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KALYANI STEELS

CMP:RS 258

TRGT:RS 310

TIME HORIZON: 1 YEAR

Kalyani Steels, a part of Kalyani Group, is looking a good buy with Promoters seen having raised stake to 64.71% from 60.60% in March quarter by Open market purchase at Rs 316 and single digit PE of 8.5x on most conservative estimate for current years earnings offer extreme comfort. Company is manufacturer of forging and engineering quality carbon and alloy steel, used in manufacturing components of commercial vehicles, two wheelers, diesel engines, bearings, tractors, turbines and rail. Company has state of the art integrated manufacturing facility along with a captive power plant of 8 MW, spread across 375 acres land located in Hospet, Karnataka, with total installed capacity of 6.7 lakh TPA. For FY18, company's performance has taken a hit due to sharp rise in prices of iron ore and steel, which the company was unable to pass on, as contract re-negotiations were delayed, which resulted in muted PAT of Rs 1,15 cr in FY18 against Rs 1,56 cr of FY17, yielding an EPS of Rs 26.48. However, management has categorically stated that company has now passed on the price hikes with contract re-negotiations having completed and earnings are set to show margin expansion from Q1FY19 onwards. Company is currently running at quarterly EPS run rate of Rs 7-7.5 and with price hikes and higher volume growth, it can deliver Rs 8 + quarterly EPS, which will swiftly re-rate the stock. Company will also benefit from recent plunge in Iron ore prices, as Raw material is the single largest cost component for Kalyani Steel, constituting about 55% of the total operating income in FY18, against 36% of FY17. The key raw materials used by the company are iron ore/iron ore fines; coke/coke fines, fluxes like limestone and dolomite. ferro alloys and scrap. During Q4FY18, Promoter's have acquired 4.71% additional stake from Market, at a price of Rs 316 (Sundram Trading & Investment and Sunita B Kalyani), while Indlabulls MF has also made fresh entry in the company during Q3FY18. Kalyani Steel mainly supplies forging quality steel for wide variety of applications in Automotive Sector (Camshafts, axles, steering knuckles, gears etc), Engineering Applications (Energy. Defence, Fasteners, Materials Handling etc), Seamless Tube Industry etc. and company has esteemed clientele of Dana, Mentor. Eicher Motors, Force Motors, Hyundai, Ford, Renault, Nissan, M&M, Volvo, Maruti, BHEL, Jindal Saw, Maharashtra Seamless etc. It has virtually debt free balance-sheet on net cash basis. Company is likely to report an EPS of over Rs 34 for FY19, leading to PE of 7.6x. Also, M Cap of Rs 1,130 crores with annual turnover of over Rs 1,400crores is seen attractive (M Cap/Sales just 0.9x). Share ruling at Rs 258 can move to Rs 310 in 1 year.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.