

Keltech Energies Ltd. ₹ 186**Benefit from Explosions ! Accumulate**

Nov 08, 2013

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 Manglore, 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, etc. Perlite products are supplied to Asiatic Oxygen and Acetylene Co., BHEL, IOL, and Bharat Heavy Plate & Vessels to name a few.
- ➔ The overall products of the company have a dominant marketshare in a niche segment where there is no major competition in India, further since the company is dealing with the niche since a long time it commands advantage.
- ➔ 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 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	1,116.7	1,791.5	1,561.1
Rev. growth (%)	(0.50)	60.43	(12.86)
EBITDA (INR mn)	44.6	108.3	99.7
Net profit (INR mn)	15.6	50.4	43.1
Shares outstanding (mn)	1.0	1.0	1.0
EPS (INR)	15.6	50.4	43.1
EPS growth (%)	(73.56)	223.08	(14.48)
P/E (x)	10.4	5.2	4.9
RONW (%)	8.4	21.6	16.5
ROCE (%)	6.0	15.5	11.1

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Info Codes

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

Market Data

52 Wk Range (₹)	: 219 / 146
Shares in Issue (mn)	: 1.0
Mkt. Cap (₹ bn)	: 0.19
BSE 2 Wk Avg Vol	: 229

Share Holding Pattern (%)

Promoters	: 52.32
DII's	: 0.14
FII's	: 0.00
Others	: 47.54

Investment Theme

Keltech Energies Ltd. 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 progresses in the Power generation field which would spurt a demand in Coal requirement and apparently mining industry, it is apparent that the demand for explosives would increase. We therefore are bullish and recommend the stock.

The next Opportunity is MINE !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	1199.5	1892.8	57.80	1704.1	(9.97)
Other Income	2.6	6.9	165.38	2.4	(65.22)
Change in Stocks	4.2	2.4	(42.86)	2.8	16.67
Raw Material Con.	626.5	797.8	27.34	900.8	12.91
Employee Exp.	65.7	67.1	2.13	77.5	15.50
Indirect Taxes	87.2	113.6	30.28	151.4	33.27
Other Exp.	383.5	816.8	112.99	481.5	(41.05)
Operating Exp.	1158.7	1792.9	54.73	1608.4	(10.29)
Operating Profit	40.8	99.9	144.85	95.7	(4.20)
Total Interest	11.9	18.5	55.46	19.3	4.32
Gross Profit	31.5	88.3	180.32	78.8	(10.76)
Net Dep.	8.8	12.5	42.05	12.4	(0.80)
Total Taxation	7.1	25.4	257.75	23.3	(8.27)
Net Profit/Loss	15.6	50.4	223.08	43.1	(14.48)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	247.9	283.5	328.9	453.3
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	172.8	185.5	233.0	273.2
Long Term Loans	65.1	82.3	70.7	126.5
Short Term Loans	0.0	5.7	15.2	43.6
USES OF FUNDS	247.9	283.5	328.9	453.3
Gross Block	234.2	315.1	338.7	379.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	102.9	112.3	120.2	132.3
Net Block	131.3	202.8	218.5	247.6
Capital Work in Progress	5.0	3.0	10.6	92.0
Investments	0.0	0.0	0.0	0.0
Current Assets	385.2	400.8	517.5	564.0
Less : Current Liabilities	273.6	323.1	417.7	450.3
Total Net Current Assets	111.6	77.7	99.8	113.7
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
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	10.4	4.0	197.7	320.4
Dividend (%)	25	25	25	25

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	383.40	399.60	327.70	322.30
Cost Of Sales	355.60	372.80	303.10	296.40
Operating Profit	27.80	26.80	24.60	25.90
Recurring Income	0.60	0.70	0.70	0.40
Adjusted PBDIT	28.40	27.50	25.30	26.30
Financial Expenses	4.30	6.30	4.00	4.80
Depreciation	3.70	3.00	3.70	3.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	20.40	18.20	17.60	17.70
Tax Charges	7.00	7.20	5.70	5.80
Adjusted PAT	13.40	11.00	11.90	11.90
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	13.40	11.00	11.90	11.90

52 Week Index Relative Percentage Appreciation



KEL 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.

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Rating Interpretation

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

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