JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INZ000174034

RESEARCH REPORT

15TH Oct 2018

KARDA CONSTRUCTIONS LIMITED

BSE : KARDA | **Sector: REAL ESTATE** | **BSE: 541181**

View - BUY

CMP : Rs. 153

Target Price: Rs 280 (In next 15 to 18 mths)

BUSINESS BACKGROUND

The Karda Constructions Group is a well-established Nashik based group having its presence in the construction industry for more than two decades, The group was founded by Mr. Naresh Karda in 1994. KCL has been concentrating on affordable housing in the residential segment since its inception and from 2001 onwards, it stepped into the commercial segment as well.

KCL aims to provide quality and affordable developments in the real estate sector. Karda has a good brand popularity and reputation, and a track record of developing innovative projects with its emphasis on contemporary architecture, strong project execution and best construction in the industry

INVESTMENT HIGHLIGHTS

Strong Financial Performance for FY18 & Q1 FY19 –

KCL reported a strong set of FY18 numbers with net sales at Rs 126.80 crs as compared to a revenue of Rs 105.77 crs last year, with EBIDTA placed at Rs 31.09 crs from Rs 26.68 crs last year with the PAT placed at Rs 13.01 crs from Rs 7.88 crs up by 65% YoY.

For KCL Q1FY19 was again noteworthy with Total Income at Rs 30.40 crs with EBIDTA at Rs 8.35 crs with PAT at Rs 4.22 crs EBIDTA margins in Q1FY18 improved to 28.60% from 24.52% in FY18 full year.

KCL enjoys a solid presence in Nashik –

Nashik's realty market is geared for rapid growth going forward given its proximity to major cities like Mumbai and Pune and the current saturation of the realty markets in both these cities. Another important factor likely to influence the real estate growth of Nashik is its lower entry costs vis-a-vis Mumbai and Pune and attractive appreciation rates that have made it a value for money proposition for property investors.

Having successfully completed and delivered such a significant amount of carpet area, KCL believes that its good knowledge of the Nashik market and regulatory environment benefits KCL in identifying opportunities. Further, KCL currently has 12 ongoing and 6 planned projects, with which it expects to provide a total carpet area of approximately 16,68,961 & 521634 square feet. With more than 2 decades of experience in developing real estate projects in Nashik, KCL is in a strong position to exploit growth opportunities in this region

KEY DATA

FACE VALUE Rs	10.00
DIVD YIELD %	NA
52 WK HI/LOW	236/136
NSE CODE	KARDA
BSE CODE	KARDA
MARKET CAP	RS 188 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	65%
BANKS, MFs & DIIs	-	%
FIIs	-	%
PUBLIC	-	35%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	22	32	12
EBIDTA Gr%	30	34	11
PAT Gr%	42	54	12
EPS Gr%	42	54	12
EPS (Rs)	15.05	23.17	26.02
ROE %	18	23	22
ROCE %	20	24	25
P/E(x)		7	6

KCL enjoys a established brand 'KARDA' and a strong credible reputation from buyers –

All the projects are located in Nashik. The word "Hari" is associated with most of the projects (such as "Hari Vishwa", "Hari Sanskruti" "Hari Amrut", etc) which differentiates the company's projects from the projects of the other developers in Nashik.

With the years of successful completion and delivery of the projects, KCL has been able to establish and strengthen the "Hari" brand which will enable it to get a positive support for future projects in the form of advance bookings, revenue share deals, development rights, government approvals, etc.

KCL has a strong project pipeline providing steady cash flow visibility ahead –

KCL has a good project pipeline, which provides cash flow visibility. The company has 12 Ongoing and 6 upcoming projects, which provides a total Carpet Area of approximately 1668961 & 521634 square feet respectively.

KCL follows a sale model for the residential and residential-cum-office projects. For these projects it typically receives a certain portion of the purchase price as down payment at the time of booking a particular unit and the remainder through periodic payments linked to certain other construction milestones while the project is being developed.

KCL generally launches such projects and commences the sales process for a portion of the total number of units to be sold around the time of commencing construction. As on June 30, 2018 KCL has collected advances of Rs 161.89 crs from the customers towards the units sold.

Ongoing Projects	Area in sqft	Expected Commissioning Schedule	Ownership Status of the Land
Hari Sanskruti I	438146	Dec 20	Owned
Hari Vishwa	475771	Jun 20	Owned
Hari Om II	163909	Jun 19	Owned
Hari Naman	13128	Completed	Owned
Hari Sparsh II	12160	Completed	Owned
Hari Sparsh III	34595	Dec 18	Owned
Hari Sanskruti II	229762	Dec 21	Owned
Hari Vasant	122265	Dec 20	Joint Development
Hari Bhakti	82431	Mar 20	Joint Development
Hari Vatika	11368	Jun 18	Owned
Hari Aakruti II	51148	Dec 20	Owned
Hari Nisarg	34278	Jun 21	Owned
Total	**1668961**		
Upcoming Projects			
Hari Vihar	80000	Dec 22	Joint Development
Hari Ganga	92233	Jun 23	Owned
Hari Samarth	107315	Jun 23	Owned
Hari Laxmi	165000	Dec 23	Owned
Hari Vruddhi	25000	Dec 21	Owned
Hari Krishna IV	52086	Jun 22	Owned
Total	**521634**		

Source- Company

KCL aleady owns vast land reserves and enjoys a strong ability to identify new projects –

KCL's land reserves stands at approximately 4,06,970 square feet of estimated Developable Land Area in and around Nashik.

KCL identifies and acquires land that is available for sale in areas where it foresees development in the future. Also the company has the ability to assess the potential of a location, identify locations that are relatively underdeveloped and gain the first mover advantage in such locations at a reasonable cost.

Also the entire land parcel of 4 lac sqft is owned by the company and this does not include land owned by promoters which is about 1.75 lac sqft additionally. KCL will develop the project planned on land owned by promoters by taking the projects on Joint development from the promoters from time to time

Timing Land Acquisition has been a big strength of KCL –

Like in all cyclical industries, timing is of great importance in real estate as well. Generally like in other commodity industries, in real estate as well companies follow herd mentality and they all rush in to add capacity at the same time which sows the seeds for the next downturn.

In terms of timing, what usually happens is most of the capacity addition takes place at the top of the cycle when the prices are at their highest. Karda on the other hand has had a contrarian approach and have been buying land at very low prices very early in the upcycle and is well positioned in the market to fuel its growth ahead unlike other real estate companies who are forced to sell to bring down their debt.

Karda has also diversified in to Contracting Services –

KCL is already executing three projects in Goa for the state government. Getting into the government construction contracts is a new area for KCL where it is seeking more expansion and growth to supplement its real estate activities.

KCL has obtained PWD license and already won three projects in Goa and more projects are in the pipe line. In future KCL is looking at expanding its contractual construction business considering focus of the government on infrastructure funding.

The company has bagged four government contracts with an aggregate contract value of Rs 28.39 crs from Goa and Maharashtra state governments. Further it has also won a private sector work contract of Rs .45.48 crs in value. The construction contracts are largely from verticals such as residential, market complexes, community and health centres.

Real Estate Sector – Now headed for good long term growth despite challenging headwinds –

Regulatory changes and policy initiatives for the industry

2014
- introduction of Real Estate Investment Trust (REIT) by SEBI in September 2014.

2015
- "Housing for all 2022" by the Union Government in June 2015
- Land Acquisition, Rehabilitation and Resettlement (Amendment) Bill, 2015
- Removal of cap on FDI in real estate and construction in November 2015

2016
- Amendment and introduction of Real Estate (Regulation and Development) Act in May 2016.

2017
- Affordable housing given **Infrastructure status** during union Budget 2017, alongwith change in classification w.r.t. floor size for affordable housing.

The Real Estate industry witnessed introduction of regulatory changes and policy initiatives in order to transform it into an organized, transparent, accountable and investor-friendly sector.

Lack of long term funds has been the biggest impediment for the sector which could not be fulfilled by banking institutions owing to regulatory restrictions of the Central bank. Some of the regulatory changes which have been announced in the last 2 years include the following measures taken by the government.

Real Estate Investment Trusts (REITs) –

One of the most transformational changes which have been brought in to make the entire sector more transparent and investor centric. Apart from the fact that REIT would let small investors buy into the real estate asset class at a much smaller ticket size, REIT gives large portfolio investors the chance to exit from investments, which makes Indian real estate market favourable for more investments from global investor community. Additionally, Budget 2016-17 exempted dividend distribution tax (DDT) on special purpose vehicles (SPVs). Rules for REITs were relaxed, and the investment cap in under-construction projects was raised from 10% to 20%. Currently, around 229 m.s.ft. of office space can be seen as REIT compliant. (Source: JLL Research)

Real Estate (Regulation & Development) Act 2016 –

RERA, was passed by the Parliament in March 2016. States have to implement the bill within one year from the time it was passed. This bill is primarily aimed at bringing in transparency to the sector and is being touted as a pro-consumer law. One of the biggest industry wide change is registration of properties under development by developers which would mean only organized and professionally managed companies would be able to carry on with the business, thus the sector would see lot of consolidation going forward.

RERA to bring in more stability and consolidation in real estate sector –

The real estate sector got its first regulator RERA on May 1, 2017. The act was passed by parliament last year and the Union Ministry of Housing and Urban Poverty Alleviation (MHUPA) had given various states and union territories time till May 1, 2017, to formulate and notify rules for the functioning of the regulator.

Over the years, the real estate sector in India has faced many issues such as project execution delays, poor corporate governance, diversion of project funds leading to cash-flow mismatches, high indebtedness of developers, etc.

To address these issues, RERA seeks to bring in more clarity and fairer practices in the sector that would protect the interests of buyers and also impose penalties on errant builders. It also seeks to bring in the much needed transparency in the real estate sector and also the consumer's confidence back into the sector.

Post RERA, consolidation in the real estate sector is on the cards as several small unorganised developers may not be able to cope with the strict compliances enlisted by RERA. So, over the long term, an organised player like Sunteck Realty is set to benefit from RERA.

RERA is a state affair where all states have to notify their individual rules more or less in sync the ones notified by the Centre earlier. Maharashtra, where the company currently operates in has notified its real estate rules called the Maharashtra Real Estate (Regulation & Development) Rules, 2017. The final notification of Maharashtra RERA is quite in line with the central Act. The state had modified some of the draft clauses based on several suggestions and objections received over the past few months. It launched the RERA website in April, 2017.

Key features of RERA bill –

Features - Timely Execution Builders will have to set aside 70% of money collected from buyers in a separate escrow account that can be used towards cost of land and construction of project. This would ensure that builders are unable to divert funds towards other projects

Accountability - In case of delays in project completion , builders will have to pay the same interest to home buyers as what they charge them on payment delays

Transparency - All project details, such as the schedule of implementation, layout plans, status of approvals, will have to be disclosed during registration.

Project plans cannot be changed without the consent of two-thirds of home buyers for the project. Transactions will have to based on carpet area rather than super-built up area

Regulation – The Bill proposes setting up state-level real-estate regulatory authorities, where builders will be mandated to register all projects above 500 sq mts. This would apply to both residential and commercial real estate projects, including those that are currently under construction.

State-level appellate tribunals will be set up for addressing complaints. A timeline of a maximum 60 days has been set for resolution of disputes.

Failure to register a project could result in imprisonment of up to three years for developers or 10% of project cost or both. Home buyers and real-estate agents may also face upto a year of imprisonment, if found in any violation of tribunals or regulatory authority

Goods and Services Tax The GST is the single-biggest tax reform to be ever introduced in India. GST aims at eliminating the difference in indirect taxes applicable across various states, hence bringing in ease of doing business and simplified taxation procedure for businesses. The tax regime would be introduced in the year 2017, with most states having accepted the law after debate and discussion. The sector stands to benefit from the fact that GST would provide more clarity on tax-credits for RE transactions and allowance of input credit would reduce the price of properties. GST

Infrastructure status to affordable housing –

The affordable housing segment has been accorded infrastructure status which would ensure more funding from the banking system as well as Pension funds being eligible to invest long term into affordable housing segment which in turn would reduce the cost of construction. For classification of affordable housing, instead of "built-up" area of 30/60 sqm, the new classification is "carpet- area" of 30/60 sqm. The 30 sqm limit applies only in case of municipal limits of 4 metropolitan cities while for the rest of the country including the peripheral areas of metros, limit of 60 sqm will apply. The government has also extended the time of completion of such projects from 3 years to 5 years

Benami Transactions Act 2016 –

This bill will curb black money flow into real estate and will render holding of property under fictitious names a punishable offence. This bill aims at bringing transparency and accountability in the sector as a whole especially with regard to funding.

Policy initiatives:

Pradhan Mantri Awas Yojana and National Urban Housing Policy 2015 set up to meet the gap of housing through increased private sector participation and policy initiatives to support housing for all across by 2022. Total housing shortage envisaged to be addressed through the new mission is 20 million by 2022.

Smart Cities mission for revival and creation of 100 cities into smart cities, Atal mission for rejuvenation and urban transformation, heritage city development and augmentation yojana (HRIDAY) are some other policy initiatives, which if implemented in line with the projected plan of implementation would be huge growth drivers for housing segment of real estate.

Nashik Real Estate Market Profile –

Wine City of India

Attracts scores of property buyers and investors -Affordable realty prices, excellent infrastructure, temperate climate and better quality of life

Strong Industrial Base -Auto, Engineering and Electrical sectors

Ambad, Satpur, Gonde, Igatpuri and Sinnar are **5 major industrial zones**developed by Maharashtra Industrial Development Corporation (MIDC)

S**trong Corporate Presence** -Hindustan Aeronautics Ltd (HAL), Mahindra & Mahindra, Bosch, Carbon, Thyssen Krupp, Ceat, Atlas Copco, TI Cycles and Glaxo among others

Government of Maharashtra –**Heavy Investment into Wine Parks industry** in Nashik

Onion, tomatoes and many other vegetables exported from Nashik to various parts of world

Nashik's realty market is geared for rapid growth looking at the

Proximity to major cities like Mumbai and Pune

Lower entry costs vis-a-vis Mumbai, Pune and attractive appreciation rates

Benefited from major infrastructure development projects

Four-Laning of Nashik-Mumbai highway

Coming Nashik-Pune highway have done wonders on connectivity front

Sinnar SEZ at advanced stage and Accenture recently announced setting up of massive 200-acre facility in Nashik

Recently upgraded airport at Ozar with air cargo terminal and proposed international airport at Shirdi

Long term Demand drivers for Karda (KCL) look good in view of the following developments ahead –

Government Initiatives in the LMI (Low Middle Income) & affordable housing space

Housing for All by 2022

The ‘Affordable Housing for All’ is a critical policy agenda for the GoI. The building of 1.6mn homes was sanctioned in FY14 with a value of Rs. 41,723cr. Approximately 11 crore houses is estimated to be required by 2022 of which 70% will be in the affordable segment. The potential investment required in this space is USD250bn pa as per a KPMG report thus implying a huge opportunity for HFCs focused on LMI segment. Annual income of LIG is Rs.1-2 lacs while the property value for these segments is upto Rs. 6lac. The GoI must take steps towards improving banking penetration and reducing cost of houses which will increase the affordability of homes.

The LIG (Low Income Group) segment currently constitutes 60% of housing shortages in India.

In the Union Budget 2016-17, the government announced 100% deduction for profits to developers for flats upto 30 sq metres in Chennai, Delhi, Kolkata or Mumbai, and 60 sqmetres nother cities. Also, there will be an exemption from service tax on construction of affordable houses up to 60 sqmetres under any scheme of the central or state government, including public-private partnership schemes. These projects have to be approved during June2016 to March2019 and completed in three years. However, Minimum Alternate Tax will still be applicable.

The developers traditionally have a keen interest in the premium housing segment considering higher margins However ,with the tax exemptions margins for developers operating in affordable housing were brought at par with the premium segment thus making them attractive from the perspective ef developers. This we believe believe will result in higher focus of organized developers and efficient finance being directed towards Affordable Housing thus increasing supply

100 Smart Cities to also boost demand for affordable housing going ahead –

The *'100 Smart Cities'* government initiative is aimed at reshaping the urban landscape by making cities more affordable and livable. Each city selected under the scheme would be granted Rs. 100cr/year for five years. This presents a huge opportunity for the housing segment and especially for players like ASL which have positioned themselves very strongly in this segment.

Govt's Fiscal Benefits to Affordable and Middle Housing Segment will also benefit players like KCL –

Benefits to Home Buyers –

Interest subsidy of Rs 235,000 on purchase of house for individual having income upto Rs 1.8 Mn per year .

No processing fee

Change in base year from 1981 to 2001 as well as reduction of time frame to 2 years for Capital Gains Calculation.

Will make Real Estate Investment as an asset class more attractive

Low interest rates on home loans

Benefits to Real Estate Players like KCL –

Availability of low cost of funds due to Infrastructure Status

Reduction of cost of funds thru possible sources of procurement of funds from abroad.

FDI and Equity Investment is likely to grow due award of Infrastructure status

100% Tax exemption for all earnings from affordable housing projects –

If Approved by competent Authority after 1 st Jun, 2016 but on or before 31st Mar, 2019 and which is completed within a period of 5 Years from Approval Date
Carpet Area of 30 Sq Mtr for 4 Major Metros viz Chennai, Delhi, Kolkata & Mumbai and 60 Sq Mtrs for all other areas

As a business strategy KCL has never projected itself as a developer working in any one particular category. KCL is present across all segments which is affordable, comfort & luxury product. This gives it lot of flexibility to change its portfolio as per market conditions.

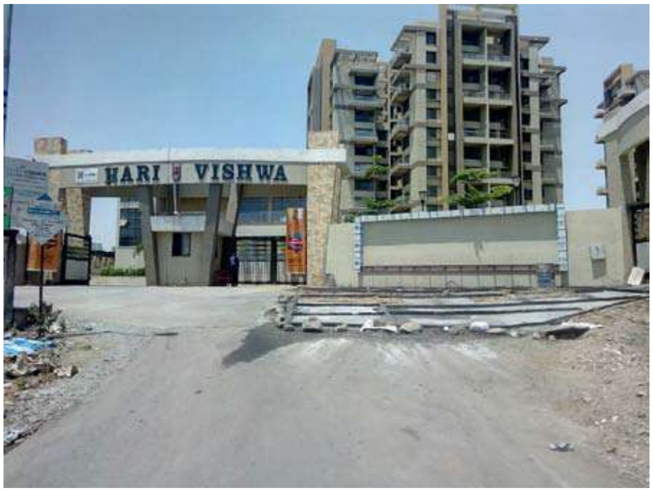
On an average the average selling rate in Nashik is about Rs 3000/sqft for affordable, 3500 to 4000 for Middle segment and 4000 to 6000 for luxury flats

In the current condition KCL is focusing more on affordable side. About 50% of current portfolio is in affordable side. Within this segment KCL is focussing on the

CAPSULE" home concept -"2020 Homes -Future ready" where it is witnessing strong traction in demand, also the government is focusing on this segment and where KCL enjoys a strong brand presence of Karda within Nashik wh is a fast upcoming real estate market in Maharashtra

Some of the key ongoing projects undertaken by KCL include –

Hari Vishwa –



This project comprises of 4 Wings of 13 floors each, with special features such as earthquake resistant RCC structure, automatic 6 passenger elevator, diesel generator backup for common utilities and power backup for flats, CCTV Camera coverage for common areas ready, Gated community with guard room and security system supported by intercom, etc.

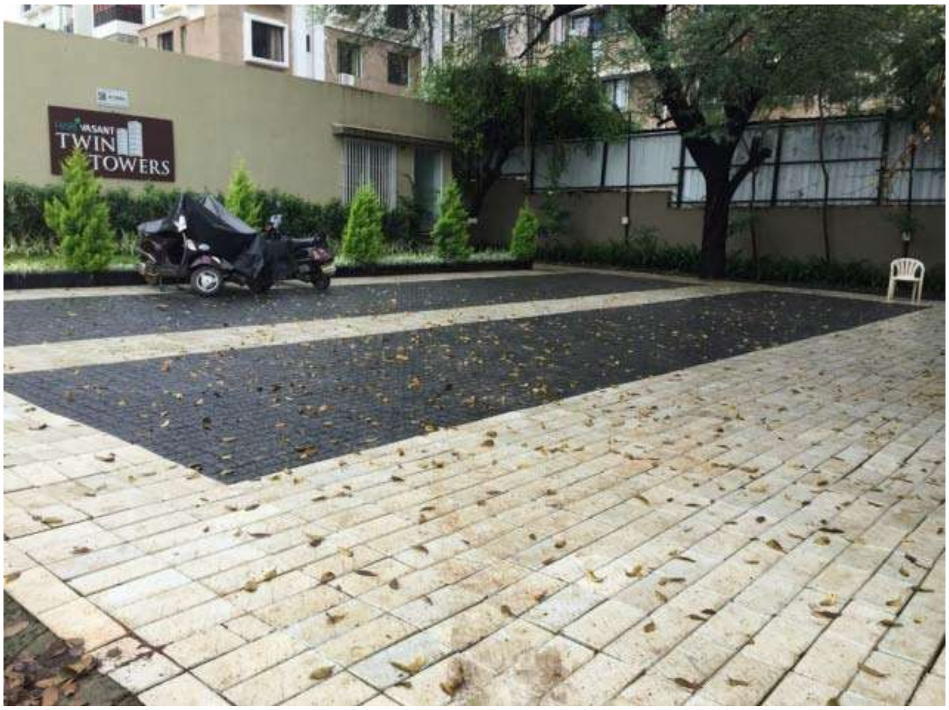
This project comprises of 388 flats of 2 & 3BHK with size ranging from 1,023 to 1,979sq. ft. The project shall provide all modern amenities to the residents such as Children park, Club House, Gymnasium, Amphitheatre, Lift with battery Back-up, Secured Entry, CCTV cameras, etc.

Hari Sanskruti –

This project comprises of 5 Wings (i.e. Stuti, Shloka, Vedanta, Upasana and Kirtan) of 13 floors each, with special features such as earthquake resistant RCC structure, automatic 6 passenger elevator, diesel generator backup for common utilities and power backup for flats, CCTV Camera coverage for common areas ready, Gated community with guard room and security system supported by intercom, etc.

This project comprises of 566 flats of 1 RK, 1, 2 & 3BHK with size ranging from 485 to 1,146 sq. ft. The project shall also feature 21 shops. The project shall provide all modern amenities to the residents such as Children park, Club House, Gymnasium, Amphitheatre, Lift with battery Back-up, Secured Entry, CCTV cameras, etc

Hari Vasant –



This project is an iconic and land mark project featuring twin towers on the riverside of Godavari. The twin towers shall be of 16 floors each having a total of 192 flats. The special features of the twin towers include earthquake resistant RCC structure, automatic passenger elevator, diesel generator backup for common utilities and power backup for flats, CCTV Camera coverage for common areas ready, Gated community with guard room and security system supported by intercom, etc.

This project shall also offer modern amenities such as Children Park, Club House, Gymnasium, Swimming Pool, Amphitheatre, Skating area, Gazebo, Box Cricket Pitch, Stacked Parking, Lift with battery back up, Secured entry, CCTV Camera security, etc.

KCL enjoys a strong balance sheet with huge scalability potential going ahead –

Despite being a regional player and a relatively smaller player in the real estate space as compared to other larger players, KCL runs a strong business model covering multiple product segments across Nashik. KCL has total debt of around Rs 102 crs on the balance sheet as on FY18 as compared to a tangible networth of Rs 83.37 crs. In terms of financial performance for FY18, KCL has posted a Topline of close to Rs 127 crs, EBIDTA margins of 24.52% and a PBT of Rs 18.87 crs followed by a PAT of Rs 13.01 crs.

KCL has shown consistent growth since last 5 years starting from FY13 onwards when its Topline was Rs 42.30 crs which has now touched Rs 127 crs as on FY18 while PBT has improved from 3.90 crs to Rs 18.87 crs in the same period with net margins progressively up to around 10.26%. In Q1 of FY19 KCL has already recorded a Topline of Rs 30.4 crs, a EBIDTA of Rs 8.35 crs and a PAT of Rs 4.22 crs with net margins placed at 14.45% on a equity base of Rs 12.30 crs after the IPO

Last 5 years KCL has seen its PAT multiplying from Rs 2.70 crs in FY13 to Rs 13.01 crs as FY18 while Total Net Debt on the BS as on Mar 2018 has remained at 102 crs from Rs 12.40 crs in FY13. The net D:E currently as on March 2018 stands at 1.2.1.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should increase at a CAGR of 25-30% and with most of the projects being ongoing coupled with the IPO funds should help generate healthy cash flows for the company. Hence going ahead we expect both the ROCE and ROE to improve to 25% and 22% by FY20 from 18% and 20% in FY18.

What is KCL's key USP and competitive edge –

What makes KCL different & why we like the KCL stock as a strong regional proxy play in the domestic real estate sector?

Land as an inventory –

Many real estate companies purchase and maintain large land banks for future development. In the meantime they show the land as an asset on the balance sheet. When a company does that, their capital in the form of land does not earn any returns which depresses the return on capital.

KCL on the other hand does not treat the land as an asset but as an inventory. All the land owned by KCL is under development and in this way they are able to churn their assets quickly and earn better return on their capital. Which brings us to the next thing - financing.

Financing has largely come from increased borrowings for KCL –

In an effort to maintain huge land banks, lot of real estate companies have over-leveraged themselves. However, it is never a good idea to have too much debt and it is outright criminal to do so in a cyclical industry. Because when the downturn comes, which it inevitably will and the demand suddenly goes out, the overleveraged ones are caught badly. In such cases, they are forced to sell their assets to bring down the debt to manageable levels, again at exactly the wrong time since they are likely to get depressed prices for their assets (land) due to the recessionary demand. Here again while KCL has also witnessed a sharp increase in its total debts from Rs 12.30 crs in FY13 to Rs 102 crs in FY18, but what is reassuring is that the company has always had a clear financial track record in the last 5 years with not even a single day delay in payment of installment.

The average unsold inventory has been around about 2.5 to 3.0 lac sqft. This inventory is total across all the projects at various stages. The unsold inventory in completed near completion projects is also negligible.

Timing Land Acquisition has been a big strength of KCL – Like in all cyclical industries, timing is of great importance in real estate as well. Generally like in other commodity industries, in real estate as well companies follow herd mentality and they all rush in to add capacity at the same time which sows the seeds for the next downturn.

In terms of timing, what usually happens is most of the capacity addition takes place at the top of the cycle when the prices are at their highest. Karda on the other hand has had a contrarian approach and have been buying land at very low prices very early in the upcycle and is well positioned in the market to fuel its growth ahead unlike other real estate companies who are forced to sell to bring down their debt.

Promoters have a very strong understanding of the business – KCL is led by Shri Naresh Karda who is a first generation entrepreneur who founded KCL in 2007 and has over 23 years of experience in the field of real estate & construction and has completed more than 36 projects and delivered 2500 homes successfully in Nasik City and has also been awarded as the *"Business Icon of Nasik "* by Lokmat in 2014

Finally we believe that the demand for residential property in Nashik holds good promise of sustained growth ahead largely due to the growing urban agglomeration and the rapid development of connectivity between Mumbai and Nashik, and hence people are looking at a future wherein people will be able to live in Nashik and travel to Mumbai and back for work purposes.

On an rough cut basis, we expect the current property rates should double in the next three to five years due to the huge infrastructural investments being done in the city which forms a crucial part of the state's golden triangle with a huge opportunity for growth and accelerated returns on investments in property.

Developers in the city are displaying remarkable vision and appear to be replicating the urban development model set by their counterparts in bigger cities like Mumbai and Pune, with an array of bigger and better projects equipped with the latest in terms of amenities now mushrooming all over the city

Our belief is that KCL's projects in the Nashik market are well-located to gain the first mover advantage and are poised to benefit significantly over the longer term period of next 2-3 years considering the upcoming infrastructure investments here & expected higher investments from industrial developments here.

Peer Comparision –

Company	Main Mkt	FY18Sales	FY18Debt	PEFY18A	PEFY19E	PEFY20E	PEFY21E
Sunteck Realty	Mumbai	930.00	655.00	23.00	15.00	13.00	11.00
Prestige Estates	Bangalore	4610.00	6030.00	20.00	19.00	18.00	17.00
Brigade Ent	Bangalore	2040.00	2590.00	16.00	13.00	12.00	11.00
Sobha	Bangalore	2730.00	2430.00	15.00	13.00	12.00	11.00
Kolte Patil	Pune	2630.00	1350.00	12.00	10.00	9.00	8.00
Vascon Engineers	Pune	540.58	202.00	85.00	11.00	10.00	9.00
Karda Constructions	Nashik	126.80	102.00	20.32	10.00	7.00	6.00

Source – Consensus Estimates, Our Estimates

Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 155 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 18.51 crs in FY19E. Thus on a conservative basis, KCL should record a EPS of Rs 15.05 for FY19E. For FY20E and FY21E our expectation is that earnings traction for KCL would continue to be strong wherein we expect a EPS of Rs 23 and Rs 26 respectively.

KCL is largely a regional play on the Nashik market and currently has over 21 lac sf of land bank spread across 18 ongoing and upcoming projects. KCL has benefited from a smart land banking strategy wherein it acquired land earlier and with strong execution it has been able to monetize these strengths optimally.

We see governments fillip to affordable housing will be catalyst for the future growth of the company. It is also one of the Nashik's top developers and has significant brand name in the city. We also see that Nashik's industrial development and expansion will drive the necessary realty demand in coming years. Further, its proximity to other urban centres in state like Mumbai and Pune is an advantage.

Structural reforms in realty like Housing for all and RERA will increase the buyers interest in realty market. Going ahead also KCL plans to follow this strategy of pushing its execution right and implement its value aspirational strategy to the Affordable Housing Segment where the company is already a big player and which we believe has significant potential to unleash growth ahead for KCL over the next 2-3 years.

KCL's key strengths like identifying land parcels in the right locations and attractive valuations and at the same time keeping its execution plans on track has added sheen to the company in a sector which is witnessing structural changes and short term pain consequent to the RERA, GST and Demon which have impacted smaller players severely

We hence expect that KCL which is already strong will emerge even more stronger as it has a wide array of projects both in the upper, middle and in the affordable segments which will help it broadbase its customer mix.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should easily increase at a CAGR of 25-30% with the ROE and ROCE is also expected to improve to 18% and 23% and 20% and 25% by FY19 and FY20.

The KCL stock trades at a P/E of 7x and 6x based on FY20E and FY21E, which looks attractive considering its strong execution capability, consistent financial track record and looking at future potential for the Nashik market which will continue to see gradual improvement over the next 2-3 years.

Also valuations on a Price to Book basis at 1.96x FY20 don't look very expensive and we believe that a quality player like KCL can trade at a P/BV of around 2.5 to 2.60x considering its strong execution ability, attractive locational project advantages despite its large regional bias on Nashik market. However we believe that since KCL is yet new to the capital markets, value expansion may take some time but if the management maintains its strong financial track record of earnings and execution going ahead also then one could definitely see a strong rerating in the longer term
Hence we believe that the KCL stock should be purchased at the current price for a price target of around Rs 280 based on 12x FY20E over the next 15 to 18 months.

FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	105.77	126.8	155.00	205.00	230.00
EBIDTA	26.68	31.09	40.30	53.81	59.8
EBIDTA %	25.22	24.52	26.00	26.25	26.00
Interest	18.26	19.71	17.00	16.00	17.00
Depreciation	0.27	0.30	0.35	0.40	0.50
Non Operational Other Income	4.06	7.78	3.50	3.50	3.50
Profit Before Tax	12.21	18.87	26.45	40.91	45.80
Profit After Tax	7.88	13.01	18.51	28.50	32.01
Diluted EPS (Rs)	6.41	10.58	15.05	23.17	26.02
Equity Capital	12.30	12.30	12.30	12.30	12.30
Reserves	21.35	83.37	98.38	121.88	147.89
Borrowings	116.00	102.00	92.00	92.00	90.00
GrossBlock	1.97	1.78	1.9	2.00	2.15
Investments	18.19	2.03	2.03	2.03	2.03

Source Company our Estimates

KEY CONCERNS

Heavy dependence on the Nashik Market.

Group companies are engaged in the same line of business similar to KCL. There is no non compete clause given by the management on this aspect.

While the management has clarified to us that all future and existing projects will be undertaken under KCL and not promoter owned companies, the market will await for more clarity here. As such we don't expect this to be a big risk here as majority of the land parcels are all owned under KCL

JOINDRE CAPITAL SERVICES LTD.

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