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Values that bind

Institutional Equity Research

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Key data	**25 April 2008**
Sector	**Capital Goods**
Market cap	Rs3.2bn/US$0.1bn
52 Wk H/L (Rs)	600/160
BSE Avg. daily vol. (6m)	2,334,285
BSE Code	522259
NSE Code	KALINDEE
Bloomberg	KRNEIN
Reuters	KALI.BO
Sensex	16,721
Nifty	5,000

Shareholding pattern (%)

	30-Sep-07	31-Dec-07
FIIs	19.6	20.6
MFs and institutions	2.1	2.8
Promoters	23.7	23.4
Others	54.7	53.3

Absolute returns (%)

	1mth	3mth	12mth
Kalindee Rail	7.2	(23.6)	NA
Sensex	9.4	(2.9)	18.3

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Kalindee Rail Nirman Engineers Ltd

Not Rated **Current Price: Rs 290**

We recently met the management of Kalindee Rail Nirman Engineers Ltd (KRNEL). The key takeaways from our meeting were as follows:

Railways a huge opportunity waiting to be tapped: The Indian railways (IR) have charted out aggressive expansion plans. It plans to increase its spending by 3x to Rs 2,500 bn in the XI plan from Rs 840 bn in the Xth plan. The metro rail projects and the dedicated freight corridor (DFC) also offer immense opportunities. Given the reputation that KRNEL enjoys with the railways for its timely execution and proven skills, it will be among the biggest beneficiaries of this increased spending.

Strong order book provides revenue visibility: the Company's order book of Rs 5 bn (2.7x FY07 sales) provides strong visibility. KRNEL expects to bag a project worth Rs 3-4 bn in the next six months, which will further strengthen its order book and revenue visibility.

Strong financial performance: The Company's sales and earnings grew at CAGRs of 72% and 116% respectively over FY05-07. The company's sales were Rs 1.8 bn and EBITDA margin was 11.7% in 9MFY08. The company saw its margins expand by 380 bps between FY05-9MFY08, mainly due to better margin contracts and internal efficiencies. The RoE for FY07 was 22%, which is quite healthy.

Valuations:

The stock is currently trading at a P/E of 24x Its TTM earnings.

Figure: 1 Financials

Year to 31 March	FY03	FY04	FY05	FY06	FY07
Net Revenues (Rs mn)	305	371	541	901	1,881
EBITDA (Rs mn)	16	19	43	73	182
PAT adj (Rs mn)	9	9	20	36	94
EPS adj (Rs)	1.7	1.9	4.0	7.3	12.3
EPS diluted (Rs)	1.7	1.9	4.0	7.3	12.3
EPS growth (%)	0	9	109	83	68
P/E (x)	169.1	155.0	74.0	40.4	24.1
RoE (%)	20	11	15	22	22
Price/BV (x)	14	8	3	2	2
EV/EBITDA (x)	32	26	22	8	5
EV/Sales (x)	5.3	4.3	4.2	1.8	1.3

Source: Company, Religare Institutional Research

The Company

Kalindee Rail Nirman Engineers Limited (KRNEL) is a major player in the execution of the major railway signaling and telecommunication projects in India. KRNEL is credited with the successful and timely execution of projects at the highest level of quality and state of the art technology. Kalindee has executed, with distinction and quality, various prestigious projects spread far and wide in the country. Its projects include the gauge conversion project from meter to broad gauge, new railway line construction, the modernization of railway yards, upgradation of railway sidings in ports, power plants, petroleum sidings, access control systems for metro rail and fiber optic networks.

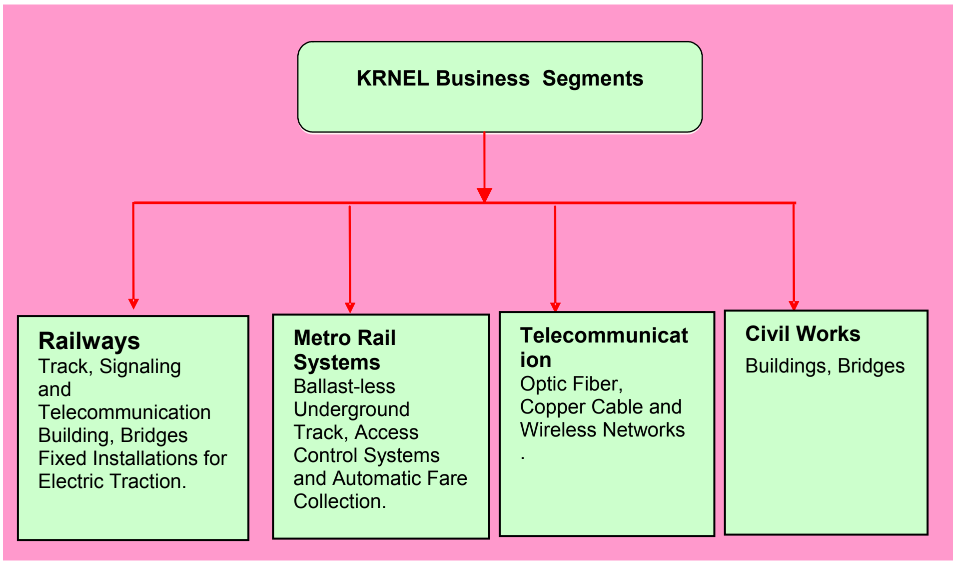
Business Sector

KRNEL is present in the following business segments-

Figure 2: Business segments

Railways	Track, Signaling and Telecommunication, Building, Bridges , Fixed Installations for Electric Traction.
Metro Rail Systems	Ballast-less Underground Track, Access Control Systems and Automatic Fare Collection.
Telecommunication	Optic Fiber, Copper Cable and Wireless Networks .
Civil Works	Buildings, Bridges

Source: Company, Religare Institutional Research



Railways is a huge opportunity waiting to be tapped

Railways plan to spend Rs 2500bn in the XI plan

The railways have charted out aggressive expansion plans. It plans to increase its spending by 3x to Rs 2,500 bn in the XI plan from Rs 840 bn in the Xth plan. The metro rail projects and the dedicated freight corridor (DFC) also offer immense opportunities. Given the reputation that KRNEL enjoys with the railways for its timely execution and proven skills, it will be among the biggest beneficiaries of this increased spending.

Figure 3: Expected investments in railways in XI plan.

Rs Cr	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Rolling Stock*	8,082	9,294	10,688	12,291	14,135	54,489
Capacity Augmentation and Development	7,744	10,189	13,431	17,730	23,455	72,548
Safety and Other Works	16,322	18,886	21,879	25,376	29,453	111,916
Investment in PSUs	1,883	2,034	2,196	2,372	2,562	11,047
Dedicated Freight Corridor	1,330	2,407	4,357	7,405	14,500	30,000
Metro Rail Projects	3,706	4,206	4,656	5,106	5,856	23,530
Total	**39,067**	**47,016**	**57,207**	**70,280**	**89,961**	**303,530**

Source: Planning commission ,Religare Institutional Research

Given the reputation that KRNEL enjoys with the railways for its timely execution and proven skills, it will be among the biggest beneficiaries of this increased spending.

The total public investment in the Indian railways over the Eleventh Plan is projected at Rs 2,500 bn. This excludes the investment in metro rail projects. An additional investment of Rs 235 bn is projected for metro rail projects, which would be shared equally by the private sector and the respective states. Another Rs 300 bn is likely to be spent on the dedicated freight corridor, taking the total investment to Rs 3,035 bn at 2006-07 price level.

With a turn-around in its fortunes, the Indian railways have the resources to invest and add infrastructure. The surplus cash with the railways has increased nearly three-fold from Rs 90 bn in 2005 to Rs 250 bn in 2008.

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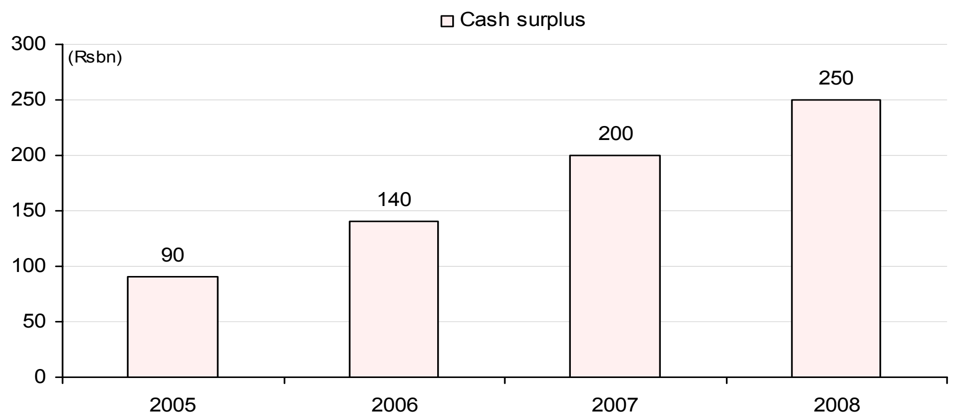
Figure 4: Budget cash surplus for railways



Source: Budget document, Religare Institutional Research

Dedicated rail freight corridor(DFC)

Over the past 2 to 3 years, the railway freight traffic has grown by 8 to 11%, and is projected to cross 1,100 million tonnes by the end of the Eleventh Five Year Plan

The Indian railways (IR) have witnessed a dramatic turn-around and an unprecedented financial turnover in the past two and a half years. This has been made possible by higher freight volumes without a substantial investment in infrastructure, increased axle load, reduction of turn-around time of rolling stock, reduced unit cost of transportation, rationalization of tariffs resulting in improvement in market share and improved operating margins. Over the past 2 to 3 years, the railway freight traffic has grown by 8 to 11%, and is projected to cross 1,100 million tonnes by the end of the Eleventh Five Year Plan. In order to support the increased volume and increase the share of freight revenue in the total revenue, the government has decided to build a DFC. The government has earmarked Rs 300 bn for the project in the XIth plan. The addressable market for the company is about Rs 60-90bn.

Need for Dedicated Freight Corridor Project

The government has earmarked Rs 300 bn for the DFC project in the XIth plan. The addressable market for the company is about Rs 60-90bn.

The Golden quadrilateral of Delhi, Mumbai, Chennai and Howrah and its two diagonals (Delhi-Chennai and Mumbai-Howrah) carry more than 55% of the revenue earning freight traffic of the IR. The existing trunk routes of Howrah-Delhi on the eastern corridor and Mumbai-Delhi on the western corridor are highly saturated with their line capacity utilization varying from 115% to 150%. The surge in the demand for power (requiring heavy movement of coal), the booming infrastructure and growing international trade have led to the conception of the Dedicated Freight Corridors (DFCs) along the eastern and western Routes. To facilitate the smooth and efficient working of the DFC, the ministry of railways has created a special purpose vehicle (SPV) named Dedicated Freight Corridor Corporation of India Ltd (DFCCIL). To start with, the IR has planned to construct a new DFC covering about 2762 kms on two corridors - the eastern corridor from Ludhiana to Sone Nagar and the western corridor from Jawahar Lal Nehru Port, Mumbai to Tughlakabad/Dadri – and interlinking the two corridors at Khurja. The project would focus on the up-gradation of transportation technology, the increase in productivity and the reduction in unit transportation costs.

Metro Rails

In order to address the problems of poor infrastructure and rising traffic, Mass Rapid Transport System (MRTS) projects like metro rails are gaining importance in various states

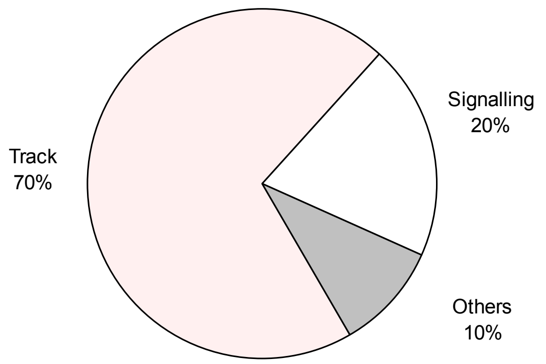
In order to address the problems of poor infrastructure and rising traffic, Mass Rapid Transport System (MRTS) projects like metro rails are gaining importance in various states. Since KRNEL has already bagged orders from the Delhi Metro Rail Corporation in phase 1 in the past, it has proved that it has the skill set and the required technologies to win more such orders. This makes it a strong contender for the upcoming metro projects in Mumbai, Bangalore and Hyderabad. The XI plan has earmarked Rs 235 bn for metro projects. The addressable market for the company is about Rs 47-70 bn.

Strong order provides revenue visibility

The company has an order book of Rs 5 bn (2.7x FY07 sales). The order book provides a strong visibility. The company expects to bag a project worth Rs 3-4 bn in the next six months which will further strengthen its order book and revenue visibility.

The company has an order book of Rs 5 bn (2.7x FY07 sales).

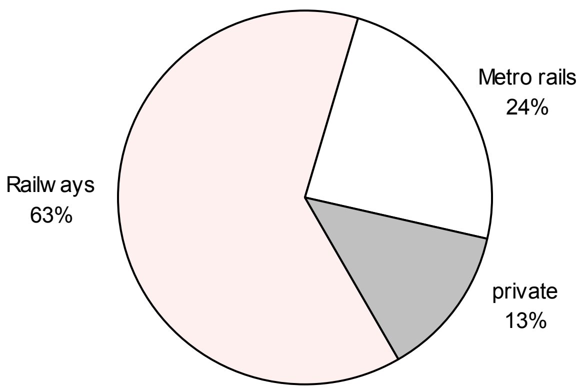
Figure 5: Order book break up segment wise



Source: Company, Religare Institutional Research

The IR is a major customer for KRNEL followed by the Delhi Metro Rail Corporation. Private customers constitute only 13% of the total order book. The company depends heavily on the railways' capex plans. However, the thrust on metro rail and the increasing mining activity by private players might reduce its dependence on the railways.

Figure 6: Order book break up customer wise.

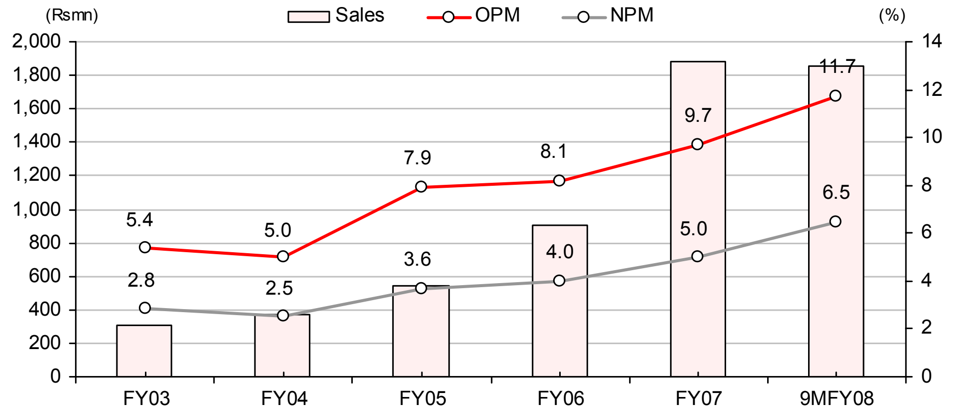


Source: Company, Religare Institutional Research

Strong financial performance

The company saw its sales and earnings grow at CAGRs of 72% and 116% respectively over FY05-07. The company's sales were Rs 1.8bn and EBIDTA margin was 11.7% in 9MFY08. The company saw its margin expand by 380bps between FY05-9MFY08, mainly due to better margin contracts and internal efficiencies. The RoE for FY07 is also healthy at 22%.

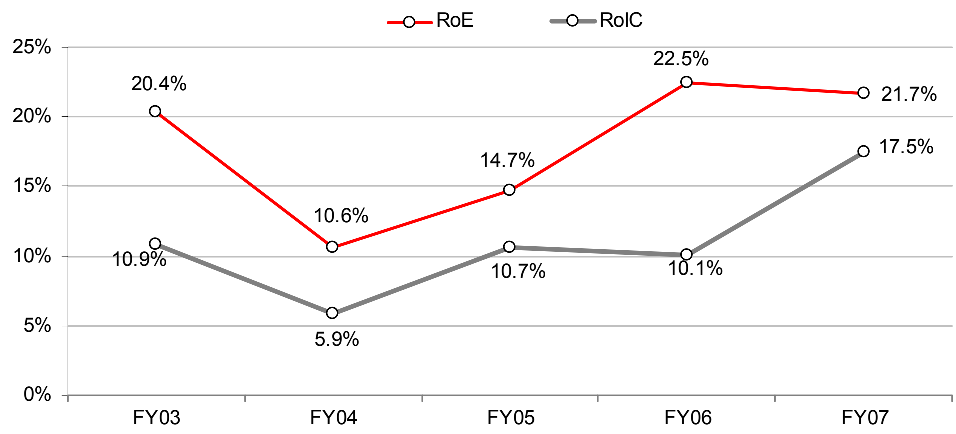
Figure 7: Margin trends



Source: Company, Religare Institutional Research

Figure 8: Return ratios

The company saw return ratios improve due to improved margins and operating efficiencies



Source: Company, Religare Institutional Research

The company has issued 0.5% coupon FCCBs worth US$ 7 mn (Rs 315 mn) in April 07 at a conversion price of Rs 160 per share, due in 2012, to fund its working capital requirement. The company has also allotted 1.6 mn equity shares to a private equity firm - AMIFI. It has also issued warrants of 0.4 mn shares to promoters and promoter groups, at a conversion price of Rs 156 per share.

Key risks

Dependence on railways
The company largely depends on the railways' capex plans. Any delay in spending by the railways could affect the order book and in turn affect the sales of the company.

Raw material cost inflation
The inability to pass on the price hike in the key raw materials can affect the margins of the company in an adverse manner.

Low liquidity
Low liquidity leads to wide fluctuation in the price of the stock.

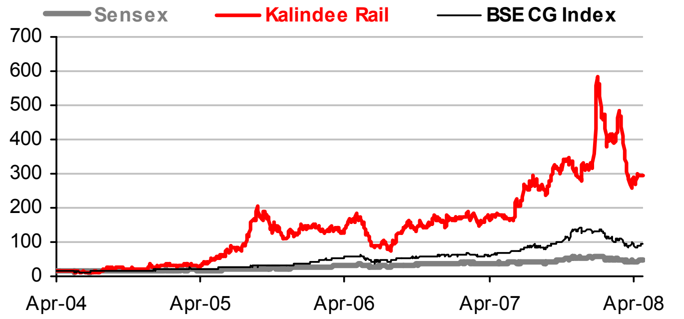
Valuations

The stock is currently trading at a P/E of 24x Its TTM earnings.

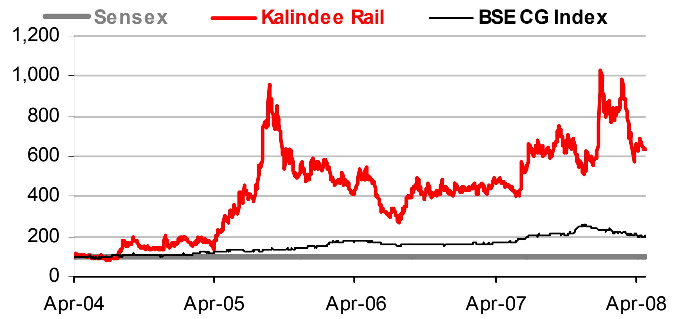
Stock performance

Kalindee Rail

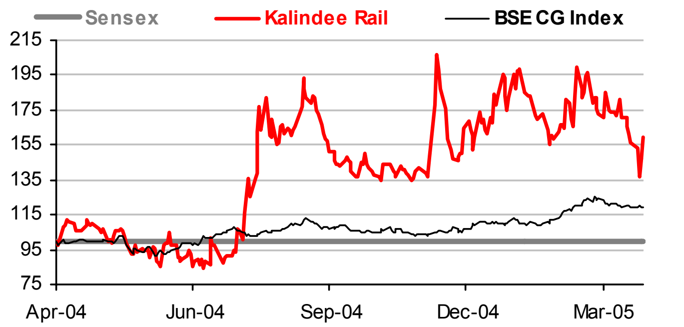
Absolute Perf. From Apr 04



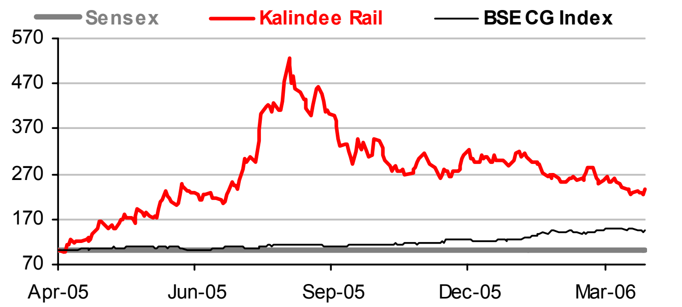
Relative Perf. From Apr 04



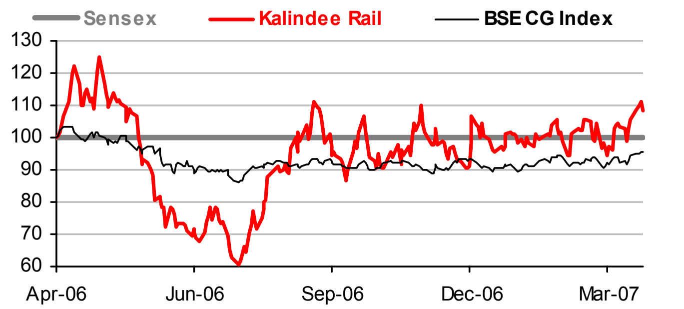
Relative Perf. From Apr 04 to Mar 05



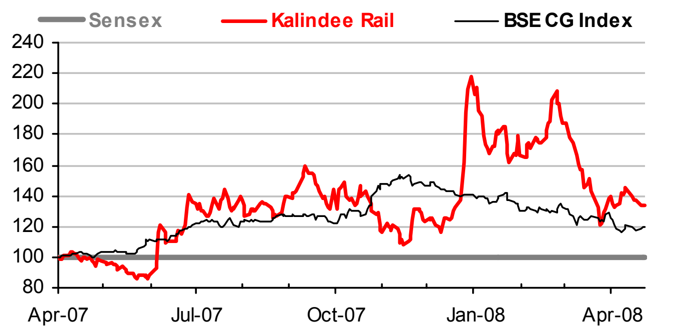
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

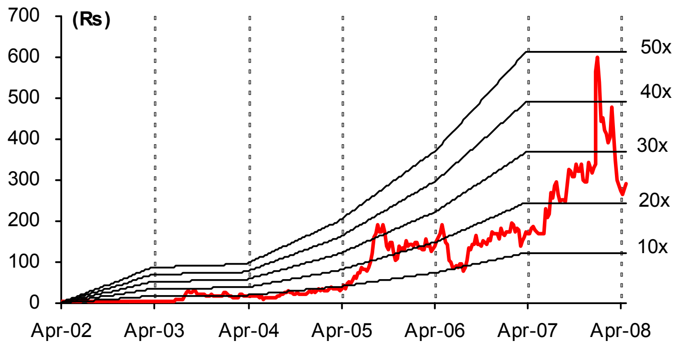


Source: Bloomberg, Religare Institutional Equity Research

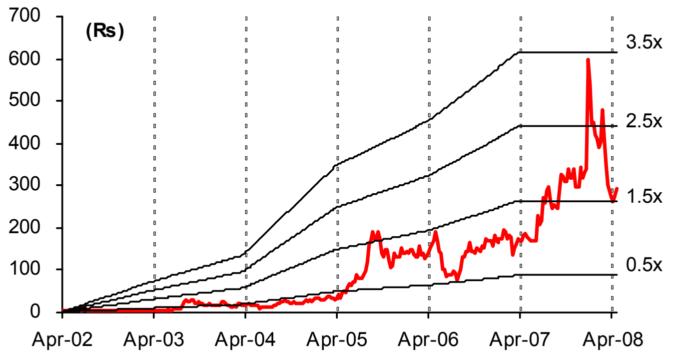
Trailing band charts

Kalindee Rail

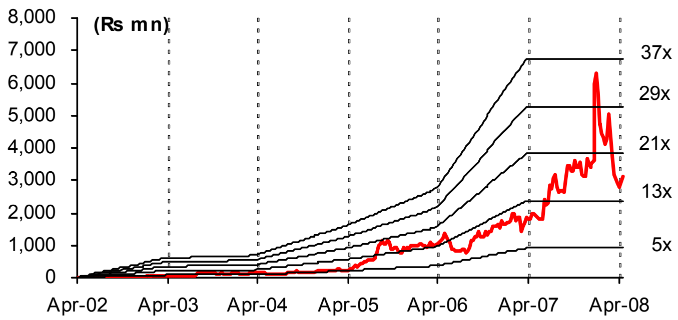
P/E Band



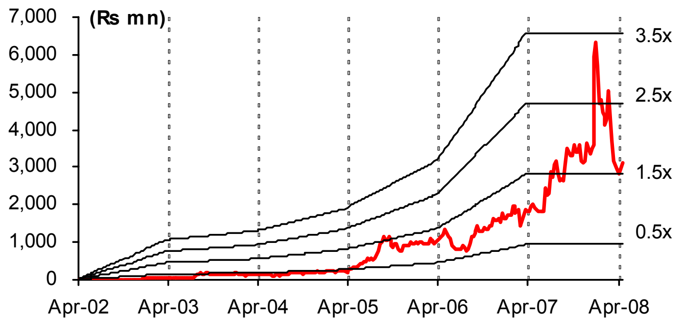
P/BV Band



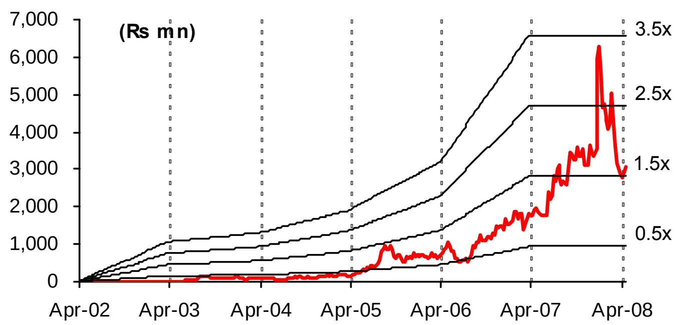
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement (Rs mn)

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Net sales	305	371	541	901	1,881
EBITDA	16	19	43	73	182
EBITDA margin (%)	5.4	5.0	7.9	8.1	9.7
Depreciation	3	3.7	5.0	5.4	6.2
EBIT	13	15	38	68	176
Other income	6	3	3	0	0
Interest Exp/(Inc)	7	8	14.8	14.5	39.1
PBT (Operating)	12	9	26	53	137
PBT margin (%)	3.8	2.5	4.8	5.9	7.3
Extra ord (inc)/exp	4.2	4.7	0	0	0
Taxes	6	5	11	24	52
Minority interest	-	-	-	-	-
PAT(Reported)	11	12	20	36	94
Less: Extra ordinary income / Others	2.6	3.0	-	-	-
Adj PAT	9	9	20	36	94
Adj PAT margin (%)	2.8	2.5	3.6	4.0	5.0

Quarterly – Financials (Rs mn)

(Rs mn)	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Net sales	490.35	824.81	481.34	438.67	938.65
Changes (%)	109.6	106.0	148.4	17.8	91.4
EBITDA	70	60	56	55	107
Changes (%)	161.7	122.3	143.4	22.8	52.3
Margin (%)	14.4	7.3	11.6	12.6	11.4
PAT	37	37	29	29	62
PAT adj	37	37	29	29	62
Changes (%)	157.5	248.3	191.7	42.1	66.5
Margin (%)	7.6	4.5	6.0	6.6	6.6
EPS adj (Rs)	4.26	5.86	2.76	2.76	5.91
EPS dil (Rs)	4.26	5.86	2.76	2.34	4.99

Ratios

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Growth					
Net sales (%)		21.7	45.9	66.7	108.7
EBITDA (%)		13.4	130.3	71.2	148.2
PAT adjusted (%)		9.1	109.5	83.1	161.6
EPS adjusted (%)		9.1	109.5	83.1	23.2
EPS diluted (%)		9.1	109.5	83.1	68.0
EPS Consl and dilute.(%)	-				
Valuations					
P/E (x)	169.1	155.0	74.0	40.4	24.1
P/BV (x)	14	8	3	2	2
EV/EBITDA (x)	32	26	22	8	5
EV/Sales (x)	5.3	4.3	4.2	1.8	1.3
Profitability					
EBITDA margin (%)	5.4	5.0	7.9	8.1	9.7
Adj PAT margin (%)	2.8	2.5	3.6	4.0	5.0
RoE (%)	20.4	10.6	14.7	22.5	21.7
RoCE (%)	24	10	17	16	19
RoIC (%)	11	6	11	10	18
B/S ratios					
Inventory days	94	157	147	102	101
Creditor days	135	180	80	35	61
Debtor days	41	34	31	74	85
Working Capital days	120	139	113	188	129
Net debt/equity	0.14	0.45	0.46	1.92	0.05

* RoIC is calculated on the basis of post tax basis

Balance sheet (Rs mn)

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Liabilities					
Equity share capital	49	49	49	49	105
Total Res. & Surplus	61	74	95	127	590
Total Shareholders' fund	111	124	145	176	696
Convertible Debt	-	-	-	-	-
Others Debt	35	76	117	415	541
Total Loans	35	76	117	415	541
Deferred tax liability (net)	6	6	5	5	2
Total liabilities	152	205	267	596	1239
Assets					
Net fixed assets & others	29	44	49	56	68
Capital WIP & others	0	0	0	0	0
Total non-current assets	29	44	49	56	68
Total investments - non current	3	0	0	0	0
Current assets					
Inventories	76	125	131	195	427
Sundry debtors	35	28	49	244	408
Cash & cash equivalents	19	20	51	76	505
Cash					
Liquid investments					
Other current assets	66	81	97	135	240
Total current assets	196	254	327	649	1579
Total current liabilities	70	88	99	79	346
Total provisions	6	5	11	30	62
Net current assets	120	161	217	540	1,171
Misc. expenditure	0	0	0	0	0
Total assets	152	205	267	596	1239

Cash flow

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Cash from operations					
PBT	13	12	26	53	137
Tax paid	(6)	(5)	(11)	(24)	(52)
Dep & amortization	3	4	5	5	6
Working capital changes	(101)	(40)	(26)	(297)	(202)
Others	21	(1)	(0)	(2)	(1)
Net cash from operations	(69)	(30)	(7)	(265)	(111)
Cash from investments					
Capital expenditure	(53)	(18)	(10)	(10)	(18)
Sale/purchase of inv & others	**(3.4)**	**3.4**	-	-	-
Net cash from investments	(56)	(15)	(10)	(10)	(18)
Cash from financing					
Issue of shares & share premium	41	-	-	-	426
Dividend paid	-	-	-	-	-
Debt change	35	41	41	297	126
Others	**60**	**5**	**6**	**3**	**6**
Net cash from finanacing	137	45	47	300	557
Net change in cash	11	1	30	26	429

Per share data

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
EPS adjusted	1.74	1.90	3.99	7.30	8.99
EPS diluted - wtd	1.74	1.90	3.99	7.30	12.26
EPS Consl and diluted					
CEPS	9.46	12.40	16.05	47.59	70.59
Book value	20.86	38.41	98.48	128.54	176.01
Dividend	0.00	0.00	0.00	0.00	0.00
O/s shs.-actual (mn)	4.9	4.9	4.9	4.9	10.5
O/s shs.-diluted (mn)	4.9	4.9	4.9	4.9	10.5
O/s shs wtd / diluted (mn)	4.9	4.9	4.9	4.9	7.7

Rating definition

Buy	:	> 15% returns relative to Sensex	**Accumulate**	:	+5 to +15% returns relative to Sensex
Sell	:	> (-)15% returns relative to Sensex	**Reduce**	:	(-) 5 to (-) 15% returns relative to Sensex
Hold	:	Upto + / (-) 5% returns relative to Sensex			

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