



INDEPENDENT EQUITY RESEARCH

KLRF Ltd

Q3FY11 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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KLRF Ltd

Steady performance

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry Food Products

KLRF Ltd's (KLRF's) Q3FY11 revenues exceeded CRISIL Equities' expectations driven by strong growth in the textile and engineering divisions. Our outlook for the rest of the year factors in consistent demand in the textile segment, ramp-up of operations in the engineering segment and steady growth in the food segment. Consequently, we revise our earnings estimates for FY11 and FY12. We retain our fundamental grade of '2/5' owing to the company's fluctuating margins and high gearing, which limit its ability to add further capacity for growth.

Q3FY11 result analysis

- KLRF's Q3 revenues were up 34% y-o-y and 13% q-o-q to Rs 551 mn on the back of strong growth in the engineering (74% y-o-y) and textile (48% y-o-y) segments.
- EBIT margins slipped 200 bps q-o-q and 20 bps y-o-y to 6.4%.
 - Robust demand and higher realisations helped the textile division post above-average margins of 12% (8% in Q3FY10). However, margins fell by 300 bps q-o-q owing to higher raw material costs.
 - Margins of the engineering division improved from -1% in Q3FY10 to 1% in Q3FY11. However, margins fell by 300 bps q-o-q owing to higher raw material costs, which it was unable to pass on to its customers.
 - The food division's margins contracted by ~130 bps q-o-q.
- PAT margins increased 50 bps y-o-y, but declined 120 bps q-o-q to 2.2%. The company's EPS grew by 80% y-o-y to Rs 2.5 (Rs 1.4 in Q3FY10).

Engineering division on the growth track

KLRF's engineering segment has exceeded CRISIL Equities' expectations. The company has seen strong growth in this division, which was set up through the acquisition of Eltex Super Casting Ltd in 2007. However, spiraling raw material costs have curtailed margin expansion. We expect this division to continue to log strong growth owing to a low base and a stable clientele.

Valuations: Market price has strong upside from current levels

We continue to value KLRF based on the discounted cash flow method. We retain our fair value estimate of Rs 38 owing to an expected correction in both prices and, in turn, margins in the textile industry in FY13. At the current market price, this translates into a valuation grade of '5/5'.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,403	1,423	1,557	2,044	2,196
EBITDA	124	70	138	191	208
Adj PAT	30	(43)	5	50	65
Adj EPS-Rs	5.9	(8.7)	1.0	10.1	12.9
EPS growth (%)	78.6	NM	12.9	877.9	28.0
Dividend yield (%)	8.2	0	0	0	0
RoCE (%)	11.0	2.0	9.9	16.4	17.5
RoE (%)	15.6	(23.3)	2.8	24.1	24.2
PE (x)	4.8	(1.5)	24.6	3.1	2.4
P/BV (x)	0.7	0.4	0.7	0.7	0.5
EV/EBITDA (x)	6.6	10.2	5.7	4.2	3.6

NM: Not meaningful; CMP: Current Market Price

Source: Company, CRISIL Equities estimate

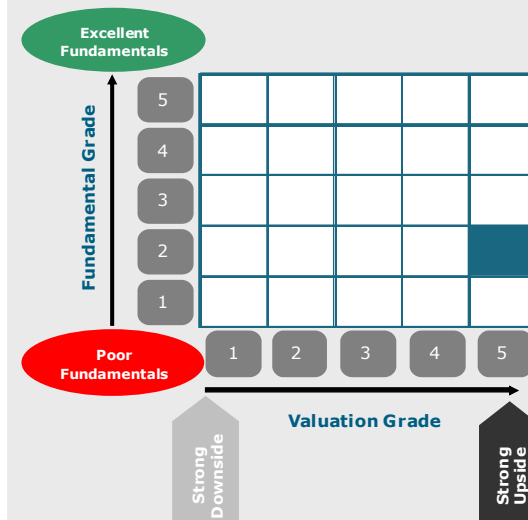


February 14, 2011

Fair Value Rs 38

CMP Rs 27

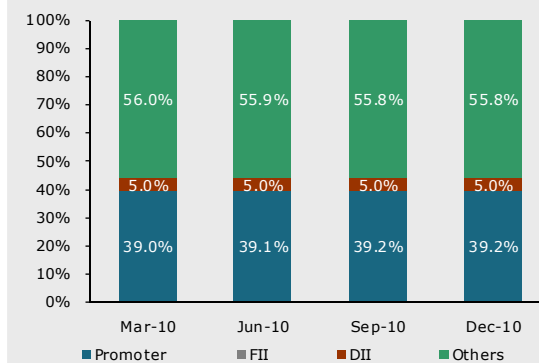
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5310
NSE	KLRF
Face value (Rs per share)	10
Shares outstanding (mn)	5.0
Market cap (Rs mn)/(US\$ mn)	133/3
Enterprise value (Rs mn)/(US\$ mn)	798/17
52-week range (Rs) (H/L)	52/21
Beta	0.4
Free float (%)	61%
Avg daily volumes (30-days)	1,635
Avg daily value (30-days) (Rs mn)	0.1

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KLRF	-19%	-39%	-10%	12%
NIFTY	-8%	-14%	-2%	10%

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Q3FY11 Result Summary

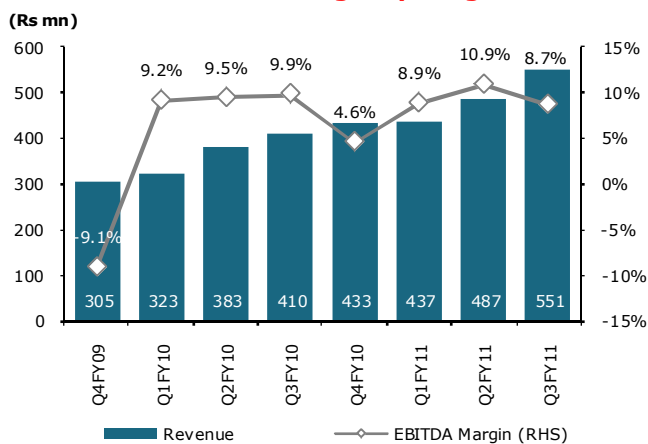
(Rs mn)	Q3FY11	Q2FY11	Q3FY10	q-o-q (%)	y-o-y (%)
Net sales	551	487	410	13.2	34.5
Raw materials cost	375	324	283	15.9	32.5
Raw materials cost (% of net sales)	68.1%	66.5%	69.2%	161bps	(104)bps
Employees cost	29	27	20	7.3	46.4
Other expenses	99	83	66	19.3	49.2
EBITDA	48	53	40	(10.1)	18.7
EBITDA margin	8.7%	10.9%	9.8%	(225)bps	(116)bps
Depreciation	13	13	14	-	(5.5)
EBIT	35.1	40.4	26.8	(13.3)	30.9
Interest and finance charges	17.3	18.9	16.4	(8.2)	5.8
Operating PBT	18	22	10	(17.7)	70.5
Other Income	0	0	0	n.m.	n.m.
PBT	18	22	11	(17.5)	69.8
Tax	6	5	4	n.m.	n.m.
PAT	12	17	7	(26.7)	79.4
Adj PAT	12	17	7	(26.7)	79.4
Adj PAT margin	2.2%	3.4%	1.7%	(121)bps	56bps
No of equity shares (Mn)	5.0	5.0	5.0	(0.0)	(0.0)-
Adj EPS (Rs)	2.5	3.3	1.4	(26.6)	79.4

Sales grew by 35% y-o-y owing to higher growth in the textile and engineering divisions

PAT grew by 80% y-o-y owing to better-than-historical-average margins in the textile division

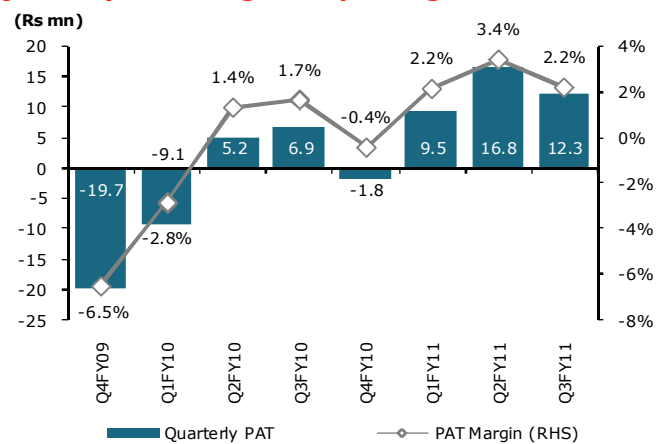
Source: Company, CRISIL Equities

Revenue and EBITDA margins post growth



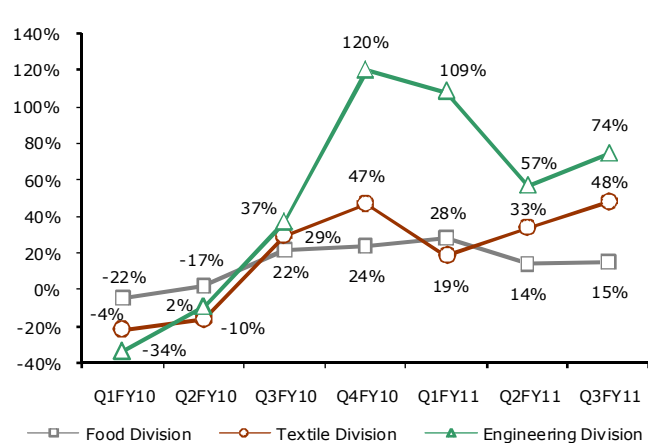
Source: Company, CRISIL Equities

Quarterly PAT margins improving in FY11



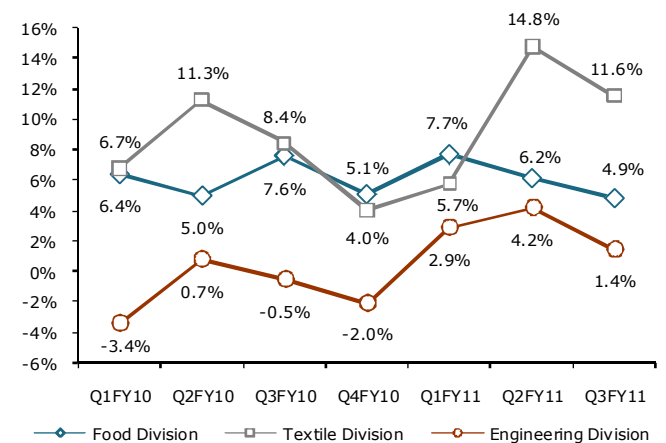
Source: Company, CRISIL Equities

Textile and engineering post strong y-o-y growth



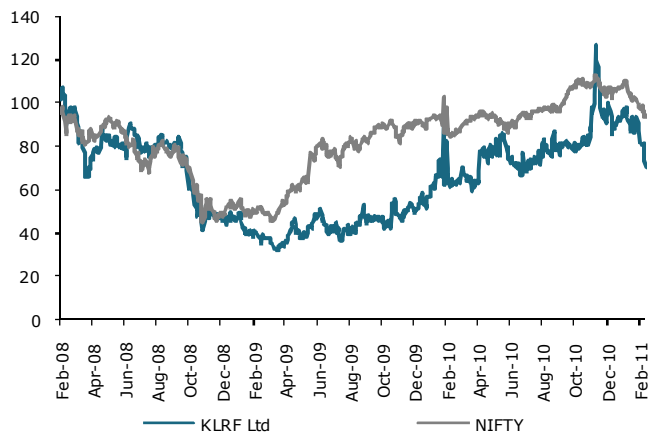
Source: Company, CRISIL Equities

Textile margins have expanded



Source: Company, CRISIL Equities

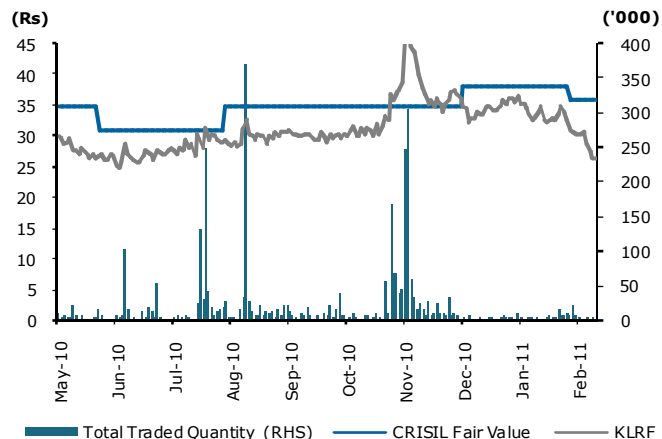
Share price movement



-Indexed to 100

Source: NSE, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

Earnings estimates revised upwards

We revise our estimates for FY11 and FY12 on account of improved prospects across divisions. The textile division is expected to witness strong volume growth and prices are expected to stay firm till FY12. In the engineering division, where supply was more of a concern than demand, the company is expected to witness higher utilisation, which should drive growth. In the food segment, we expect demand to remain stable.

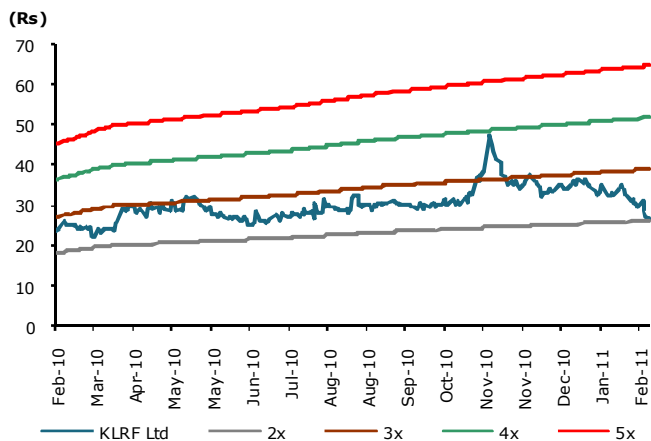
Particulars	Unit	FY11E			FY12E		
		Old	New	% change	Old	New	% change
Revenue	(Rs mn)	1,677	2,044	21.9%	1,785	2,196	23.0%
EBITDA	(Rs mn)	145	191	32.0%	149	208	39.6%
EBITDA margin	%	8.6	9.3	56 bps	8.3	9.5	104 bps
PAT	(Rs mn)	23	50	116.7%	27	65	136.9%
PAT margin	%	1.4	2.5	81 bps	1.5	2.9	71 bps
EPS	Rs	4.6	10.1	116.7%	5.4	12.9	136.9%

VALUATION

We continue to value KLRF based on the discounted cash flow method. Our retain fair value estimate for KLRF is Rs 38. At this value, the implied P/E multiples are 3.8x FY11 earnings estimate and 2.9x FY12 earnings estimate.

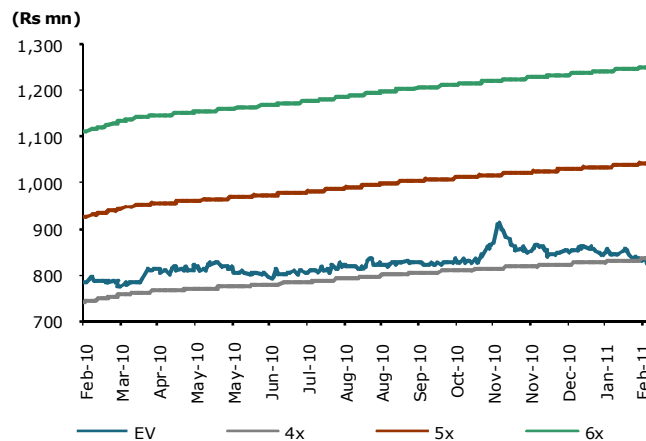
We retain our fair value estimate to Rs 38

One-year forward P/E band



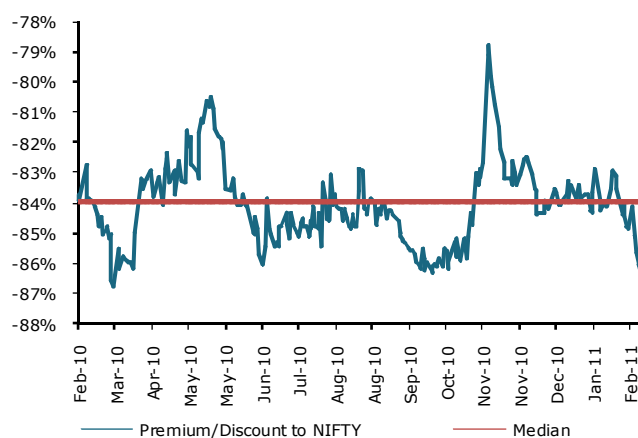
Source: NSE, CRISIL Equities

One-year forward EV/EBITDA band



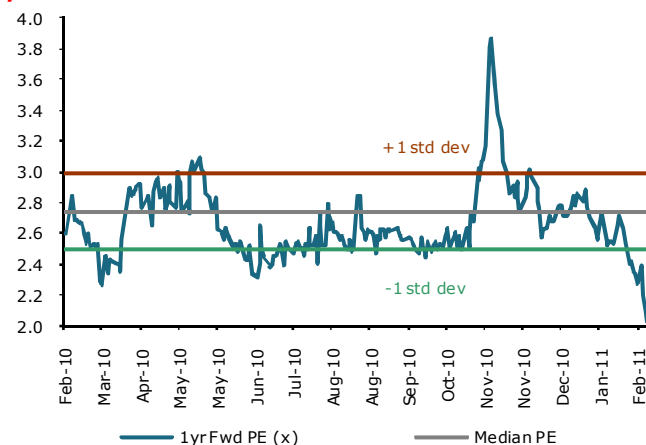
Source: NSE, CRISIL Equities

P/E – premium/discount to NIFTY



Source: NSE, CRISIL Equities

P/E movement



Source: NSE, CRISIL Equities

CRISIL IER Reports released on KLRF Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
21-May-10	Initiating coverage*	2/5	Rs 35	3/5	Rs 32
10-Jun-10	Q4FY10 result update	2/5	Rs 31	4/5	Rs 27
10-Aug-10	Q1FY11 result update	2/5	Rs 35	4/5	Rs 29
29-Nov-10	Q2FY11 result update	2/5	Rs 38	3/5	Rs 35
14-Feb-11	Q3FY11 result update	2/5	Rs 38	5/5	Rs 27

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,403	1,423	1,557	2,044	2,196
EBITDA	124	70	138	191	208
EBITDA margin	8.8%	4.9%	8.8%	9.3%	9.5%
Depreciation	42	53	54	48	50
EBIT	82	17	84	142	157
Interest	54	70	80	69	63
Operating PBT	28	(53)	4	73	94
Other income	5	3	3	2	2
Exceptional inc/(exp)	(0)	0	0	0	0
PBT	33	(50)	7	75	96
Tax provision	3	(7)	2	25	32
Minority interest	0	0	0	0	0
PAT (Reported)	30	(43)	5	50	65
Less: Exceptionals	(0)	0	0	0	0
Adjusted PAT	30	(43)	5	50	65

Ratios

	FY08	FY09	FY10	FY11E	FY12E
Growth					
Operating income (%)	18.2	1.5	9.4	31.3	7.4
EBITDA (%)	14.0	(43.4)	96.0	38.6	8.9
Adj PAT (%)	79.4	NM	NM	930.9	28.0
Adj EPS (%)	79.4	NM	NM	930.9	28.0
Profitability					
EBITDA margin (%)	8.8	4.9	8.8	9.3	9.5
Adj PAT Margin (%)	2.1	(3.1)	0.3	2.5	2.9
RoE (%)	15.6	(23.3)	2.8	24.1	24.2
RoCE (%)	11.0	2.0	9.9	16.4	17.5
RoIC (%)	12.1	3.4	10.5	14.1	14.7
Valuations					
Price-earnings (x)	4.8	(1.5)	24.6	3.1	2.4
Price-book (x)	0.7	0.4	0.7	0.7	0.5
EV/EBITDA (x)	6.6	10.2	5.7	4.2	3.6
EV/Sales (x)	0.6	0.5	0.5	0.4	0.3
Dividend payout ratio (%)	39.6	0	0	0	0
Dividend yield (%)	8.2	0	0	0	0
B/S ratios					
Inventory days	110	67	88	74	75
Creditors days	28	21	20	23	25
Debtor days	34	35	25	23	23
Working capital days	99	113	99	82	82
Gross asset turnover (x)	1.8	1.6	1.7	2.2	2.2
Net asset turnover (x)	4.0	3.6	4.1	5.5	6.1
Sales/operating assets (x)	4.0	3.5	3.9	5.2	5.8
Current ratio (x)	5.5	6.3	6.9	5.2	4.9
Debt-equity (x)	3.3	3.9	3.7	2.8	2.1
Net debt/equity (x)	3.3	3.8	3.6	2.7	2.0
Interest coverage	1.5	0.2	1.0	2.1	2.5

Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	5.9	(8.7)	1.0	10.1	12.9
CEPS	14.3	2.0	11.7	19.7	22.9
Book value	40.8	33.6	36.7	46.8	59.6
Dividend (Rs)	2.3	0	0	0	0
Actual o/s shares (mn)	5.0	5.0	5.0	5.0	5.0

Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Equity share capital	50	50	50	50	50
Reserves	155	119	134	185	249
Minorities	0	0	0	0	0
Net worth	205	169	184	235	299
Convertible debt	0	0	0	0	0
Other debt	684	657	673	648	616
Total debt	684	657	673	648	616
Deffered tax liability (net)	(2)	(10)	(8)	(8)	(8)
Total liabilities	886	816	849	875	907
Assets					
Net fixed assets	394	390	376	365	354
Capital WIP	8	17	20	20	20
Total fixed assets	402	408	396	385	375
Investments	0	0	0	0	0
Current assets					
Inventory	376	243	332	364	397
Sundry debtors	134	137	111	129	138
Loans and advances	76	98	79	104	111
Cash & bank balance	6	8	8	11	23
Marketable securities	0	0	0	0	0
Total current assets	593	486	530	607	669
Total current liabilities	108	78	77	117	137
Net current assets	484	408	453	490	533
Intangibles/Misc. expenditure	0	0	0	0	0
Total assets	886	816	849	875	907

Cash flow

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	33	(50)	7	75	96
Total tax paid	(2)	(1)	0	(25)	(32)
Depreciation	42	53	54	48	50
Working capital changes	(197)	78	(44)	(35)	(31)
Net cash from operations	(124)	80	16	64	84
Cash from investments					
Capital expenditure	(142)	(59)	(43)	(37)	(40)
Investments and others	0	0	0	0	0
Net cash from investments	(142)	(59)	(43)	(37)	(40)
Cash from financing					
Equity raised/(repaid)	0	0	10	0	(0)
Debt raised/(repaid)	256	(27)	16	(25)	(32)
Dividend (incl. tax)	(12)	0	0	0	0
Others (incl extraordinary)	(0)	0	0	0	0
Net cash from financing	244	(27)	27	(25)	(32)
Change in cash position	(23)	(6)	0	2	12
Closing cash	6	8	8	11	23

Quarterly financials

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Net Sales	410	433	437	487	551
Change (q-o-q)	7%	6%	1%	11%	13%
EBITDA	40	20	39	53	48
Change (q-o-q)	11%	-51%	96%	37%	-10%
EBITDA margin	9.8%	4.6%	8.9%	10.9%	9%
PAT	11	(2)	10	17	12
Adj PAT	11	(2)	10	17	12
Change (q-o-q)	96%	n.m.	n.m.	76%	-27%
Adj PAT margin	2.6%	-0.4%	2.2%	3.4%	2.2%
Adj EPS	2.1	(0.4)	1.9	3.3	2.4

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Equities estimate

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