

Karda Constructions Limited

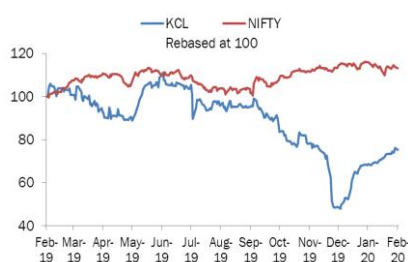
17 February 2020

Healthy growth driven by a robust quarter

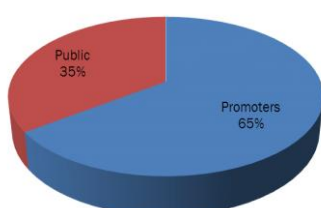
BUY

Sector	: Real Estate
Target Price	: Rs 249
Current Market Price	: Rs 146
Market Cap	: Rs 180 crore
52-week High/Low	: Rs 215/93
Daily Average Volume	: 81,310
Face Value	: Rs 10
Beta	: 1.14
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 541161
NSE Scrip Code	: KARDA
Bloomberg Code	: KARDA IN
Reuters Code	: KARD.NS
Nifty	: 12,046
BSE Sensex	: 41,056
Analyst	: Research Team

Price Performance



Shareholding Pattern



9M FY20 Update Report

Result Highlights

- Karda Constructions Limited (KCL) reported over 22% y-o-y growth in operating revenues in 9M FY20, driven by a 66% rise in sales in the third quarter.
- EBITDA for 9M FY20 came in at Rs 21.88 crore (-4% y-o-y) while EBITDA margin at 25.3% was 690 bps lower on a y-o-y basis on account of higher other expenses.
- PAT was reported at Rs 7.82 crore while PAT margin came in at 9.0% for the nine months ending 31 December 2019.

Valuation

We expect revenue growth to remain healthy in FY21, supported by execution of ongoing and planned projects, and demand growth in the Nashik real estate market. KCL's robust project pipeline provides strong revenue and cash flow visibility. Favourable policies for affordable housing place the company in an advantageous position with its strong presence in the segment. The civil construction business, on the other hand, de-risks KCL's business model. Entry into other Tier II markets such as Pune, Nagpur, Kolhapur and Solapur will be a source of incremental growth in the future. There is further upside potential to our earnings estimates in the event of the company completing its planned sale of a plot valued at approximately Rs 25 crore. The KCL stock currently trades at 14.9x FY20E EPS and 10.6x FY21E EPS. Based on a target P/E multiple of 18.0x, we value KCL at Rs 249, representing a 70% upside from current levels and informing a BUY rating.

Key Financial Metrics

Rs lakh	FY17A	FY18A	FY19A	FY20E	FY21E
Operating revenue	10,578	12,679	10,530	12,678	15,048
Growth		19.9%	-17.0%	20.4%	18.7%
EBITDA	2,669	3,112	2,995	3,176	3,882
EBITDA margin	25.2%	24.5%	28.4%	25.1%	25.8%
PAT	791	1,305	1,210	1,205	1,700
PAT margin	7.5%	10.3%	11.5%	9.5%	11.3%
Diluted EPS (Rs)	7.88	12.77	9.78	9.80	13.82

Source: Company data; Khambatta Research

Karda Constructions Limited**17 February 2020****Financial Performance**

Rs lakh	3Q FY19	3Q FY20	Y-o-y	9M FY19	9M FY20	Y-o-y
Operating revenue	2,466	4,090	65.9%	7,083	8,660	22.3%
EBITDA	892	990	11.0%	2,279	2,188	-4.0%
<i>EBITDA margin</i>	36.2%	24.2%	-1198 bps	32.2%	25.3%	-690 bps
PAT	322	494	53.2%	936	782	-16.5%
<i>PAT margin</i>	13.1%	12.1%	-99 bps	13.2%	9.0%	-419 bps
Diluted EPS (Rs)	2.61	4.00	53.3%	7.59	6.31	-16.9%

Source: Company data

Karda Constructions Limited

17 February 2020

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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