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Karda Constructions Limited

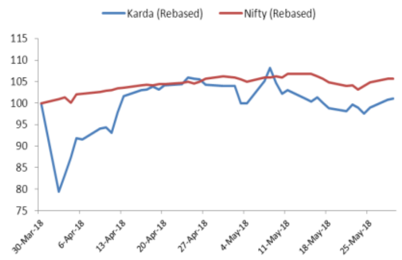
29 May 2018

High growth potential supported by strong execution

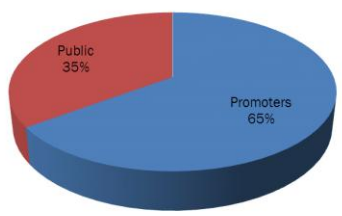
BUY

Sector	: Real Estate
Target Price	: Rs 285
Current Market Price	: Rs 182
Market Cap	: Rs 224 crore
52-week High/Low	: Rs 210/129
Daily Avg. Volume	: 252,937
Face Value	: Rs 10
Beta	: 1.25
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 541161
NSE Scrip Code	: KARDA
Bloomberg Code	: KARDA IN
Reuters Code	: N/A
Nifty	: 10,689
BSE Sensex	: 35,165
Analyst	Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



FY18 Update Report

Result Highlights

- Karda Constructions Limited (KCL) reported a strong set of numbers for FY18, recording healthy increases in revenue and EBITDA, and robust PAT and EPS growth. The stronger growth rate of PAT/EPS is primarily attributable to higher ‘other income’ and proportionately lower tax expenses on a y-o-y basis. The results surpassed our expectations with higher-than-estimated revenue and profits with PAT coming in at much higher levels, aided by higher ‘other income’ and lower finance costs.
- Revenue grew at a solid rate of 20% to Rs 127 crore. While EBITDA (Rs 31.1 crore) growth was healthy at 17%, EBITDA margin declined marginally due to proportionately higher ‘other expenses’.
- PAT increased 65% to Rs 13.1 crore. PAT received leverage from higher ‘other income’, proportionately lower finance cost (as a percentage of operating revenue), and a lower effective tax rate. FY18 EPS stood at Rs 12.77 compared to Rs 7.88 in FY17.
- During the year, fresh equity capital infusion led to increase in share capital from Rs 9 crore to Rs 12.3 crore (with shares outstanding increasing from 90 lakhs to 1.23 crore).

Valuation

We expect KCL to record strong revenue growth over FY19 and FY20 aided by its ongoing projects and strong pipeline. With margins remaining broadly steady, we expect the topline growth to translate into healthy increase in profits. FY19E EPS growth will be muted due to the dilutive effect of equity capital infusion. Subsequently in FY20, EPS growth will be in line with PAT growth. The KCL stock currently trades at 14.0x FY19E EPS and 11.5x FY20E EPS. Based on a target P/E multiple of 18.0, we value KCL at Rs 285, representing a 57% upside from current levels and informing a BUY rating.

Key Financial Metrics

Rs lakh	FY16A	FY17A	FY18A	FY19E	FY20E
Operating revenue	10,072	10,578	12,679	15,380	18,117
Growth		*5.0%*	*19.9%*	*21.3%*	*17.8%*
EBITDA	2,149	2,668	3,112	3,676	4,312
EBITDA margin	*21.3%*	*25.2%*	*24.5%*	*23.9%*	*23.8%*
PAT	637	791	1,305	1,591	1,947
PAT margin	*6.3%*	*7.5%*	*10.3%*	*10.3%*	*10.7%*
Diluted EPS (Rs)	12.75	7.88	12.77	12.93	15.83

Source: Company data; Khambatta Research

Financial Performance

Rs lakh	FY17	FY18	Y-o-y
Operating revenue	10,578	12,679	19.9%
EBITDA	2,668	3,112	16.6%
EBITDA margin	*25.2%*	*24.5%*	*-68 bps*
PAT	791	1,305	65.0%
PAT margin	*7.5%*	*10.3%*	*281 bps*
Diluted EPS (Rs)	7.88	12.77	62.1%

Source: Company data

Estimates vs Reported

Rs lakh	FY18E	FY18A	Variance	Comments
Operating revenue	11,725	12,679	8.1%	Revenues came in higher than our estimates
EBITDA	3,007	3,112	3.5%	Reported EBITDA was marginally higher
EBITDA margin	*25.7%*	*24.5%*	*-111 bps*	EBITDA margin was lower due to higher-than-expected cost of construction/ development
PAT	1,008	1,305	29.5%	The higher PAT was due to more-than-expected topline, higher 'other income' and lower finance costs
PAT margin	*8.6%*	*10.3%*	*169 bps*	Higher PAT margin was due to higher 'other income' and lower finance costs

Source: Company data; Khambatta Research

Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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