

## Retail Equity Research (South India Focus)

# KNR Constructions Ltd

Construction &amp; Engineering

 BSE CODE : 532942      NSE CODE: KNRCON  
 BLOOMBERG CODE: KNRC:IN      SENSEX : 33,605

**BUY**

12M Investment Period

Rating as per Small Cap

**CMP Rs 217    TARGET Rs 260    RETURN 20%** ↑  
 (Closing: 16-06-20)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↔

**EARNINGS** ↓

**Execution remains the key...**

KNR Constructions Ltd (KNR) is a leading EPC player largely focusing on national and state highway projects. KNR has successfully executed ~6,000 lane km road projects across 12 states in India.

- Q4FY20 revenue declined by 6% YoY due to Covid led disruption in execution while PAT declined by 27% YoY.
- EBITDA margin improved by 161bps YoY to 21.7% due to favourable mix of high margin irrigation projects and 12% YoY fall in other expenses.
- Current order book stands healthy at Rs7,888cr (incl. L1 orders) which is 3.5x FY20 revenue and provides visibility.
- We expect execution to impact in H1FY20 due to migration of labour and we reduce FY21E/FY22E revenue by 15%/14% respectively.
- While healthy balance sheet, strong execution capability with better operational margin will support valuation.
- We maintain our BUY rating and value core business at a P/E of 12x on FY22 EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price of Rs260.

**Better than expected revenue...**

Q4FY20 revenue declined by 6% YoY to Rs676cr which is better than our estimate despite weak execution in March-2020. Timely execution of irrigation projects helped to contribute 12% to revenue book and yielding better margin. The top five projects contributes 68% to revenue and we expect execution to start in full swing in H2FY21. Currently KNR is working with 20%-30% of labour workforce. The execution rate in April-May 2020 was about 20%-30% but now improved at 50%-60%. The management has been making effort to bring back migrant workers to site but the shortfall to persist in H1FY21. Therefore, we reduce FY21E/FY22E revenue by 15%/14% respectively. EBITDA margin improved by 161bps YoY to 21.7% supported by higher mix of better margin irrigation projects and 12% YoY fall in other expenses. Adj. PAT declined by 27% YoY to Rs67cr on account of higher interest costs (93% YoY) due to interest on mobilization advances and tax rate of 21.8% (vs 9.1% in Q4FY19). We expect execution to pick up pace from H2FY21 as four out of five HAM projects are in execution stage.

**Strong order book add visibility...**

Order book remain strong @ 3.5x FY20 revenue and total outstanding order book now stands at 7,888cr (including L1 order of Rs2,658cr). The management is targeting an order inflow of Rs3,000cr for FY21E from NHAI. As per KNR NHAI tendering is expected at 4000-4500km in FY21 (Rs6000cr to Rs7000cr). Currently irrigation works constitute 30% of the order book and contributing 35% to total revenue. Any turnaround in order inflow will fillip revenue guidance for FY21E.

**Status of HAM projects.**

Total equity infused in total five HAM project is at Rs199cr. The total equity commitment for four HAM projects is at Rs497cr. Appointed date received for four HAM projects. Trichy- Kallagam over 37% of work is completed (85% land acquired), Chittoor to Mallavaram 54% work completed (95% land acquired) and Ramsanpalle to Mangloor 44% work completed (80% land acquired) while Magadi to Somwarpath 7% work completed (55% land acquired).

**Valuations**

Healthy balance sheet, strong execution capability with better operational margin to support valuation. We value standalone business at a P/E of 12x FY22E EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price Rs260 & maintain Buy rating.

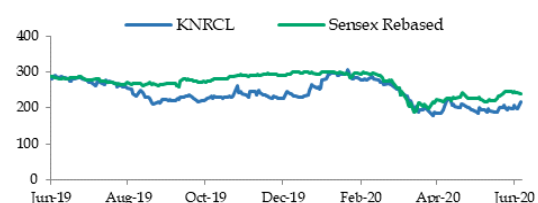
**Company Data**

Market Cap (cr)	Rs. 3,037
Enterprise Value (cr)	Rs. 3,167
Outstanding Shares (cr)	14.1
Free Float	44.83%
Dividend Yield	0.22
52 week high	Rs311
52 week low	Rs171
6m average volume (cr)	0.25
Beta	1.05
Face value	Rs2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	55.17	55.17	55.17
FII's	2.83	2.50	1.92
MFs/Insti	31.00	31.05	32.56
Public	11.00	11.28	10.35
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-7%	-10%	-24%
Absolute Sensex	9%	-20%	-16%
Relative Return*	-15%	10%	-9%

over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	2,244	2,374	2,868
Growth (%)	5.0	5.8	20.8
EBITDA	487	442	574
EBITDA Margin(%)	21.7	18.6	20.0
PAT Adj.	236	185	269
Growth (%)	-13.7	-21.6	45.2
Adj.EPS	17	13	19
Growth (%)	-13.7	-21.6	45.2
P/E	12.9	16.4	11.3
P/B	1.9	1.7	1.5
EV/EBITDA	6.5	7.1	5.7
ROE (%)	15.5	10.8	13.9
D/E	0.1	0.1	0.1

 Antu Eapen Thomas  
 Research Analyst

## SOTP Valuation

Particulars	Invested Equity (Rs Cr)	No. of shares	Value/Share (Rs)	Rationale
Standalone EPC			229	P/E 12x FY22E EPS
BOT Projects	226	14.1	16	1x P/BV
HAM	199	14.1	14	1x P/BV
<b>Total Value per share</b>			<b>260</b>	

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
<b>Sales</b>	676	716	-5.6	2,244	2,137	5.0
<b>EBITDA</b>	147	144	1.9	487	427	14.0
EBITDA margins %	21.7	20.1	161bps	21.7	20.0	171bps
Depreciation	54	48	12.4	192	168	14.1
<b>EBIT</b>	7	15	-51.9	57	63	-10.7
Interest	100	111	-9.9	352	322	9.1
Other Income	14	7	93.1	47	29	61.5
Exceptional Items				11	3	320.5
<b>PBT</b>	86	101	-15.2	294	291	1.1
Tax	19	9	103.2	68	27	150.5
Share of profit from Associate						
<b>Minority Interest</b>						
<b>Reported PAT</b>	67	92	-27.1	225	263	-14.5
Adjustments		6		7	10	-34.9
<b>Adj PAT</b>	67	98	-31.6	232	273	-15.2
No. of Shares	14.1	14.1		14.1	14.1	
<b>EPS (Rs)</b>	4.8	7.0	-31.6	16.5	19.4	-15.2

## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY21E	FY22E	FY20E	FY21E
Revenue	2,800	3,318	2,374	2,868	(15.2)	(13.6)
EBITDA	543	614	442	574	(18.7)	(6.6)
Margins (%)	19.4%	18.5%	18.6%	20.0%	(79)bps	149bps
Adj. PAT	286	323	185	269	(35.3)	(16.8)
EPS	20.3	23	13.2	19.1	(35.3)	(16.8)

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	1,932	2,137	2,244	2,374	2,868
% change	25	11	5	6	21
<b>EBITDA</b>	386	427	487	442	574
% change	68	11	14	-9	30
Depreciation	134	168	192	212	243
EBIT	252	259	295	230	331
Interest	23	29	47	43	38
Other Income	39	63	57	60	65
<b>PBT</b>	268	291	294	247	358
% change	64	8	1	-16	45
Tax	-4	27	68	62	90
Tax Rate (%)	-1	9	23	25	25
<b>Reported PAT</b>	272	263	225	185	269
Adj.*	36	10	10.7	0.0	0.0
<b>Adj. PAT</b>	308	273	236	185	269
% change	83	-11	-13.7	-21.6	45.2
No. of shares (cr)	14	14	14	14	14
<b>Adj EPS (Rs)</b>	22	19	16.8	13.2	19.1
% change	83	-11	-14	-22	45
DPS (Rs)	0.3	0.3	0.25	0.25	0.25

### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	44	13	33	84	102
Accounts Receivable	232	234	476	488	574
Inventories	71	95	123	133	157
Other Cur. Assets	466	557	664	702	809
Investments	536	708	781	898	1,033
Gross Fixed Assets	886	1,086	1,266	1,416	1,616
Net Fixed Assets	393	371	380	279	237
CWIP	0	0	10	5	3
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	141	174	161	186	216
Other Assets	82	118	89	150	180
<b>Total Assets</b>	<b>1,966</b>	<b>2,270</b>	<b>2,718</b>	<b>2,926</b>	<b>3,311</b>
Current Liabilities	564	588	846	871	1,000
Provisions	18	16	23	25	28
Debt Funds	212	238	214	214	204
Other Liabilities	13	13	11	10	10
Equity Capital	28	28	28	28	28
Reserves & Surplus	1,130	1,386	1,596	1,777	2,042
Shareholder's Fund	1,158	1,414	1,624	1,805	2,070
<b>Total Liabilities</b>	<b>1,966</b>	<b>2,270</b>	<b>2,718</b>	<b>2,926</b>	<b>3,311</b>
BVPS	82	101	115	128	147

### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	402	459	486	459	601
Non-cash adj.	18	-22	-14	-22	-57
Changes in W.C	-80	-95	-112	-32	-87
<b>C.F. Operation</b>	<b>243</b>	<b>309</b>	<b>372</b>	<b>379</b>	<b>427</b>
Capital exp.	-218	-200	-190	-145	-198
Change in inv.	0	0	0	0	0
Other invest.CF	9	24	-7	3	5
<b>C.F - Investment</b>	<b>-279</b>	<b>-348</b>	<b>-270</b>	<b>-259</b>	<b>-328</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	78	-10	5	-61	-40
Dividends paid	-4	-4	-4	-4	-4
Other finance.CF	59	-29	-50	-43	-38
<b>C.F - Finance</b>	<b>133</b>	<b>9</b>	<b>-82</b>	<b>-69</b>	<b>-82</b>
Chg. in cash	97	-31	20	51	18
Closing cash	44	13	33	84	102

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	20.0	20.0	21.7	18.6	20.0
EBIT margin (%)	13.0	12.1	13.2	9.7	11.5
Net profit mgn.(%)	15.9	12.8	10.5	7.8	9.4
ROE (%)	30.0	21.3	15.5	10.8	13.9
ROCE (%)	24.2	19.6	15.3	11.2	13.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	37.4	39.8	57.8	74.1	67.5
Inventory (days)	25.5	37.1	48.0	51.1	46.1
Payables (days)	71.6	98.5	104.3	100.1	79.5
Current ratio (x)	1.4	1.5	1.5	1.6	1.6
Quick ratio (x)	0.5	0.4	0.6	0.7	0.7
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.5	2.2	1.9	1.8	1.9
Total asset T.O (x)	1.1	1.0	0.9	0.8	0.9
Int. covge. ratio (x)	10.9	8.8	6.2	5.4	8.8
Adj. debt/equity (x)	0.18	0.17	0.13	0.12	0.10
<b>Valuation</b>					
EV/Sales (x)	1.7	1.5	1.4	1.3	1.1
EV/EBITDA (x)	8.4	7.6	6.5	7.1	5.7
P/E (x)	9.9	11.1	12.9	16.4	11.3
P/BV (x)	2.6	2.1	1.9	1.7	1.5

## Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-March-16	BUY*	119
06-June-16	Accumulate	128
23-August-16	Hold	151
17-November-16	Accumulate	164
19-February-17	Accumulate	194
02-June-17	Buy	243
18-August-17	Accumulate	242
13-October-17	Buy	242
23-November-17	Accumulate	302
26-February-18	Accumulate	329
21-November-18	Reduce	180
6-June-19	Accumulate	324
21-November-19	Buy	295
16-March-20	Buy	272
16-June-20	Buy	260

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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