same, on a standalone basis, KBL reported revenues of Rs 13.4bn (up 45%YoY), EBIDTA of Rs 1.86bn (up 55% YoY) and PAT of Rs 1.65 (up 70%YoY). Driven by 197% YoY growth in order intake of Rs 22.2bn, order backlog stands at Rs 25bn (up 90%).

Key FY07 results highlights

- **Revenues:** Project revenues at Rs 8bn (up 33%) were lower than expected due to delay in a project. However, healthy growth of industrial pumps at Rs 2.5bn (up 82%YoY) and of agri pumps at Rs 2.6b (up 67%YoY) was a positive surprise.
- **Margins:** Adjusted for the Rs 70mn losses booked on account of non-escalation and one-time staff bonuses (Rs 20mn), standalone OPM expanded by 80bps to 13.7%.
- **Subsidiaries:** The performance of **SPP pumps** was in-line; it reported revenues of Rs 2.8bn and PBT of Rs 90mn. **Ebara's** performance was disappointing with flat revenues at Rs 330mn and PBT of Rs 100mn. **Aban Construction**, acquired during the year, reported a minor loss of Rs 9.5mn and is likely to stage a turnaround next year.

Outlook

Given the GOIs thrust on irrigation coupled with surging industrial capex, the outlook for KBL continues to be promising. KBL has bid for Rs 180bn worth of projects and considering its historical success to bid ratio of 15-18%, it is likely to win Rs 27-30bn worth of orders over the next 15 months. In view of its enhanced visibility in earnings over the medium term, we maintain our FY08 earnings estimates and introduce FY09E EPS of Rs 31.4. At CMP (Rs 364), adj. for investments of Rs 73, the stock trades at an EV/EBIDTA of 6.3x FY09E. We upgrade the stock to sector **Outperformer**.

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	14,837	1,268	12.0	(44)	2.8	28.5	34.9	2.5	4.2
2007	18,049	1,672	15.8	32	32.6	26.1	32.3	22.0	4.0
2008E	24,381	2,373	22.4	42	22.9	28.1	37.8	17.7	4.4
2009E	32,595	3,319	31.4	40	16.2	30.9	42.1	11.6	4.8

Source: Company, ENAM estimates

Results update

(Rs mn)	Quarter ended (Standalone)					Y/E (Consolidated)		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	4,486	3,147	42.5	2,814	59.4	24,381	18,049	35.1
EBIDTA	479	415	15.6	449	6.8	3,330	2,179	52.8
Other income	123	114	7.6	59	108.1	356	257	38.5
PBIDT	602	528	13.9	508	18.6	3,685	2,436	51.3
Depreciation	33	25	33.5	30	10.5	355	210	69.2
Interest	26	13	107.9	16	59.8	75	113	(33.4)
PBT	543	491	10.5	462	17.6	3,255	2,113	54.0
Tax	86	48	80.4	144	(40.4)	910	469	94.3
Add: Share of Associate's profits	-	-	-	-	-	29	27	-
Adjusted PAT	457	444	3.0	318	43.9	2,373	1,672	41.9
Extra ordinary income/ (exp.)	-	-	-	-	-	-	1,065	-
Reported PAT	367	444	(17.2)	318	15.6	2,373	2,736	(13.3)
No. of shares (mn)	106	106	-	106	-	106	106	-
EBIDTA margins (%)	10.7	13.2	-	15.9	-	13.7	12.1	-
PBIDT margins (%)	13.4	16.8	-	18.0	-	15.1	13.5	-
EPS - annualized (Rs.)	17.3	16.7	3.0	12.0	43.6	22.4	15.8	41.9

Source: Company, ENAM Research

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