India Equity Report | Company Update | Diversified

Kesoram Industries Ltd. ₹68

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Sep 21, 2018

Company Background

Kesoram Industries Limited (KIL) was incorporated in 18th October of the year 1919 in the name and style of Kesoram Cotton Mills Ltd as a part of B.K. Birla group. Company is a well-diversified entity in the fields of Cement, Tyre & Rayon Yarn. First Plant of the company for manufacturing of rayon yarn was established at Tribeni, West Bengal. In the year 1990, a technical collaboration agreement was signed with M/s. Pirelli Ltd. of U.K and KIL had commissioned a plant at Balasore known as Birla Tyres in Orissa, for manufacturing of 10,00,000 mtpa automotive tyres and tubes in the first phase during March of the year 1992. Company commenced its commercial production for the first phase of its new 257 metric tons per day Greenfield project of truck tyres at Laskar, Haridwar in Uttarakhand from 28th May of the year 2008. KIL expanded its operation at its Uttarakhand tyre complex. It has total three plants, two are for cement at Seda, Karnataka and Basantnager, Telangana and one plant for tyre manufacturing at Balasore, Odisha. KIL has one subsidiary and had one joint venture such as Cygnet Industries Ltd and Gondkhari Coal Mining Ltd with a holding of 100% and 45.46% respectively. Cygnet manufactureres of Rayon transparent paper and chemicals and its manufacturing facility is located in Hoogly, West Bengal. Gondkhari is not functional now.

Key Highlights

- Recently, Kesoram Industries Ltd and South Central Railway have signed a Long Term Tariff Contract (LTTC) agreement for five years. The move will give long term stability and certainty in the freight tariff rates to corporate freight customers.
- Kesoram Industries manufactures tyres for buses and trucks under Birla Tyres brand name and is now planning to enter into the passenger car segment. The new segment has high margins & volumes. There is also a possibility of a demerger of the tyres business from Kesoram, which also manufactures cement and rayon, once the new partner is came.
- Consolidated revenue for FY18 was ₹ 4,032.66 crore of which 60.77% is from cement and 39.23% from Tyres and tubes.

Key Financials

Year Ended 31st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	57,737.7	43,647.9	39,330.3
Rev. growth (%)	6.19	(24.40)	(9.89)
EBITDA (INR mn)	9,369.6	2,510.4	839.6
Net profit (INR mn)	1,371.2	(1,548.7)	(4,635.1)
Shares outstanding (mn)	124.8	117.3	137.3
EPS (INR)	11.7	0.0	0.0
EPS growth (%)	0.00	(100.00)	0.00
P/E (x)	8.78	0.00	0.00
RONW (%)	(131.58)	(32.42)	0.00
ROCE (%)	1.13	0.13	0.00

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Info Codes

Reuters	KSRM.BO
Bloomberg	KSI IN
NSE	KESORAMIND
BSE	502937

Market Data

52 Wk Range (₹)	66/173
Shares in Issue (mn)	137.3
Market. Cap (bn)	9.70
BSE 2 Wk Avg Vol	24000

Share Holding Pattern (%)

Promoters Holding	53.18
Public & Others	20.42
Corporate Holding	12.13
Foreign Institution	09.78
Institutions	04.26
Govt Holding	00.23

Investment Theme

India ranks as the world's 2nd largest cement producer. India's total production is estimated at 425 mn TPA. Of this, some 350 mn tonnes is manufacturing by approximately 210 large players and the balance from mini players. Country's total production figure is expected to grow to over 550 mn TPA by 2025. Company has two business segments namely, cement & tyre manufacturing. Tyre segment is not performing well and generating negative EBITDA. Cement segment is doing well. It has also plan to demerge the tyre segment. Reasons for the losses are debt burdon and tyre segment performance. If the losses from the tyre segment can be brought down, it can return to profit even without reducing debt. Last five years, the promoters infused over ₹ 665 crore into the company. It has taken some steps to minimise the debt.

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Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	41,002.9	36,765.0	(10.3)	35,871.1	(2.4)
Other Income	12,195.4	2,273.7	(81.4)	2,284.6	0.5
Change in Stocks	(737.6)	(1,171.2)	58.8	(477.1)	(59.3)
Raw Material Con.	14,425.0	12,139.0	(15.8)	11,727.5	(3.4)
Employee Exp.	2,925.8	3,132.1	7.1	3,234.1	3.3
Indirect Taxes	4,539.4	4,609.2	1.5	1,174.6	(74.5)
Other Exp.	21,200.9	15,476.8	(27.0)	20,702.8	33.8
Operating Exp.	43,091.1	35,357.1	(17.9)	36,839.0	4.2
Operating Profit	9,369.6	2,510.4	(73.2)	839.6	(66.6)
Total Interest	6,775.3	2,821.0	0.0	4,212.4	0.0
Gross Profit	2,594.3	(310.6)	(112.0)	(3,372.8)	985.9
Net Dep.	1,223.1	1,230.5	0.6	1,282.3	4.2
Total Taxation	0.0	7.6	0.0	(20.0)	0.0
Net Profit/Loss	1,371.2	(1,548.7)	(212.9)	(4,635.1)	199.3

4 Years Balance Sheet

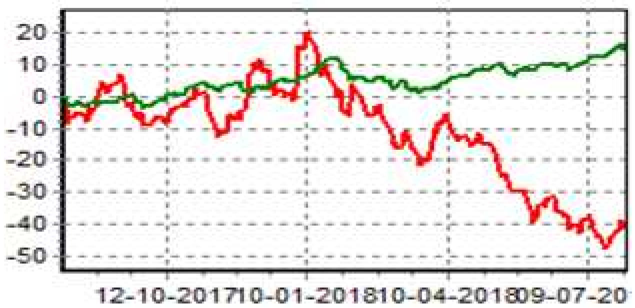
(₹ mn)

Balance Sheet as on 31st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	**52,797.4**	**56,660.2**	**43,730.4**	**45,024.3**
Equity Share capital	1,097.7	1,247.7	1,172.7	1,373.4
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	826.9
Reserves & Surplus	(224.2)	2,783.2	7,290.0	5,536.7
Secured Loans	46,986.8	46,046.1	28,824.6	32,208.9
Unsecured Loans	4,937.1	6,583.2	6,443.1	5,078.4
USES OF FUNDS	**52,797.4**	**56,660.2**	**43,730.4**	**45,024.3**
Gross Block	32,362.6	30,686.0	21,523.8	26,152.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	16,896.0	16,667.4	1,228.3	2,497.5
Net Block	15,466.6	14,018.6	20,295.5	23,654.5
Capital Work in Progress	5,483.2	5,558.9	7,115.3	7,805.8
Investments	7,664.1	7,056.2	1,012.5	5,084.1
Current Assets	31,812.5	35,927.0	19,926.8	18,945.6
Less : Current Liabilities	8,488.2	9,718.4	9,209.9	12,111.3
Total Net Current Assets	23,324.3	26,208.6	10,716.9	6,834.3
Misc. Expenses not writtenoff	859.2	3,817.9	4,590.2	1,645.6
NOTE				
Book Value of Unquoted Investments	7,018.1	6,997.2	746.2	4,823.0
Market Value of Quoted Investments	4,788.0	31.7	266.3	261.1
Contingent Liabilities	4,315.1	6,510.7	5,634.3	5,006.5
Dividend (%)	0.0	0.0	0.0	0.0

Quarterly Income Sheets (₹ mn)

Quarter Ended	Sep 17	Dec 17	Mar 18	Jun 18
Net Sales	8,405.8	8,830.1	9,853.3	9,317.2
Cost Of Sales	8,560.3	9,507.7	10,235.0	8,917.9
Operating Profit	(154.5)	(677.6)	(381.7)	399.3
Other Income	179.3	1,581.8	325.8	292.1
Adjusted PBDIT	24.8	904.2	(55.9)	691.4
Financial Expenses	1,078.5	1,051.2	1,201.8	1,012.8
Depreciation	342.2	284.7	344.0	312.6
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(1,395.9)	(431.7)	(1,601.7)	(634.0)
Tax Charges	0.0	0.0	(20.0)	0.0
Reported Profit	(1,395.9)	(431.7)	(1,581.7)	(634.0)
Extra Ordinary Items	(98.9)	(413.7)	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	(1,297.0)	(18.0)	(1,581.7)	(634.0)

52 Week Index Relative Percentage Appreciation



Kesoram vs SENSEX

Risks Associated

- Indian cement industry is mainly dependent on growth of the infrastructure development. Infrastructure development in the country being predominantly in the hands of the Government, if any decline in Government spending that will effect the cement industry.
- The major risk facing tyre manufacturing in the country is that the price escalation in procurement costs of conversion materials, particularly fossil fuels, carbon black and natural rubber. Rubber comprises about 40-45% of the total raw material cost incurred to make tyres.
- Company has two businesses, out of two, tyre business has performing below the expectations. Cement business has consistently generating revenues. The tyre business under-performance is compounded by the effect of a debt burden has been the primary reason.

Scope of Growth

- Cement industry continues to be closely co-relation with the progress of the national economy, if economy improve sector also improve. Real estate is a major driver of cement demand, it consumes nearly 60% of total demend.
- Tyre volume demand is expected to grow by 7-8% during FY19, boosted by higher OEM demand & stable replacement demand, says an ICRA research report.
- Housing for All by 2022 project is initiated by Indian Government to construction of 12 million houses, So far, the construction of 3.75 million houses have approved. This development also drive the demand for the cement.
- Company is using energy saving measures in both Cement & Tyre segments, during the FY18 it was consumed of 21,776 MT of different types of alternative fuels in cement segment. The tyre segment is studying the feasibility of using solar energy for the plant.

In a Nutshell

Kesoram Industries was incorporated in 18th October of the year 1919 in the name of Kesoram Cotton Mills Ltd. It is diversified entity in the fields of Cement & Tyre. Cement segment has manufacturing and sale of cement. The Group operates its cement business under the name, Birla Shakti Cement. Tyre segment covers the sale of tyre, tubes, flaps etc., operates its tyre business under the name, Birla Tyres. Sale volumes of the cement business during the year were down largely due to a slowdown in construction activity. This was compounded by uncertainty in consumer behaviour due to the implementation of GST. Although, the cement business did well as compared to the previous year. The Tyre business also has effected of GST. Company sales were declined by 2.4% to ₹ 35,871.1 mn and net loss improved to ₹ 4,635.1 mn during the FY18. During the year its cement business had generate positive EBITDA while the tyre business generated negative EBITDA. Company faces two major issues for the losses such as tyre business, manufactures tyres for buses and trucks this is not profitable customer segment. Now company is planning to enter into the passenger car segment where the margins & volumes are high. There is also a possibility of a demerger of the tyres business. The second issue is debt burden. It has nearly ₹ 35,000 mn debt, company is looking many option to reduce the debt. So far, the promotor group had paid ₹ 6,650 mn. At present, it is loss making only, but in the future it will turn as profitable company. Because of, it looking the partner of its tyre business or plan for demerger or enter into passenger vehicle segment, already started the action to debt reduction and some measures to use alternate energy to both of its segments.

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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

Disclaimer