

Kesoram Industries

₹ 83

*Taking the Debt Burden Off!***Buy**

Feb 19, 2016

Company Background

Kesoram Industries Ltd. (Kesoram) is one of the oldest conglomerates in India since 1919 and has diversified business interests in various sectors including tyres, cement and rayon. It was among the top five largest tyre manufacturing companies in India by production volume until it recently sold off one unit however it is restructuring and expanding its balance units with an investment of ~800 Cr whereby it will be able to regain its market share as well as prepare 600,000 car radials a month, 200,000 tyres for two wheelers and another 125,000 tyres for commercial vehicles. It also operates two cement manufacturing plants with a combined capacity of 7.25 mn MT and has enjoyed an operating history of over 40 years. In addition, Kesoram also manufacture viscose rayon, filament yarn and transparent paper.

Key Highlights

- ➔ The Aditya Birla group is raising its stake in Kesoram to 50% from the present 46% by way of a preferential share issue. Kesoram is the second B K Birla group company in which Kumar Mangalam Birla owned- promoter companies are raising stake the first being Century Textiles. It is expected that Kesoram will perform better in the new and dynamic management.
- ➔ The board has also given the go-ahead to dispose off the company's spun pipe and the heavy chemical units located in West Bengal as well as divestment of certain of its investments in listed companies at prevailing market prices for the purpose of enhancing cash inflows. In aggregate the current market value of such investments is approximately Rs 470 cr. The board of directors in Dec 2015 has also approved the fund raising of amount upto Rs 650 cr through qualified institutional placement of equity shares or any other financial instruments or security convertible into equity. This will also ease in the debt burden of nearly 4000 Cr.
- ➔ There is a probability that after all BK Birla group companies come under the management of Atitya Birla Group. The group may consolidates all businesses into a single brand so that maximum leverage can be taken on all assets. This would be better for Kesoram as it will merge into a bigger company.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	58,396.9	52,057.2	53,473.3
Rev. growth (%)	(2.91)	(10.86)	2.72
EBITDA (INR mn)	4,777.1	4,840.6	6,631.6
Net profit (INR mn)	(3,292.3)	(5,155.5)	(3,666.8)
Shares outstanding (mn)	45.7	109.8	109.8
EPS (INR)	(72.0)	(47.0)	(33.4)
EPS growth (%)	(13.30)	(34.75)	(28.88)
P/E (x)	(1.22)	(1.18)	(1.91)
RONW (%)	(45.82)	(101.98)	(284.71)
ROCE (%)	(6.33)	(10.18)	(15.56)

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Info Codes

Reuters	: KSRM.BO
Bloomberg	: KSI@IN
NSE	: KESORAMIND
BSE	: 502937

Market Data

52 Wk Range (₹)	: 70 / 149
Shares in Issue (mn)	: 109.8
Mkt. Cap (₹ bn)	: 9.08
BSE 2 Wk Avg Vol	: 81000

Share Holding Pattern (%)

Promoters	: 46.01
Public	: 53.99
Others	: 00.00

Past Performance

Recommended BUY at 67 on Dec 20, 2013 with a target of 20% appreciation. Reached a peak appreciation of 131% during the 52 week period.

Investment Theme

Kesoram is an old Indian Conglomerate with diversified interests in 3 major segments Tyres, Cement & Rayon. The company has been recently engaged in a slight turmoil and has restructured its Debt Equity ratio and thus can leverage the same to pay off its debts, thus saving a lot of interest expended. It is working on expansion of its core businesses to cater to all segments in the concerned market. The promoters are also bullish on the company and have planned to hike their stake through 4% Preferential Equity. We believe the reduction of interests should be able to make a considerable turn around of the company from its current position and reap good benefits for investors especially those who invest early.

Losing in Interest... Not anymore !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	61,653.6	54,890.8	(11.0)	52,872.4	(3.7)
Other Income	382.3	691.0	80.7	4,328.7	526.4
Change in Stocks	544.7	419.8	(22.9)	(478.8)	(214.1)
Raw Material Con.	28,931.6	24,546.0	(15.2)	20,024.4	(18.4)
Employee Exp.	3,975.9	4,279.3	7.6	4,904.0	14.6
Indirect Taxes	4,157.9	3,738.7	(10.1)	4,067.2	8.8
Other Exp.	20,814.3	18,676.4	(10.3)	21,165.1	13.3
Operating Exp.	57,335.0	50,820.6	(11.4)	50,639.5	(0.4)
Operating Profit	4,318.6	4,070.2	(5.8)	2,232.9	(45.1)
Total Interest	5,433.2	6,188.3	13.9	6,809.6	10.0
Gross Profit	(732.3)	(1,427.1)	94.9	(248.0)	(82.6)
Net Dep.	3,039.6	3,375.9	11.1	3,418.8	1.3
Total Taxation	(479.6)	352.5	(173.5)	0.0	(100.0)
Net Profit/Loss	(3,292.3)	(5,155.5)	56.6	(3,666.8)	(28.9)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	53,946.8	53,848.9	50,932.2	50,315.4
Equity Share capital	457.4	457.4	1,097.7	1,097.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	8,665.7	5,319.9	3,586.6	(248.0)
Long Term Loans	36,597.6	36,682.3	32,908.1	40,030.6
Short Term Loans	8,226.1	11,389.3	13,339.8	9,435.1
USES OF FUNDS	53,946.8	53,848.9	50,932.2	50,315.4
Gross Block	52,301.4	53,874.2	54,792.6	32,362.6
Less : Revaluation Reserves	27.0	25.1	23.8	23.8
Less : Accumulated Depreciation	16,432.9	19,406.5	22,521.5	16,896.0
Net Block	35,841.5	34,442.6	32,247.3	15,442.8
Capital Work in Progress	6,238.8	7,044.9	7,308.3	5,483.2
Investments	663.6	663.6	663.6	7,664.1
Current Assets	29,525.0	30,250.9	30,187.5	39,531.0
Less : Current Liabilities	18,330.9	18,553.1	19,474.5	17,805.7
Total Net Current Assets	11,194.1	11,697.8	10,713.0	21,725.3
Misc. Expenses not writtenoff	8.8	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	17.6	17.6	17.6	7,018.1
Mkt Val. Quoted Investments	2,845.8	2,653.6	2,981.0	4,788.0
Contingent Liabilities	6,338.8	3,384.4	7,977.4	5,749.3
Dividend (%)	10.0	10.0	0.0	0.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	12,003.8	11,371.7	10,904.4	10,204.5
Cost Of Sales	10,938.3	11,041.2	10,722.3	11,073.1
Operating Profit	1,065.5	330.5	182.1	(868.6)
Other Income	124.5	89.0	272.4	241.0
Adjusted PBDIT	1,190.0	419.5	454.5	(627.6)
Financial Expenses	1,629.6	1,740.2	1,683.1	1,684.4
Depreciation	347.7	326.7	215.7	428.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(787.3)	(1,647.4)	(1,444.3)	(2,740.4)
Tax Charges	0.0	0.0	0.0	0.0
Adjusted PAT	(787.3)	(1,647.4)	(1,444.3)	(2,740.4)
Non Recurring Items	4,092.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	3,304.7	(1,647.4)	(1,444.3)	(2,740.4)

52 Week Index Relative Percentage Appreciation



Kesoram vs SENSEX

Risks Associated

➔ The Cement Sector

As like any other cement company Kesoram is also subjected to the risk factors like the rise in power prices, Government permissions for Limestone, The demand and supply regime which fluctuates plus the overall market scenario which can dampen any capacity additions due to the dampening of the construction sector in India. Further since Kesoram caters more to the local market any change in these factors will pose more pressure than its peers.

➔ The Tyre Sector

The major problems faced by the tyre manufacturing sector is the rubber prices. The prices of rubber as a commodity fluctuate and if proper provisions of absorbing the same are not done, they have to be passed on to the end users which may result in lower sale of the product. The overall slowdown of the automobile industry could also damage sale figures.

➔ The Rayon, Paper Sector

Similar to the tyre sector the rayon and paper segment also is linked closely to the available of raw materials and their prices which add to the operating costs of the final product mix. Kesoram is working on cost effective modernisation and upgradation of its manufacturing facility which should enable it to bring down operating costs.

In a Nutshell

Kesoram is an age-old Indian conglomerate which has diversified business interests in various sectors including tyres, cement and rayon. It owns and operates one integrated tyre manufacturing plant located at Balasore, Odisha. It is also setting up a new manufacturing unit at its Balasore Tyre Plant for the production of passenger car radial tyres. Once completed, this new capacity will make Kesoram one of the few tyre companies in India that would be able to offer a complete range of tyres across all vehicle sectors. Kesoram owns and operates two cement manufacturing plants, located at Sedam, Karnataka and Basantnagar, Andhra Pradesh. Its cement business has enjoyed an operating history of over 40 years, catering to regional demands in Karnataka, Andhra Pradesh and Maharashtra. The plants are strategically located near limestone deposits in the states of Karnataka and Andhra Pradesh. Its cement grinding units are also located close to captive power plants. Further, Kesoram procures much of its fly ash from NTPC which has power plants in close proximity to both the Cement Plants. Kesoram also manufactures viscose rayon, filament yarn and transparent paper at its plant at Tribeni, District Hooghly, West Bengal. Trevenues of the company are good however the debt service is eating up its margins. The Company did a slup sale of one of its tyre plants last year and is doing the same with one of its cement plant this year. It is also raising preferential equity from Aditya Birla Group which is also keen in raising his stake in the company. All these should ease off the burden and place Kesoram under good circumstances

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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