

## Kridhan Infra Ltd.

**Sector: Iron & Steel Products**

 20<sup>th</sup> June, 2017

### Possible re-rating on cards : maintain BUY

Kridhan Infra is a 2<sup>nd</sup> largest player in Foundation Engineering in Singapore with ~10% market share, having executed over 250 projects overseas and 11 projects in India. It has presence in 5 countries with strong in-house technical skills in piling work to dig up to 60-90 meters. Its expertise in construction and infrastructure projects like Metro Rail, Ports, Industrial Projects, and Commercial & Residential Buildings, augurs well to capture the potential opportunities going ahead. It is one of the few specialist in piling work in India, with an order book of Rs. 7.9bn (as on June 2017).

**Well positioned to benefit from the growing construction industry in Asia and India:** Building and Construction Authority (BCA) of Singapore, forecasts Singapore construction demand to grow more than 7%. The projected growth in construction is due to an increase in demand for building and civil engineering work. Kridhan infra's ~80% of revenue contribution is from Singapore. Government of India is focusing on development of rural and urban region by taking initiatives on new schemes like Pradhan Mantri Awaas Yojana, Smart Cities Mission, Pradhan Mantri Gram Sadak Yojana, Affordable housing etc. The company is eyeing in-organic growth to capture the potential opportunities in India. It's expertise in Foundation & Engineering and EPC (especially after acquisition of Swee Hong), and steady execution coupled with evolving opportunities in Singapore as well as India, would lead to traction in order inflow (to ~Rs.900-1000cr.), ensuring sustained and consistent revenue visibility going forward.

**Transformational Acquisition to top up existing revenues:** Kridhan Infra through its Singapore subsidiary KH Foges Pte has acquired a majority stake of 56% in Swee Hong Ltd., a Singapore leading public listed EPC company. Swee Hong's order book as on 31st March 2017 is \$80.9mn (SGD to INR: 46.41). Its revenues grew by ~76% YoY which shows financial turnaround and we believe it would significantly drive new order inflows in the next couple of quarters. Kridhan would see an upsurge in order book due to higher inflows from overseas and better bidding capacity due to acquisition. We believe, its revenues would grow at a CAGR of ~35% over FY17p-FY19e due to a full year consolidation of Swee Hong accounts, new projects in Singapore & India EPC business, steady growth in Singapore foundation engineering business.

**Valuation:** At CMP of Rs. 75, Kridhan Infra is trading at PE of 12.2x/ 9.3x/6.0x in FY17p/ FY18e/FY19e respectively. We expect revenue/earnings to grow at 35%/ 42% during FY17p-19e respectively driven by huge opportunities in Singapore, potential growth in Infrastructure sector in India. Going forward, significant addition in the top and bottom line, through Swee Hong's acquisition, is expected coupled with improving profitability of other subsidiaries. We would like to maintain the PE till the time we don't see significant traction in order book. We maintain our BUY rating with a price target of Rs. 150 (at PE of 12x EPS of FY19e).

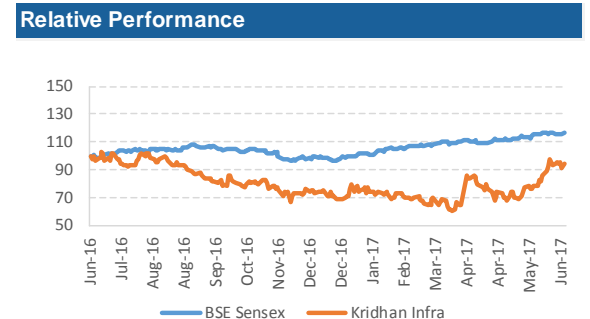
Price	Price Target	Up/Down (%)
Rs. 75	Rs.150	99%

Bloomberg Code	Reuters Code
KRID IN	KRID.BO

Share Holding (%)	As on March 17
Promoters	64.5
Public	35.5

Stock Data	
Nifty	9,658
Sensex	31,312
52 week high/low	89/46
Market Cap (Rs. bn)	5.6

Price performance (%)	1M	3M	6M	1Y
Absolute	22.1	38.0	33.0	-6.0
Relative to Sensex	19.3	32.4	14.3	-23.6



#### Exhibit 1: Financial summary (Rs mn)

Y/E March	FY16	FY17p*	FY18e	FY19e
Net Sales	4,887	6,882	9,924	12,613
EBITDA	678	1046	1490	1879
EBITDA margin (%)	13.9	15.2	15.0	14.9
Pre Exceptional PAT MI	202	457	600	928
Adj. PAT	202	258	600	928
EPS	2.7	6.2	8.1	12.5
BV	23.9	37.8	44.2	56.2
ROCE (%)	7.5	11.9	15.5	16.8
ROE (%)	11.4	16.3	18.3	22.3
P/E (x)	27.7	12.2	9.3	6.0
EV/Sales (x)	0.5	0.5	0.3	0.2
EV/EBITDA (x)	10.3	7.3	5.0	3.7

Source: Company, BOBCAPSe

\*p - Provisional

## Well positioned to benefit from the growing construction industry in Asia and India

~83% of the total revenues from overseas

**Emerging market opportunity in Singapore:** Kridhan is the 2<sup>nd</sup> largest Foundation Engineering Company in Singapore. They have a L6 Certification which enables them to tender for unlimited value projects for piling work. Singapore contributes ~83% of the company's total revenues. Building and Construction Authority (BCA) of Singapore, forecasts Singapore construction demand to grow more than 7%. The projected construction demand is due to an anticipated increase in public sector construction (~ between \$20.0bn and \$24.0bn in 2017). The public sector is expected to contribute ~70% of the total construction demand, boosted by an increase in demand for building and civil engineering works.

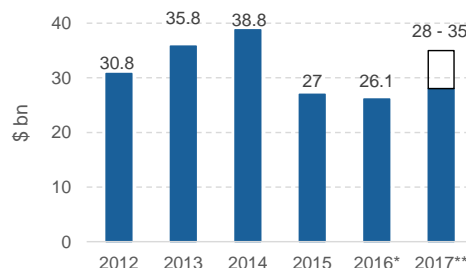
The average construction demand is projected to be between \$26.0 bn and \$35.0 bn per annum in 2018 and 2019 and between \$26.0 bn and \$37.0 bn per annum in 2020 and 2021, respectively. BCA estimates public sector construction demand to be between \$18.0 bn to \$23.0 bn per annum from 2018 to 2021, with similar proportions of demand would come from building projects and civil engineering works.

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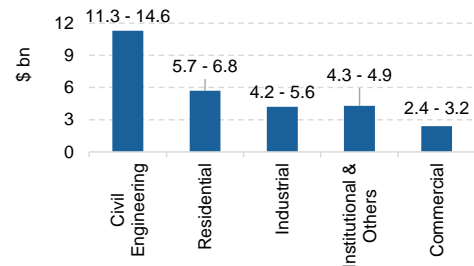
The management expects Singapore foundation engineering business should reflect similar growth of ~7%. We believe Kridhan's expertise in Foundation & Engineering and EPC (especially after acquisition of Swee Hong) and steady execution coupled with evolving opportunities in Singapore would led to traction in order inflow (to ~Rs.750-800cr.), ensuring a sustained and consistent revenue visibility going forward.

### Exhibit 2: Construction prospects at a glance

Value of contracts awarded



Value of contracts to be awarded in 2017



Source: BOBCAPS Research, The Building and Construction Authority (BAC) of Singapore

\*Preliminary figures

\*\*Forecast figure

Government's focus on infrastructure development to ramp up India business

**Emerging market opportunity in India:** Government of India has a strong focus on infrastructure development in India through new initiatives like Pradhan Mantri Awaas Yojana, Smart Cities Mission, Pradhan Mantri Gram Sadak Yojana, Rural Development, Affordable housing etc. The Ministry of Shipping plans to undertake development of 37 national waterways (NWs), out of the 111 NWs declared under the National Waterways Act 2016, in the next three years. Airports Authority of India (AAI) plans to increase its capital expenditure for 2017-18 by 25% to Rs 2,500 crore, primarily to expand capacity at 12 airports, as per the Chairman of AAI. The Government of India has earmarked Rs 50,000 crore to develop 100 smart cities across the country. It is forecasted that by the end of 2017 port traffic will amount to 943.06 MT for India's major ports and 815.20 MT for its minor ports.

This augurs well for Kridhan Infra as it has expertise across the construction and infrastructure projects like Metro Rail, Ports, Industrial Projects, and Commercial & Residential Buildings. The company is pushing Singapore capabilities in India (Intellectual Property Rights in Foundation Engineering and Micro-Tunnelling). This will reduce Kridhan Infra's capital expenditure in India. Also, the management is eyeing in-organic growth in India to add execution capacity. Hence, we believe, Kridhan Infra is a strong contender either for FE or EPC projects. We think India's order book can be upward of Rs.150-200 Cr. on account of the Government's focus on rural & urban infrastructure development.

## Transformational Acquisition to top up existing revenues

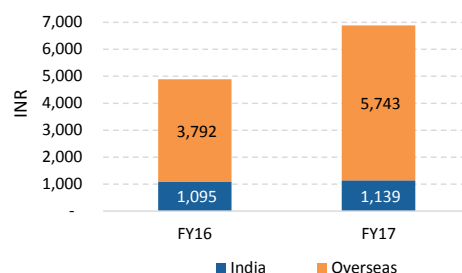
Kridhan Infra has moved up the value chain to larger EPC projects considering the robust demand outlook in Singapore and other countries for civil engineering works and smart cities projects. The company through its Singapore subsidiary KH Foges Pte has acquired a majority stake of 56% in Swee Hong Ltd. Swee Hong is a Singapore based EPC firm with over 50 years of experience in civil engineering and is listed on the Singapore Exchange. It has expertise in tunnelling, sewer works, bridge works, roads works, and flyovers, among others. Acquisition was largely funded by low interest SGD denominated debt and internal accruals. Swee Hong's order book as on 31st March 2017 was S\$80.9mn (INR 46.41). Its revenues grew by ~76% YoY which shows financial turnaround and we believe it would significantly drive new order inflows in the next couple of quarters.

Kridhan Infra's revenue grew by 41% in FY17 to Rs. 6.9bn on account of steady execution of existing orders and robust progress of ongoing projects of Swee Hong. Kridhan Infra witnessed a strong growth in EPC business outside India – partial-year consolidation (8 months) of Swee Hong business. We believe, the Company's revenues would grow at a CAGR of ~35% over FY17p-19e led by full year consolidation of Swee Hong accounts, new projects in Singapore & India EPC business, and steady growth in Singapore foundation engineering business.

*Expansion in lucrative business to sustain growth momentum*

### Exhibit 3: Kridhan able to pick up subsidiary operations after acquisition in short span

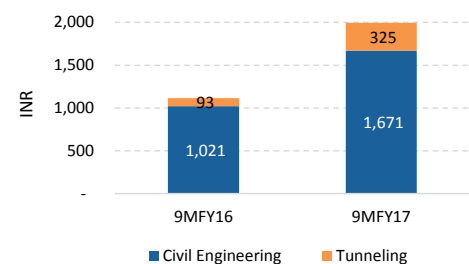
#### YoY revenue growth of 41% (Kridhan Infra)



Source: Company, BOBCAPS

Note: \* includes Swee Hong's revenues

#### YoY revenue growth of 76% (Swee Hong)



Source: Company, BOB Capital Research

Note: Swee Hong follows a July to June financial year

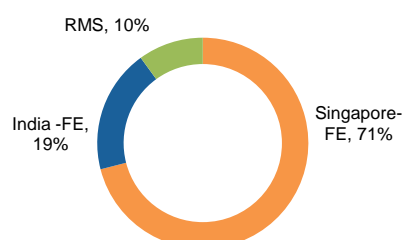
## Upsurge in order book due to higher inflows from overseas and better bidding capacity due to acquisition

*Strong growth in EPC business outside India*

In FY17, Kridhan Infra had won several projects from its transportation & building construction sector clients and a prestigious nature based attraction project. The management foresees good opportunities in the EPC segment. The company expect to report significant new order wins from 2H FY18 because of better bidding capacity due to the acquisition of Swee Hong. Its order book as on 31st March 2017 was Rs.7,900mn. Considering the expected growth in Infrastructure sector in India, Kridhan is actively looking at inorganic growth to add execution capacity. It has started bidding for new projects in civil engineering space based on Swee Hong's pre-qualifications. We believe there is considerable scope of growth to build a market presence in India driven by Government's thrust of infrastructure development. Also, the recent acquisition would help in winning large projects and thereby ensuring healthy and sustainable growth in the future.

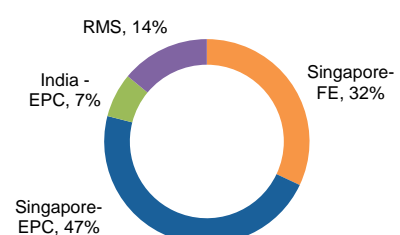
### Exhibit 4: Significant uptick witnessed in order book

#### FY16 – Rs. 6,660 mn



Source: Company, BOBCAPS

#### FY17 – Rs. 7,915 mn



Source: Company, BOB Capital Research

Note: Swee Hong follows a July to June financial year

## The long term growth narrative with strong financial position

Kridhan Infra reported strong YoY growth of 41% in FY17 led by robust order book and successful turnaround of Swee Hong by bringing execution of existing contracts back on track. In FY16, the performance has dropped significantly on account of challenging industry scenario, consolidation in Singapore construction industry & appreciation of Singapore \$ (depreciation on the Singapore \$ vs Rs.). On Kridhan Infra's balance sheet, there is substantial increase in debtors (~2,178mn) and creditors (Rs. 1,898) in FY17, which is majorly from the non-operational subsidiary, Swee Hong.

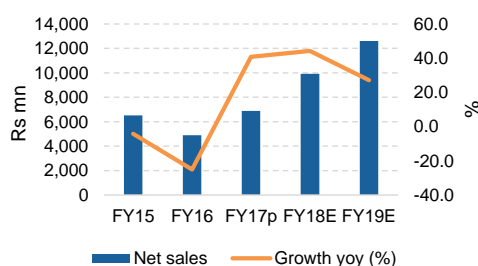
The company has experienced strong traction in EPC business outside India due to its new entity. It is enjoying benefits of low finance cost (~3.5%-4%) compared to 12%-14% in India. This will further aid to boost the bottom line of the company.

We expect full year consolidation of acquired company, new projects in Singapore & India EPC business and steady growth in Singapore foundation engineering business to register healthy momentum of 35% and 42% in its Revenues and earnings over FY17p – FY19e, respectively.

## Significant EBITDA jump due to acquisition of business

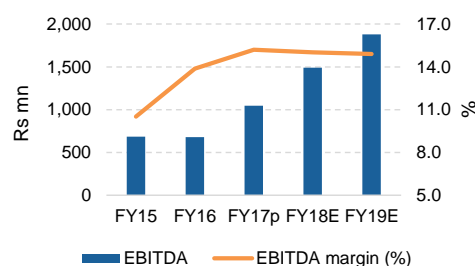
Kridhan Infra witnessed a significant jump in EBITDA to Rs.1.0bn vs Rs.678mn and margin expansion of ~132 bps to ~15.2%, led by acquisition of business in FY17. Swee Hong was not actively bidding for any new orders for the last 2-3 years but they were operational in executing old orders. Strong execution capability in the past and a healthy financial position has led Kridhan Infra to improve its margins from 13.9% to 15.2%. The management expects to maintain its margin between 14% to 15% in the future. We expect, EBITDA to grow at a CAGR of ~34% on the back of robust execution capabilities with strong subsidiary support.

**Exhibit 5: Estimated growth in revenues**



Source: Company, BOBCAPS

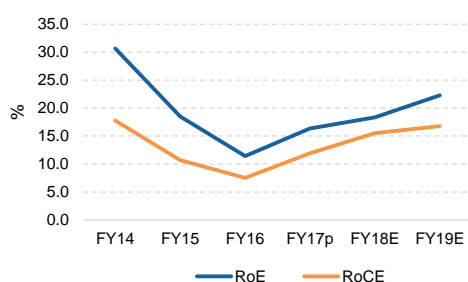
**Exhibit 6: Margins to remain constant**



Source: Company, BOB Capital Research

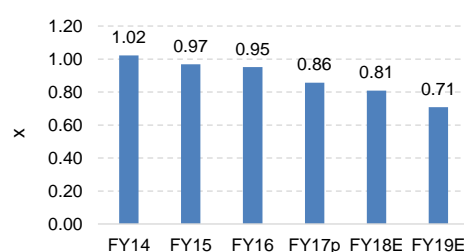
Note: Swee Hong follows a July to June financial year

**Exhibit 7: Improvement in return ratios**



Source: Company, BOBCAPS

**Exhibit 8: Improving profitability of the subsidiaries to reduce debt to equity**



## Strong Q4FY17 due to new acquisition and existing order book

Kridhan Infra is a specialist in piling work and has now transformed itself into full-fledged EPC player through the acquisition of Singapore's leading Civil Engineering Company – Swee Hong Ltd. It reported a healthy revenue growth of 74% in Q4FY17 to Rs. 1.8bn vs. Rs.1.0bn in Q4FY16 led by existing order book plus orders from Swee Hong. Kridhan's current order book is Rs. 7,900mn (India operations Rs.165 Cr., Singapore EPC business – S\$80mn, Singapore Foundation Engineering – S\$55mn (Typical execution cycle is 6-8 months).

There was a limited upside in EBITDA margins (expanded by ~34 bps) to 12.8% vs. 12.5% in Q4FY16 led by increase in raw material cost (~80% vs 74% of net sales YoY). However the company has improved its operational efficiency by reducing staff cost (4% vs 9% of net sales YoY) and other expenses (4% to 5% of net sales YoY). There is significant increase in depreciation and interest cost due to appreciation of currency (S\$ vs Rs.) during the quarter.

The Company registered other income of Rs. 157mn in Q4FY17 on account of sale of equipment in subsidiary, Swee Hong, which led to a sharp increase in PAT (Rs.176mn vs.14mn in Q4FY16) after minority interest. Kridhan Infra received significant minority interest during the quarter because of its new subsidiary account. The Company has changed its business dynamics by transforming into a complete EPC player. We foresee significant addition in the top and bottom line through Swee Hong's acquisition coupled with improving profitability of other subsidiaries. We expect revenue/earning to grow at a CAGR of ~35%/42%, respectively.

### Exhibit 9: Q4FY17 Financial results

(Rs Mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
<b>Net Sales</b>	<b>1,824</b>	<b>1,047</b>	<b>74.2</b>	<b>1,913</b>	<b>-4.7</b>
Purchases and other incidental costs	1,456	775	87.8	1,565	-7.0
(%) of net sales	80	74		81.8	
Staff cost	70	89	-21.6	95	-26.8
(%) of net sales	4	9		5	
Other Expenses	64	52	23.5	45	43.3
(%) of net sales	4	5		2	
<b>EBITDA</b>	<b>234</b>	<b>131</b>	<b>78.9</b>	<b>208</b>	<b>12.6</b>
EBITDA Margin	12.8	12.5		10.9	
Depreciation	136	92		86	
<b>EBIT</b>	<b>97</b>	<b>38</b>	<b>153.2</b>	<b>122</b>	<b>-19.9</b>
Interest	68.6	33.3		43.2	
Other Income	157	32		17	
<b>PBT</b>	<b>186</b>	<b>37</b>	<b>402.4</b>	<b>95</b>	<b>94.5</b>
Less: Taxation	-32	10		5	
Tax / PBT	-17.0	28.3		5.4	
<b>Recurring PAT</b>	<b>217</b>	<b>27</b>	<b>720</b>	<b>90</b>	<b>140.5</b>
Exceptional items	14	0		7	
Less: Minority Interest	55	-1		20	
<b>Reported PAT</b>	<b>176</b>	<b>28</b>	<b>537</b>	<b>77</b>	<b>127.9</b>
<b>NPM (%)</b>	<b>9.6</b>	<b>2.6</b>		<b>4.7</b>	

Source: Company, BOBCAPS

## Financials

### Exhibit 10: Income Statement

Y/E Mar (Rsmn)	FY16	FY17p*	FY18e	FY19e
Net sales	4,887	6,882	9,924	12,613
Operating other income	19	0	0	0
<b>Total income</b>	<b>4,906</b>	<b>6,882</b>	<b>9,924</b>	<b>12,613</b>
Expenditure	4,228	5,836	8,434	10,734
<b>EBITDA</b>	<b>678</b>	<b>1,046</b>	<b>1,490</b>	<b>1,879</b>
Change (%)	-0.9	54.2	42.4	26.1
EBITDA margin (%)	13.9	15.2	15.0	14.9
Depreciation	327	392	485	529
Interest & finance charges	119	175	228	253
Other income	50	186	195	205
Exceptional items	0	-1,039	0	0
<b>PBT<sup>#</sup></b>	<b>282</b>	<b>664</b>	<b>972</b>	<b>1,301</b>
Tax	58	5	3	4
Effective rate (%)	20.4	0.3	0.3	0.3
PAT	225	659	969	1297
Minority interest	23	201	369	369
<b>Pre Exceptional PAT MI</b>	<b>202</b>	<b>457</b>	<b>600</b>	<b>928</b>
Change (%)	-30	127	31	55
Adjusted PAT	202	258	600	928
Growth (%)	-30	28	133	55

# Excluding exceptional

### Exhibit 11: Balance Sheet

Y/E Mar (Rsmn)	FY16	FY17p*	FY18e	FY19e
<b>Sources of funds</b>				
Share Capital	148	148	148	148
Reserves	1,622	2,650	3,124	4,015
<b>Net worth</b>	<b>1,770</b>	<b>2,799</b>	<b>3,272</b>	<b>4,163</b>
Net deferred tax	109	112	0	0
Loans	1,684	2,396	2,646	2,946
<b>Capital employed</b>	<b>3,719</b>	<b>5,475</b>	<b>6,456</b>	<b>8,016</b>
<b>Application of funds</b>				
<b>Net Fixed Assets</b>	<b>1,848</b>	<b>2,275</b>	<b>2,090</b>	<b>2,061</b>
<b>Curr.Assets, L &amp; adv.</b>	<b>3,267</b>	<b>4,690</b>	<b>6,731</b>	<b>9,098</b>
Inventory	187	266	384	488
Sundry Debtors	770	2,178	3,141	3,992
Cash & Bank Balances	243	302	798	1,581
Loans & advances	308	440	528	687
<b>Current Liab. &amp; Prov.</b>	<b>1,671</b>	<b>2,965</b>	<b>3,840</b>	<b>4,617</b>
Current liabilities	1,621	2,950	3,823	4,598
Sundry Creditors	836	1,898	2,741	3,480
Other Liabilities	785	1,052	1,082	1,119
Provisions	51	15	17	19
<b>Net Current Assets</b>	<b>1,596</b>	<b>1,725</b>	<b>2,891</b>	<b>4,481</b>
<b>Application of Funds</b>	<b>3,719</b>	<b>5,475</b>	<b>6,456</b>	<b>8,016</b>

Source: Company, BOBCAPSe

\*p - Provisional



**Exhibit 12: Cash Flow Statement**

Y/E Mar (Rsmn)	FY16	FY17p*	FY18e	FY19e
OP/(loss) before Interest & tax	351	654	1,005	1,350
Depreciation & amort.	327	392	485	529
Direct taxes paid	-64	-3	-114	-4
(Inc)/dec in wkg. capital	-414	-70	-670	-806
<b>CF from op. activity</b>	<b>261</b>	<b>1,172</b>	<b>1,270</b>	<b>1,643</b>
Extra-ordinary items	0	1,039	0	0
<b>CF after EO Items</b>	<b>261</b>	<b>2,211</b>	<b>1,270</b>	<b>1,643</b>
(Inc)/dec in FA+CWIP	-247	394	-300	-500
<b>CF from inv. activity</b>	<b>-249</b>	<b>409</b>	<b>-300</b>	<b>-500</b>
Inc/(dec) in debt	166	712	250	300
Interest paid	-119	-175	-228	-253
Others	-15	-22	-30	-37
<b>CF from fin. activity</b>	<b>30</b>	<b>-132</b>	<b>-473</b>	<b>-359</b>
<b>Inc/(dec) in cash</b>	<b>43</b>	<b>2,488</b>	<b>496</b>	<b>784</b>
Add: beginning balance	200	243	302	798
<b>Closing balance</b>	<b>243</b>	<b>2,730</b>	<b>798</b>	<b>1,581</b>

**Exhibit 13: Ratio Analysis**

Y/E Mar	FY16	FY17p*	FY18e	FY19e
<b>Per share data (Rs)</b>				
<b>EPS</b>	2.7	6.2	8.1	12.5
Cash EPS	7.4	14.2	19.6	24.7
Book Value per share	23.9	37.8	44.2	56.2
DPS	0.2	0.3	0.4	0.5
<b>Profitability ratios (%)</b>				
RoE	11.4	16.3	18.3	22.3
RoCE	7.5	11.9	15.5	16.8
RoIC	3.5	1.4	7.2	11.3
<b>Valuation ratios (x)</b>				
P/E (diluted)	27.7	12.2	9.3	6.0
Cash P/E	10.1	5.3	3.8	3.1
EV/EBITDA	10.3	7.3	5.0	3.7
EV/sales	0.5	0.5	0.3	0.2
Price to book value	3.2	2.0	1.7	1.3
Dividend yield (%)	0.3	0.4	0.5	0.7

Source: Company, BOBCAPSe

\*p - Provisional

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**HOLD.** We expect the stock to deliver 5-15% absolute returns.  
**SELL.** We expect the stock to deliver <5% absolute returns.  
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