

**Keltech Energies Ltd**

₹ 211

**Booming Next****Buy**

Nov 02, 2012

**Company Background**

Keltech Energies Ltd. (Keltech), formerly known as Karnataka Explosive Ltd., a public limited company established in 1977 is a member of the renowned Chowgule Group of Goa. The group is in the fields of mining, shipping, shipbuilding, chemicals, explosives, expanded perlite and many other industries. Keltechs major products are Cartridge explosives & Perlite. With plants at Mangalore, Nagpur, Waidhan & Chandrapur, The total manufacturing capacity of Cartridge Explosives per annum at present is 55,000 MT. Perlite ore is imported by KEL and expanded at the Vishwasnagar plant which has a capacity of 6000 TPA. KEL obtained the technology for manufacturing Watergel explosives from M/s Dupont de Nemours Co. Inc., USA had another technical collaboration with M/s Silbrico Corporation, USA for manufacturing expanded perlite products for use in construction, low temperature insulation, refractory, fillers, foundry, medicine carrier, thermoplastics, horticultural and other applications.

**Key Highlights**

- ➔ Keltech boasts of a strong clientele major customers for explosives include ACC, Birla Cement, ONGC, SAIL & Chowgule. Perlite products are supplied to Asiatic Oxygen and Acetylene Co., BHEL, IOL, and Bharat Heavy Plate & Vessels to name a few.
- ➔ Keltech has reported a sales turnover of ₹ 358.2 mn and a net profit of ₹ 5.8 mn for QE Sep 12. It had a sales turnover of ₹ 374.1 mn and Net loss of ₹ 1.7 mn in the corresponding previous quarter.
- ➔ The company has good sourcing arrangements of Perlite, its primary raw material from various geographies like Turkey, USA, New Zealand & Greece, where its primarily targets customers are related to horticulture like nursery, tissue culture, floriculture, vegetable cultivation & landscaping. Apart from being inorganic & neutral, the product is sterile, light weight & easy to handle. Some new uses of perlite are in garment washing, toothpaste, filter aid etc.
- ➔ The government outlay during the 11th Plan stands at ₹ 6000 bn for Power & ₹ 3000bn for roads & bridges, which will spurt up the demand for coal in India, thus driving need for more facilities of explosives.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	1,122.3	1,116.7	1,791.5
Rev. growth (%)	(2.48)	(0.50)	60.43
EBITDA (INR mn)	127.5	43.4	106.8
Net profit (INR mn)	59.0	15.6	50.4
Shares outstanding (mn)	1.0	1.0	1.0
EPS (INR)	59.0	15.6	50.4
EPS growth (%)	22.41	(73.56)	223.08
P/E (x)	4.3	10.4	5.2
RONW (%)	38.4	8.4	22.4
ROCE (%)	26.6	6.0	16.0

**Arpit Jain**

aj@indiratrade.com

**Info Codes**

Reuters	: KREX.BO
Bloomberg	: KTE@IN
NSE	: -
BSE	: 506528

**Market Data**

52 Wk Range (₹)	: 289 / 160
Shares in Issue (mn)	: 1.0
Mkt. Cap (₹ bn)	: 0.21
BSE 2 Wk Avg Vol	: 521

**Share Holding Pattern (%)**

Promoters	: 50.37
DII's	: 0.14
FII's	: 0.00
Others	: 49.49

**Investment Theme**

Keltech is one of the biggest explosive manufacture companies in India. Its products find good niches in various segments like Horticulture, Thermal Insulation, Construction and Insulation, Light weight Flooring, Sound Insulation, etc. The company has distributed plants at various locations with a large capacity. Keltech also earns a significant revenue from foreign markets and therefore is financially stable. The results posted in the past few quarters are impressive and foretell that the future for the company could be much brighter. The Company is ISO Certified which shows the importance it gives to Quality. With the allocation of Coal Blocks and progresses in the Power generation field it is apparent that the demand for explosives would increase. We therefore are bullish and recommend a Buy rating on the stock.

**Price to Explode !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	1205.5	1199.5	(0.50)	1892.8	57.80
Other Income	5.3	2.6	(50.94)	6.9	165.38
Change in Stocks	(2.8)	4.2	(250.00)	2.4	(42.86)
Raw Material Con.	683.2	626.5	(8.30)	797.8	27.34
Employee Exp.	53.7	65.7	22.35	67.1	2.13
Indirect Taxes	91.7	87.2	(4.91)	113.6	30.28
Other Exp.	251.9	383.5	52.24	816.8	112.99
Operating Exp.	1083.3	1158.7	6.96	1792.9	54.73
Operating Profit	122.2	40.8	(66.61)	99.9	144.85
Total Interest	14.1	11.9	(15.60)	18.5	55.46
Gross Profit	113.4	31.5	(72.22)	88.3	180.32
Net Dep.	22.9	8.8	(61.57)	12.5	42.05
Total Taxation	31.5	7.1	(77.46)	25.4	257.75
Net Profit/Loss	59.0	15.6	(73.56)	50.4	223.08

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>198.0</b>	<b>247.9</b>	<b>283.5</b>	<b>328.9</b>
Equity Share capital	10.0	10.0	10.0	10.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	116.7	172.8	185.5	233.0
Secured Loans	12.4	18.0	51.2	60.8
Unsecured Loans	58.9	47.1	36.8	25.1
<b>USES OF FUNDS</b>	<b>198.0</b>	<b>247.9</b>	<b>283.5</b>	<b>328.9</b>
Gross Block	215.3	234.2	315.1	338.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	94.6	102.9	112.3	120.2
Net Block	120.7	131.3	202.8	218.5
Capital Work in Progress	2.4	5.0	3.0	10.6
Investments	0.0	0.0	0.0	0.0
Current Assets	328.0	385.2	400.8	517.5
Less : Current Liabilities	253.1	273.6	323.1	417.7
Total Net Current Assets	74.9	111.6	77.7	99.8
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	31.6	10.4	4.0	37.3
Dividend (%)	25	25	25	25

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	415.00	492.40	413.90	358.20
Cost Of Sales	384.10	441.00	388.10	342.10
Operating Profit	30.90	51.40	25.80	16.10
Recurring Income	1.00	1.00	0.80	0.60
Adjusted PBDIT	31.90	52.40	26.60	16.70
Financial Expenses	3.40	7.00	4.00	4.60
Depreciation	3.10	2.10	3.50	3.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	25.40	43.30	19.10	8.60
Tax Charges	8.40	14.70	6.20	2.80
Adjusted PAT	17.00	28.60	12.90	5.80
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	17.00	28.60	12.90	5.80

**52 Week Index Relative Percentage Appreciation**

**Keltech vs SENSEX**
**Points to Ponder**

The Industrialization of a country depends on its mining activities to a great extent. In mineral production, India has a top rank not only in South Asia, but at the global level too. Quantum of mineral production is almost directly proportional to the quantum of explosive production. Mining sector consume more than 80% of country's explosive production. Due to rapid growth of mining activities in the country, the explosives industry has been developing very fast in terms of quantity, quality & types. The growth projected in domestic Industrial Explosives market is high. Cartridge explosives are expected to grow at 5-6%, Bulk explosives 10% while Accessories would grow at 7-8%.

**Risks Associated**

Mining plays a key role in the fate of the company. The company's fortunes are closely linked to the growth in mining activities, which in turn are dependent on growth in power, metals, investment in road infrastructure. These user industries are highly dependent on government decisions. Any change in government & decision-making could impact the growth of the company. Warehousing, marketing & transportation of explosives is subject to government regulations. The company can sell the product only to licensed buyers. For transporting explosives, special types of vehicles have to be used. This increases the bargaining power of the buyer. Any slowdown in Economy would further slow expansion plans in Infra segment, leading to decline in orders.

**In a Nutshell**

Keltech Energies Ltd. (KEL) earlier known as Karnataka Explosives Ltd. is a part of Chowgule Group & is engaged into manufacturing of Watergel Cartridge explosives, Bulk Emulsion explosives, Mono Methyl Amine Nitrate (MMAN) solution & a variety of expanded Perlite products. Apart from fulfilling the needs of Domestic market the company also sell its products to International players too. KEL usually sources perlite from various countries like Turkey, USA, New Zealand & Greece. It primarily targets customers related to horticulture like nursery, tissue culture, floriculture, vegetable cultivation & landscaping. KEL has broad-based its customer profile to include the non-coal sector, thus catering to a prestigious clientele in the mining industry including majors like KIOCL, NMDC, HCL & the steel giant SAIL. Increase in mining activities would spurt the demand for explosives, due to capacity expansion in Indian Metal, Power & Cement industries, which is likely to favour the company for its growth. We therefore are bullish on the stock.

**Indira Group Offices**

<b>Registered Office</b>	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	<b>Tel :</b> +91-22-22656812 <b>Fax :</b> +91-22-22656985 <b>Email :</b> <a href="mailto:im@indiratrade.com">im@indiratrade.com</a>
<b>Administrative Office</b>	: Ramavat House, E-15 Saket Nagar, Indore 452018
	<b>Tel :</b> +91-731-2566361 <b>Fax :</b> +91-731-2562117 <b>Email :</b> <a href="mailto:ii@indiratrade.com">ii@indiratrade.com</a>
<b>Institutional Dealing Unit</b>	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	<b>Tel :</b> +91-22-30080675 <b>Fax :</b> +91-22-23870767 <b>Email :</b> <a href="mailto:ie@indiratrade.com">ie@indiratrade.com</a>

**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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