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Initiating Coverage

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Stock details

BSE Code	532719
Bloomberg Code	KASH@IN
Market Cap (Rs bn)	13.3
Free Float (%)	29
52-wk Hi/Lo (Rs)	1592/749
Avg Daily Vol (BSE)	3194
Avg Daily Vol (NSE)	5084
Shares o/s (mn) FV Rs 10	10

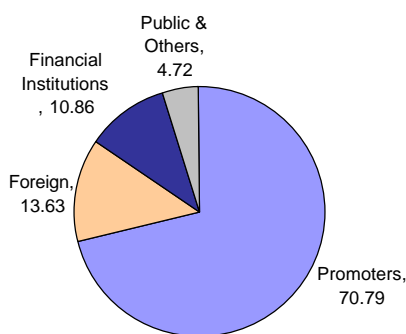
Source: Company Emkay Private Client Research

Summary table

Rs mn	FY06A	FY07E	FY08E
Sales	4655.2	8650.0	13200.0
Growth %	48.8%	85.8%	52.6%
EBITDA	475.7	977.5	1663.2
EBITDA margin %	10.2	11.3	12.6
Net Profit	281.7	572.5	1045.2
EPS (Rs)	27.4	55.7	101.8
CEPS (Rs)	31.6	65.5	113.4
ROE %	11.4	19.1	26.2
ROCE %	11.0	16.6	22.9
EV/Sales (x)	2.9	1.6	1.1
EV/EBITDA (x)	26.7	13.6	8.1
P/E (x)	47.5	23.4	12.8
P/CEPS (x)	41.3	19.9	11.5
P/BV (x)	5.4	4.5	3.4

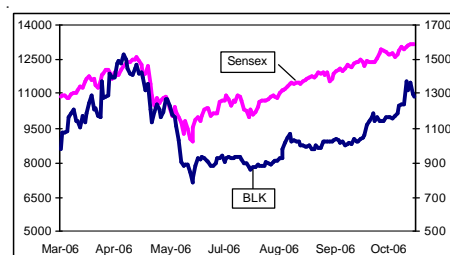
Source: Company Emkay Private Client Research,

Shareholding pattern (30 June 06)



Source: Company Emkay Private Client Research

One-year performance (Rel to sensex)



Source: Capitaline

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BL KASHYAP & SONS LTD.

Recommendation: BUY

Price: Rs. 1303,

Target Price: Rs. 1961

B L Kashyap & Sons Ltd (BLKL) is a compelling growth story in the domestic construction space. BLKL enjoys a pan India presence wherein it has built a strong reputation as a quality construction player providing a one stop shop solution to its customers right from designing, project implementation and final construction of projects within strict time bound schedules. BLKL's core construction business continues to be its main stay which contributes around 6% to its revenues, followed by residential and industrial projects which together contribute 40% to the topline. With BLK'L enjoying a order book of Rs 11 bn as on Nov 2006, we expect revenue visibility to be strong over the next 18 months and estimate topline to grow at a CAGR of 69% over FY06-FY08E followed by net profits growing at a CAGR of 93% in the same period. We estimate ROCE and ROE at 17% and 19% for FY07E and 23% and 27% for FY08E respectively.

Investment Positives

Large Order Book Pipeline indicates strong revenue visibility – BLKL's service portfolio extends across various business verticals like construction of factories and manufacturing facilities, IT campuses, commercial and residential complexes, malls and multiplexes, corporate offices, hospitals and hotels. As on November 2006, BLKL has a order book of Rs 11 bn which is executable over the next 18 months. More importantly it is creditable to note that BLKL has recorded a 50% CAGR in order book growth in the last 3 years starting FY05 onwards. Core construction activities account for a bulk of BLKL's business which contribute around 60% while the balance comes from industrial and residential projects. In Residential projects BLKL is more keen on large projects of roughly 2-3 lac lac sq feet.

Some of the recent large order wins procured by BLKL have been from Hero Honda Motors, Tech Mahindra and Maruti Udyog Limited. With significant pickup expected in new incremental orders from new clients coupled with the existing order backlog, we believe that revenue growth for BLKL is expected to remain strong over the next 18 months.

Subsidiaries to be EPS accretive from FY07E onwards – BLKL has two 100% subsidiaries which include BLK Furnishers Ltd and Soul Space Projects. BLK Furnishers is engaged in the business of furnishing and interiors wherein BLKL has invested Rs 130 mn and which will record a topline of Rs 1100 mn in FY08E. Soul Space Ltd is executing two projects presently, at Bikaner and Pune. While the Pune project is at the design finalisation stage, the Bikaner project is likely to start contributing to the consolidated revenues from FY07E onwards. This real estate venture will be contributing Rs 600-650 mn in FY07E from the Bikaner project and will form 15-20% of turnover from FY08E onwards totaling Rs 2600 mn.

We hence estimate that on a consolidated basis, net revenues for BLKL would total Rs 8650 bn and Rs 13200 bn in FY07E and FY08E – showing a CAGR of 69% in the next 2 years (FY06-FY08E) with EBIDTA growing at a CAGR of 87% from Rs 476bn in FY06A to Rs 977 mn in FY07E and Rs 1633 in FY08E followed by a 93% CAGR in post tax profits between FY06-FY08E. We expect BLKL's net earnings per share to increase from Rs 27.4 in FY06A to Rs 56 in FY07E and Rs 102 in FY08E with cash earnings per share (CEPS) improving to Rs 66 in

FY07E and Rs 144 in FY08E from Rs 32 in FY06A 90% showing a CAGR of 90%

EBIDTA margins to improve over the next 12-18 months – BLKL has declared a strong set of results for H1FY07. Revenues for H1FY07 is Rs 3270 mn. EBITDA margins in H1FY07 have remained stable at 11.4% despite cement prices holding firm. Order accretion has remained strong with Rs 2bn worth of orders flowing in the current quarter. BLKL's order backlog at Q2FY07end stood at Rs 11bn. For the H2FY07E, the management is confident that it will increase topline by around 140% from H1FY07 level with commensurate increase in operating and net profitability.

Moreover BLKL's real estate and furnishing subsidiaries will also operate partially in FY07E and fully in FY08E earning on an average 9-10% post tax profit margins thus helping consolidated net margins to improve to 6.6% in FY07E and 7.9% in FY08E from the existing net margin level of 6.1% recorded in FY06A.

Risks & Concerns –

Any significant downturn in the construction sector and non materialization of new orders in the business segment wherein the company operates could impact BLKL's earnings negatively.

Valuations look attractive from a medium to long term perspective – With an EPS CAGR growth of 93% estimated over FY06-08E, coming on the back of a 69% CAGR in the topline, and attractive ROE and ROCE levels of 27% & 23% as on FY08E, and a EV/EBIDTA of 13x FY07E and 8x FY08E makes us believe that the present valuation EV/EBIDTA of 8x FY08E looks attractive. We recommend a BUY on the stock with a target price of Rs 1961 in the next 12 months based on the DCF approach. On a EV/EBITA basis the stock will trade a target EV/EBITA multiple of 12x based on FY08E.