

Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

KLRF Ltd
Q4FY10 result update

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

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-Jun-10	Beardsell Limited	Packaging/Expanded Polystyrene	60	228	54	3/5	54	3/5
5	04-Jun-10	Dhanuka Agritech Ltd	Pesticides	388	3,561	283	3/5	365	3/5
6	07-Jun-10	DLF	Real Estate	264	450,067	356	3/5	356	5/5
7	01-Jun-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-Apr-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-Jun-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	10-Jun-10	KLRF	Flour milling, yarn spinning, castings	27	136	35	2/5	31	2/5
20	02-Jun-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	09-Jun-10	Plethico Pharmaceuticals Ltd	Pharmaceuticals	380	12,945	458	3/5	-	-
28	22-Apr-10	Polaris Software	Information Technology	186	18,407	247	4/5	-	-
29	07-Jun-10	Responsive Industries Ltd	PVC Products	845	18,425	853	3/5	-	-
30	01-Jun-10	Sangam (India) Ltd	Textiles	37	1,380	46	3/5	46	3/5
31	03-Feb-10	UTV Software	Media and Entertainment	498	17,066	548	3/5	538	3/5
32	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)

Independent Research Report – KLRF Limited



Casting a shadow on Q4 profitability

Industry: Wheat flour milling, textiles, castings

Date: June 10, 2010

KLRF Ltd's (KLRF's) Q4FY10 performance was below expectations mainly due to lower profits in the yarn division and higher-than-estimated losses in the castings division. We continue to assign KLRF a fundamental grade of '2/5', indicating its fundamentals are 'moderate' relative to other listed equity securities in India. We assign a valuation grade of '4/5' to the company, indicating that the current market price has an 'upside' to our fair value.

Q4FY10 result analysis

- Q4FY10 revenues grew by 42.2% (y-o-y) to Rs 433 mn.
- At the EBIT level, q-o-q performance was much lower than estimated due to: a) EBIT loss of Rs 1.5 mn in Q4FY10 in the castings division as against expectations of marginal profits; and b) lower-than-estimated profits in yarn-spinning.
- KLRF's overall PAT has taken a significant hit in Q4FY10. After posting a positive PAT of Rs 7 mn in 9MFY10, the company reported a loss of Rs 1.8 mn in Q4FY10, against our profit expectations.

FY10 result analysis

- KLRF's FY10 revenues were up 9.0% y-o-y at Rs 1,548 mn, in line with CRISIL Equities' estimate of Rs 1,553 mn for the year.
- The lower EBITDA margin of 4.6% in Q4 impacted the overall FY10 EBITDA margin, which was reported at 8.2%. EBITDA margin in 9MFY10 was 9.5%.
- The company, which had recorded losses of Rs 43.5 mn in FY09, posted a PAT of Rs 5.2 mn in FY10, significantly lower than CRISIL Equities' estimate of Rs 20.3 mn on account of disappointing Q4FY10 results and higher- than- expected interest costs.

Profitability of yarn and castings businesses below expectations in Q4FY10

KLRF's Q4FY10 performance was lower than expected mainly because of lower operating profits in the yarn business due to a q-o-q rise in cotton prices. At the same time, the castings business was severely impacted by higher pig iron prices and the company was unable to pass on the rise in raw material costs. This adversely affected the overall FY10 performance.

Valuations – potential upside from current levels

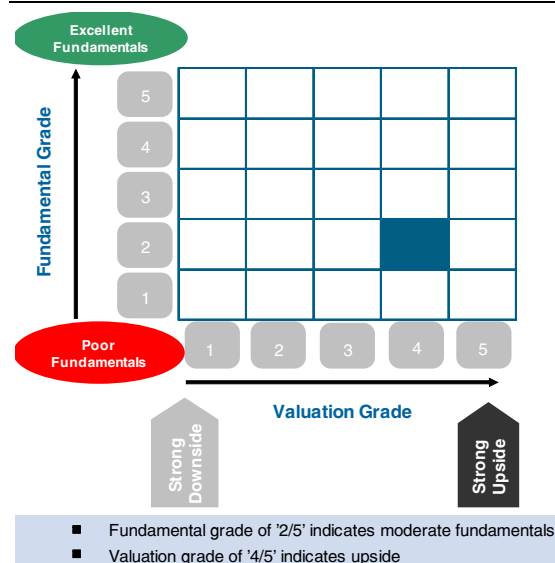
We initiated coverage on KLRF with a fair value of Rs 35. The market price of the stock (Rs 32 at the time of initiating coverage – May 21, 2010) has gone down since our coverage report. The lower-than-expected FY10 results have prompted us to revise our financial forecast and, consequently, the fair value of the stock, downwards. We, therefore, assign the company a valuation grade of '4/5', indicating that the current market price of Rs 27 (as on Jun 08, 2010) has an 'upside' to our revised fair value of Rs 31 per share.

Key forecast

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,403	1,423	1,551	1,677	1,785
EBITDA	124	70	129	145	149
Adj net income	30	(43)	5	23	27
EPS-Rs	5.9	(8.7)	1.0	4.6	5.4
EPS growth (%)	78.6	n.m.	12.9	351.0	17.1
PE (x)	4.8	(1.5)	26.2	5.8	5.0
P/BV (x)	0.7	0.4	0.8	0.7	0.6
RoCE (%)	11.0	2.0	9.1	10.6	10.9
RoE (%)	15.6	(23.3)	3.0	12.5	12.9
EV/EBITDA (x)	6.6	10.2	6.1	5.3	5.0

Source: Company, CRISIL Equities estimate

CFV matrix

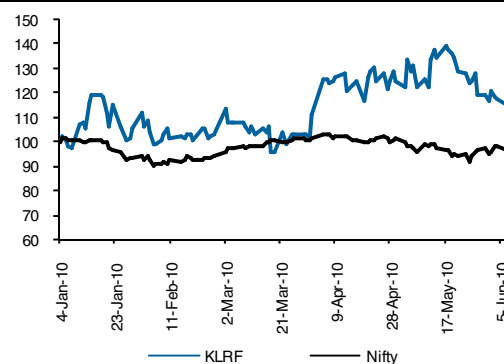


Key stock statistics

NSE Ticker	KLRFLT
Fair Value (Face value Rs10)	31
Current market price (Rs per share)*	27
Shares outstanding (mn)	5.0
Market cap (Rs mn)	136
Enterprise value (Rs mn)	789
52-week range (Rs) (H/L)	36/14
P/E on EPS estimate (FY11F)	5.8
Beta	1.90
Free float (%)	60.98%
Average daily volumes	11,115

* as on Jun 08, 2010

Share price movement during Q4FY10



* Indexed to 100

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Comparison of actual result with our estimates

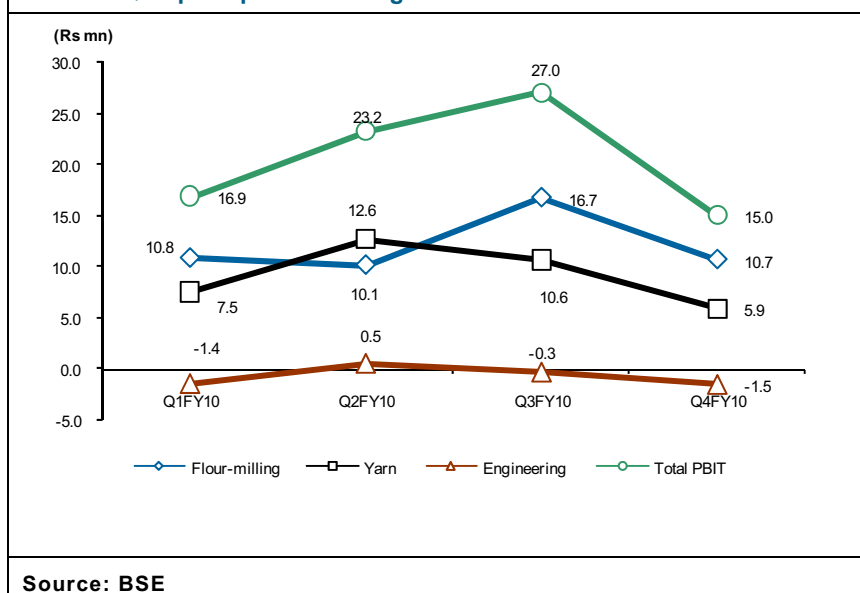
KLRF's FY10 EPS was at Re 1.0 against expectations of Rs 4.0

KLRF's actual result for FY10 was lower than CRISIL Equities' estimates. We had estimated EPS of Rs 4.0 while the actual result was Re 1.0. At the EBIT level, KLRF's q-o-q performance across segments was lower; the under-performance most evident in the yarn business. Also, in Q4FY10, KLRF was unable to pass on the steep rise in pig iron prices to customers, which impacted the profitability of the engineering division. This, alongwith higher interest costs pulled down the overall profitability.

Table 1: Comparison of our estimates and actual results

Rs mn	FY10		
	Actual	Estimated	% change
Operating income	1548	1553	0%
EBITDA (without exceptional items*)	126	144	-13%
Net income	5.2	20	-74%
EPS (Rs)	1.0	4.0	-75%

Table 2: Q-o-q comparison of segment-wise EBIT



Changes in earnings estimates

KLRF Ltd (Rs mn)	FY11E			FY12E		
	Old	New	% Change	Old	New	% Change
Operating income	1,694	1,677	-1%	1,802	1,785	-1%
EBIDTA	167	145	-13%	171	149	-13%
PAT	36	23	-35%	40	27	-31%
EPS (Rs)	7.2	4.6	-35%	7.9	5.4	-31%

Due to lower-than-expected FY10 numbers, we have revised our earnings estimates downwards. We have lowered our EPS estimates for FY11E and FY12E by 35% and 31% to Rs 4.6 and Rs 5.4, respectively.

Key developments

Our outlook is not impacted by any significant development.

Valuation

We value KLRF at Rs 31 per share

We continue to use the discounted cash flow method to value KLRF. Based on this method, we had initiated coverage on KLRF with a fair value of Rs 35.

The market price of the stock (Rs 32 at the time of the report; please refer to our initiation report dated May 21, 2010 on www.ier.co.in) has gone down since the time of initiating coverage. In line with lower earnings estimates, we revise our fair value to Rs 31 per share. At the current market price of Rs 27, the valuation grade of '4/5' indicates that the current market price has an **'upside'** to our fair value.

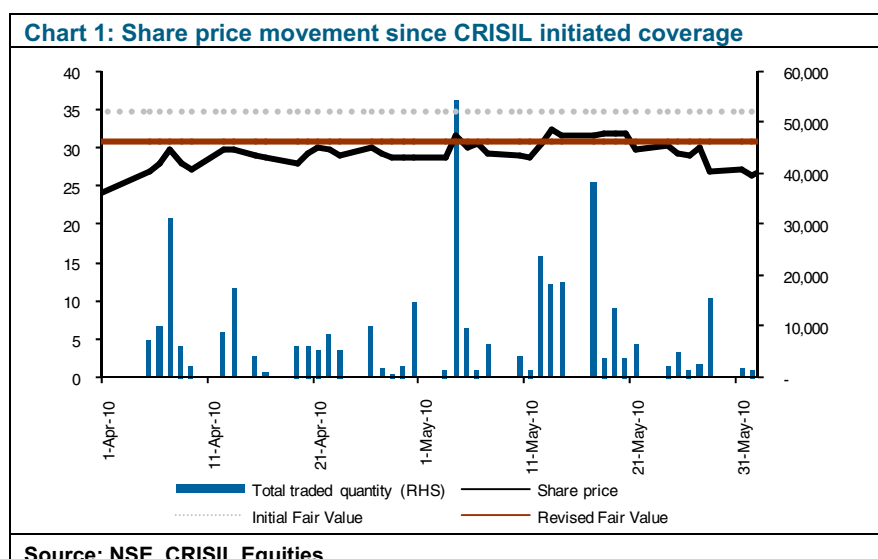


Table: Reports released on KLRF Ltd

Date	Nature of report	Fundamental Grade	Fair value	Valuation grade	Market price (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

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

Q4FY10 result analysis

KLRF (Rs mn)	Q4FY10	Q3FY10	Q4FY09	q-o-q (%)	y-o-y (%)
Net sales	433	410	304	5.6%	42.2%
(Increase)/decrease in stock	15	-9	12	n.m.	26.6%
Consumption of raw materials and other manufacturing expenses	297	292	228	1.6%	30.4%
Personnel expenses	21	20	18	8.1%	21.5%
Other expenditure	80	66	47	20.7%	68.4%
Cost of sales	413	369	304	11.8%	35.7%
EBITDA	20	40	0	-50.8%	n.m.
EBITDA margin	4.6%	9.8%	0.0%	-	-
Interest and finance charges	15	16	13	-5.5%	16.2%
EBTDA	4	24	-13	-81.7%	-133.1%
Depreciation	14	14	14	0.2%	-2.2%
				-	
Operating PBT	-9	10	-27	188.4%	-66.2%
Other income	9	0	0	n.m.	n.m.
				-	
PBT	0	11	-27	104.2%	-98.3%
Tax	1	0	-7	n.m.	n.m.
PAT	-1.8	10.6	-19.7	-1.2	-0.9
PAT margin	-0.4%	2.6%	-6.5%		
No of equity shares*	5.0	5.0	5.0		
EPS (Rs)- Diluted	-0.4	2.1	-3.9	n.m.	n.m.

Discouraging q-o-q performance

Source: Company, CRISIL Equities

FY10 result analysis

KLRF (Rs mn)	FY10	FY09	y-o-y (%)
Net sales	1,548.3	1,420.4	9.0%
(Increase)/decrease in stock	-8.7	17.4	-150.0%
Raw materials and other manufacturing expenses	1,108.8	1,043.0	6.3%
Personnel expenses	76.8	73.3	4.8%
Other expenditure	245.0	224.2	9.3%
Cost of sales	1,421.9	1,357.8	5%
EBITDA	126.3	62.5	102%
EBITDA margin	8.2%	4.4%	-
Interest and finance charges	75.5	63.0	19.9%
EBTDA	50.8	-0.4	n.m.
Depreciation	54.0	53.4	1.2%
Operating PBT	-3.2	-53.8	-94%
Other income	9.8	3.5	183.1%
PBT	6.5	-50.4	-113%
Tax	1.4	-6.9	-119.7%
PAT	5.2	-43.5	-112%
PAT margin	0.3%	-3.1%	
No of equity shares*	5.0	5.0	
EPS (Rs)- Diluted	1.0	-8.7	

Source: CRISIL Equities, Company

Y-o-y profitability improved due to better performance of the yarn business and ramp-up of the castings business

Annexure: Financials

Income Statement

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Net sales	1,401	1,420	1,548	1,674	1,781
Operating Income	1,403	1,423	1,551	1,677	1,785
EBITDA	124	70	129	145	149
Depreciation	42	53	54	56	57
Interest	54	70	76	65	63
Other Income	5	3	7	7	8
PBT	33	(50)	7	31	36
PAT	30	(43)	5	23	27
No. of shares	5	5	5	5	5
Earnings per share (EPS)	5.9	(8.7)	1.0	4.6	5.4

Balance Sheet

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Equity Share Capital	82,455	82,455	82,455	82,455	82,455
Reserves	(82,250)	(82,286)	(82,281)	(82,258)	(82,230)
Equity (Including reserves)	205	169	174	197	225
Debt	684	657	657	647	617
Current Liabilities and Provisions	108	78	82	89	99
Deferred Tax Liability/(Asset)	(2)	(10)	(10)	(10)	(10)
Capital Employed	995	894	903	923	931
Net Fixed Assets	394	390	361	331	299
Capital WIP	8	17	17	17	17
Loans and advances	76	98	107	115	123
Inventory	376	243	265	286	305
Receivables	134	137	149	162	172
Cash & Bank Balance	6	8	3	12	15
Applications of Funds	995	894	903	923	931

Source: Company, CRISIL Equities estimates

Cash Flow

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Pre-tax profit	33	(50)	7	31	36
Total tax paid	(2)	(1)	(1)	(8)	(9)
Depreciation	42	53	54	56	57
Change in working capital	(197)	78	(39)	(35)	(26)
Cash flow from operating activities	(124)	80	20	44	59
Capital expenditure	(142)	(59)	(25)	(25)	(25)
Cash flow from investing activities	(142)	(59)	(25)	(25)	(25)
Debt raised/(repaid)	256	(27)	-	(10)	(30)
Dividend (incl. tax)	(12)	-	-	-	-
Cash flow from financing activities	244	(27)	-	(10)	(30)
Change in cash position	(23)	(6)	(5)	9	4
Opening Cash	19	6	8	3	12
Closing Cash	(4)	0	3	12	15

Ratios

	FY08	FY09	FY10E	FY11E	FY12E
Growth ratios					
Sales growth (%)	18.2	1.5	9.0	8.1	6.4
EBITDA growth (%)	14.0	(43.4)	84.3	11.7	3.0
EPS growth (%)	78.6	(246.7)	12.9	351.0	17.1
Profitability Ratios					
EBITDA Margin (%)	8.8	4.9	8.3	8.6	8.3
PAT Margin (%)	2.1	(3.1)	0.3	1.4	1.5
Return on Capital Employed (RoCE) (%)	11.0	2.0	9.1	10.6	10.9
Return on equity (RoE) (%)	15.6	(23.3)	3.0	12.5	12.9
Dividend and Earnings					
Dividend per share (Rs)	2.3	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	39.6	0.0	0.0	0.0	0.0
Dividend yield (%)	8.2	-	-	-	-
Earnings Per Share (Rs)	5.9	-8.7	1.0	4.6	5.4
Efficiency ratios					
Asset Turnover (Sales/GFA)	1.8x	1.6x	1.7x	1.8x	1.9x
Asset Turnover (Sales/NFA)	4.0x	3.6x	4.1x	4.8x	5.7x
Sales/Working Capital	3.7x	3.2x	3.7x	3.7x	3.7x
Financial stability					
Net Debt-equity	3.3	3.8	3.8	3.2	2.7
Interest Coverage	1.5	0.2	1.0	1.4	1.5
Current Ratio	5.5	6.3	6.4	6.5	6.2
Valuation Multiples					
Price-earnings	4.8x	-1.5x	26.2x	5.8x	5.0x
Price-book	0.7x	0.4x	0.8x	0.7x	0.6x
EV/EBITDA	6.6x	10.2x	6.1x	5.3x	5.0x

Source: Company, CRISIL Equities estimates

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