

BL KASHYAP & SONS*Order intake strong; outlook bright*

- Revenues slightly lower than estimates; margins down Q-o-Q

BL Kashyap & Sons' (BLK) Q4FY10 topline was slightly lower than our expectations. Revenues for Q4FY10 came in at INR 2.9 bn, up 7% Q-o-Q. EBITDA margins declined 40bps Q-o-Q, to 8%. PBT margins followed suit with a 40bps dip Q-o-Q. However, lower tax rate of 12.6% in the current quarter against 34% last quarter boosted PAT margins (up 90bps Q-o-Q, to 4.9%).

For full FY10, topline came in at INR 10.2 bn, while EBITDA margins were at 8.3%. PAT margin stood at 4.1%.

- Order accretion remains robust

BLK's current order book stands at ~INR 30 bn, major contributors being the end users/commercial and residential segments followed by hospitality and industrial. Order intake was strong in FY10 at ~INR 16 bn, and the company has already bagged ~INR 5.5 bn of orders in Q1FY11. We believe with improvement in the economic outlook, BLK should be able to maintain the pace of order wins, raising its growth prospects.

- Steady progress on real estate development

BLK is witnessing steady progress on its three retail projects in Bengaluru. It expects to start monetisation of its realty projects soon, which, we believe, will reduce debt levels in the parent company and improve its profitability.

- Outlook and valuations: Future looks promising; maintain 'BUY'

BLK's operations are picking up, after the realty slowdown. Further, the company has good revenue visibility with the order book/revenue ratio at ~3. This is relatively high for a predominantly short duration building contractor like BLK, indicating strong revenue growth ahead. We expect the company to continue to perform robustly, led by revenue growth and higher order accretion. Its entry into affordable housing and infra/PSU segments is likely to bolster its growth. At CMP of INR 348, on standalone EPS estimates of INR 25.2 and INR 35.5, BLK is trading at P/E of 13.8x and 9.8x for FY11E and FY12E, respectively. Any value arising from development or outright sale of its real estate subsidiary's (Soul Space Projects) projects will provide upside to our estimates and will be a positive trigger for the stock. We find the company's long-term growth prospects attractive and maintain 'BUY/SP' on it.

May 31, 2010

Reuters: BLKS.BO Bloomberg: KASH IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 348
52-week range (INR)	:	516 / 260
Share in issue (mn)	:	20.5
M cap (INR bn/USD mn)	:	7 / 154
Avg. Daily Vol. BSE/NSE ('000):	:	79.9

SHARE HOLDING PATTERN (%)

Promoters*	:	71.1
MFs, FIs & Banks	:	6
FIIIs	:	14.7
Others	:	8.2
* Promoters pledged shares (% of share in issue)	:	18.2

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Index
1 month	(5.7)	(2.9)	(4.3)
3 months	2.9	2.9	1.6
12 months	(13.5)	16.8	22.8

Financials

Year to March	Q410	Q409	% change	Q310	% change	FY10	FY11E
Revenues (INR mn)	2,919	2,850	2.4	2,732	6.8	10,186	15,315
EBITDA (INR mn)	232	87	167.1	228	1.7	842	1,307
Net profit (INR mn)	142	14	899.6	107	31.9	418	517
EPS (INR)	6.9	0.7	899.6	5.2	31.9	20.4	25.2
P/E (x)						17.1	13.8
EV/EBITDA (x)						13.2	9.5
ROAE (%)						8.4	9.6

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Financials snapshot (Standalone)

(INR mn)

Year to March	Q410	Q409	% change	Q310	% change	FY10	FY11E	FY12E
Revenues	2,919	2,850	2.4	2,732	6.8	10,186	15,315	19,713
Direct & staff cost	1,407	1,415	(0.5)	1,470	(4.3)	8,625	13,148	16,826
Other expenditure	234	175	33.8	196	19.4	719	859	1,106
Total expenditure	2,687	2,763	(2.8)	2,504	7.3	9,345	14,008	17,932
EBITDA	232	87	167.1	228	1.7	842	1,307	1,781
Depreciation	45	48	(6.8)	44	2.4	172	185	204
EBIT	187	39	382.1	185	1.5	670	1,123	1,577
Interest	123	61	100.7	106	16.1	435	693	837
Other income	97	68	42.9	84	16.1	348	352	362
PBT	162	46	253.7	163	(0.4)	583	781	1,102
Tax	20	24	(13.5)	55	(63.1)	165	265	373
Reported net profit	142	14	899.6	107	31.9	418	517	729
Adjusted net profit	142	22	537.1	107	31.9	418	517	729
Equity capital(FV: INR5)	103	103	0.0	103	0.0	103	103	103
# of shares (mn)	20.5	20.5	0.0	20.5	0.0	20.5	20.5	20.5
EPS (INR)	6.9	0.7	899.6	5.2	31.9	20.4	25.2	35.5
P/E (x)						17.1	13.8	9.8
EV/EBITDA						13.2	9.5	7.2

as % of net revenues

Total expenditure	92.0	97.0	(4.9)	91.6	0.4	91.7	91.5	91.0
EBITDA	8.0	3.0	4.9	8.4	(0.4)	8.3	8.5	9.0
Reported net profit	4.9	0.5	4.4	3.9	0.9	4.1	3.4	3.7
Tax rate	12.6	51.5	(38.9)	34.0	(21.4)	28.3	33.9	33.9

- **Company Description**

BLK is focused on civil/industrial construction, design and building of turnkey projects, and interior and furnishing work. It primarily caters to the northern and southern markets in India and is now building its presence in other markets too. The company has two subsidiaries in the furnishings and real estate development space, BLK Lifestyle, and Soul Space Projects, respectively. These subsidiaries have helped BLK transform itself into a comprehensive one-stop solution provider for office buildings and residential complexes. The subsidiary operations are gathering steam, helping BLK diversify its business model.

- **Investment Theme**

We maintain our positive outlook on BLK as a significant player in the urban infrastructure space with a reputation for delivering high-quality structures in the commercial, residential, and industrial arena on or ahead of time. Its high-growth, low-risk strategy of faster project execution, coupled with its presence in low capital intensive, high margin value-added product segment is likely to enable it to sustain its growth momentum in future. Its real estate subsidiary is following a strategy of developing projects on its own land bank as well as through joint development mechanisms. This strategy will help the company keeping its balance sheet risk profile in check, while providing opportunities to foray into real estate development space. In addition, its furnishing subsidiary provides end-to-end solutions to BLK's existing building contracting solutions portfolio. Given the huge growth in residential construction, this strategy of providing value-added housing solutions boosts margins.

- **Key Risks**

A slowdown in the real estate cycle may lead to slowdown in project ramp-ups, affecting BLK's order intake and revenue growth. This assumes more significance now with the ramp-up in operations of its real estate subsidiary.

A slowdown in the pace of orders could reduce the pricing power of players like BLK, putting pressure on the profitability. Also, since a majority of the company's orders have a comparatively shorter execution period relative to the industry standards, a consistent inflow of new orders is imperative for sustained growth.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Income from operations	15,427	14,621	10,186	15,315	19,713
Direct costs	12,210	11,787	8,158	12,446	15,922
Employee costs	545	670	467	702	904
Other expenses	830	820	719	859	1,106
Total operating expenses	13,585	13,278	9,345	14,008	17,932
EBITDA	1,842	1,343	842	1,307	1,781
Depreciation & Amortization	156	188	172	185	204
EBIT	1,687	1,155	670	1,123	1,577
Other income	219	204	348	352	362
Interest expenses	161	190	435	693	837
Profit before tax	1,744	1,169	583	781	1,102
Provision for tax	590	381	165	265	373
Core profit	1,154	788	418	517	729
Extraordinary income/ (loss)	-	(8)	-	-	-
Profit after tax	1,154	780	418	517	729
Profit after minority interest	1,154	780	418	517	729
Basic shares outstanding (mn)	21	21	21	21	21
Basic EPS (INR)	56.2	38.4	20.4	25.2	35.5
Diluted equity shares (mn)	21	21	21	21	21
Diluted EPS (INR)	56.2	38.4	20.4	25.2	35.5
CEPS (INR)	63.7	47.5	28.7	34.1	45.4
Dividend per share (INR)	4	1	1	1	1
Dividend payout (%)	7.1	2.6	4.9	4.0	2.8

Common size metrics					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	88.1	90.8	91.7	91.5	91.0
Interest expenditure	1.0	1.3	4.3	4.5	4.2
EBITDA margins	11.9	9.2	8.3	8.5	9.0
Tax	3.8	2.6	1.6	1.7	1.9
Net profit margins	7.5	5.4	4.1	3.4	3.7

Growth ratios (%)					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	90.9	(5.2)	(30.3)	50.3	28.7
EBITDA	99.4	(27.1)	(37.3)	55.3	36.3
Net profit	107.4	(31.7)	(47.0)	23.6	41.1
EPS	107.4	(31.7)	(47.0)	23.6	41.1

Balance sheet					(INR mn)
As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Equity capital	103	103	103	103	103
Reserves & surplus	3,910	4,666	5,060	5,553	6,258
Shareholders funds	4,012	4,769	5,163	5,656	6,361
Secured loans	1,077	1,244	3,064	4,064	5,064
Unsecured loans	100	1,400	1,400	1,400	1,400
Borrowings	1,177	2,644	4,464	5,464	6,464
Deferred tax (net)	26	29	20	20	20
Sources of funds	5,216	7,441	9,646	11,139	12,844
Gross block	1,640	1,725	1,830	1,980	2,230
Depreciation	377	560	733	917	1,122
Net block	1,264	1,165	1,097	1,063	1,108
Total fixed assets	1,264	1,165	1,097	1,063	1,108
Investments	673	142	142	142	142
Inventories	2,588	2,307	2,490	3,534	4,279
Sundry debtors	2,991	4,374	5,250	7,474	9,080
Cash and equivalents	577	176	460	143	815
Loans and advances	2,220	3,164	3,000	2,777	2,244
Other current assets	-	92	92	-	-
Total current assets	8,376	10,112	11,292	13,927	16,417
Sundry creditors and others	1,982	2,114	1,473	2,425	3,121
Others current liabilities	1,934	1,432	1,116	1,116	1,116
Provisions	1,212	447	311	468	603
Total current liabilities & provisions	5,128	3,994	2,901	4,009	4,840
Net current assets	3,248	6,118	8,391	9,918	11,578
Others	32	16	16	16	16
Uses of funds	5,216	7,441	9,646	11,139	12,844
Book value per share (INR)	193.8	231.4	250.5	274.5	308.8

Free cash flow					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	1,154	780	418	517	729
Depreciation	156	188	172	185	204
Gross cash flow	1,309	1,060	591	701	933
Less: Changes in WC	1,350	3,272	1,989	1,844	988
Operating cash flow	(40)	(2,211)	(1,398)	(1,143)	(54)
Less: Capex	720	85	105	150	250
Free cash flow	(760)	(2,296)	(1,503)	(1,293)	(304)

Cash flow metrics					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	(40)	(2,211)	(1,398)	(1,143)	(54)
Investing cash flow	62	446	(105)	(150)	(250)
Financing cash flow	149	1,442	1,796	976	976
Net cash flow	171	(323)	293	(317)	672
Capex	(720)	(85)	(105)	(150)	(250)
Dividends paid	(96)	(24)	(24)	(24)	(24)

Profitability & efficiency ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE (%)	33.1	18.0	8.4	9.6	12.1
ROACE (%)	42.0	24.1	11.0	13.9	15.5
Inventory day	44	61	86	72	72
Debtors days	59	92	172	152	153
Payable days	46	63	80	57	64
Cash conversion cycle (days)	57	90	178	166	162
Current ratio	1.6	2.5	3.9	3.5	3.4
Debt/EBITDA	0.6	2.0	5.3	4.2	3.6
Average working capital turnover	6.2	3.1	1.4	1.7	1.8
Average capital employed turnover (x)	3.4	2.3	1.2	1.5	1.6
Debt/Equity	0.3	0.6	0.9	1.0	1.0
Adjusted debt/equity	0.3	0.6	0.9	1.0	1.0
Net Debt/Equity	0.1	0.5	0.8	0.9	0.9
Interest coverage	10.5	6.1	1.5	1.6	1.9

Operating ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
Total asset turnover	3.4	2.3	1.2	1.5	1.6
Fixed asset turnover	9.6	8.1	6.1	9.5	12.0
Equity turnover	4.4	3.3	2.1	2.8	3.3

Du pont analysis

Year to March	FY08	FY09	FY10	FY11E	FY12E
NP margin (%)	7.5	5.4	4.1	3.4	3.7
Total assets turnover	3.4	2.3	1.2	1.5	1.6
Leverage multiplier	1.3	1.4	1.7	1.9	2.0
ROAE (%)	33.1	18.0	8.4	9.6	12.1

Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	56.2	38.4	20.4	25.2	35.5
Y-o-Y growth (%)	107.4	(31.7)	(47.0)	23.6	41.1
CEPS (INR)	63.7	47.5	28.7	34.1	45.4
Diluted PE (x)	6.2	9.0	17.0	13.7	9.7
Price/BV (x)	1.8	1.5	1.4	1.3	1.1
EV/Sales (x)	0.5	0.7	1.1	0.8	0.6
EV/EBITDA (x)	3.8	7.0	13.0	9.4	7.1
Dividend yield (%)	1.2	0.3	0.3	0.3	0.3



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
BL Kashyap & Sons Ltd	BUY	SP	H	C and C Construction	BUY	SO	L
Gammon India	BUY	SP	M	IRB Infrastructure	BUY	SO	L
IVRCL Infra	BUY	SO	L	Jaiprakash Associates	BUY	SU	H
Nagarjuna Construction Co	BUY	SO	L	Patel Engineering Ltd	BUY	SP	M
Simplex Infrastructures Ltd	REDUCE	SU	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



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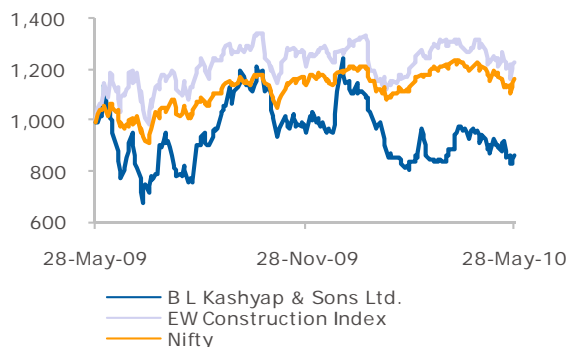
Coverage group(s) of stocks by primary analyst(s): Construction

C and C Construction, Gammon India, IRB Infrastructure, IVRCL Infra, Jaiprakash Associates, BL Kashyap & Sons Ltd, Nagarjuna Construction Co, Patel Engineering Ltd, Simplex Infrastructures Ltd

BL Kashyap & Sons Ltd



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169

* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	103	53	13

Recent Research

Date	Company	Title	Price (INR)	Recos
26-May-10	Nagarjuna Constr. Company	Strong performance, bright outlook; <i>Result Updtae</i>	162	Buy
24-May-10	Jaiprakash Associates	Strong value proposition; <i>Company Update</i>	118	Buy
18-May-10	Gammon India	Steady performance; <i>Result Update</i>	198	Buy

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