

RESULTS REVIEW

Kirloskar Brothers Limited

Hold

Share Data

Market Cap	Rs. 52.4 bn
Price	Rs. 495.10
BSE Sensex	20,216.72
Reuters	KRBR.BO
Bloomberg	KKB IN
Avg. Volume (52 Week)	25,067.1
52-Week High/Low	Rs. 527/330.05
Shares Outstanding	105.8 mn

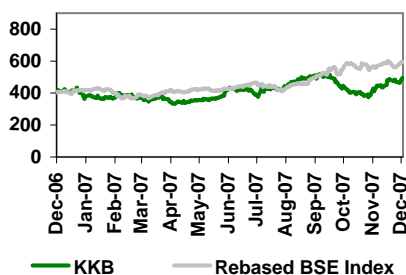
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	17.9	22.2
+/- (%)	4.2%	23.7%
PER (x)	27.6x	22.3x
EV/ Sales (x)	2.4x	2.0x
EV/ EBITDA (x)	23.3x	18.2x

Shareholding Pattern (%)

Promoters	62
FIs	2
Institutions	12
Public & Others	24

Relative Performance



Increased raw material prices spoiled the quarter

Kirloskar Brothers Limited, the leading pump manufacturer, reported lackluster performance for Q2'08 with a subdued revenue growth of 14% yoy to Rs. 3.2 bn due to delay in project execution. Despite growth in sales, EBITDA declined by 24.2% yoy to Rs. 226 mn on account of increased cost of raw material consumption. Lower EBITDA coupled with decreased other income and higher effective tax rate led to 44.4% yoy decline in adjusted net profit to Rs. 270 mn.

KBL continues to concentrate on the core business of pumps and pumping systems and plans to be a complete water solution business provider in the long run. We believe that the synergistic benefits from the recent acquisition are not yet integrated in the model and expect further upside from the same. However, we are pessimistic about the margin improvement in the near term as the raw material prices especially of iron ore and steel are sky rocketing.

At the current price of Rs. 495.10, the stock trades at a forward P/E of 27.6x FY08E earnings and 22.3x FY09E earnings. At current levels, we feel the stock has limited upside potential and hence maintain Hold.

Result Highlights

In Q2'08, net sales grew by 14% yoy to Rs. 3.2 bn, driven by a 14.4% increase in the pumps segment revenue and a 2.5% growth in the other segment. The exports contribution to the sales declined substantially during the quarter.

Key Figures (Standalone)

Quarterly data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H2'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	2,791	3,155	3,181	14.0%	0.8%	6,100	6,336	3.9%
EBITDA	298	359	226	(24.2%)	(37.1%)	708	585	(17.4%)
Adj. Net Profit	485	257	270	(44.4%)	5.0%	876	527	(39.9%)

Margins(%)

EBITDA	10.7%	11.4%	7.1%	11.6%	9.2%
NPM	17.4%	8.1%	8.5%	14.4%	8.3%

Per Share Data (Rs.)

Adjusted EPS	4.6	2.4	2.6	(44.4%)	4.9%	8.3	5.0	(39.9%)
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Operating margins dragged down by higher cost of raw material consumption

Despite the growth in revenue, EBITDA declined by 24.2% yoy to Rs. 226 mn and margins dipped by 358 bps on account of increased cost of raw material consumption (up 1,041 bps) and higher staff cost (up 131 bps). The recent upsurge in the prices of iron-ore and steel contributed to the tremendous rise in the raw material prices. In the near term, we expect the raw material prices to remain on the higher side, which in-turn will put pressure on the operating margins.

Massive increase in the order book

Adjusted net profit plunged by 44.4% yoy to Rs. 270 mn and margin compressed by 891 bps primarily due to reduction in other income (down 499 bps) and higher effective tax rate (22% vis-à-vis 14.6%).

KBL's order book grew by a whopping 200% yoy to Rs. 36 bn as on Sep 30, 07, which has an execution cycle of around 2-3 years. The order book reflects the potential revenue growth capability of the Company.

Key Events

- KBL is on the advanced stage of acquiring a mid-size company abroad. The management has declined from announcing either the name or even the size of the potential target but the acquisition is expected to provide geographical and technological benefits to the Company.

Margins expected to remain under pressure

Outlook

Despite un-impressive performance during Q2'08, we remain positive on the Company's long-term growth on the back of KBL's plan to be a complete water solution business provider. We believe that the synergistic benefits from the recent acquisition are not yet integrated in the model and expect further upside from the same. However, we are pessimistic about the margin improvement in the near term as the raw material prices especially of iron ore and steel are on the uptrend.

At the current price of Rs. 495.10, the stock trades at a forward P/E of 27.6x FY08E earnings and 22.3x FY09E earnings. At current levels, we feel the stock has limited upside potential and hence maintain Hold.

Key risks to the rating are increase in raw material prices and lower order execution rate.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)

Net Sales	13,071	14,883	17,819	22,761	27,309	23.8%
EBITDA	963	1,807	1,875	2,299	2,949	25.4%
Net Profit	648	1,484	1,820	1,896	2,344	13.5%

Margins(%)

EBITDA	7.4%	12.1%	10.5%	10.1%	10.8%
NPM	5.0%	10.0%	10.2%	8.3%	8.6%

Per Share Data (Rs.)

Normalised EPS	6.1	14.0	17.2	17.9	22.2	13.5%
PER (x)	14.8x	27.8x	28.8x	27.6x	22.3x	

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