

Karda Constructions Limited

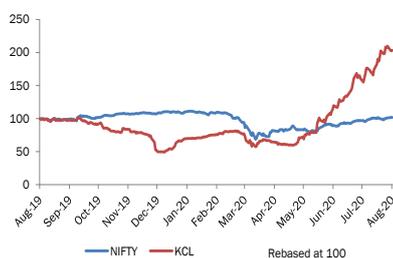
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Under-construction and pipeline projects render strong earnings visibility

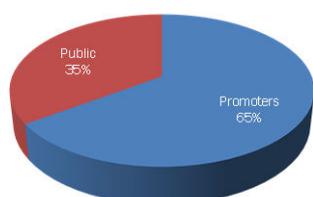
BUY

Sector	: Real Estate
Target Price	: Rs 120
Current Market Price	: Rs 77
Market Cap	: Rs 473 crore
52-week High/Low	: Rs 79/19
Daily Average Volume	: 2,45,619
Face Value	: Rs 2
Beta	: 0.71
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 541161
NSE Scrip Code	: KARDA
Bloomberg Code	: KARDA IN
Reuters Code	: KARD.NS
Nifty	: 11,308
BSE Sensex	: 38,370
Analyst	: Research Team

Price Performance



Shareholding Pattern



Update Report

Highlights of FY20 Results

- Karda Constructions Limited's (KCL's) operating revenues increased 8.4% to Rs 114.1 crore in FY20 in spite of overall economic slowdown.
- EBITDA came in at Rs 27.4 crore while EBITDA margin at 24.0% was ~440 bps lower primarily on account of higher other expenses.
- PAT was Rs 9.6 crore while PAT margin of 8.4% was down ~300 bps with the operating margin decline partly offset by a lower effective tax rate.

Outlook & Valuation

KCL's robust project pipeline provides strong revenue and earnings visibility. We expect sales growth to accelerate to 14% in FY21, driven by strong revenue booking from 15 under-construction projects. Subsequently, in FY22, we expect a sharper rise in revenues (+46%), aided by sales from currently ongoing projects and 5 new projects which comprise marquee developments including two phases of the residential-cum-commercial Hari Aangan / High Street project. We also expect robust margin expansion in FY22, supported by a higher percentage of joint development and large commercial projects (High Street Phases I and II). Favourable policies for affordable housing render a competitive advantage to KSL with its strong presence in the segment. The civil construction business, on the other hand, de-risks the business model. Already a market leader in fast-growing Nashik, KCL's entry into other Tier II markets such as Pune, Nagpur, Kolhapur and Solapur will be a source of incremental growth in the future. Our previous target of Rs 50 (adjusted for stock split) for KCL was achieved on 23 June 2020. The stock currently trades at an attractive valuation of 11.6x FY22E EPS. Retaining the target P/E multiple of 18.0x and extending the earnings horizon for our valuation to FY22E, we value KCL at Rs 120, informing a BUY rating with an upside potential of 55%.

Key Financial Metrics

Rs lakh	FY18A	FY19A	FY20A	FY21E	FY22E
Operating revenue	12,679	10,530	11,412	13,016	19,048
Growth		-17.0%	8.4%	14.1%	46.4%
EBITDA	3,180	2,995	2,739	3,098	6,457
EBITDA margin	25.1%	28.4%	24.0%	23.8%	33.9%
PAT	1,305	1,210	964	1,323	4,084
PAT margin	10.3%	11.5%	8.4%	10.2%	21.4%
Diluted EPS (Rs)	2.55	1.96	1.55	2.15	6.64

Note: EPS is historically adjusted for stock split; Source: Company data, Khambatta Research

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Profit & Loss Account

Rs lakh	FY18A	FY19A	FY20A	FY21E	FY22E
Operating revenue	12,679	10,530	11,412	13,016	19,048
<i>Growth</i>		-17.0%	8.4%	14.1%	46.4%
Construction & operating expenses	9,499	7,535	8,673	9,918	12,591
EBITDA	3,180	2,995	2,739	3,098	6,457
<i>EBITDA margin</i>	25.1%	28.4%	24.0%	23.8%	33.9%
Depreciation & amortization	30	28	18	18	18
PBIT	3,927	3,311	3,143	3,470	7,049
Interest expense	2,040	1,708	1,785	1,703	1,591
PBT	1,887	1,603	1,265	1,767	5,458
Tax expense	581	394	301	445	1,374
PAT	1,305	1,210	964	1,323	4,084
<i>PAT margin</i>	10.3%	11.5%	8.4%	10.2%	21.4%
Diluted EPS (Rs)	2.55	1.96	1.55	2.15	6.64

Note: EPS is historically adjusted for stock split; Source: Company data, Khambatta Research

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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%.

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