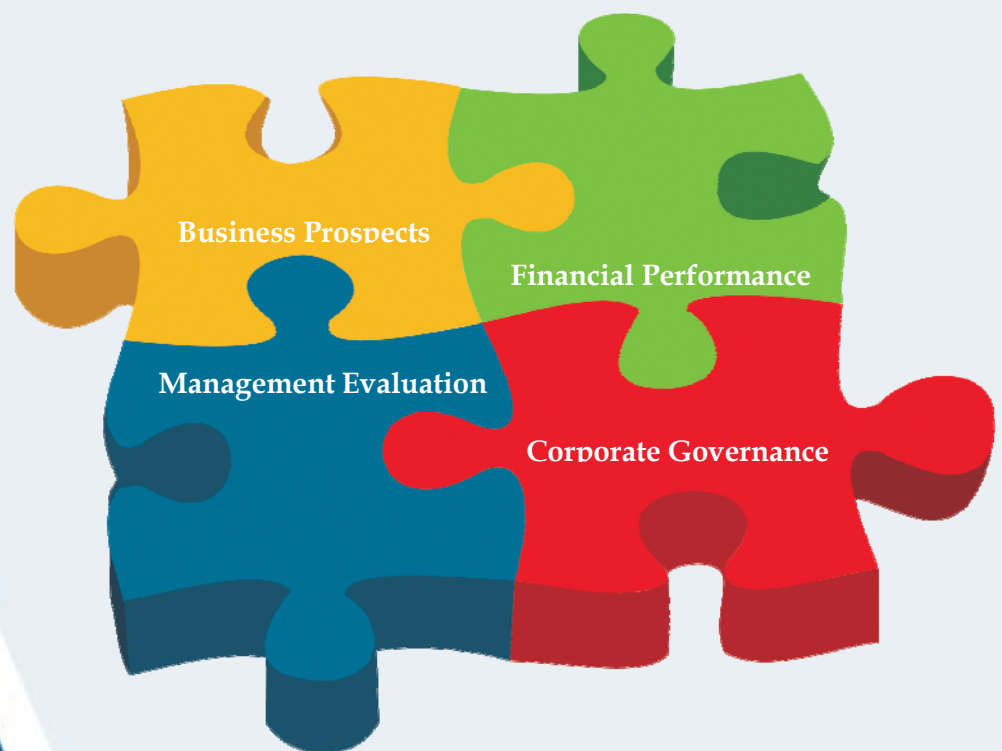


Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

KLRF Limited

Q1FY11 result update

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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KLRF's revenues grew by 35.4% in Q1FY11, in line with CRISIL Equities' expectations. All three segments – flour milling, yarn spinning and castings – recorded y-o-y growth. At the same time, profitability improved across business lines and the loss-making castings division turned profitable this quarter. We had factored in these expected developments while assigning a fundamental grade of '2/5' in our initiating coverage report. We maintain the grade, indicating that KLRF's 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 market price has a potential 'upside' from the current levels.

Q1FY11 results analysis: Revenues in line with expectations

KLRF's Q1FY11 revenues were up 35.4% y-o-y at Rs 437 mn. We expect the overall sales for FY11E to be close to our estimate of Rs 1.77 bn, led by a steady state of flour milling operations, higher yarn prices for the spinning division and ramp-up of the foundry for the castings division. Q1FY11 PAT stood at Rs 9.5 mn, reflecting a turnaround from a net loss of Rs 9.0 mn in Q1FY10. Improved profitability of the flour milling and yarn businesses, combined with a turnaround of the castings division is reflected in higher PAT for the quarter.

Castings business turned profitable in Q1FY11, revenues doubled y-o-y

The castings business, which is carried out from an acquired loss-making foundry, has turned EBIT-positive during Q1FY11. Revenues from the foundry division more than doubled from Rs 43.0 mn in Q1FY10 to Rs 89.7 mn in Q1FY11 as operations were ramped up. However, EBIT margins for this segment continue to be low at 2.9% since the company was only partially able to pass on higher pig iron prices to end users; pig iron prices recorded a y-o-y rise of 33.4% in Q1FY11. Going ahead, we expect profitability to improve as the scale of operations reach the optimum level.

Valuations - upside from current levels

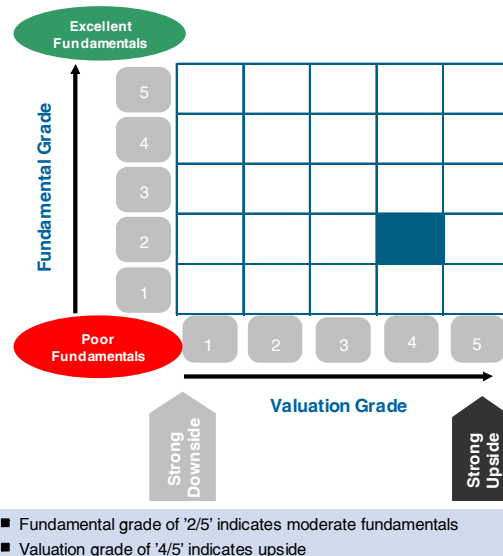
Our earnings estimates for KLRF remain unchanged. However, we revise our fair value estimate from Rs 31 per share to Rs 35 per share. The difference in fair value is on account of the rolling forward of the earnings estimates by a year. The revised value takes into account the discounted cash flows from FY12 to FY16 as opposed to FY11 to FY15 as per our previous update. At the market price of Rs 29 (as on August 10, 2010), the stock has a potential 'upside' from the current levels. We, therefore, assign a valuation grade of '4/5'.

Key forecast

(Rs Mn)	FY08	FY09	FY10E	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)	23.3	6.5	5.5
P/BV (x)	0.7	0.4	0.7	0.8	0.7
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	6.0	5.4	5.1

Source: Company, CRISIL Equities estimate

CFV matrix

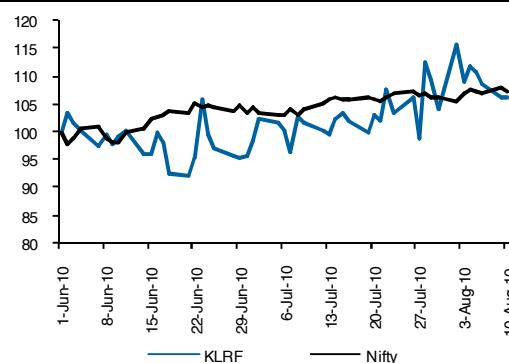


Key stock statistics

NSE Ticker	KLRFLT
Fair Value (Rs per share)	35
Current market price (Rs per share)*	29
Shares outstanding (Mn)	5.0
Market cap (Rs Mn)	146
Enterprise value (Rs Mn)	561
52-week range (Rs) (H/L)	36/14
P/E on EPS estimate (FY12F)	5.3
Beta	1.90
Free float (%)	60.9%
Average daily volumes	6,654

* as on Aug 10, 2010

Share price movement



-Indexed to 100

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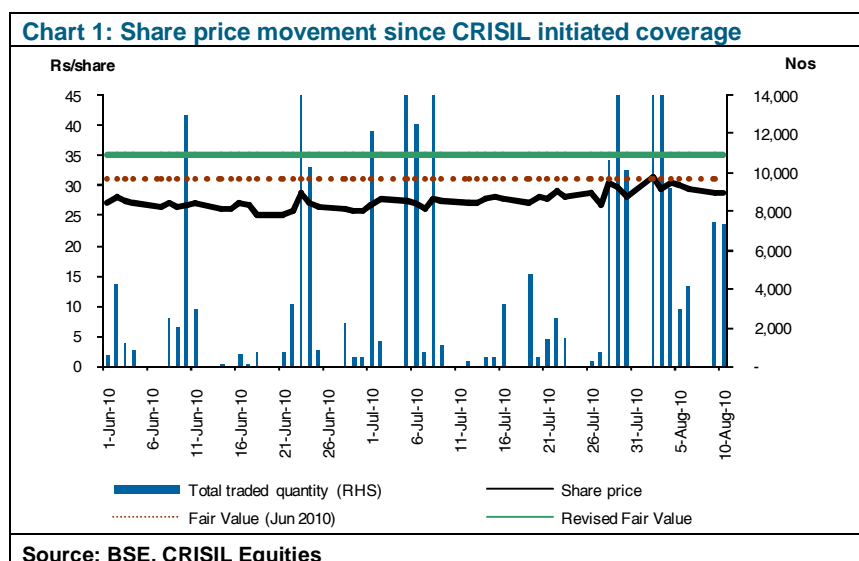
Valuation

KLRF's fair value is estimated at Rs 35 per share as opposed to the CMP of Rs 29 per share

We revise our fair value estimate from Rs 31 per share in our Q4FY10 update to Rs 35 per share. Since our earnings estimates are unchanged, the difference in fair value is on account of the rolling forward of the earnings estimates by a year. (The revised value takes into account the discounted cash flows from FY12 to FY16 as opposed to FY11 to FY15 as per our previous update).

Therefore, we assign KLRF a valuation grade of '4/5' indicating that the current market price of Rs 29 has an 'upside' to our fair value.

Chart 1: Share price movement since CRISIL initiated coverage



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
10-Aug-10	Q1FY11 result update	2/5	Rs 35	4/5	Rs 29

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

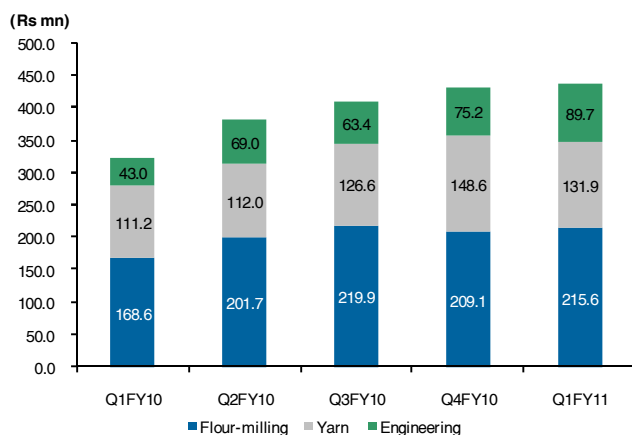
Q1FY11 result analysis

KLRF (Rs mn)	Q1FY11	Q1FY10	Q4FY10	QoQ(%)	YoY(%)
Net sales	437.2	322.8	432.9	1.0%	35.4%
(Increase)/decrease in stock	-12.5	2.8	14.8	n.m.	n.m.
Consumption of raw materials and other manufacturing expenses	310.6	229.7	296.9	4.6%	35.2%
Personnel expenses	23.1	16.5	21.5	7.7%	39.8%
Other expenditure	77.0	44.0	79.9	-3.7%	75.0%
Cost of sales	398.1	293.0	413.1	-3.6%	35.9%
EBITDA	39.0	29.9	19.9	96.3%	30.6%
EBITDA margin	8.9%	9.2%	4.6%		
Interest and finance charges	17.2	25.9	15.5	11.4%	-33.4%
EBTDA	21.8	4.0	4.4	n.m.	n.m.
Depreciation	12.4	13.5	13.6	-9.2%	-8.3%
Operating PBT	9.4	-9.5	-9.2	n.m.	n.m.
Other income	0.1	0.6	8.8	-99.1%	-86.8%
PBT	9.5	-8.9	-0.4	n.m.	n.m.
Tax	0.0	0.1	1.4	n.m.	n.m.
PAT	9.5	-9.0	-1.8	n.m.	n.m.
No of equity shares (mn)	5.0	5.0	5.0		
EPS (Rs)- Diluted	1.9	-1.8	-0.4	n.m.	n.m.

Source: Company, CRISIL Equities

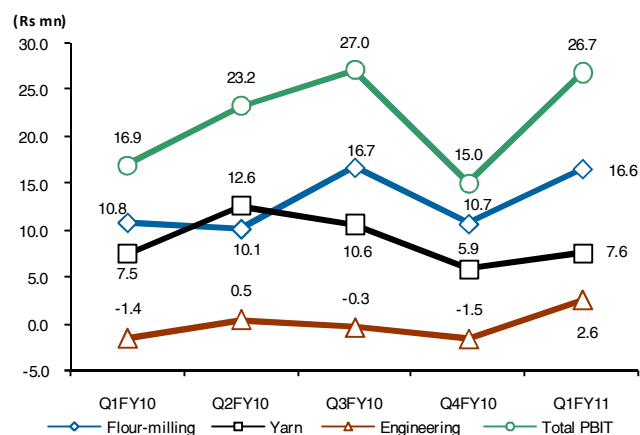
Focus Charts

Revenue growth driven largely by castings business



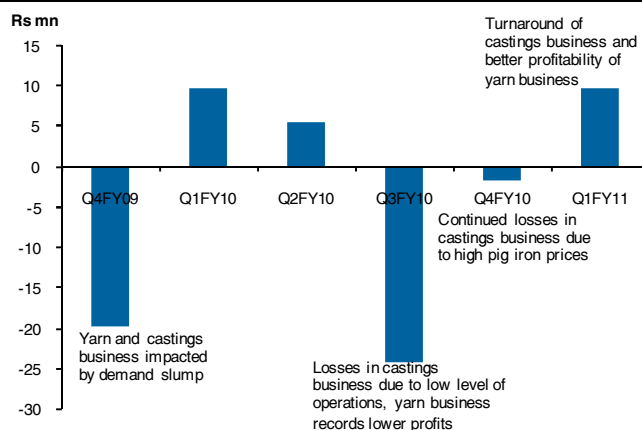
Source: Company reports

Quarterly EBIT trend shows a turnaround



Source: Company reports

PAT has varied in response to slump in textiles and castings businesses



Source: Company reports

Shareholding pattern

	Jun-10	Mar-10
Promoter	39.1%	39.0%
Domestic Institutional investors	5.0%	5.00%
Others	55.9%	56.0%

Source: NSE

Annexure: Financials

Income statement					
(Rs mn)	FY 08	FY 09	FY 10 E	FY 11E	FY 12 E
Net sales	1,400.7	1,420.4	1,548.3	1,673.6	1,781.1
Operating income	1,402.9	1,423.2	1,551.4	1,676.9	1,784.6
EBITDA	124.1	70.2	129.4	144.5	148.8
EBITDA Margin (%)	8.8	4.9	8.3	8.6	8.3
Depreciation	42.1	53.4	54.0	55.5	57.0
Interest	54.0	69.8	75.5	65.2	63.2
Other income	4.9	2.6	6.7	7.2	7.7
PBT	32.9	-50.4	6.5	31.1	36.4
PAT	29.8	-43.5	5.2	23.3	27.3
PAT Margin (%)	2.1	-3.1	0.3	1.4	1.5
No. of shares (Mn No.)	5.0	5.0	5.0	5.0	5.0
Earnings per share (EPS)	5.9	-8.7	1.0	4.6	5.4

Balance Sheet					
(Rs mn)	FY 08	FY 09	FY 10 E	FY 11E	FY 12 E
Equity Share Capital	50.2	50.2	50.2	50.2	50.2
Reserves	154.6	118.6	123.8	147.1	174.3
Equity (Including reserves)	204.8	168.8	174.0	197.3	224.5
Debt	683.7	656.7	656.7	646.7	616.7
Current liabilities and provisions	108.3	77.7	81.7	88.6	99.0
Deferred tax liability/(asset)	-2.1	-9.6	-9.6	-9.6	-9.6
Capital employed	994.8	893.6	902.8	922.9	930.7
Net fixed assets	393.7	390.3	361.3	330.8	298.8
Capital WIP	8.4	17.5	17.5	17.5	17.5
Investments	0.0	0.0	0.0	0.0	0.0
Loans and advances	76.4	98.0	106.8	115.4	122.9
Inventory	376.5	242.9	264.8	286.2	304.6
Receivables	133.5	137.1	149.4	161.5	171.9
Cash & bank balance	6.3	7.9	3.0	11.5	15.0
Applications of funds	994.8	893.6	902.8	922.9	930.7

Note: All ratios have been computed on adjusted PAT; interest costs are adjusted for FX losses and gains

Source: Company, CRISIL Equities estimates

Cash flow					
(Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E
Pre-tax profit	32.9	-50.4	6.5	31.1	36.4
Total tax paid	-2.0	-0.6	-1.4	-7.8	-9.1
Depreciation	42.1	53.4	54.0	55.5	57.0
Change in working capital	-197.2	77.8	-39.1	-35.3	-25.7
Cash flow from operating activities	-124.2	80.2	20.1	43.5	58.5
Capital expenditure	-142.5	-59.1	-25.0	-25.0	-25.0
Cash flow from investing activities	-142.4	-59.1	-25.0	-25.0	-25.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Debt raised/(repaid)	255.7	-27.0	0.0	-10.0	-30.0
Dividend (incl. tax)	-11.7	0.0	0.0	0.0	0.0
Cash flow from financing activities	243.9	-27.0	0.0	-10.0	-30.0
Change in cash position	-22.7	-5.9	-4.9	8.5	3.5
Opening cash	18.9	6.3	7.9	3.0	11.5
Closing cash	-3.8	0.4	3.0	11.5	15.0

Ratios					
	FY 08	FY 09	FY 10 E	FY 11E	FY 12 E
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
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 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	0.0	0.0	0.0	0.0
Earnings per share (Rs)	5.9	-8.7	1.0	4.6	5.4
Debt-equity	3.3	3.8	3.8	3.2	2.7
Current ratio	5.5	6.3	6.4	6.5	6.2
Interest coverage	1.5	0.2	1.0	1.4	1.5
Price-earnings (x)	4.8	-1.5	23.3	6.5	5.5
Price-book (x)	0.7	0.4	0.7	0.8	0.7
EV/EBITDA (x)	6.6	10.2	6.0	5.4	5.1

Note: All ratios have been computed on adjusted PAT; interest costs are adjusted for FX losses and gains

Source: Company, CRISIL Equities estimates

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