

**Kalyani Steels Limited**

 Market Cap (Rs. Cr) **1346**

52 Week-H/L(Rs)

**345/122**
**CMP**
**Rs. 320.0**
**Target Price**
**Rs. 380/ 450**

 Bloomberg [KS@IN](#)

Reuters

[KLSL.BO](#)

 BSE **500235**

NSE

[KALYANISTL](#)
**Investment Arguments**

Company [directly plus through its 100% owned subsidiaries], holds investments in group companies like - Bharat Forge, Hikal and BF Utilities worth Rs 2,500 Crs [as on 16/10/06; see table below for major holdings], while its own market cap is just Rs 1350 Crs. So even excluding the core business [with huge cash generation], the stock is available at half the value of investment. [As if, it is only a investment company].

Company is engaged in Alloy & Special steel manufacturing - used in forging/casting in auto & auto components sector, wherein the group is biggest consumer and global player. So growth potential is huge and company is expanding capacities vigorously. Its an integrated player making steel from basic stage and constantly securing raw material availability and costs very well. For coke supplies it has JV with Guj NRE Coke for converting coal in to coke and also operates waste gases based power plant.

Company has recently acquired 80% stake in SJK Steel having [with 2.5 Lakh MTs capacity] after its CDR was approved; and is planning to modernize and expand this unit. This acquisition will double the Kalyani capacity in one shot. Company is also planning to issue 16 Lakh equity shares to financial investors @315/- and is also considering the demerger of investment division. Company is holding its EGM for this purpose and if demerger is also taken up, there is tremendous scope for the value unlocking. In our view, the core business of the company is worth Rs 800-1000 Crs; add to this investments [valued at Rs 2500 Crs] at 50% discount is equal to 1250 crs. So total Mkt cap of this company should be close to 2000-2200 Crs against present 1350 crs. Thus one can expect 50-75% rise in stock price in medium term.

**BUY**
**Financials for the year ended ( in Rs. Crores)**

PARTICULARS	FY05	FY06	FY07-E
Gross Sales	930.82	783	850
Operating profit	97.50	126.6	105.0
Interest	14.00	4.62	5.5
Depreciation	19.49	18.16	18.5
PAT	42.98	100.9	88
EPS ( in Rs)	10.22	24.00	20.93
CEPS ( in Rs)	14.86	28.3139	25.32699
Book Value ( in Rs)	58.32	78	94
Face Value ( in Rs)	10.00	10	10
Dividend ( in%)	20.00	30	35
Deividend Yeild (%)	0.63	0.94	1.09
Net Worth	245.23	331	402
Debt	140.36	95	60
Equity Capital	42.05	42.05	42.05
P.E. (x)	31.31	13.34	15.29
NPM %	0.05	12.9%	10.4%
Operating Margin %	0.10	16.2%	12.4%
	<b>3/06, PAT includes 31 Crs profit from investments.</b>		

**Latest result update ( in Rs. Crores)**

PARTICULARS	Last Qtr,06	Last Qtr,05	% change	YTD,06	YTD,05	% change
Gross Sales	275.22	199.56	37.91	527.56	388.30	35.86
Operating Profit	35.95	31.70	13.41	67.40	63.32	6.44
Net Profit ( PAT)	21.31	50.49	(57.79)	40.23	67.27	(40.20)
Equity	42.05	42.05	0.00	42.05	42.05	0.00
EPS	5.07	12.01		9.57	16.00	

**Technical Trend [Qtr & HY'05 Profit including 31.5 Crs investment gains]**

After touching a high of Rs 560 in May'06, the stock corrected significantly and touched a low of about Rs 200 in July'06. Since then the stock moved up and indicating a sort of inverted Head & Shoulder pattern, indicating a sustained medium term rise. One can buy with stop loss of Rs 295 and target of Rs 380 in short term and Rs 450 in medium term.

**Investment Portfolio (Key stocks only) [As on 16/10/06]**

Company Name	Shares held	CMP	Value (in Crs.)
Bharat Forge	29681540	366	1086.34
BF Utilities	6062342	1800	1091.22
Hikal	5155650	390	201.07
<b>Total</b>	<b>40899532</b>		<b>2378.64</b>

*Sales down due to part job done on conversion basis*


