India Equity Report | Company Update | Iron & Steel

Kalyani Steels Ltd. ₹ 53

Getting Ready for High Times ! Accumulate

Gateway to Prosperity

Nov 29, 2013

Company Background

Established in 1973, Kalyani Steels Ltd (Kalyani) is a leading manufacturer of forging and engineering quality carbon & alloy steels using the Blast Furnace route.In 1997, the Kalyani Group set up a new plant to manufacture steel using the less power intensive mini-blast furnace route. The facility is at Ginigera in the Hospet-Bellary region of Karnataka state, where iron ore is abundantly available. This integrated steel complex has capacity of 400,000 tpa of carbon and alloy steels, which is being expanded to 650,000 tpa. Over the years, Kalyani has been continuously upgrading its technology and infrastructure. The facilities at Kalyani are at par with any sophisticated steel manufacturers in the world. Although forging industry in India is the primary market for the company's products, markets of various components for commercial vehicles, two wheelers, diesel engines, bearings, tractors, turbines and rail also form a substantial part of the company's clientele. Kalyani has earned status of preferred steel supplier for engineering, automotive, seamless & primary aluminum industry.

Key Highlights

- Kalyani sees itself as a Global one stop shop for Automotive & Engineering Steels, A major gear shift to anticipate changing needs of user industries is the need of the hour. The company is already producing newer grades in Micro-alloyed steel segment. Kalyani intents to increase its product reach and range by continous efforts on new product development.
- Though currently undergoing a low phase, Kalyani aims to augment its capacity to 1 mn tpa, while attaining self sufficiency for major raw materials viz. Met Coke and Iron ore, by adding coke oven batteries and by gaining controls on mining operations respectively. It has already started economising the operations by generating power from flue gases of blast furnace/coke oven battries and reducing material handling losses and frieght costs by building railway sidings at plants.
- Kalyani has completed installation of sinter plant, coal injection system and stoves on blast furnaces. The Company expects to achieve substantial cost savings, by taking these initiatives, thus improving margins.

Key Financials

Year Ended 31st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	12,582.4	10,317.3	8,251.8
Rev. growth (%)	16.90	(18.00)	(20.02)
EBITDA (INR mn)	1,255.7	804.5	861.5
Net profit (INR mn)	547.0	220.4	238.7
Shares outstanding (mn)	43.7	43.7	43.7
EPS (INR)	12.5	5.0	5.5
EPS growth (%)	26.21	(59.71)	8.30
P/E (x)	6.5	10.3	6.6
RONW (%)	15.7	6.4	6.7
ROCE (%)	8.8	3.7	4.1

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Info Codes

Reuters	KLSL.BO
Bloomberg	KS@IN
NSE	KSL
BSE	500235

Market Data

52 Wk Range (₹)	64 / 31
Shares in Issue (mn)	43.7
Mkt. Cap (₹ bn)	2,29
BSE 2 Wk Avg Vol	112000

Share Holding Pattern (%)

Promoters	59.85
DIIs	0.19
FIIs	-
Others	39.96

Investment Theme

Long term prospects of the Indian Steel Industry are very bright. Domestic Steel consumption is expected to grow steadily in the near future driven by, infrastructural investments, urbanisation & industrial growth. India may become world's 2nd largest country in terms of consumption by 2020 only behind China. However the current situation the company is experiencing shotages of supply and is beaten due to price fluctuation. Any improvement in the availability and pricing of the iron ore will result in reduction in the manufacturing cost, making the products of the Company more competitive. The demand for Kalyani's products from various customer segments will consequently increase. Kalyani is prepared to respond to the increased demand and expects to achieve improved performance in future. We therefore remain bullish on Kalyani Steels and recommend accumulation.

Upgrading is an essentiality !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	14473.5	12066.2	(16.63)	10257.5	(14.99)
Other Income	196.1	273.1	39.27	71.7	(73.75)
Change in Stocks	227.7	6.4	(97.19)	(148.5)	(2420.31)
Raw Material Con.	6200.7	6081.5	(1.92)	4788.3	(21.26)
Employee Exp.	305.5	335.6	9.85	379.0	12.93
Indirect Taxes	2089.5	2022.1	(3.23)	2077.6	2.74
Other Exp.	5045.9	3102.0	(38.52)	2074.3	(33.13)
Operating Exp.	13413.9	11534.8	(14.01)	9467.7	(17.92)
Operating Profit	1059.6	531.4	(49.85)	789.8	48.63
Total Interest	217.8	295.8	35.81	243.6	(17.65)
Gross Profit	1037.9	508.7	(50.99)	617.9	21.47
Net Dep.	328.1	284.0	(13.44)	240.5	(15.32)
Total Taxation	162.8	4.3	(97.36)	138.7	3125.58
Net Profit/Loss	547.0	220.4	(59.71)	238.7	8.30

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	**4,849.0**	**5,787.6**	**5,662.5**	**5,728.2**
Equity Share capital	218.7	218.7	218.7	218.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,550.1	2,995.6	3,165.3	3,327.4
Long Term Loans	2,077.6	1,048.4	999.7	1,252.5
Short Term Loans	2.6	1,524.9	1,278.8	929.6
USES OF FUNDS	**4,849.0**	**5,787.6**	**5,662.5**	**5,728.2**
Gross Block	4,288.0	4,360.0	4,383.0	6,083.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,934.1	2,218.7	2,476.6	2,712.2
Net Block	2,353.9	2,141.3	1,906.4	3,371.5
Capital Work in Progress	59.9	123.1	595.8	143.3
Investments	892.5	832.5	687.3	487.3
Current Assets	4,903.3	4,887.8	4,802.0	4,852.8
Less : Current Liabilities	3,360.6	2,197.1	2,329.0	3,126.7
Total Net Current Assets	1,542.7	2,690.7	2,473.0	1,726.1
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	832.5	832.5	687.3	487.3
Mkt Val. Quoted Investments	60.0	0.0	0.0	0.0
Contingent Liabilities	322.9	648.4	1,143.8	518.9
Dividend (%)	25	40	20	30

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	1,805.00	1,961.20	2,447.30	2,475.60
Cost Of Sales	1,624.40	1,710.00	2,183.70	2,177.40
Operating Profit	180.60	251.20	263.60	298.20
Recurring Income	8.50	35.90	11.40	9.80
Adjusted PBDIT	189.10	287.10	275.00	308.00
Financial Expenses	53.50	44.80	38.90	38.30
Depreciation	57.10	64.40	80.80	86.10
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	78.50	177.90	155.30	183.60
Tax Charges	25.40	75.30	53.80	65.20
Adjusted PAT	53.10	102.60	101.50	118.40
Non Recurring Items	0.00	0.10	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	53.10	102.70	101.50	118.40

52 Week Index Relative Percentage Appreciation

Kalyani vs SENSEX

Risks Associated

In Steel Industry, cost is the main driver for competitiveness and a major part of the cost of production consists of raw materials, mainly Iron Ore and Metallurgical Coke. The adequate availability of inexpensive and good quality iron ore is one of the positive factors for the growth of the steel industry in India. However shortage of iron ore, due to mining ban in iron ore rich states such as Karnataka, Goa and Odisha, has led to a rise in domestic iron ore prices. Shortage of iron ore is expected to also prevail in 2013. This will adversely impact the margins of the steelmakers who depend on external sources for their iron ore requirements. Persistent high costs of steel production and limited ability of steel producers to pass on the higher costs to end user industries, due to subdued demand, is set to create extensive pressure on margins. To overcome these margin pressures, a roadmap for R&D for steel industry has to be finalised and adopted with a special focus on benefication of Iron Ore, reduction in energy costs and production of high value added steels in the country. New technologies are also required to be adopted to make existing steel manufacturing processes more efficient and productive. Major Indian Steel producers have been making earnest efforts to upgrade production and process technologies in Iron and Steel making. This will enable them to become cost effective, operate in an enviro-friendly manner and remain competitive in the domestic and global markets. Kalyani therefore scores less over other peer steel producers who have owned mining areas and which are not succeptible to the price fluctuation or availability of raw materials.

In a Nutshell

Kalyani Steels Ltd, is a part of the over $2.1 billion Kalyani Group. Established in 1973, Kalyani Steels is a leading manufacturer of forging and engineering quality carbon & alloy steels using the Blast Furnace route. Over the years, Kalyani has been continuously upgrading its technology and infrastructure. The facilities at KSL are at par with any sophisticated steel manufacturers in the world. Although the forging industry in India is the primary market for the company's products, markets of various components for commercial vehicles, two wheelers, diesel engines, bearings, tractors, turbines and rail also form a substantial part of the company's clientele. KSL has earned the status of preferred steel supplier for engineering, automotive, seamless tube and primary aluminum industry. The company is for the past few quarters facing the challenge of reduction in Iron Ore availability because of the Iron Ore mining ban imposed by the Hon'ble Supreme Court in the State of Karnataka.In the given situation, the Company has no other option than to procure iron ore by participating in e-Auction conducted by Monitoring Committee. Due to short supply of iron ore, the prices of iron ore have become speculative and almost doubled, putting pressure on the operating margins of the Company, because the company doesnt hold captive mines. However Kalyani has taken this oportunity to invest in internal projects which will enable, cost cutting and saving for the company. Going forward once the pending decisions on the Iron Ore mining ban come into public, these steps will help Kalyani to boost its Operating margins and operate at better capacities resulting in better growth prospects for itself.

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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