

The Trick Is To Spot Them At The Larval Stage



BSE Code : 533482

Time Duration : 1 year

CMP : ₹73.50 (as on 22 June, 2017)

Target Price : ₹125

Kridhan Infra

BUILD UP YOUR STRONG PORTFOLIO BY ADDING KRIDHAN TO IT

The Tiny Treasure for the month of June is Kridhan Infra Ltd. The company is engaged in providing services related to foundation engineering across the construction and infrastructure sectors. It is operational in Singapore and India and recently it has ventured into other South Eastern Asian countries like Malaysia and Myanmar.

In FY16, the company's revenue mix consisted of foundation engineering at Singapore (78%) and India (7%) and steel solutions (15%). The management plans to diversify its portfolio till FY18 with segmental revenues such as piling (50%), EPC (35%), RMS (10%) and micro tunnelling (5%). Its foray into EPC segment through acquisition in Singapore would be a strong revenue driver for the company.

Turnaround in Singapore market through acquisitions

The company has established its presence in Singapore market through inorganic growth. It has been able to turnaround companies after acquiring the same, leading to acquisition of technology acumen and making inroads into a matured market. It has also been able to successfully win bids which led to swelled order book. The overall order book till March 2017 stood at around Rs.700 cr. It is the only player which has expertise in niche deep drilling.

In 2012, Kridhan Infra acquired Singapore's seventh largest piling company named KH Foges. This company in Singapore has recently emerged as second largest piling company post acquisition. It has been successful in completing more than 250 projects in Singapore. In 2016, it acquired Swee Hong Singapore Ltd with an intention to enter in large value EPC projects. The company now plans to engage in core EPC (Engineering Procurement Construction) projects in Singapore and India. The order book is getting stronger and the management expects high revenue growth in the upcoming 2-3 years.

Singapore presents growth opportunities

Singapore has a huge scope of development in terms of construction and infrastructure. The construction industry in Singapore grew at a CAGR of 2.06% during 2009-14 despite global financial crisis. As per the current trends, it is expected that the industry would grow at CAGR of 3.75% for the period 2017-21.

The construction spend is expected to reach SGD 3700 cr and infrastructure spend is expected to be in range of SGD 1700 cr. The public-sector construction demand is expected to continue due to growing demand for institutional buildings, civil engineering work and transportation facilities, including highways, airports, etc.

Technological advancement

Foundation engineering includes deep drilling of grounds, which Kridhan has managed to go deep digging up to the level of 60-65 metres. The advanced technology adopted by the company has enabled it to create a niche in this segment and get ahead of its competitors. The company has various patents registered in its name. Kridhan is also known for completing its projects at a faster pace due to use of such advanced technology. This has helped the company to realise revenue at a faster pace. It has gained expertise in soil investigation and piling segment and currently it is the only company in India to operate under such segment.

Foray into GCC and SE Asia to boost order book

South East Asian countries have huge scope for development as tourism is expanding and need for infrastructure is growing. Tourism leads to development of strong infrastructure, including roads, airports, hotels etc. Thus, need for EPC projects is increasing, which would turn beneficial for the company. GCC countries are also emerging strong for development of infrastructure and construction industry. Kridhan has huge prospects of gaining new EPC projects from these countries.

Prospects in Indian market

The Government of India has started focusing on infrastructure development in India. In the latest Union budget, major chunk of funds has been allotted for infrastructure development, which includes expenditure on roads, highways, railways, airports, irrigation, water supply facilities, ports, telecom etc. Thus, demand for deep drilling process and EPC projects is going to rise in India. Currently, in the piling segment, companies for deep drilling in India manage to dig only up to 30 metres. Also, 100 Smart Cities, AMRUT, Housing for All are the government initiatives that would pace up the growth in construction and real estate sector. India contributes only 7% of the total revenues generated by Kridhan. The management is planning to increase the contribution from India and other regions, excluding Singapore, to 20% of the total

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revenue till FY19.

Financial Performance

The company has been seeing improving financials with revenue led growth leading to better margins. We see that the company has high debt due to its inorganic growth. We expect that with revenue growth kicking in, the debt should eventually reduce to the level of 0.8x.

In FY17, the company's consolidated revenue increased by 40.8% on YoY basis to Rs.688.2 cr due to rise in orders in Singapore market. Its EBITDA grew 58.7% YoY in FY17. The EBITDA margin in FY16 stood at 13.49% which increased to 15.46% in FY17. The company's net profit also jumped by a whopping 387.2% to Rs 98.41 cr from Rs 20.20 cr in FY17 and its PAT margin stood at 14.3% in FY17 as against 4.1% in FY16. The company's business

model being investment driven, borrowings have increased leading to debt-to-equity ratio of 1.11x for FY16. Its interest coverage ratio was 3.37x in FY16.

Valuation

The company is trading at TTM P/E of 5.69 with TTM EPS of Rs 13.28. The valuations look attractive as compared to its peers. It delivered ROE and ROCE of 13.6% and 11.4%, respectively, for FY16. We expect the returns to improve gradually as the profitability of the company rises. Its expertise in foundation engineering, strong presence in Singapore, foray into other Asian countries and strong financials are the factors which would boost its growth going forward. We see a substantial upside of 71% from the current level. We recommend our investors to **BUY** the scrip with target price of Rs.125 over a period of one year.

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201703	201612	Q on Q Var%	201603	Y on Y Var%
Net Sales	182.35	191.26	-4.66	104.69	74.18
Total Expenditure	158.98	170.50	-6.76	91.62	73.52
PBIDT (Excl OI)	23.37	20.76	12.59	13.07	78.86
PAT	23.12	9.74	137.39	1.31	1671.26
PBIDTM% (Excl OI)	12.82	10.85	18.16	12.48	2.72
PBIDTM%	21.43	11.75	82.38	15.52	38.08
PATM%	12.68	5.09	149.12	1.25	914.40
Adj. EPS(Rs)	2.37	1.04	127.88	0.19	1147.37

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	688.16	488.71	651.74	679.87	469.15
Total Income	810.59	495.64	660.41	687.83	480.15
Total Expenditure	583.57	422.80	584.36	605.86	415.63
PAT	98.41	22.46	32.25	44.92	37.18
Dividend %	0.00	8.00	10.00	0.00	0.00
Adj. EPS(Rs)	13.28	1.90	2.70	6.50	5.86

