



## (Investment Idea)

### KCP Limited

KCP, a diversified company with interest in engineering, cement and power, has reported fabulous performance for quarter ending March 2007.

Q4 FY 2007 standalone Net sales shot up by 75% to Rs. 79.5 crore (Rs. 45.6 crore) owing to almost doubling of engineering sales to Rs. 48 crore (Rs. 24.4 crore). Cement sales grew @ 52.3% to Rs. 45.3 crore (Rs. 29.7 crore). OPM% declined to 25.1% (26.7%). Nevertheless strong sales growth resulted in doubling of PBT to Rs. 19.3 crore (Rs. 10.6 crore) and PAT to Rs. 14.8 crore (Rs. 7.2 crore).

For FY 2007, net sales shot up by 50.9% to Rs. 248.8 crore (Rs. 164.9 crore). OPM % jumped to 32.5% (15.2%). Consequently, PBT zoomed to Rs. 72.6 crore (Rs. 24.9 crore) and PAT to Rs. 48.3 crore (Rs. 17.5 crore).

Consolidated Net sales soared up by 51.6% to Rs. 375 crore (Rs. 247.2 crore) led by growth in every segment. Engineering turnover jumped up by 55.9% to Rs. 179.04 crore, Cement sales rose by 46.6% to Rs. 160 crore (Rs. 109.2 crore), while sugar turnover grew @ 55.7% to Rs. 99.8 crore (Rs. 64.1 crore). OPM% enhanced significantly to 28.4% (18.2%) led by reduction in power & fuel cost to 12.6% (16.7%) of sales and other expenses to 23.3% (28.8%) of sales. PBIT% of cement division has improved significantly to 21.4% (0.8%) due to higher cement realization. Consequently, PBT zoomed to Rs. 89.1 crore (Rs. 31.7 crore). After accounting for higher average tax rate of 28.4% (23.7%), PAT skyrocketed to Rs. 59.4 crore (Rs. 21.3 crore).

KCP's Engineering division has one of the largest, well integrated workshops of its kind and has facilities for casting, fabrication and machining heavy equipment. It works as a subcontractor. In last 4-5 years, company has re-organised its engineering business. Earlier, company had exposure only in sugar and cement industry. However, now it is focusing on areas such as Hydro & Nuclear Power plants, general engineering and Steel. Due to huge investment taking place in all these segments, engineering unit is expected to sustain the growth momentum.

Southern region had been suffering from over capacity in cement for past many years. However, situation has improved over past one year. Now, South India is witnessing very strong growth in cement consumption bridging demand-supply gap very fast. To meet growing demand, company is increasing capacity by 10-15% thru de-bottlenecking.

Besides, company has large land bank in Hyderabad, Vijayawada and Chennai (Thiruvatriyur), which it plans to put in proper use. It proposes to develop 3 star – 100 room hotel on 20,000 sq. ft. of land in Hyderabad at cost of Rs 40 crore.

At CMP of Rs. 284.80, the share (Rs. 10/- paid up) is trading at 6.18 times FY 2007 consolidated EPS of Rs. 46.1 and 5.3 times FY 2008 expected consolidated earnings of Rs. 53.61. Considering excellent future prospects, we recommend to "BUY" the share at CMP.

**Disclosures:**

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*June 19, 2007*