

Kesoram Industries Ltd.

CMP

Rs.572

TARGET PRICE

Rs. 900

POTENTIAL UPSIDE

50- 60%

TIME FRAME

6 Months

Result Review

The Rs 2500-crore Kesoram operates in two core areas, cement and tyres (Birla Tyres is a division of the company), while it has presence also in products like rayon yarn, spun pipes, chemicals and transparent papers.

Kesoram Industries is estimated to perform better in the coming quarters with cement price remaining firm and capacity expansion. Tyre segment is also expected to fare well with rubber prices skidding to around Rs 85/ kg. Buy with a price target of Rs. 900.

Bottom line surges 57.4%

B K Birla-promoted diversified firm Kesoram Industries has recorded a 57.39% increase in net profit to Rs 89.4 crore in the second quarter ended September 2007 over the corresponding period last year, on the back of higher revenues from the cement division. Total income during the quarter stood at Rs 782.89 crore, registering a rise of 32.7%. The company clocked 49.25% higher revenues from the cement business despite a machinery breakdown in June 2007 in the third production line of the Vasavadatta cement unit affecting cement production in the half-year. The other major revenue earner, the tyres division, recorded a 26.78% increase in revenues during the quarter.

Cement to drive growth going forward

KIL is adding 1.65 million tonne cement capacity (57% addition to its total capacity of 2.9 million tonne inclusive of 0.9 million ton at Andhra Pradesh) at its Karnataka plant, which is expected to commence production from Q4FY07.

KIL's cement volumes are estimated to go up by 25% in FY08 due to strong demand for cement in the Southern and Western region, the key markets for KIL.

Fall in rubber prices to boost tyre margins

Rubber prices in the international markets and domestic markets have fallen from record highs from the middle of Q2FY07. Tyre margins are expected to improve further for KIL in the coming quarters as tyre manufacturers are expected to benefit from reduction in rubber prices. The anti-dumping duty on truck tyres is also expected to partially help KIL improve its margin in tyre segment.

Plans to add Cement and Tyre capacity

KIL has planned a Brownfield Cement capacity at its existing Vasavadatta unit by another 1.5 million tonne and required Captive Power Plant at a capex of Rs 450 crore. KIL is having required land for the new cement plant and the plant is expected to come on line in FY09. After this expansion, the total capacity of KIL will become 6.05 million tonne. KIL has also planned to put up a Greenfield tyre capacity in Uttaranchal with 250 tonne capacity at a capex of Rs 650 crore.

Valuation

KIL is expected to be a major beneficiary of the robust cement demand and fall in rubber prices. The strength in cement prices is expected to sustain till the end of FY08 and the capacity addition is at a right time for KIL.

FY08 EPS is estimated at Rs 75 that translates into a target price of Rs 900 taking a conservative PE of 12.

Key financials

(Rs. million)

Description	30-Sep-07 (3 months)	30-Sep-06 (3 months)	Y-o-Y Growth	30-Jun-07 (3 months)	Q-o-Q Growth
Net Sales / Interest Earned / Operating Income	7,762.41	5,052.47	53.64	6,699.96	15.86
Other Income	66.51	131.25	-49.33	92.85	-28.37
Total Income	7,828.92	5,183.71	51.03	6,792.81	15.25
Expenditure	-6,209.34	-4,215.42	47.30	-5,297.73	17.21
Operating Profit	1,619.58	968.3	67.26	1,495.08	8.33
Interest	-137.47	-68.18	101.63	-123.57	11.25
Profit Before Depreciation and Tax	1,482.11	900.12	64.66	1,371.51	8.06
Depreciation	-219.45	-139.05	57.82	-211.69	3.67
Profit before Tax	1,262.67	761.07	65.91	1,159.82	8.87
Tax	-368	-193	90.67	-353	4.25
Profit after Tax	894.67	568.07	57.49	806.82	10.89
Net Profit	894.67	568.07	57.49	806.82	10.89
Equity Capital	457.42	457.42	0.00	457.42	0.00
Basic And Diluted EPS after Extraordinary item	19.56	12.42	57.49	17.64	10.88
Operating Profit Margin	20.86	19.16		22.31	
Net Profit Margin	11.53	11.24		12.04	

Rating

Out performer	Large cap	10% or more
	Mid Cap	20% or more
	Small cap	30% or more
Performer	Large cap	Between 5 to 10%
	Mid Cap	Between 10 to 15%
	Small cap	Between 15 to 20%
Under performer	Large cap	-10 %or more
	Mid Cap	-15 %or more
	Small cap	-20% or more

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