



# O. J. Financial Services Limited

SEBI Research Analyst Registration Number – INH100893674

For Safety & Prosperity,  
Invest / Insure thru O.J.

## Karda Construction Ltd

Sector: Realty

August 17, 2020

CMP: Rs.85

Target Price: Rs.115

At OJ, we evaluate investment in equity by applying 4 P theory. (4 P stands for Promoter, Product, Price and Profit) i.e. if 3 P's (Promoter, Product & Price) are good, then 4th P Profit is assured.



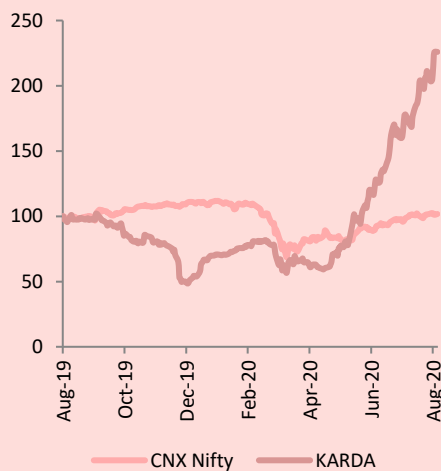
### Market Data

52 week H/L (Rs.)	89/17.80
Group / Index	T/-
Away from 52WH (%)	4.5%
Rise from 52WL (%)	377.5%
VWAP	85.92
Mkt. Cap. (Rs.cr)	523

### Shareholding Pattern (%)

	Jun-20
Promoter	65.2
DII	11.0
FII	0.3
Others	23.6

### Relative Price Chart



### Major Catalyst

- KCL Performance:** Over the last 5 years, KCL claims to have delivered 4500 units, totaling 3.11million sq.ft. for a total turnover of Rs.600 crore, that implies an average unit size of 700 sq.ft. And an average realization of Rs.1,924/sq.ft. Further, KCL has managed bookings of ~375-400 units per annum, for the last 2 years. In FY19 the KCL sold ~350 units (70-80% residential and balance commercial) and in FY20 KCL sold ~400 units. KCL has historically witnessed ~50% of bookings before completion and claims to have unsold stocks as low as ~5% flats every year.
- Timely execution capabilities:** With research before making any crucial decision to acquire, develop or sell the properties plays a key role in timely execution of properties. The projects spans different segments of the real estate market, such as residential and office space and it is expected that this diversity will allow the Company to better weather market cycles. On average, the company has taken a little over 2 years to construct a project comprising 71 units with a carpet area of over 67,000 sq. ft.
- Strong project pipeline:** Despite lockdown, disrupted demand outlook and complete washout of economic activities in the real estate sector, the company achieved 80% of sales turnover during Q4FY20 and reported Rs.114.1 crore as Revenue in FY2020 vs Rs.105.3 crore in FY2019
- Investment Theme:** With diversification on cards from real estate Development Company, developing residential and residential-cum commercial projects in Nashik to venture into construction contracts has folded newer areas for the Company to create additional sources of income which will further increase the cash flow visibility of the Company. Subsequent to the recent meeting with the management, we reiterate our buying call and revise the target upwards to Rs.115 per stock.

Financial Summary	FY19	FY20	FY21E	FY22E
Total Revenue (Rs.cr)	105	114	99	127
Net Profit (Rs.cr)	12	10	6	12
Share Capital (Rs.cr)	12	12	12	12
EPS (Rs.)	9.8	7.8	1.1	1.9
P/E (x)	8.7	10.9	80.7	43.8
P/BV (x)	1.1	1.0	5.6	5.2
EV/EBIDTA(x)	3.3	3.8	22.6	17.7
RoE (%)	12.8%	9.3%	6.9%	11.8%

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Promoter

Product

## Karda Construction: Strong Execution Capacity

The Karda construction (KCL) is a renowned Nashik based real-state player having its base in the construction industry for over two decades. The group has planned concentration to develop affordable housing in the residential segment and from year 2001 onwards, it diversified into commercial segment. After incorporation in 2007, the Company has retained its focus on quality and affordable developments. Initially, KCL concentrated only on the affordable segment but now has become one of the leading real estate developers in Nashik (developments under the “Hari” brand name) with a diverse range of projects ranging from affordable to luxury. The Company is looking to ramp up on its commercial portfolio as well. KCL, in the last couple of years, has also entered the construction contracts space to further diversify its offerings and de-risk its business model. With 25 years of experience, the Company has delivered 65 projects, achieved 18,000+ Happy Patrons, 12 prestigious awards.

### KCL business model

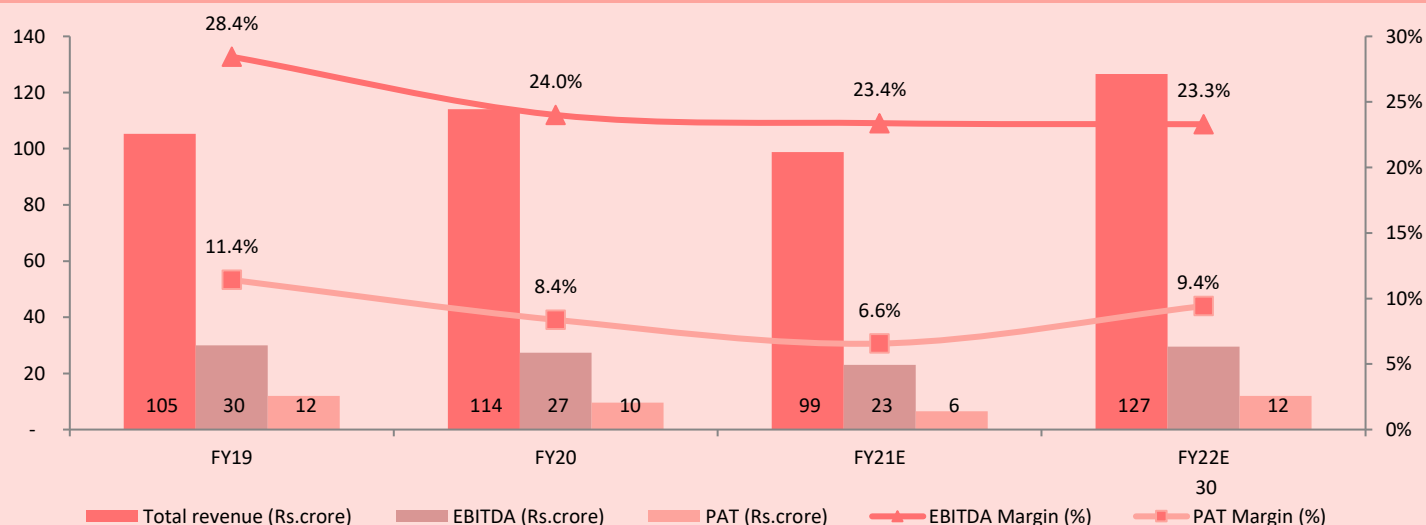
#### Residential

- **Affordable housing (50%):** < Rs. 45 lacks ( ~Rs.15-20 lacks for a 1BHK, Rs.25-30 lacks for a 2BHK)
- **Mid Segment (30%):** Between Rs.50 lacks to Rs.1 crore
- **Commercial complex, premium segment / affordable shops ( 10-20%):**
  - Priced at ~ Rs. 1 crore
  - Affordable shops @ Rs. 21-25 Lacks range

#### Contract Job Work

- KCL provides construction services other than real estate (job work) which includes hospitals, IT parks etc. where it is responsible only for construction job
- It has an order book of Rs.173 crore in this segment, which has to be executed over the next 3 years, implying an average annual run rate of Rs.60 crore, as compared to Rs.11 crore reported for FY20
- EBIDTA margins in this business is ~10-12%
- Payments are done on milestone basis
- 10-15% of the payments due are retained as retention money, paid after 18 months

### Trend in Revenue, EBITDA, EBITDA Margin and PAT Margin



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## Investment Rational

### Focused on Projects not exceeding 300-400 Units

- Focused on developing 300-400 units project as the absorption of such units becomes easier for Nashik market
- The Company, having witnessed the low execution and sales traction of larger projects (built on 30-40 acres), believes in selling all their units by the time 80% of their project is complete
- This allows the company to finish off a project in three years, unlock the capital invested, and redeploy it in the next project
- Focuses on building its own projects and not sub-contracting them. This has also helped them in the civil construction business where they focus on building construction contracts since they already have expertise in the building construction space.

### Competitive Edge in Nashik

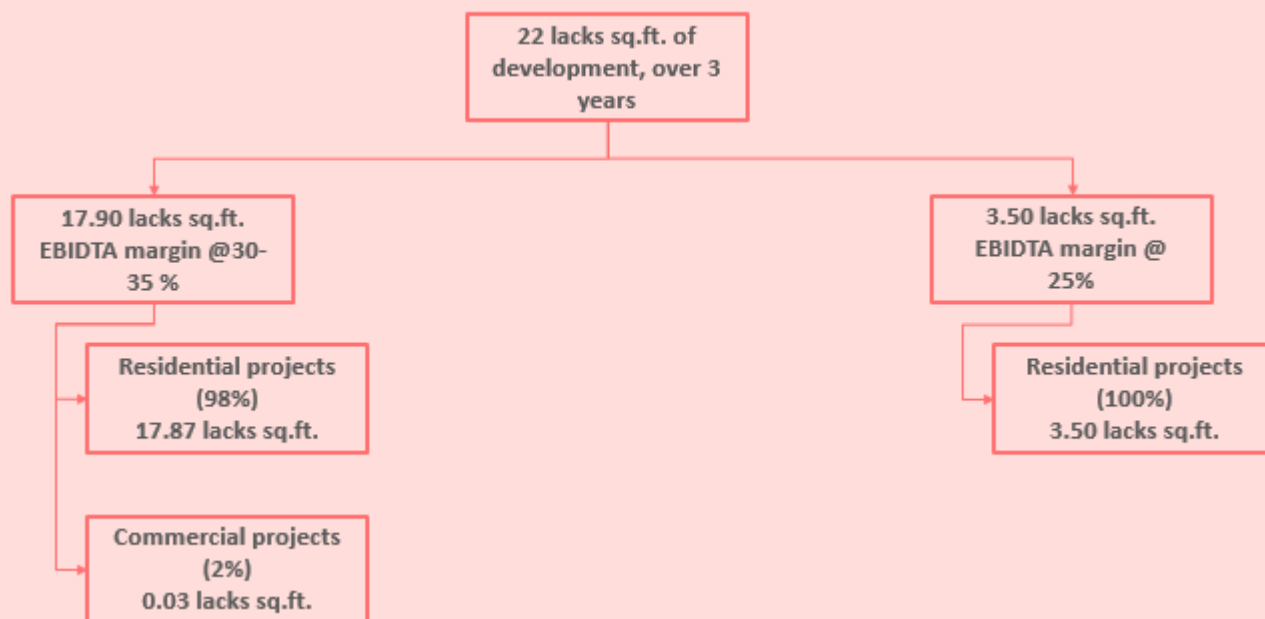
- Nashik is the 4<sup>th</sup> most populous city in Maharashtra, with a population of ~2 million
- The city has witnessed a decadal growth of ~40% in population
- The average per capita income in Nashik is said to be Rs.156,979 (in 2017-18)
- Connected by 200 kms of national highway from Mumbai and Pune
- Nashik is touted as the wine capital of India, with over 37 vineyards offering vine tourism
- Nashik claims to be the 4th fastest growing city in India. What seems to add to this pace:
  - Announcement of development of new Industrial areas
  - The much touted project, Maharashtra Samruddhi Mahamarg (Mumbai- Nagpur super communication expressway) will be passing thru Nashik
  - The government has recently approved the 235.15km, Rupee 160.39 trillion (\$US 2.1bn) Pune to Nashik broad-gauge main line project, expected to bring down the travel time between Pune and Nashik to 1 hr 45 min
  - Local train from Kasara – Pune railway lines. These and other projects are expected to improve the city's connectivity network, flow of traffic within the city and thereby keep the real estate demand buoyant in Nashik
- According to the management, the city witnesses an annual supply of ~20,000 apartments, with almost equal demand being witnessed resulting into nominal inventory levels.
- Typically, ~70-80% of the apartments purchased in Nashik are financed, while the balance 30-20% are self-financed purchased.

### Shift to Asset-Light Business Model

- In last 2-3 years the company has changed its model from outright land purchase to JDA and/or JV model, implying a substantially reduced capital requirement to start the project
- Under the JV model, KCL agrees to develop and sell the projects so developed, with the land owner sharing a pre-agreed ratio of profit share in lieu of the land which they have given for the project
- The JDA model is similar, except that the land owner is allotted pre-decided number of flats in the completed projects
- This model have slightly lower EBITDA margins, @ ~25-30% vs 30-35% in owned model. That said the profitability is higher at ~25% (PBT levels) due to lower capital needed to be blocked initially

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## Mix of Own and JDA Model: Under Construction Project



- Total revenues estimated at Rs. 687 crore (of which Rs. 343 crore already realized; balance Rs. 343 crore to be realized over the next 3 years)
- **Own development**
  - Residential revenues estimated at Rs.500 crore (1.75 lacks sq.ft. X Rs.2,800/sq.ft.)
  - Commercial revenues estimated at Rs.36 crore (36k sq.ft. X Rs.10,000/sq.ft.)
- **JV development**
  - Residential revenues estimated at Rs.150 crore (3.5 lacks sq.ft. X Rs.4,300/sq.ft.)

## Complete JDA Model: Future Projects



- Total revenues estimated at Rs. 830 crore (to be realized over the next 5 years)
- **JV development**
  - Residential revenues estimated at ~Rs. 200 crore (4.5 lacks sq.ft. X Rs.4,000/sq.ft.)
  - Commercial revenues estimated at ~Rs. 630 crore (4.5 lacks sq.ft. X Rs.14,000/sq.ft.)

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## KCL till FY2020; At a Glance

- Over the last 5 years, KCL claims to have delivered 4,500 units, totaling 3.11 million sq.ft., for a total turnover of Rs.600 crore
  - This implies an average unit size of 700 sq.ft.
  - This also implies an average realization of Rs.1,924/sq.ft.
- KCL has managed to book ~375-400 units per annum, in the last 2 years
  - In FY19 the KCL sold ~350 units (70-80% residential and balance commercial)
  - In FY20 KCL sold ~400 units
- Of Rs. 114 crore of revenue reported in FY20, Rs. 103 crore was from the residential projects and the balance from contract job work
- KCL has historically witnessed ~50% of bookings before completion and claims to have unsold inventory as low as only 5% flats every year

## Update on projects currently running for FY2021 and beyond

- During lockdown period (March-June '20), KCL claims to have sold ~90-91 units and another 50 units were claimed to have been booked in the month of July 2020
- KCL claims to have 20 projects under construction, with over 2.1 million sq.ft. of development, translating a revenue potential of ~Rs.690 crore (50% booked) to be completed over the 2-3 years
- The company has another 0.9 million sq.ft. saleable land under JDA (revenue sharing, sales to be managed by KCL), with revenues targeted at ~Rs.850 crore to be completed over the next 5 years
  - Of this, 50% is residential and 50% commercial
  - Being a JDA model, these projects is estimated to enjoy significantly higher margin
- The company has order book of Rs.173 crore in Contract job work to be completed in 3 years

Ongoing Projects		
Property Name	Location	Type
Hari Sanskruti	Kharjul mala, Opp.Nisarg Lawns, Near Railway Station, Nashik (East)	1 BHK,2 BHK,3 BHK,Studio Flat / 1 RK
Hari Gokuldharm	Near Rajrajeshwari, Old Saikheda Road, Jail Road , Nashik Road, Nashik	1 BHK,2 BHK
Hari Vishwa	Opp.TAJ, Behind Hotel Express inn, Pathardi phata, Mumbai Highway	2 BHK,3 BHK
Hari Om II	Near Hari Om Phase I, Behind Guru Gobind Singh College, Indira Nagar	1 BHK,2 BHK,3 BHK
Hari Sagar	Opp.Niki sagar Hotel,Lam Road Deolali Camp,Nashik	2 BHK,3 BHK,Twin Bunglow
Hari Vasant - Twin Towers	Behind Asaram babu Ashram , Savarkar Nagar,Gangapur Road,Nashik.	2 BHK,3 BHK,4 BHK
Hari Bhakti	B/H Anuradha Theater,Near jain Manidir,Artillary center Road ,Nashik	2 BHK,3 BHK,Shops / Offices
Hari Siddhi	B/H chehdi octroi naka,Nashik Pune highway,Nashik	1 BHK,2 BHK
Hari Sanskruti II	Sinner phata, Kharjul Mala, Opp Nisarg lawns, Nashik Road (E)	1 BHK,2 BHK
Hari Nakshtra-I Eastext	Opp. ICICI Bank, Nashik-Pune Highway, Ashirwad Stop, Nashik Road	2 BHK,3 BHK,4 BHK,Shops / Offices
Hari Nakshtra-II Eastext	Opp. ICICI Bank, Nashik-Pune Highway, Ashirwad Stop, Nashik Road	2 BHK,3 BHK,4 BHK
Hari Laxmi	Vihitgaon, Nashik Road, Nashik	1 BHK,2 BHK
Hari Niketan II	Hotel Coronation Point, Deolali	3 BHK,Shops / Offices
Destination one Mall	Nashik Road, Opp. ICICI Bank	Shops / Offices
Hari Anandvan	Near Bhatia college Lam road, Deolali	1 BHK,2 BHK,Shops / Offices,Twin Bunglow
Hari Aakruti II	Opp.Sagar Sweets,Dwarka,Nashik	1 BHK,2 BHK,3 BHK,4 BHK,Shops / Offices
Hari Nisarg	Near Khushroo Garden, Deolali , Nashik.	1 BHK,2 BHK,Twin Bunglow
HARI KRISHNA IV	artilery center road ,near jay bhavani road , nashik road.	1 BHK,2 BHK
Hari Kunj Mayflower	Near City Centre Mall, Karmayogi Nagar, Govind Nagar	2 BHK,3 BHK
Hari Sparsh 4	Barnes School Road, Bhagur, Deolali	1 BHK,2 BHK

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Upcoming Projects		
Property Name	Location	Type
Hari Samarth	B/H chehdi octroi naka,Nashik Pune highway,Nashik	1 BHK,2 BHK
Hari Aangan	Opp to Jalsa Lawn, Ashoka Marg	2 BHK,3 BHK
Karda highstreet	Ashoka Marg, Opp to Jalsa Lawns	Shops / Offices

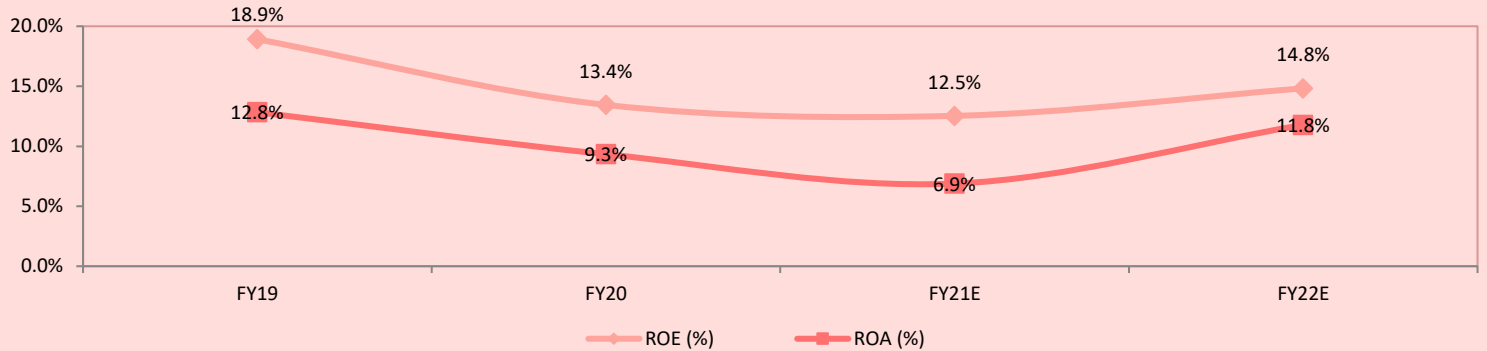
Quarterly Performance						% of Revenue		
	4Q'FY20	4Q'FY19	YOY%	3Q'FY20	QOQ %	4Q'FY20	4Q'FY19	3Q'FY20
<b>Income statement (Rs. crore)</b>								
Revenue	27.52	40.90	(32.7%)	34.46	(20.1%)			
COGS	18.58	23.62	(21.3%)	24.43	(24.0%)	67.5%	57.8%	70.9%
<b>Gross Profit</b>	<b>8.94</b>	<b>17.28</b>	<b>(48.3%)</b>	<b>10.03</b>	<b>(10.9%)</b>	32.5%	42.2%	29.1%
Employee Cost	0.99	0.93	6.0%	0.71	38.8%	3.6%	2.3%	2.1%
Selling Expenses	1.50	2.24	(32.8%)	0.92	64.2%	5.5%	5.5%	2.7%
Other Expenses	0.94	4.22	(77.7%)	1.24	(24.3%)	3.4%	10.3%	3.6%
<b>Total Expenses</b>	<b>3.43</b>	<b>7.38</b>	<b>(53.6%)</b>	<b>2.87</b>	<b>19.6%</b>	12.5%	18.1%	8.3%
<b>EBITDA</b>	<b>5.51</b>	<b>9.89</b>	<b>(44.3%)</b>	<b>7.16</b>	<b>(23.1%)</b>	20.0%	24.2%	20.8%
Depreciation	0.02	0.02	10.6%	0.07	(65.2%)	0.1%	0.1%	0.2%
<b>EBIT</b>	<b>5.49</b>	<b>9.87</b>	<b>(44.4%)</b>	<b>7.10</b>	<b>(22.7%)</b>	19.9%	24.1%	20.6%
<b>Interest</b>	<b>3.84</b>	<b>4.18</b>	<b>(8.2%)</b>	<b>4.04</b>	<b>(4.9%)</b>	14.0%	10.2%	11.7%
Other Income	0.73	1.34	(45.3%)	0.29	151.7%	2.7%	3.3%	0.8%
<b>P/L Before Tax</b>	<b>2.38</b>	<b>7.03</b>	<b>(66.2%)</b>	<b>3.34</b>	<b>(28.9%)</b>	8.6%	17.2%	9.7%
Tax	0.56	2.10	(73.3%)	0.61	(8.3%)	2.0%	5.1%	1.8%
<b>Net Income</b>	<b>1.82</b>	<b>4.93</b>	<b>(63.1%)</b>	<b>2.73</b>	<b>(33.5%)</b>	6.6%	12.1%	7.9%
<b>Basic EPS (Rs.)</b>	<b>1.46</b>	<b>4.00</b>	<b>(63.5%)</b>	<b>2.19</b>	<b>(33.3%)</b>			

## Key Risk

- Multiple layer of approval by various dignitaries, special in real estate business
- Government norms are uncertain, which might lead to holding of construction site
- The industry is facing downtrend over the last few years due to nervousness in the buyers mind and higher property prices due to rise in construction inputs as well as highly employee cost
- The company is at the early stage of the growth momentum as compared with existing players and would face heavy heat on offer price. On top of this, the Company has to maintain its timely delivery track record to gain the market momentum
- The Company is concentrated in Nashik area, which leaves high risk in terms of growth momentum of the place and regulatory changes

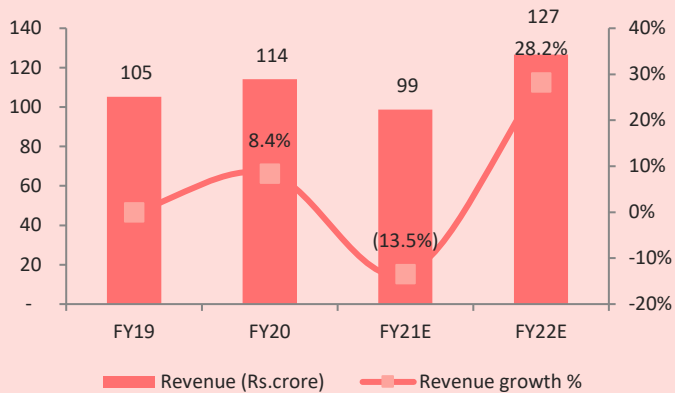
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## Trend in key ratios

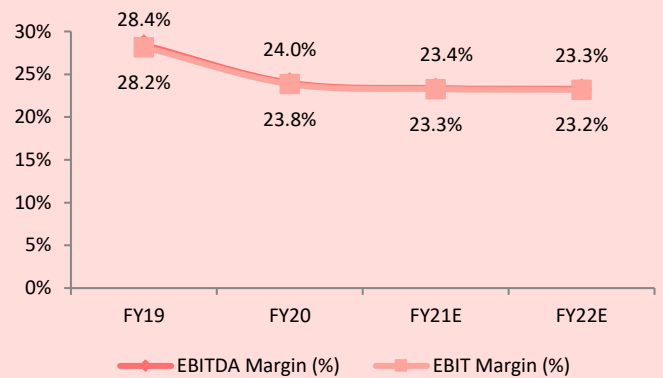


## Profit

## Trend in Revenue and Growth



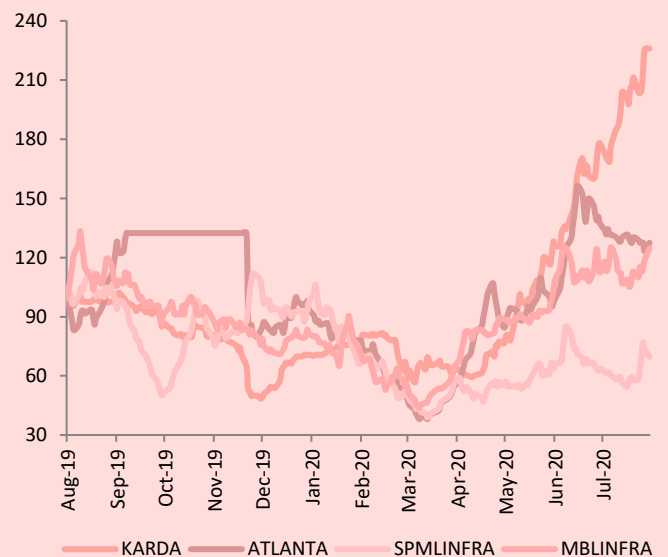
## Trend in Gross EBITDA Margin and EBIT Margin



## Relative Valuation

Peers	Mcap (Rs. Crores)	EPS (Rs.)	P/E (x)	BV (Rs.)	P/BV (x)
KARDA	523	1.05	80.7	15.3	5.6
ATLANTA	75	-	-	57.2	0.2
SPMLINFRA	34	3.91	2.4	103.3	0.1
MBLINFRA	77	33.82	0.2	102.6	0.1

## Relative price chart



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## Price

### Balance Sheet

(Rs. Crores)	FY19	FY20	FY21E	FY22E
Equity Share Capital	12.3	12.3	12.3	12.3
Other Equity	81.9	90.9	81.8	89.1
<b>Total Shareholders' Funds</b>	<b>94.2</b>	<b>103.2</b>	<b>94.1</b>	<b>101.4</b>
<b>Non-Current Liabilities</b>	62.6	99.2	89.3	96.6
<b>Capital Employed</b>	<b>156.9</b>	<b>202.4</b>	<b>183.4</b>	<b>198.0</b>
<b>Fixed Assets</b>	<b>1.7</b>	<b>0.9</b>	0.9	0.9
Investments	60.6	71.6	66.3	70.6
Deferred Tax Assets	-	0.2		
Inventory	154.7	164.0	180.4	168.2
Debtors	11.2	12.2	11.3	11.9
Loans & Advances	22.3	34.1	31.6	33.1
Other Assets	8.5	7.2	6.9	7.1
Cash	6.5	0.4	0.3	0.3
<b>Total Current Assets</b>	<b>203.2</b>	<b>217.8</b>	<b>230.5</b>	<b>220.6</b>
Sundry Creditors	17.5	14.4	13.9	14.0
Provisions & Others	91.1	73.8	100.3	80.0
<b>Current Liabilities &amp; Provisions</b>	<b>108.6</b>	<b>88.2</b>	<b>114.2</b>	<b>94.0</b>
<b>Net Current Assets</b>	<b>94.6</b>	<b>129.7</b>	<b>116.3</b>	<b>126.5</b>
<b>Application of Funds</b>	<b>156.9</b>	<b>202.4</b>	<b>183.4</b>	<b>198.0</b>

### Profit & Loss

(Rs. Crores)	FY19	FY20	FY21E	FY22E
<b>Revenue</b>	<b>105.3</b>	<b>114.1</b>	<b>98.8</b>	<b>126.7</b>
COGS	64.8	70.8	61.8	79.0
<b>Gross Profit</b>	<b>40.5</b>	<b>43.3</b>	<b>37.0</b>	<b>47.7</b>
Employee Cost	2.8	3.5	3.1	4.1
Selling Expenses	4.2	6.2	5.3	7.0
Other Expenses	3.6	6.3	5.5	7.0
<b>Total Expenses</b>	<b>10.6</b>	<b>15.9</b>	<b>13.9</b>	<b>18.2</b>
<b>EBITDA</b>	<b>29.9</b>	<b>27.4</b>	<b>23.1</b>	<b>29.5</b>
D&A Expenses	0.3	0.2	0.1	0.1
<b>EBIT</b>	<b>29.7</b>	<b>27.2</b>	<b>23.0</b>	<b>29.4</b>
Finance Costs	17.1	17.9	17.8	17.6
Other Income	3.4	4.2	3.5	4.2
Extraordinary items	-	(0.9)	-	-
<b>PBT after OE</b>	<b>16.0</b>	<b>12.6</b>	<b>8.6</b>	<b>15.9</b>
Total Tax Expenses	3.9	3.0	2.2	4.0
Reported Net Profit	12.1	9.6	6.5	11.9
<b>Comprehensive Income</b>	<b>12.0</b>	<b>9.6</b>	<b>6.5</b>	<b>11.9</b>

### Valuation and Views

With over two and a half decades of experience in affordable housing business, Karda Construction Limited (KCL) has proven brand image in Nashik not only due to its timely delivery of projects but maintaining consistent record of one of the best builder in the region. With diversification on cards from real estate Development Company, developing residential and residential-cum commercial projects in Nashik to venture into construction contracts has folded newer areas for the Company to create additional sources of income which will further increase the cash flow visibility of the Company. Subsequent to the recent meeting with the management, we reiterate our buying call and revise the target upwards to Rs.115 per stock.

Ratios	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	28.4%	24.0%	23.4%	23.3%
EBIT Margin (%)	28.2%	23.8%	23.3%	23.2%
NPM (%)	11.5%	8.4%	6.6%	9.4%
ROE (%)	12.8%	9.3%	6.9%	11.8%
EPS (Rs.)	9.78	7.77	1.05	1.94
P/E (x)	8.7	10.9	80.7	43.8
BVPS(Rs.)	76.6	83.9	15.3	16.5
P/BVPS (x)	1.1	1.0	5.6	5.2
EV/Net Sales (x)	0.9	0.9	5.3	4.1
EV/EBITDA (x)	3.3	3.8	22.6	17.7



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#### O. J. Financial Services Ltd.

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