27th December, 2010

Pick of the day

Company	BL Kashyap and Sons Ltd.
BSE Code	532719
FV	Re. 1
Networth (Rs in mn)	5,163
Market Capitalization (Rs in mn)	6,100
CMP	Rs. 29.7
Target Price	Rs. 33
Upside	11%

A) About the company

BL Kashyap and Sons (BLK) was incorporated in 1989 at Delhi. It is engaged in construction of factories, manufacturing facilities, IT campuses, commercial and residential complexes, malls and hotels across India. The company is also engaged into real estate business through its subsidiary 'Soul Space Projects Ltd.' and in furnishings business through its subsidiary 'BLK Lifestyle Ltd.' that provides allied services for office buildings and residential complexes.

B) Investment Rationale

1) Strong order book (4.1xFY10revenue), good revenue visibility

As on September 30, '10, the unexecuted order book stands at Rs. 41bn which provides good revenue visibility over FY10-FY12E. The order book is well diversified across various segments like Residential (35%), Government (20%), Commercial, Malls and SEZs (25%), Industrial (10%) and Hospitality (10%) thereby mitigating risks of slowdown in any specific segment. It has recently forayed in government projects as well. It has added government orders like Rs. 5bn worth of order from AIIMS and Rs1bn order from IIT Delhi. It has also been pre qualified for Rs. 30bn worth projects of Ministry of Housing's Central Paramilitary forces. The outcome for military housing is expected in the next two months. In H1FY11 it has bagged orders worth Rs. 23bn and expects an order inflow of Rs. 8bn in H2FY11. It takes 24-36 months to complete real estate projects whereas other projects take 10-16 months for completion. With strong order book, we expect revenue CAGR of 29% over FY10-12E.

2) Expected further upsides from monetization of Soul Space Projects Ltd (SSP)

BLK is present in real estate through its subsidiary SSP. It currently owns 58 acres of land bank in Pune which it had acquired in 2006 for Rs. 340mn while other assets are held through JDA (Joint Development Agreement) model. Currently, SSP is developing mall projects across cities like Pune, Bangalore, Amritsar, Bikaner and Mohali. It expects to sell one of its mall projects in March 2011 for ~Rs. 1.1bn. As a strategic decision, management has decided to exit completely from the real estate business over the next 30 months. At present BLK debt stands at Rs. 4.5bn. Proceeds from monetization from its existing projects would aid in repaying the debt of the parent. This would act as key trigger to the stock.

3) Likely improvement in working capital cycle

The company expects its working capital cycle to improve from 284 days in FY10 to 201 days in FY12 on the back of BLK's effort to reduce its debtor days from 189 days in FY10 to 150 days in FY12E. In addition, future investments (in the form of Loan & Advances) in the real estate subsidiary, SSP, is anticipated to be lower on the back of expected monetization of its properties over the next six months.

D) Outlook and Valuation

We expect revenue CAGR of 29% over the period FY10-12E which translates into an EPS of Rs. 3.3 for FY12E. At CMP, the stock currently trades at a P/E of 8.8x at estimated FY12 EPS. We believe that the company is well placed to tap the opportunity presented by the infrastructure sector and a beneficiary of uptick in private capex cycle. With due consideration to factors like a) strong order book, b) good revenue visibility, we recommend a 'BUY' with a target price of Rs. 33 (10x at estimated FY12 EPS) for investors with a six months horizon.

Name of the analyst :
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