

Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

KSE Limited

Q4FY10 result update

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- IPO Grading
- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporates

Other Services by the Research group include

- CRISINFAC Industry research on over 60 industries and Economic Analysis
- Customised Research on Market sizing, Demand modelling and Entry strategies
- Customised research content for Information Memorandum and Offer documents

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)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The 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 Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
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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List of companies under coverage

Sl. No.	Report Date	Company Name	Sector	CMP	M. Cap (Rs. Mn)	Initiating Coverage		Last Update	
						Fair value	Fundamental grade	Fair value	Fundamental grade
1	02-Feb-10	Aarti Industries	Chemicals	49	3,757	56	3/5	56	3/5
2	04-Jun-10	ABG Shipyard	Shipping	253	10,286	242	3/5	259	3/5
3	01-Feb-10	Apollo hospitals	Hospitals	712	44,012	642	4/5	724	4/5
4	01-June-10	Beardsell Limited	Packaging/Expanded Polystyrene	60	228	54	3/5	54	3/5
5	06-Apr-10	Dhanuka Agritech Ltd	Pesticides	271	2,483	283	3/5	-	-
6	29-Jan-10	DLF	Real Estate	335	568,495	356	3/5	356	3/5
7	01-June-10	Dolphin Offshore	Oil & Gas	293	4,629	315	3/5	370	3/5
8	05-Feb-10	EID Parry	Sugar	348	30,050	394	4/5	395	4/5
9	31-May-10	Everest Kanto	Manufacturing	132	13,257	270	4/5	146	4/5
10	11-May-10	GKB Ophthalmics Ltd	Ophthalmic Lens	48	199	52	2/5	-	-
11	14-May-10	Havells India Ltd	Capital Goods	607	36,522	614	4/5	614	4/5
12	22-April-10	Hero Honda	Automobiles	1,889	377,240	1,747	5/5	1937	5/5
13	24-May-10	Hindusthan National Glass & Industries Ltd.	Packaging/Glass	208	14,533	314	4/5	314	4/5
14	13-May-10	Hydro S&S Industries Ltd.	Petrochemicals Plastic Compounds	71.5	465	32.5	3/5	-	-
15	11-Feb-10	Indiabulls Securities	Financial Services	31	7,932	60	4/5	48	4/5
16	05-Feb-10	JBF Industries	Textiles	111	6,882	119	3/5	129	3/5
17	01-June-10	JM Financial	Financial Services	38	28,604	57	4/5	50	4/5
18	18-May-10	KKCL	Fashion and apparels	274	3,370	336	3/5	336	3/5
19	20-May-10	KLRF	Flour milling, yarn spinning, castings	32	161	35	2/5	-	-
20	02-June-10	KRBL	Agriculture/Rice	24	5,789	340	3/5	34	3/5
21	04-Jun-10	KSE Limited	Animal Feed	218	698	200	3/5	200	3/5
22	31-May-10	Lakshmi Energy and Foods Ltd	Agriculture/Rice	102	6,445	145	3/5	-	-
23	02-Jun-10	MBL Infrastructure Ltd	Infrastructure/Construction	209	3,660	260	3/5	-	-
24	21-May-10	NTPC	Power	201	1,764,537	228	5/5	231	5/5
25	29-Jan-10	Pantaloon Retail (India)	Retail	406	77,282	*	4/5	*	4/5
26	06-May-10	Phoenix Mills	Real Estate	208	30,128	160	2/5	192	2/5
27	22-Apr-10	Polaris Software	Information Technology	186	18,407	247	4/5	-	-
28	01-June-10	Sangam (India) Ltd	Textiles	37	1,380	46	3/5	46	3/5
29	03-Feb-10	UTV Software	Media and Entertainment	498	17,066	548	3/5	538	3/5
30	07-May-10	Zylog System	Information Technology	456	7,494	530	3/5	-	-

CMP - Current Market Price (as on date of respective report)

M Cap - Market Capitalisation (as on date of respective report)

*NA - Not Applicable (Company has requested for a fundamental grading only)

KSE's FY10 revenues grew 6.2% y-o-y and were in line with our expectations. Adjusted PAT increased 173% y-o-y to Rs 83 mn in FY10 and was above our expectations of Rs 76 mn. We continue to assign KSE a fundamental grade of '3/5', indicating its fundamentals are 'good' relative to other listed equity securities in India. We assign a valuation grade of '3/5', indicating that the market price is 'aligned' at the current levels.

Q4FY10 result analysis

- KSE's Q4FY10 revenues were 12.0% higher y-o-y at Rs 986 mn, driven by an increase in sales of cattle feed coupled with higher realisations.
- EBITDA margin was reported at 4.9% as against 8.1% in Q4FY09; raw material costs had dropped significantly in Q4FY09. However, on a q-o-q basis, EBITDA margins were only marginally lower compared to 5.0% in Q3FY10.
- Q4FY10 PAT was Rs 20 mn compared to Rs 38 mn in Q4FY09 and Rs 21 mn in Q3FY10.

FY10 result analysis

- KSE's FY10 revenues were up 6.2% y-o-y at Rs 3,721 mn, in line with CRISIL Equities' expectations of Rs 3,681 mn.
- EBITDA margin improved 180 bps y-o-y to 5.1% in FY10 driven by an overall fall in raw material costs in FY10 vis-à-vis FY09. EBITDA margins were above our expectations of 4.8%. Higher realisations of cattle feed, encouraging performance of the oil cake processing division and increase in ice-cream sales volume led to an improvement in profitability.
- FY10 EPS was up 173% to Rs 25.9 on a y-o-y basis. It was 9.4% above CRISIL Equities' estimates due to better-than-anticipated EBITDA margins.

Correction in coconut oil cake prices augured well for the oil cake processing division

KSE processed 75,928 metric tonnes (MT) of coconut oil cake in FY10 compared to 65,878 MT in FY09. The cost of coconut oil cake consumed by KSE reduced by 13% y-o-y to Rs 10,843 per MT in FY10. This led to the oil cake processing division registering a PBIT of Rs 48.3 mn vs. a loss of Rs 30.9 mn in FY09. CRISIL Equities had factored in the expected correction in coconut oil cake prices in the FY10 earnings estimates.

Aligned valuation

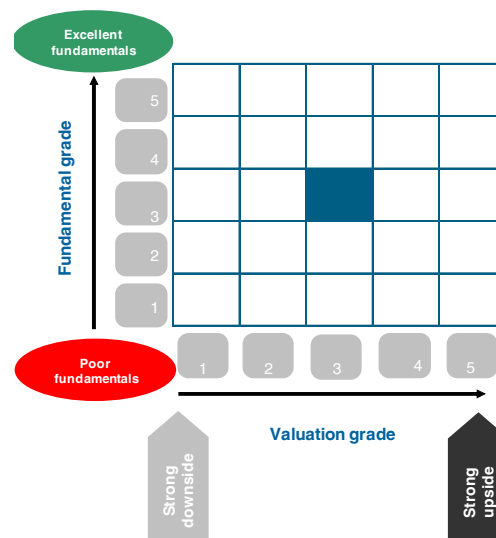
We initiated coverage on KSE with a fair value of Rs 200. The market price of the stock, which was Rs 210 at the time of initiating coverage, has moved up since then and is currently Rs 218. At this price, the stock continues to be aligned to our fair price. We maintain the valuation grade of '3/5' and fair value of Rs 200 per share, indicating that the market price is 'aligned' at current levels.

Key forecast

(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Operating income	2,899	3,505	3,721	4,053	4,430
EBITDA	95	117	190	201	198
Adj Net income	26	30	83	94	96
EPS-Rs	8.1	9.5	25.8	29.3	29.9
EPS growth (%)	(355.5)	24.1	158.1	13.5	1.8
PE (x)	15.8	10.6	8.4	7.4	7.3
P/BV (x)	1.5	1.1	2.1	1.8	1.6
RoCE (%)	13.4	17.4	25.2	26.6	26.5
RoE (%)	10.0	11.1	27.3	26.5	23.6
EV/EBITDA (x)	5.9	4.9	4.6	4.3	4.0

Source: Company, CRISIL Equities estimate

CFV matrix



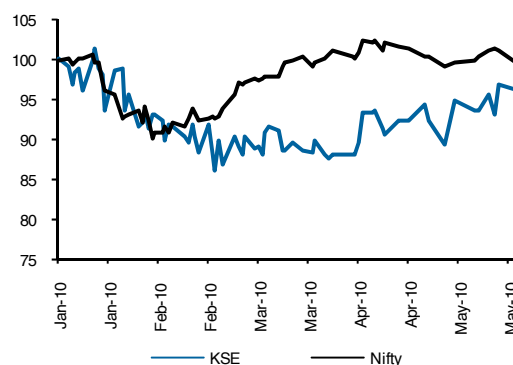
- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '3/5' indicates market price is aligned

Key stock statistics

NSE Ticker	KSELTD
Fair value (face value Rs 10)	200
Current market price*	218
Shares outstanding (mn)	3.2
Market cap (Rs mn)	698
Enterprise value (Rs mn)	865
52-week range(Rs)(H/L)	237/163
PE on EPS estimate (FY11E)(x)	7.4
Beta	1.7
Free float (%)	65
Average daily volumes	1,327

* as on report date

Share price movement



- Indexed to 100

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Comparison of actual result with our estimates

EBITDA and PAT were higher than expected in FY10

KSE's FY10 revenues were in line, while EBITDA and PAT were higher than CRISIL Equities' estimates due to the reasons mentioned on the first page. We had estimated EPS of Rs 23.6, while the actual result was Rs 25.8 in FY10.

Rs mn	FY10		
	Actual	Estimated	% change
Operating income	3,721	3,681	1.1
EBITDA	190	178	6.5
Net income	83	76	8.9
EPS (Rs)	25.8	23.6	9.4

Source: Company, CRISIL Equities estimate

Changes in earnings estimates

Earnings estimates unchanged

There are no changes in the earnings estimates. The company reported higher- than-expected EBITDA margins due to lower raw material costs and improvement in cattle feed realisations. However, CRISIL Equities expects raw material prices to go up and the company to have limited flexibility in passing on the increase in prices to dairy farmers, thereby keeping the margins range-bound.

Valuation

We continue to value KSE at Rs 200 per share

We continue to use the discounted cash flow (DCF) method to value KSE. Based on this method, we continue to value KSE at Rs 200 per share.

We initiated coverage on KSE with a fair value of Rs 200. The market price of the stock was Rs 210 at that time (please refer to our initiation report dated May 11, 2010 on www.ier.co.in). Since then, the stock has moved up to Rs 218. However, we maintain the valuation grade of '3/5', indicating that the market price is 'aligned' at current levels. At our fair value of Rs 200 per share, the implied PE is 6.8x FY11E EPS.

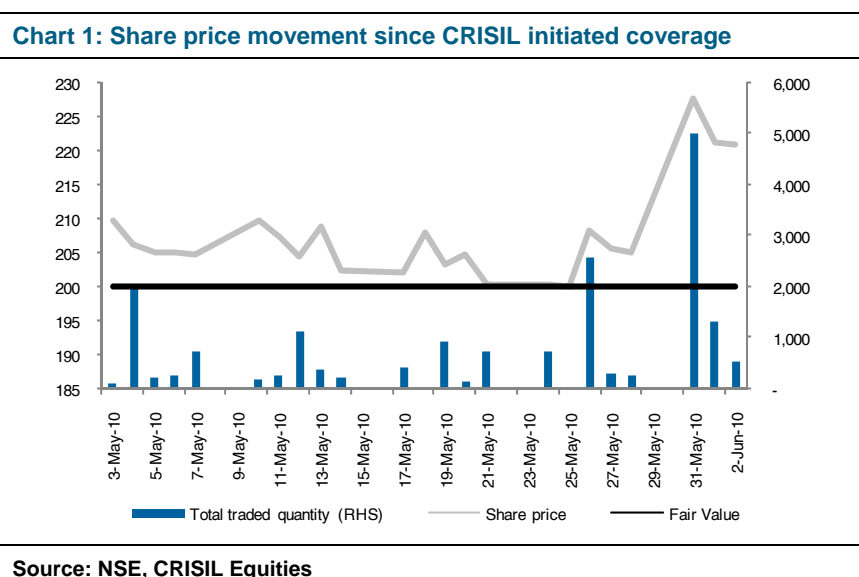


Table 1: Reports released on KSE Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	Market price (on the date of report)
11-May-10	Initiating coverage*	3/5	Rs 200	3/5	Rs 210
04-June-10	Q4FY10 result update	3/5	Rs 200	3/5	Rs 218

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

Q4FY10 result analysis

Table 2:

*EBITDA declined on a y-o-y basis
but sustained on a q-o-q basis*

KSE (Rs mn)	Q4FY10	Q3FY10	Q4FY09	q-o-q (%)	y-o-y (%)
Net sales	986	954	880	3.4	12.0
(Inc)/dec in stock	5	10	29	(48.7)	(81.3)
Consumption of raw materials	798	769	650	3.7	22.8
Purchase of traded goods	0	-	5	n.m.	(99.5)
Employees cost	48	35	41	36.4	16.5
Other expenses	86	91	85	(4.9)	1.9
Cost of sales	938	906	809	3.5	15.9
EBITDA	48	48	71	1.1	(31.9)
Interest and finance charges	6	6	6	(6.9)	(8.0)
EBTDA	43	42	65	2.3	(34.3)
Depreciation	12	10	7	19.2	86.3
Operating PBT	30	31	58	(3.4)	(48.2)
Other Income	2	0	0	246.5	454.3
PBT	32	32	58	0.4	(45.6)
Tax	12	11	20	7.9	(42.9)
PAT	20	21	38	(3.5)	(47.0)
No of equity shares (mn)	3.2	3.2	3.2	-	-
EPS (Rs)	6.3	6.5	11.9	(3.5)	(47.0)

Source: Company, CRISIL Equities

FY10 result analysis

Table 3:

KSE (Rs mn)	FY10	FY09	y-o-y (%)
Net sales	3,721	3,505	6.2
(Inc)/dec in stock	(6)	(5)	16.7
Consumption of raw materials	3,018	2,889	4.5
Purchase of traded goods	10	5	100.9
Employees cost	150	130	15.1
Other expenses	359	369	(2.8)
Cost of Sales	3,531	3,388	4.2
EBITDA	190	117	62.3
Interest and finance charges	27	46	(41.6)
EBTDA	163	71	129.2
Depreciation	38	26	48.4
Operating PBT	124	45	175.6
Other income	2	4	(44.5)
PBT	127	49	158.3
Tax	44	19	134.2
PAT	83	30	173.2
No of equity shares	3.2	3.2	-
EPS (Rs)- Diluted	25.9	9.5	173.2

Source: Company, CRISIL Equities

Net sales increased 6.2% to Rs 3.7 bn in FY10

PAT improved on a y-o-y basis and was above expectations

Annexure: Financials

Table 4

Income Statement					
(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Net sales	2,894	3,500	3,709	4,047	4,424
Operating Income	2,899	3,505	3,721	4,053	4,430
EBITDA	95	117	190	201	198
Depreciation	29	26	38	40	40
Interest	26	46	27	24	18
Other income	2	4	2	4	5
PBT	42	49	127	142	145
PAT	26	30	83	94	96
No. of shares	3.2	3.2	3.2	3.2	3.2
Earnings per share (EPS)	8.1	9.5	25.8	29.3	29.9
Balance Sheet					
(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Equity capital (FV - Rs 10)	32	32	32	32	32
Reserves and surplus	235	248	294	350	397
Debt	198	300	292	216	162
Current liabilities and provisions	102	114	126	130	143
Deferred tax liability/(asset)	15	17	24	24	25
Capital Employed	581	712	768	752	759
Net fixed assets	284	284	389	366	331
Capital WIP	10	100	11	6	6
Investments	0	1	41	1	1
Loans and advances	37	33	30	38	42
Inventory	193	247	208	286	312
Receivables	4	3	3	4	4
Cash and bank balance	53	44	86	53	64
Applications of Funds	581	712	768	752	759

Source: Company, CRISIL Equities estimate

Cash Flow

(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	42	49	127	142	145
Total tax paid	(6)	(16)	(37)	(48)	(48)
Depreciation	29	26	38	40	40
Change in working capital	44	(37)	53	(81)	(18)
Cash flow from operating activities	109	22	181	52	119
Capital expenditure	(15)	(116)	(54)	(12)	(5)
Investments and others	-	(1)	(40)	40	-
Cash flow from investing activities	(15)	(116)	(94)	28	(5)
Equity raised/(repaid)	1	0	0	-	(0)
Debt raised/(repaid)	(75)	102	(8)	(76)	(54)
Dividend (incl. tax)	(13)	(19)	(37)	(37)	(49)
Others (including extra ordinaries)	(0)	2	-	-	-
Cash flow from financing activities	(87)	85	(45)	(114)	(103)
Change in cash position	7	(9)	42	(33)	11
Opening cash	46	53	44	86	53
Closing cash	53	44	86	53	64

Ratios

	FY08	FY09	FY10P	FY11E	FY12E
Growth ratios					
Sales growth (%)	5.3	20.9	6.2	8.9	9.3
EBITDA growth (%)	179.9	23.2	62.3	6.3	(1.9)
EPS growth (%)	(355.5)	24.1	158.1	13.5	1.8
Profitability Ratios					
EBITDA margin (%)	3.3	3.3	5.1	5.0	4.5
PAT margin (%)	0.9	0.9	2.2	2.3	2.2
Return on capital employed (RoCE) (%)	13.4	17.4	25.2	26.6	26.5
Return on equity (RoE) (%)	10.0	11.1	27.3	26.5	23.6
Dividend and Earnings					
Dividend per share (Rs)	4.1	5.8	10.0	10.0	13.0
Dividend payout ratio (%)	50.7	58.4	38.7	34.1	43.5
Dividend yield (%)	3.2	5.8	4.6	4.6	6.0
Earnings per share (Rs)	8.1	9.5	25.8	29.3	29.9
Efficiency ratios					
Asset turnover (Sales/GFA)	5.5	6.5	6.0	5.8	6.3
Asset turnover (Sales/NFA)	9.9	12.3	11.1	10.7	12.7
Sales/Working Capital	18.8	23.3	26.1	25.9	21.5
Financial stability					
Debt-equity	0.7	1.1	0.9	0.6	0.4
Interest coverage	2.5	2.0	5.7	6.8	8.9
Current ratio	2.8	2.9	2.9	2.9	2.9
Valuation Multiples					
Price-earnings	15.8x	10.6x	8.4x	7.4x	7.3x
Price-book	1.5x	1.1x	2.1x	1.8x	1.6x
EV/EBITDA	5.9x	4.9x	4.6x	4.3x	4.0x

Source: Company, CRISIL Equities estimate

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