

## BL Kashyap and Sons

### Foreseeing a rebound

After facing significant headwinds over the past two years due to a slump in the domestic real estate market, BL Kashyap and Sons (BLK) is targeting healthy growth for FY11. Though the company expects to end FY10 with a topline of Rs 10.5bn and earnings of Rs 400mn - a 28% and a ~45% YoY decline - it is confident of a turning a corner in FY11 due to its strong order book position of Rs 24bn. Moreover, it has additional L1 orders worth Rs 5bn (of which Rs 2.3bn are civil work related NTPC's order to be announced in the next one month). Consequently, BLK is aiming for 70% growth in its FY11 topline to Rs 17bn.

**Robust order book of Rs 24bn:** BLK, along with its subsidiaries, executes residential/commercial construction and infrastructure development projects in India. The company's current order book stands at Rs 24bn or 2.3x its FY10 revenues. This apart, BLK has L1 orders of Rs 5bn in its kitty; of these, it expects to secure orders worth Rs 2.3bn relating to civil work from NTPC in the next one month.

**Annual order inflows of Rs 20bn-25bn:** In the current year, BLK has received orders of Rs 16bn so far; it is confident of taking this number to Rs 20bn-25bn for FY11, thus ensuring strong revenue visibility, going ahead. The order accretion would be led by the residential and commercial construction segment and supported by the company's entry into the infrastructure segment.

**Management buoyant on growth:** For 9MFY10, BLK's revenues and profits stood at Rs 7.2bn and Rs 276mn respectively; the company aims to end the year with a topline of Rs 10.5bn and bottomline of Rs 400mn. The current order book of Rs 24bn includes orders worth Rs 17bn with an execution timeline of 12-14 months; hence, after two bad years, the company hopes to clock a revenue growth of 60-70% and an EBITDA margin of 8.5-9% (for its current order book) in FY11.

**Monetisation of Soul Space:** Till date, BLK has invested Rs 2.5bn in Soul Space, its real estate arm in which it holds a 98% stake. BLK hopes to unlock value from its subsidiary by selling land at Pune and obtaining refundable deposits from joint development partners for projects that it intends to shelve. In this manner, the management hopes to realise Rs 1.2bn over the next 12 months from Soul Space.

**Valuation:** The stock is currently trading at a P/E of 17.9 FY10E and 10.6FY11E (management) expected earnings. We do not have any rating on the stock.

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 348	NA	NOT RATED	NA

BSE	NSE	BLOOMBERG
532719	BLKASHYAP	KASH IN

#### Company data

Market cap (Rs mn / US\$ mn)	7,149 / 157
Outstanding equity shares (mn)	21
Free float (%)	28.9
Dividend yield (%)	0.3
52-week high/low (Rs)	516 / 86
2-month average daily volume	47,622

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
BLK	348	12.9	(4.0)	0.5
Sensex	16,441	(1.2)	9.5	38.4

#### Valuation matrix

(x)	FY06	FY07	FY08	FY09
P/E @ CMP	12.7	6.4	6.2	9.1
EV/EBITDA @ CMP	18.6	9.6	4.8	6.8

#### Financial highlights

(Rs mn)	FY06	FY07	FY08	FY09
Revenue	4,655	8,081	15,427	14,572
Growth (%)	48.8	73.6	90.9	(5.5)
Adj net income	282	556	1,153	781
Growth (%)	137.2	97.4	107.4	(32.3)
FDEPS (Rs)	27.4	54.1	56.1	38.0
Growth (%)	116.9	97.4	3.7	(32.3)

#### Profitability and return ratios

(%)	FY06	FY07	FY08	FY09
EBITDA margin	10.2	11.4	11.9	8.9
EBIT margin	9.3	10.2	10.9	7.6
Adj PAT margin	6.1	6.9	7.5	5.4
ROE	21.6	20.6	33.1	17.8
ROIC	34.7	27.5	27.5	16.6
ROCE	20.1	17.7	26.9	15.2





**A subdued FY09 and FY10:** BLK's turnover in FY09 aggregated Rs 14.7bn, down 5% as compared to the preceding year. The EBITDA margin for FY09 dipped 300bps YoY to 8.9%, mainly because some projects incurring mobilisation expenses did not see concomitant revenue booking. Also, a one-time staff cost from salary hikes and employee severance packages cramped margins. Net profit for the year slumped ~32% to Rs 780mn mainly due to lower revenues and margin pressure.

The management also expects to end FY10 with lower revenues of Rs 10.5bn (down 28% YoY) and profits of Rs 400mn (down ~45%). The management attributes this decline to two factors (a) the company's decision to go slow on certain projects that were facing payment issues and (b) the severe industry-wide liquidity crunch.

**Fig 1 - Subdued financial performance for FY10 so far**

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ	FY09	9M FY10	9M FY09	% Chg YoY
Net sales	2,728	3,575	(23.7)	2,401	13.6	14,572	7,254	11,760	(38.3)
Expenditure	2,504	3,254	(23.0)	2,195	14.1	13,278	6,658	10,515	(36.7)
Operating profit	224	321	(30.4)	206	8.6	1,295	596	1,245	(52.1)
Other income	88	30	199.5	88	(0.1)	252	264	147	80.0
Interest	106	54	94.4	116	(8.9)	190	312	129	142.6
Depreciation	44	48	(9.1)	43	2.1	188	128	140	(9.1)
PBT	163	249	(34.6)	136	19.9	1,169	421	1,123	(62.5)
Tax	55	87	(36.2)	46	20.4	396	145	357	(59.5)
<b>PAT</b>	<b>107</b>	<b>162</b>	<b>(33.7)</b>	<b>90</b>	<b>19.7</b>	<b>781</b>	<b>276</b>	<b>766</b>	<b>(63.9)</b>
EBITDA margin (%)	8.2	9.0	(80 bps)	8.6	(40 bps)	8.9	8.2	10.6	(240 bps)
EPS (Rs)	5.2	7.9	(33.7)	4.4	19.7	38.0	13.5	37.3	(63.9)

Source: Company, RHH

**Fig 2 - Comparative valuations**

Company	CMP	Order book (Rs bn)	P/E (x)		EBITDA margins (%)				PAT margin (%)				ROE (%)			
			FY10E	FY11E	FY08	FY09	FY10E	FY11E	FY08	FY09	FY10E	FY11E	FY08	FY09	FY10E	FY11E
MAN Infra	252**	20.2	11.5	NA	22.7	25.5	31.7*	NA	13.6	14.7	18.6*	NA	24.9	30.5	28 annualised	NA
Ahluwalia Cont	203	34.0	13.6	11.0	12.1	12.3	12.5	12.5	5.9	4.8	6.1	5.9	50.5	37.9	42.5	36.0
CCCL	77	36.4	14.8	11.7	9.4	6.6	8.7	8.8	6.0	4.0	4.8	4.9	27.7	15.0	17.2	19.5
BL Kashyap	348	24.0	17.9	10.6	11.9	8.9	8.4	8.5	7.5	5.4	3.8	4.5	33.1	17.8	8.0	12.3

Source: Company, Bloomberg, RHH \*for 9MFY10 reported

\*\* IPO price



## Standalone financials

### Profit and Loss statement

Y/E March (Rs mn)	FY06	FY07	FY08	FY09
<b>Revenues</b>	<b>4,655</b>	<b>8,081</b>	<b>15,427</b>	<b>14,572</b>
Growth (%)	48.8	73.6	90.9	(5.5)
<b>EBITDA</b>	<b>476</b>	<b>924</b>	<b>1,842</b>	<b>1,295</b>
Growth (%)	93.9	94.2	99.5	(29.7)
Depreciation & amortisation	43	99	156	188
EBIT	433	824	1,687	1,106
Growth (%)	98.6	90.3	104.7	(34.4)
Interest	41	50	161	190
Other income	33	80	219	244
EBT	425	854	1,744	1,177
Income taxes	143	298	591	396
Effective tax rate (%)	33.7	34.9	33.9	33.6
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	282	556	1,153	781
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>282</b>	<b>556</b>	<b>1,153</b>	<b>781</b>
Growth (%)	137.2	97.4	107.4	(32.3)
Shares outstanding (mn)	10.3	10.3	20.5	20.5
<b>FDEPS (Rs) (adj)</b>	<b>27.4</b>	<b>54.1</b>	<b>56.1</b>	<b>38.0</b>
Growth (%)	116.9	97.4	3.7	(32.3)
DPS (Rs)	3.0	3.5	4.0	1.0

### Cash flow statement

Y/E March (Rs mn)	FY06	FY07	FY08	FY09
Net income + Depreciation	324	656	1,309	970
Non-cash adjustments	142	1,004	530	1,040
Changes in working capital	(402)	(1,236)	(1,740)	(1,253)
Cash flow from operations	64	423	100	757
Capital expenditure	(267)	(368)	(720)	(219)
Change in investments	(1,378)	(32)	855	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(1,646)	(400)	134	(219)
Issue of equity	2,032	-	-	-
Issue/repay debt	-	-	-	-
Dividends paid	(111)	(35)	(42)	(24)
Other financing cash flow	(80)	1	-	-
Change in cash & cash eq	261	(11)	192	514
Closing cash & cash eq	396	385	577	891

### Economic Value Added (EVA) analysis

Y/E March	FY06	FY07	FY08	FY09
WACC (%)	15.0	15.3	14.0	13.1
ROIC (%)	34.7	27.5	27.5	16.6
Invested capital (Rs mn)	1,207	2,700	5,400	7,965
EVA (Rs mn)	238	329	734	279
EVA spread (%)	19.7	12.2	13.6	3.5

### Balance sheet

Y/E March (Rs mn)	FY06	FY07	FY08	FY09
Cash and cash eq	396	385	577	891
Accounts receivable	882	1,979	2,991	4,392
Inventories	576	1,158	2,588	2,395
Other current assets	431	1,126	2,229	2,795
Investments	1,405	1,454	673	673
Gross fixed assets	557	921	1,640	1,860
Net fixed assets	428	700	1,264	1,330
CWIP	-	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(16)	(20)	(26)	(26)
Other assets	64	47	32	-
<b>Total assets</b>	<b>4,165</b>	<b>6,830</b>	<b>10,327</b>	<b>12,449</b>
Accounts payable	645	1,110	1,982	-
Other current liabilities	613	1,324	1,944	3,593
Provisions	270	508	1,212	1,500
Debt funds	195	932	1,177	2,600
Other liabilities	-	-	-	-
Equity capital	103	103	103	103
Reserves & surplus	2,339	2,852	3,910	4,667
Shareholder's funds	2,442	2,955	4,012	4,770
<b>Total liabilities</b>	<b>4,165</b>	<b>6,830</b>	<b>10,327</b>	<b>12,449</b>
BVPS (Rs)	237.7	287.7	195.3	232.2

### Financial ratios

Y/E March	FY06	FY07	FY08	FY09
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	10.2	11.4	11.9	8.9
EBIT margin	9.3	10.2	10.9	7.6
Net profit margin	6.1	6.9	7.5	5.4
ROE	21.6	20.6	33.1	17.8
ROCE	20.1	17.7	26.9	15.2
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	58	65	59	92
Inventory (days)	57	76	89	68
Payables (days)	85	77	73	27
Current ratio (x)	1.8	1.9	2.1	2.9
Quick ratio (x)	1.0	1.0	0.9	1.5
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	11.0	10.9	12.0	8.3
Total asset turnover	1.7	1.5	1.8	1.3
Interest coverage ratio	10.6	16.6	10.5	5.8
Adjusted debt/equity	0.1	0.3	0.3	0.5
<b>Valuation ratios (x)</b>				
EV/Sales	10.3	5.9	3.1	3.3
EV/EBITDA	101.0	52.0	26.1	37.1
P/E	12.7	6.4	6.2	9.1
P/BV	1.5	1.2	1.8	1.5



### Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	3,575	2,840	2,126	2,401	2,728
YoY growth (%)	(11.9)	(38.5)	(86.2)	(42.0)	(32.5)
QoQ growth (%)	(11.6)	(20.6)	(25.1)	12.9	13.6
EBITDA (Rs mn)	321	77	126	163	180
EBITDA margin (%)	9.0	2.7	5.9	6.8	6.6
Adj net income (Rs mn)	162	22	79	90	107
YoY growth (%)	(36)	(94)	(93)	(75)	(56)
QoQ growth (%)	(33)	(86)	257	13	20

### DuPont analysis

(%)	FY06	FY07	FY08	FY09E
Tax burden (Net income/PBT)	66.3	65.1	66.1	66.4
Interest burden (PBT/EBIT)	98.1	103.6	103.4	106.4
EBIT margin (EBIT/Revenues)	9.3	10.2	10.9	7.6
Asset turnover (Revenues/Avg TA)	169.9	147.0	179.8	128.0
Leverage (Avg TA/Avg equity)	210.4	203.7	246.2	259.3
<b>Return on equity</b>	<b>21.6</b>	<b>20.6</b>	<b>33.1</b>	<b>17.8</b>

### Company profile

Founded in 1978 and promoted by the Kashyap family, BL Kashyap and Sons, together with its subsidiaries, engages in residential and commercial construction as well as infrastructure development in India. Based out of New Delhi the company provides construction solutions and services in various sectors, such as factories and manufacturing facilities, IT campuses, commercial and residential complexes, schools and colleges, retail malls and multiplexes, hotels and hospitals.

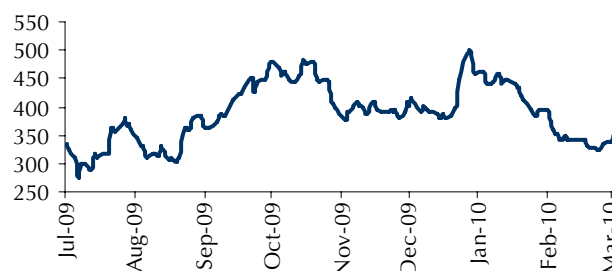
### Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	71.1	71.1	71.1
FII's	13.5	14.4	15.1
Banks & FI's	5.6	4.8	6.0
Public	9.8	9.7	7.8

### Recommendation history

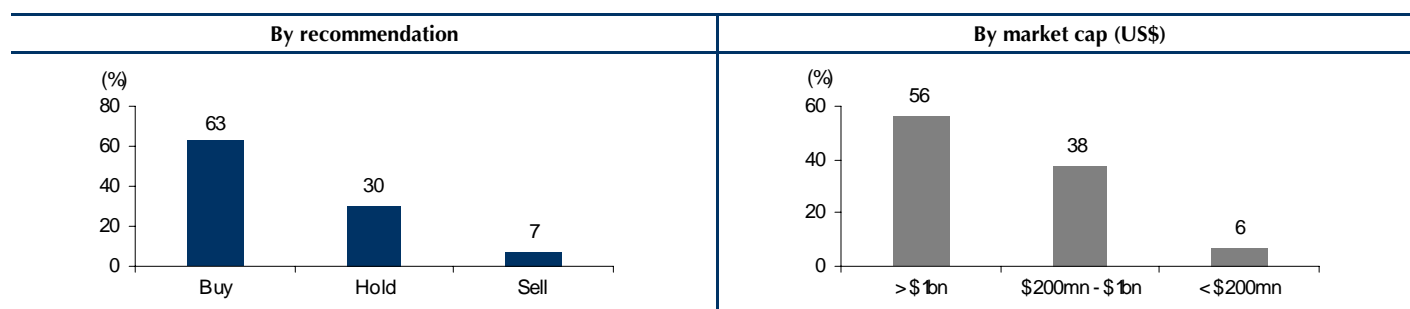
Date	Event	Reco price	Tgt price	Reco
31-Jul-09	Visit Note	369	NA	NA
8-Mar-10	Company Update	348	NA	NA

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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