The Front Page

February 19, 2008

What's Inside: Infotech Enterprises (BUY), B L Kashyap (BUY)

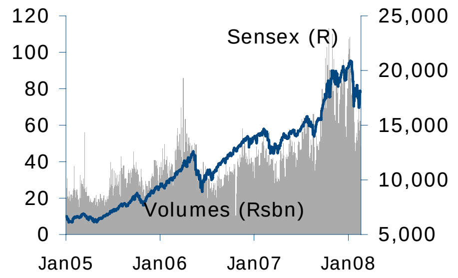
Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	18,048	(0.4)	(11.0)
Nifty	5,277	(0.5)	(14.0)
BSE Smallcap	9,755	1.4	(26.9)
CNX Midcap	7,220	0.1	(21.5)
Nasdaq	2,322	(0.5)	(12.5)
DJIA	12,348	(0.2)	(6.9)
IBOV	62,801	2.5	(1.7)
FTSE	5,947	2.7	(7.9)
CAC	4,862	1.9	(13.4)
Turnover		**US$m**	**% Chg**
BSE		1,211	(22.6)
NSE		2,745	(23.1)
Derivatives (NSE)		8,174	(24.0)
FII F&O (US$m)		**Index**	**Stocks**
Net buying		17	6
Open interest		9,192	7,297
Chg in open int.		167	62
Equity Flows (US$m)	**Latest**	**MTD**	**YTD**
FII (15/2)	285	763	(3,508)
MF (15/2)	41	(75)	1,836

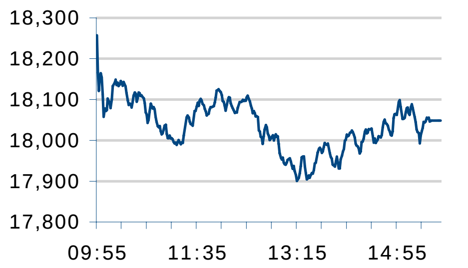
ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	117.1	0.6	(0.2)
Reliance	128.5	(0.6)	0.2
Infosys	41.2	(0.9)	5.4
Satyam	26.2	2.7	22.3
Wipro	11.5	(2.1)	10.7
ICICI Bank	59.4	2.0	(2.2)
SBI	116.3	(0.6)	2.6
ITC	5.3	3.5	1.2
Commodities	**Latest**	**%Chg**	**%YTD**
Gold (US$/ounce)	907	(0.2)	8.8
Crude (US$/bl)	95	0.1	1.4
Aluminium (US$/MT)	2,796	(0.6)	19.0
Copper (US$/MT)	7,945	1.8	19.0
Forex Rates	**Closing**	**% Chg**	**%YTD**
Rs/US$	39.7	0.0	0.6
Rs/EUR	58.2	0.1	0.2
Rs/GBP	77.8	(0.4)	(1.2)
Bond Markets		**Closing**	**bps Chg**
10 yr bond		7.6	4.0
Interbank call		8.1	200.0

Charts Front Page

Sensex price volume trend



Sensex intraday



Corporate Front Page

- **M&M** and a unit of Italy's Finmeccanica are planning an Rs500mn JV to develop underwater defence systems for India. (ET)
- **NTPC** may partner MCX's power exchange. (Mint)
- **Reliance Industries** has completed 94% of drilling for production of natural gas from its eastern offshore KG-D6 block in Q3 CY08. (ET)
- **Reliance Industries** is in advanced talks with the New York based Vornado Realty Trust to float an over US$1bn fund. (ET)
- **IOC** along with **HPCL** and **BPCL** would be importing an additional 73,000 ton LPG during February-March 2008. (DNA)
- **ONGC** has been registered with Iraqi authorities for tenders to develop the world's third-largest oil reserves. (Mint)
- **Bharti Airtel** has overtaken **Bharat Sanchar Nigam Ltd** as the largest national long distance service provider in terms of revenue. (BL)
- **Tata Power** has tied up with European major Thales to offer optronics solutions for India's multi-role combat aircraft and other air-borne platforms. (BS)
- **L&T** has won an Rs12.5bn turnkey fast track project from ONGC. (DNA)
- **ONGC** has lined up Rs150bn to revamp its old equipment. (BS)
- **Indiabulls** has entered the aviation sector with the launch of chartered aviation services this month. (BS)
- **BHEL** has secured an Rs6.5bn order for setting up a 300-MW gas turbine-based power plant in Libya. (BL)
- **Coal India** plans to float a global tender for private participation in development, operation and maintenance of eight coal blocks on a long-term basis, by end-February. (BL)
- **Coal India** may enter into fuel supply agreements with consumers beginning March this year. (BL)
- **Reliance Industries** has accused the petroleum ministry of violating Parliament approved norms for oil and gas exploration in the country by proposing new guidelines that it said reduced operational flexibility. (BS)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Dish TV India	71	18.9	-30.7	Ansal Properties	216	-7.6	-49.1
Wire And Wireless	53	12.5	-46.5	Amtek Auto	298	-6.6	-30.0
Praj Industries	190	12.2	-21.0	NIIT	120	-6.1	-49.2
Bajaj Hindusthan	265	10.0	-7.2	Gateway Distr.	108	-5.8	-33.9
Great Eastern Ship	425	8.0	-23.8	Jindal Stainless	154	-5.6	-34.3

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Kalpataru Power	1285	859	10	3	230
Pantaloon Retail	556	2,115	119	40	196
Dish TV India	71	766	2,493	934	167
Praj Industries	190	876	903	364	148
Indian Hotels	132	2,007	863	356	142
Sesa Goa	3335	3,310	86	39	119
Titan Inds	1150	1,287	77	35	119
Bharat Forge	304	1,708	77	41	88
NIIT	120	178	254	138	84
Amtek Auto	298	1,006	99	54	83

FII - FII trades

Scrip	2/15/2008			2/18/2008		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Tata steel	722	844	5.0	661	857	5.0
Sbi	110	2,415	8.0	130	2,467	9.5
Grasim inds	135	2,840	1.0	146	2,826	2.0
Sesa goa	32	3,345	5.0	37	3,550	6.0
Andhra bank	-	-	-	7	94	2.0
Iob	1,097	177	2.0	-	-	-
Union bank	-	-	-	50	204	3.0
Obc	950	284	5.0	950	284	5.0

Corporate Front Page

- **Reliance Communications** has added 1.6mn mobile subscribers in January, taking its user base to 42.6mn. (ET)
- **Unitech** is developing 97 acres under slum redevelopment project worth Rs19bn near the Vakola flyover. (DNA)
- **TVS Motor** is exploring LPG and CNG two-wheelers. (BS)
- **United Phosphorus** has acquired Colombia-based Evofarms Group of Companies, a generic product marketing company in the crop protection industry, for an undisclosed amount. (BS)
- **Hindalco** and **Nalco** have raised aluminium prices by Rs8,000 a ton. (Mint)
- **Polaris Software** plans to enter six new markets with its banking software products. (ET)
- **Everest Kanto Cylinders** is acquiring a US company for ~US$70mn. (DNA)

Economy Front Page

- The Finance Ministry has announced that fertilizer bonds for Rs36bn are being issued at par to 23 fertilizer companies. (BL)
- Banks will now have to make withdrawals from ATMs free of charge for their own customers. Requests for balance enquiries would have to be made free to customers of other banks as well. (BL)
- Payments of Rs10mn and above between banks, NBFCs, primary dealers and any other entities regulated by the RBI may be allowed only through electronic mode from April 1. (BL)
- The Union government has cleared seven projects, estimated to fetch a combined investment of about US$7bn over the next 10 years to the “Fab City” project in Hyderabad. (BS)
- Negotiations for iron ore prices for the financial year beginning April 1 began at 30% higher and it appears that it would be more than 65%. (BS)

Infotech Enterprises - BUY

INFTC IN	Rs240	IT Services	19 Feb 2008	Initiating coverage

Gear up

Infotech Enterprises's (IE) engineering, manufacturing and industrial vertical is experiencing secular growth in demand. We believe the buoyancy in new aircraft orders and breakthrough product launches by IE's major clients would drive sustained growth in the company's revenues. Further, Infotech enjoys an early-mover advantage to tap into defence offset contracts, by virtue of its JV with the state-owned Hindustan Aeronautics Ltd (HAL). Poor SEZ planning and relatively low growth in the geospatial business are likely dampeners. Nevertheless, we believe the current valuations (<10x FY10ii EPS) do not reflect the potential revenue growth and margin expansion. BUY for a 36% upside.

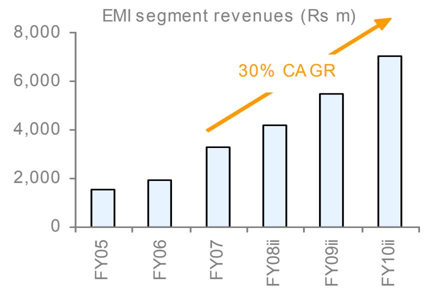
High growth from Engineering, Manufacturing and Industrial (EMI) vertical: The EMI vertical accounts for 63% of IE's revenues (as of 9mFY08). Demand in this segment is set for strong growth on the back of a secular demand upswing in aircraft-related engineering services. IE is well-positioned to tap this opportunity, by virtue of its growing relationships with Boeing, Airbus and long-standing association with Pratt & Whitney, among others. Further, the growing demand for technical documentation represents an untapped business opportunity.

Early-mover advantage. India's offset policy stipulates that at least 30%-worth of its civil and defence aircraft purchases should be sourced domestically. IE's new JV with HAL gives it a head start in competing for lucrative turnkey contracts. The recent aviation deals inked by the government put the total purchase value at US$80bn and offset value at US$40bn.

Valuations do not reflect potential revenue growth and margin expansion. With improved business conditions at clients (better revenue visibility from TeleAtlas; Pratt & Whitney secured its largest-ever order) and potential business opportunities in marine-related services, we believe Infotech has embarked on a sustainable revenue growth trajectory. We believe potential growth in earnings is not yet reflected in valuations (<10x FY10 PE). BUY for a 36% upside.

Secular demand upswing:

- Robust 30%+ revenue growth in EMI vertical (63% of IE's 9mFY08 revenues)
- ~7% offshore rate hikes to result in margin expansion



Source: Company, IIFL Research

Financial Summary

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenues (Rs m)	3,625	5,425	6,749	8,793	10,831
YoY (%)		49.7	24.4	30.3	23.2
EBITDA Margins (%)	18.1	20.9	18.3	20.0	21.0
Reported PAT (Rs m)	503	837	908	1,250	1,425
EPS (Rs)	11.0	18.1	16.7	23.0	26.2
YoY (%)		65.2	-8.0	37.7	14.0
PER (x)	**21.8**	**13.2**	**14.4**	**10.4**	**9.2**
ROE (%)	23.7	28.5	13.4	15.7	15.3
EV/EBITDA (x)	16.2	9.3	7.7	5.3	3.9
Price/Book (x)	**5.2**	**3.8**	**1.9**	**1.6**	**1.4**

Price as at close of business on 18 February 2008

12-mth Target price (Rs) 325 (36%)

Market cap (US$ m)	**313**
52Wk High/Low (Rs)	405/230
Diluted o/s shares (m)	52
Daily volume (US$ m)	0.2
Dividend yield FY08ii (%)	0.5
Free float (%)	75.0

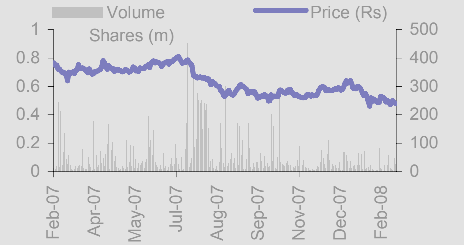
Shareholding pattern (%)

Promoter	25.0
FII/Foreign collaborators	44.4
Domestic MF	13.7
Others	16.9

Price performance (%)

	1M	3M	1Y
Infotech	-4.3	-9.9	-35.9
Rel. to Sensex	0.8	-1.9	-63.1
Infosys	11.7	-0.7	-32.4
TCS	2.3	-11.0	-32.9
Wipro	-5.7	-7.6	-37.1

Stock movement



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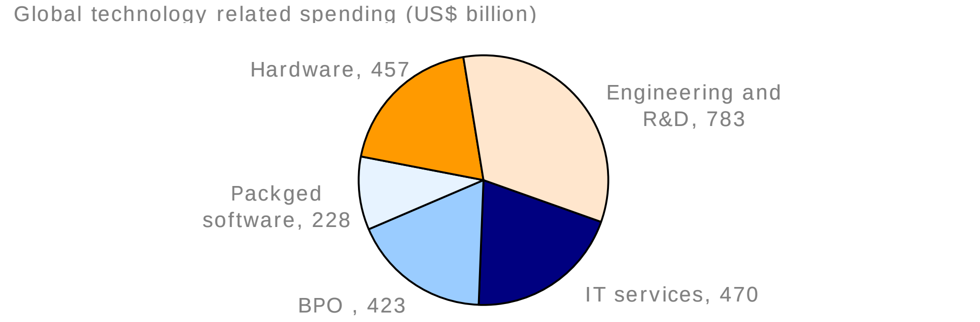
EMI in high-growth mode

Worldwide spend on IT services and BPO is estimated at ~US$1trn (source: Nasscom). Indian IT services firms have tapped this market with great success; but penetration into the ~US$800bn market for engineering and R&D services remains modest. Given the relatively high level of confidentiality involved, it could take a long time before they win large projects (including turnkey contracts). On the other hand, design testing, prototyping, stress-testing and documentation are increasingly outsourceable.

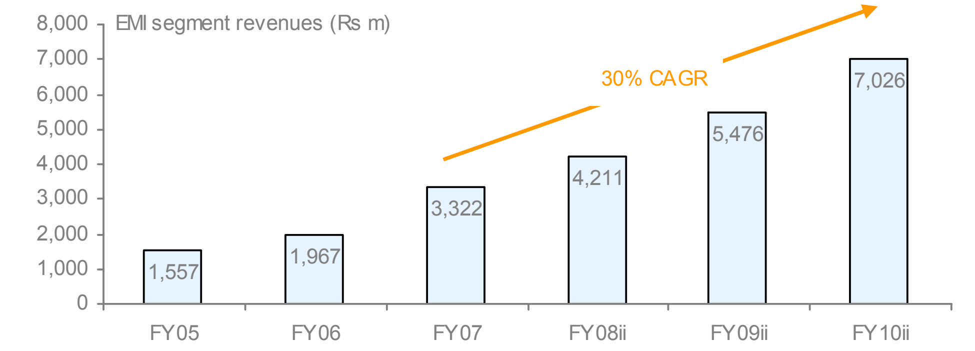
Figure 1: Engineering and R&D represent a ~US$800bn, largely untapped market



Source: Nasscom, IIFL Research

IE has been offering services in this domain for over 10 years, mainly in sub-component design, materials/design testing and technical publications. The company's revenues from the EMI vertical have been growing faster than aggregate revenues. This vertical accounted for 63% of IE's revenues in 9mFY08. Given the secular demand upswing, we expect a 30% revenue CAGR in this vertical over FY07-FY10ii.

Figure 2: We expect 30% revenue CAGR in EMI division



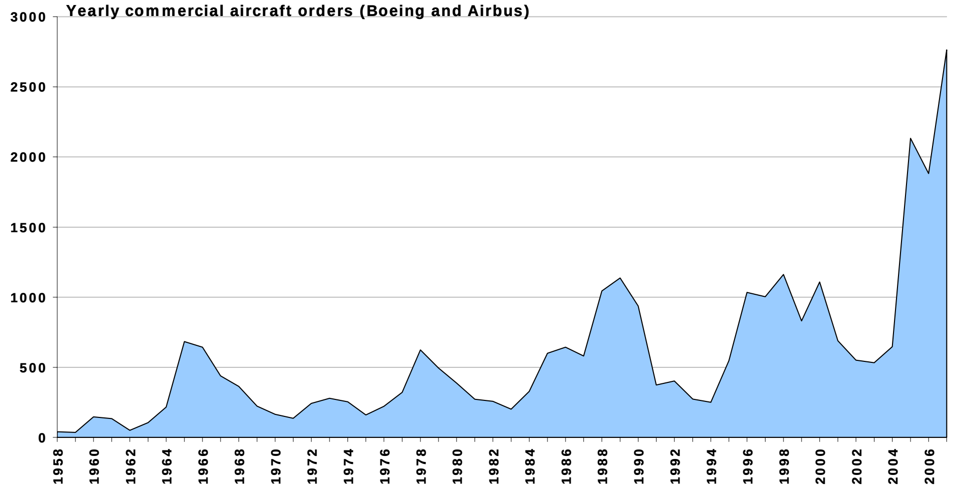
Source: Company, IIFL Research

Our optimism rests on: 1) recent strong growth in aircraft and allied industries; 2) growing demand for technical documentation; 3) relatively better performance of large clients such as TeleAtlas and Pratt & Whitney; 4) IE's entry into new segments such as marine-oriented services; 5) potential gains from commercial and military offset contracts.

Boom in aircraft-related services

Nearly 15% of IE's staff is engaged in aeronautics-related services for clients that include Pratt & Whitney, Lockheed Martin, Boeing and Airbus. This segment is witnessing a resurgence on the back of the boom in the commercial aircraft industry.

Figure 3: Orders for new aircraft are at multi-decade highs



Source: Boeing, Airbus, IIFL Research

Boeing, in whose projects about 12% of IE's staff is engaged, is likely to deliver its breakthrough 787 Dreamliner aircraft to All Nippon Airways in early 2009. This would be Boeing's first major commercial launch in nearly 15 years. IE has a long-standing relationship with Boeing, which we believe positions it to win a substantial amount of work related to the new plane. Outsourced work includes seating design for new customers and testing/design of subcomponents at a later stage.

IE's relationship with Boeing started with a project in which IE significantly reduced the complexity of Boeing's diode-pack assembly. After getting the contract from another Boeing subcontractor, Infotech was able to reduce the number of components in this assembly by ~65%, which resulted in substantial cost savings for Boeing.

Figure 4: Boeing's major product launches

Aircraft	Seats	First delivery	First customer
737	85-215	December 1967	Lufthansa
747	85-660	December 1969	Pan American Airways
767	180-375	August 1982	United Airlines
777	301-550	May 1995	United Airlines
787	226-266	Early 2009 (expected)	All Nippon Airways

Source: Press reports, IIFL Research

Additionally, Airbus launched its double-decker Airbus A380 around end-2007. This is Airbus's first major launch in nearly 14 years and competes with Boeing's Dreamliner. IE undertakes work for Airbus as well, and can thus expect significant contracts for subsequent design and testing.

Technical documentation: strong revenue growth, margin expansion

While demand for technical documentation in the US is increasing (given rising efficiency of prototype testing, regulatory concerns, etc), supply of engineering talent remains scarce in that country. Furthermore, the need to cut incremental testing costs is opening up this lucrative market for offshoring. We believe IE would be a key beneficiary of this opportunity, by virtue of its close relationship with aircraft majors such as Boeing, Pratt & Whitney and Airbus.

That Boeing employs nearly 2,500 technical documentation staff—about 35% of IE's total headcount—is a measure of the opportunity in this segment. Besides, technical documentation once written can often be reused in other projects, which implies substantial margin expansion after a body of documentation has been built up.

Defence offset contracts: the next big thing?

The government of India, as part of its thrust on upgrading its civil and defence aircraft, is in the process of signing import contracts with major internal aircraft/defence equipment manufacturers. The offset policy stipulates that, for any order worth more than Rs3bn, at least 30% of the purchase value of goods should be sourced domestically. The potential is huge, given that already-inked deals alone put the offset opportunity at ~US$40bn.

Figure 5: Notable offset deals

Buyer	Manufacturer	Fleet size	Deal size (US$ bn)	Offset %	Offset value (US$ bn)
Air India	Boeing	68	6.7	30%	2.0
Indian	Airbus	43	2.7	40%	1.1
Defence	Eurocopter	200	20	50%	10.0
Defence	Multiple vendors	126	50	50%	25.0
Total			**79.4**	**48%**	**38.1**

Source: IIFL Research; Media sources

While most of the offset contracts by value are likely to go to component manufacturers, IT firms expect to get business worth 20% of the offset value.

JV with HAL gives IE a first-mover advantage

IE's expertise in services related to aircraft component design position it favourably to win these offset contracts. Further, its JV with the state-owned Hindustan Aeronautics Ltd (HAL)—the first of its kind—gives it a head start over its competitors in this space. About 200 of IE's staff are currently working in the JV.

Initial orders are likely to be redesign-oriented projects with phased confirmation from customers. As processes mature, we expect the JV to take on increasingly complex projects. Potential revenues from component manufacturing could further boost growth.

Rate hikes from major clients indicate higher value addition

According to IE's management, the company's top two clients have given the company offshore rate increases of 7%—indicating higher value-addition in IE's services. The rate hike from the second-largest client came through in the previous quarter and that from the largest client would be effective from the current quarter. We reckon these increases would result in substantial margin expansion.

Clients' improving business outlook translates into strong revenue visibility for IE

Revenue visibility from major clients is significantly better than it was in early 2007. Pratt & Whitney's new 'green' initiative seems to be paying off; it recently signed its biggest contract ever, to supply 'greener' engines for Cessna aircraft.

Figure 6: Pratt & Whitney wins the largest order in its history

Pratt & Whitney Canada has won the largest contract in the company's history, securing a multi-billion dollar deal to supply a new generation of lower-emission, more powerful jet engines for use in Cessna's new Citation Columbus business aircraft.

Source: Media sources

Geospatial business: revenue visibility remains strong

The acquisition of TeleAtlas by TomTom last year had raised concerns on visibility of revenues from TeleAtlas. TeleAtlas is IE's largest client in the Geospatial segment, accounting for 15% of IE's staff. Concerns over revenue visibility from this client have subsided, as the former continues to source substantial amounts of work from IE.

In addition to digitising maps for TeleAtlas, Infotech's geospatial division serves utilities, telecom and government sectors. The work primarily involves surveying and digitisation of spatial maps and associated features. While not as buoyant as the EMI segment, this business continues to enjoy a stable revenue stream by virtue of the annuity-like nature of the work involved. In addition, IE has lately been developing software tools to increase the value mix of these services. This may well lead to margin expansion in future.

Substantial cash on books to fund possible acquisitions

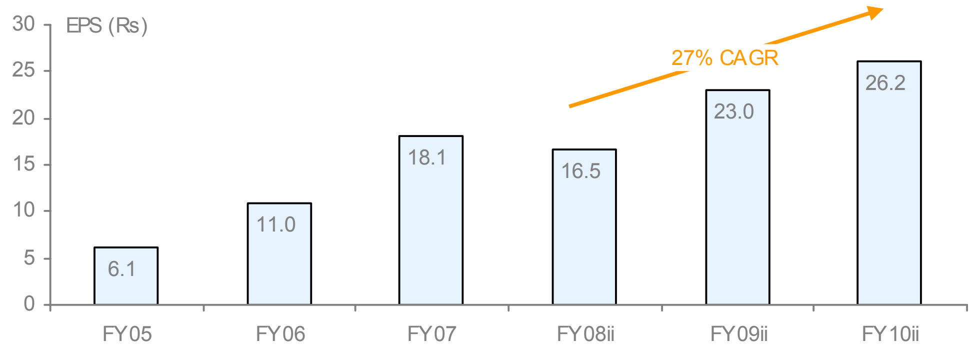
Following the capital-raising of US$75m by issuing equity/preference shares to GAP and Carrier, Infotech has been looking for potential acquisitions. This issue of ~8m equity/compulsorily-convertible preference share dilutes FY08ii EPS by ~18%.

The recent correction in stock prices favours potential acquirers such as IE. However, we are concerned over possible integration issues resulting from an acquisition.

Valuations do not factor in high revenue growth and margin expansion

Secular demand growth and margin expansion make IE an attractive stock. While rupee appreciation has caught the company by surprise during 1QFY08, subsequent hedging has offset the potential adverse revenue impact of rupee appreciation in the near term.

Figure 7: Strong growth in EPS



Source: IIFL Research

We believe revenue growth will remain strong at 27% CAGR till FY10ii and margins will expand by 280bps by FY10ii. High tax rates due to poor SEZ planning would dampen FY10 earnings. Even then, we believe IE is positioned to deliver 25%+ EPS CAGR over FY07-FY10ii. We initiate coverage with BUY and a target price of Rs325, which is based on a DCF and a PE of 12.5 on FY10ii (15% discount to IT sector leaders' PEs).

Financial summary

Strong EBITDA growth due to sustained revenue growth and margin expansion

Poor SEZ planning to adversely affect taxes

Raised Rs3bn of capital by way of equity/compulsorily convertible preference share issue during 2007

Income statement summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenue	3,625	5,425	6,749	8,793	10,831
EBITDA	658	1,135	1,236	1,759	2,274
EBIT	472	878	915	1,358	1,773
Other income	34	67	193	178	181
Exceptional items	0	0	0	0	0
Others	-9	-15	-18	-21	-26
Adj. Profit before tax	**497**	**930**	**1,090**	**1,515**	**1,928**
Taxes	-94	-186	-243	-344	-603
Minorities and other	101	93	61	80	100
Net profit	**503**	**837**	**908**	**1,250**	**1,425**

Cashflow summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Profit before tax	497	930	1,090	1,515	1,928
Depr. & amortization	186	257	321	401	501
Tax paid	-94	-186	-243	-344	-603
Working capital ∆	-288	-118	-363	-411	-410
Other items	101	93	61	80	100
Operating cashflow	401	975	866	1,240	1,516
Capital expenditure	-534	-686	-800	-900	-1,000
Free cash flow	**-133**	**290**	**66**	**340**	**516**
Equity raised	23	111	2,991	0	0
Investments	-78	-80	0	0	0
Debt financing/disposal	0	0	0	0	0
Dividends paid	-34	-52	-68	-68	-68
Other items	217	-113	0	0	0
Net change in cash	**-5**	**155**	**2,989**	**272**	**448**

Source: Company data, IIFL Research

Financial summary

High cash balances to be used for acquisitions

Balance sheet summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Cash & equivalents	385	736	3,725	3,997	4,445
Sundry debtors	1,488	1,845	2,192	2,855	3,517
Inventories - trade	1	0	0	0	0
Other current assets	0	0	0	0	0
Fixed assets	**808**	**1,257**	**1,737**	**2,236**	**2,734**
Intangible assets	0	0	0	0	0
Other term assets	178	259	259	259	259
Total assets	**2,861**	**4,097**	**7,911**	**9,346**	**10,955**
Short-term debt	0	0	0	0	0
Sundry creditors	525	681	834	1,087	1,339
Other current liabs	156	237	68	68	68
Long-term debt/CBs	57	238	246	246	246
Other long-term liabs	0	0	0	0	0
Minorities/other equity	0	0	0	0	0
Net worth	**2,124**	**2,940**	**6,762**	**7,945**	**9,302**
Total liabs & equity	**2,861**	**4,097**	**7,911**	**9,346**	**10,955**

Ratio analysis

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenue growth (%)		49.7	24.4	30.3	23.2
Op Ebitda growth (%)		72.5	8.9	42.3	29.3
Op Ebit growth (%)		86.0	4.2	48.4	30.6
Op Ebitda margin (%)	18.1	20.9	18.3	20.0	21.0
Op Ebit margin (%)	13.0	16.2	13.6	15.4	16.4
Net profit margin (%)	13.9	15.4	13.5	14.2	13.2
Tax rate (%)	23.8%	22.2%	23.6%	24.0%	33.0%
Net debt/equity (%)	-15.5	-16.9	-51.4	-47.2	-45.1
Net debt/op Ebitda (x)	-0.5	-0.4	-2.8	-2.1	-1.8
Return on equity (%)	23.7	28.5	13.4	15.7	15.3

Source: Company data, IIFL Research

Undeployed funds from capital-raising dampened RoE

B L Kashyap - BUY

KASH IN	Rs1598	Construction	19 Feb 2008	Company update

High rise

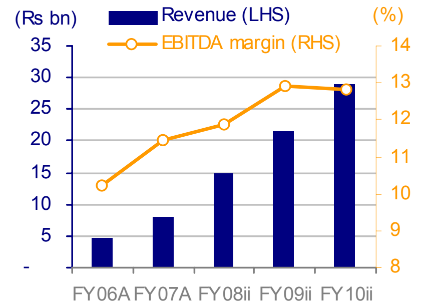
B L Kashyap (BLK), a Delhi-based contractor focussing on the buildings segment, has scaled up rapidly. Revenues have increased eightfold over the last four years, thanks to strong demand. Continued buoyancy in business conditions should drive 61% earnings CAGR over FY07-10ii. Factoring in the Rs11bn order won yesterday, order inflows for FY08 till date are above our estimate of Rs20bn for the year. This provides upside risk to our FY09 earning estimate. Lower capital intensity as compared to infrastructure contractors reduces dilution risk.

Large construction opportunity driven by real estate and industrial capex: B L Kashyap is focussed on industrial construction and buildings (commercial and residential). We estimate investment in these sectors will grow by 182% over FY07-12, compared with the previous five-year period. Unlike the infrastructure segment, where orders are awarded through cost-based bidding, the civil contracting business depends primarily on client relationships. BLK's strong relationships in these segments would drive revenue CAGR of 53% over FY07-10ii.

Net profit CAGR of 61% over FY07-10ii: The strong demand environment has resulted in a shortage of high-quality contractors like BLK. This would increase BLK's pricing power and reduce its risk from commodity-price increases. We estimate the company's EBITDA margin will expand by 140bps over FY07-10ii, translating into 61% earnings CAGR over the period.

Lower capital intensity reduces dilution risk: Unlike larger contractors who focus on long-duration infrastructure projects, BLK executes mainly shorter-cycle projects. Also, terms of trade have shifted in favour of building contractors, further reducing working-capital intensity. We forecast positive cash flows from operations over FY09-10ii, reducing the need for growth capital and hence, risk of dilution. Lower capital intensity also translates into better return ratios; we estimate BLK's ROE at ~30% over FY08-10, as compared to other mid-cap contractors' sub-20% returns.

53% revenue CAGR over FY07-10ii



Source: Company, IIFL Research

Financial summary

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenues (Rs m)	4,655	8,081	14,841	21,520	29,052
EBITDA Margins (%)	10.2	11.4	11.9	12.9	12.8
Reported PAT (Rs m)	282	557	1,118	1,737	2,321
EPS (Rs)	13.7	27.1	54.4	84.5	113.0
Growth (%)		97.8	100.6	55.4	33.6
PER (x)	**116.5**	**58.9**	**29.4**	**18.9**	**14.1**
ROE (%)	11.5	18.9	28.1	31.1	29.9
Debt/Equity (x)	0.1	0.3	0.3	0.3	0.3
EV/EBITDA (x)	68.6	36.1	18.5	11.8	8.7
Price/Book (x)	**13.4**	**11.1**	**8.2**	**5.9**	**4.2**

Price as at close of business on 18 February 2008

12-mth Target price (Rs) 2017 (26%)

Market cap (US$ m)	**824**
52Wk High/Low (Rs)	2198/517
Diluted o/s shares (m)	21
Daily volume (US$ m)	0.9
Dividend yield FY08ii (%)	0.2
Free float (%)	29.3

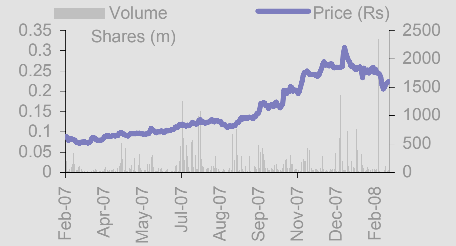
Shareholding pattern (%)

Government	70.8
FII	16.2
Domestic MF	5.7
Others	7.4

Price performance (%)

	1M	3M	1Y
B L Kashyap	-4.3	-9.1	161.0
Rel. to Sensex	6.2	-5.1	133.9
CCCL	-9.7	-5.8	NA
Maytas	-4.0	-26.7	NA
Sadbhav Eng	-14.0	-2.0	124.2

Stock movement



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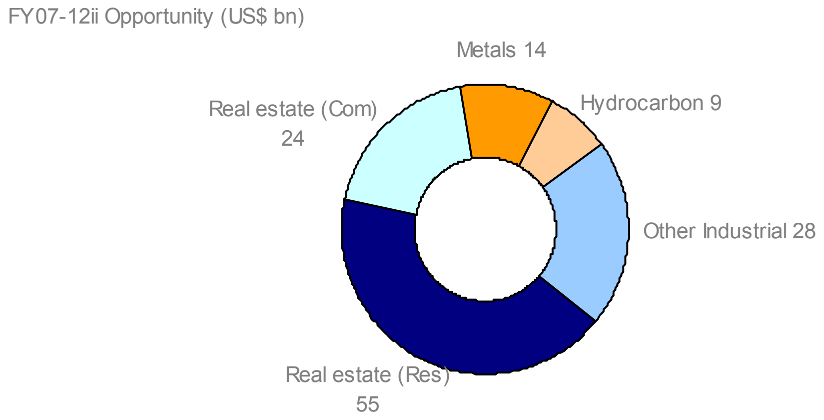
Large construction opportunity driven by real-estate and industrial capex: We estimate 2,000m sq ft high-end residential development and 750m sq ft commercial development over the next five years would drive continued order inflow momentum. Additionally, industrial capex over FY07-12ii (which we estimate at Rs202bn) provides significant growth opportunities for civil contractors. Unlike the infrastructure segment, where orders are awarded through cost-based bidding, the civil contracting business depends primarily on client relationships. BLK's client list includes several prominent industrial companies. BLK's proven execution capabilities would stand the company in good stead to win further orders. This huge construction opportunity should drive 53% revenue CAGR over FY07-10ii.

Figure 1: Large addressable market in real estate and industrial construction

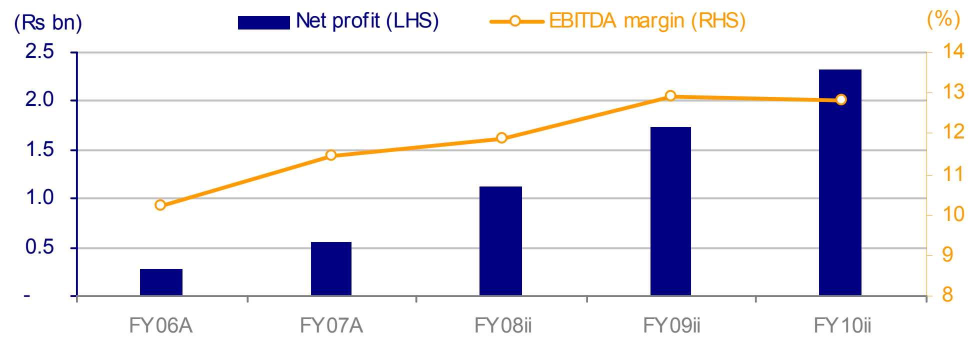


Source: IIFL Research

Strong order inflows continue: Yesterday, BLK announced it has won new building orders worth Rs11bn, to be completed over the next 20 months. Combined with the earlier inflows, this translates into total order flows of Rs21bn in FY08 so far—higher than our estimate of Rs20bn for FY08. The strong order inflow represents upside risks to our FY09 revenue and earning estimates.

Net profit CAGR of 61% over FY07-10ii: The strong demand environment has made civil contracting a seller's market for high-quality contractors like BLK. This would increase BLK's pricing power. Additionally, with price escalation clauses built into construction contracts, margins should be resilient to commodity-price increases. We estimate that BLK's EBITDA margin will expand by 140bps over FY07-10ii. Accordingly, we forecast 61% earnings CAGR over the period which would lead the 53% revenue CAGR over FY07-10ii.

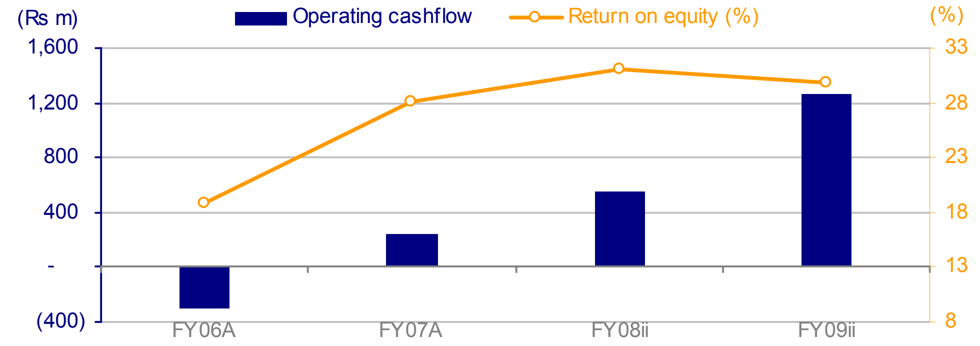
Figure 2: Net profit CAGR of 61% will lead revenue CAGR



Source: Industry, IIFL Research

Lower capital intensity reduces dilution risk: Unlike larger contractors who focus on long-duration infrastructure projects, BL Kashyap mainly executes shorter-cycle projects. Also, terms of trade have shifted in favour of building contractors, further reducing working-capital intensity. We forecast positive cash flows from operations over FY09-10ii, reducing the need for growth capital and hence dilution risk. Lower capital intensity translates into better return ratios as well. The company would enjoy much better ROEs (~30%) as compared to the larger contractors' ~20%.

Figure 3: Strong cash generation and high return ratios reduce dilution risks



Source: Company, IIFL Research

Avoidance of BOT projects reduces risk, but could limit growth opportunities: BL Kashyap has intentionally avoided BOT-based infrastructure projects because they involve large upfront investments and hence increase the need for continuous capital-raising. Also, long-gestation projects necessarily involve fairly high levels of risk. In contracting too, the company focuses on shorter-cycle projects. Avoiding BOT projects does reduce risk, but it would shut out significant growth opportunities. The company would also miss out on attractive value creation opportunities. Early entrants have enjoyed attractive IRRs in BOT projects, resulting in significant value creation despite the need for equity dilution.

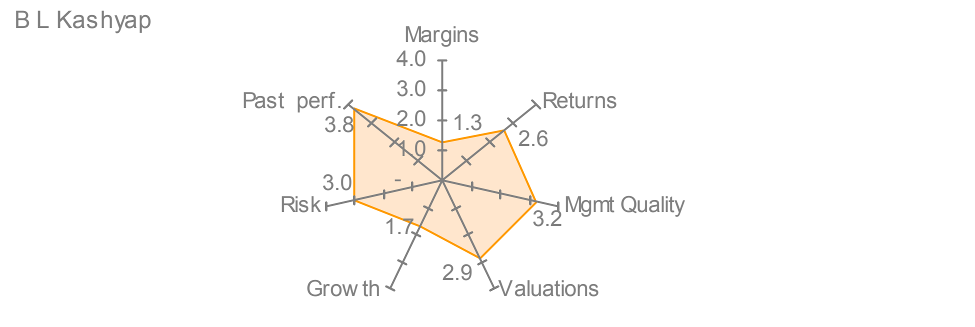
New forays look promising, but would take a while to take off: The Company has diversified into real-estate development through its 97.5% subsidiary Soul Space Projects Ltd (SSPL). SSPL's largest development is a residential township on ~150 acres of land in Bikaner (Rajasthan). Demand in this project would likely be subdued in the near term, as Bikaner is a Tier-III city that has attracted other larger players like Ansals as well. SSPL is also developing 1.3m sq ft of office space in Pune, Amritsar and Bangalore (SSPL's share is 63%, or 0.82m sq ft) under a joint-development agreement, wherein SSPL will incur the total construction cost. Recently, it also won a development contract for 10 acres of land on Old Madras road in Bangalore from Bhuwalka Steel Ltd; in this project, it has a share of 60% of the developed space.

BLK Lifestyle Ltd (BLKL) is involved in manufacturing of various fit-outs and furnishings used in residential and commercial projects. It has manufacturing facilities in Pune, Bangalore and Baddi. We believe the operations of BLK Lifestyle would take time to scale up.

Marquee Grid analysis

B L Kashyap scores highly on the Marquee Grid analysis. With an overall score of 2.6, it is the third-best contractor under our coverage. A strong performance, excellent management quality and low-risk model are the key positives. However, lack of exposure to the infrastructure sector limits growth prospects.

Figure 4: Marquee Grid score



Source: IIFL Research

Financial summary

53% revenue CAGR over FY07-10ii, driven by real estate and industrial construction

Low risk of dilution, thanks to higher ROE than other contractors

Income statement summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenue	4,655	8,081	14,841	21,520	29,052
EBITDA	476	924	1,765	2,777	3,719
EBIT	**433**	**824**	**1,627**	**2,612**	**3,491**
Interest expense	41	50	145	180	200
Others	33	80	230	240	280
Profit before tax	**425**	**854**	**1,712**	**2,672**	**3,571**
Taxes	143	298	594	935	1,250
Minorities and other	0	-1	0	0	0
Net profit	**282**	**557**	**1,118**	**1,737**	**2,321**

Cashflow summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Profit before tax	425	854	1,712	2,672	3,571
Depr. & amortization	43	99	139	165	227
Tax paid	-143	-298	-594	-935	-1,250
Working capital Δ	-332	-960	-1,018	-1,347	-1,290
Operating cashflow	-8	-304	239	555	1,259
Capital expenditure	-266	-364	-500	-600	-600
Free cash flow	**-274**	**-668**	**-261**	**-45**	**659**
Equity raised	2,056	0	0	0	0
Investments	-1,389	-49	954	0	0
Debt financing/disposal	-6	737	400	600	400
Dividends paid	-35	-42	-88	-128	-139
Other items	-61	12	47	0	0
Net change in cash	**291**	**-11**	**1,052**	**427**	**920**

Source: Company data, IIFL Research

Financial summary

Balance sheet summary (Rs m)

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Cash & equivalents	396	385	1,437	1,865	2,784
Sundry debtors	882	1,979	3,635	5,271	7,116
Inventories - trade	576	1,158	2,033	2,948	3,980
Other current assets	431	1,126	2,033	2,653	3,582
Fixed assets	**428**	**700**	**1,061**	**1,496**	**1,868**
Other term assets	1,469	1,502	500	500	500
Total assets	**4,181**	**6,850**	**10,700**	**14,733**	**19,830**
Sundry creditors	1,258	2,435	4,473	5,896	7,959
Other current liabs	270	508	890	1,291	1,743
Long-term debt/CBs	195	932	1,332	1,932	2,332
Other long-term liabs	16	20	20	20	20
Net worth	**2,442**	**2,955**	**3,985**	**5,594**	**7,776**
Total liabs & equity	**4,181**	**6,850**	**10,700**	**14,733**	**19,830**

Ratio analysis

Y/e 31 Mar	FY06A	FY07A	FY08ii	FY09ii	FY10ii
Revenue growth (%)	48.8	73.6	83.7	45.0	35.0
Op Ebitda growth (%)	93.9	94.2	91.1	57.3	33.9
Op Ebit growth (%)	98.6	90.3	97.4	60.6	33.6
Op Ebitda margin (%)	10.2	11.4	11.9	12.9	12.8
Op Ebit margin (%)	9.3	10.2	11.0	12.1	12.0
Net profit margin (%)	6.1	6.9	7.5	8.1	8.0
Dividend payout (%)	10.9	6.5	7.0	6.5	5.3
Tax rate (%)	33.7	34.9	34.7	35.0	35.0
Net debt/equity (%)	-8.3	18.5	-2.6	1.2	-5.8
Return on equity (%)	11.5	18.9	28.1	31.1	29.9
Return on assets (%)	6.7	8.1	10.4	11.8	11.7

Source: Company data, IIFL Research

Strong demand environment translates into higher pricing power

Return ratios higher than large contractors, due to lower working capital intensity

Key to IIFL recommendations:
BUY: Absolute return of > +10%
SELL: Absolute return of < -10%
Market Performer: Absolute return of -10% to +10%

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