

Healthy performance; WC remains key ahead...

KNR Constructions' (KNR) Q1FY21 performance was resilient amid Covid-19 impact. While there was an increase in working capital due to extended dues from irrigation projects, the company expects normalisation with inflows in the next few weeks. The topline came in at ₹ 479.4 crore, up 3.2% YoY, aided by better-than-expected execution and benign base. EBITDA came in at ₹ 94.3 crore, up 4.8% YoY, driven by superior topline. The consequent margin was higher at 19.7% (up 30 bps YoY). The company reported a PAT of ₹ 39.8 crore (down 16.6% YoY), impacted by higher tax rate.

Order book healthy; looking at incremental ₹ 2000 crore inflow

With ~₹ 2300 crore irrigation segment order inflows in Q1, order book was at ₹ 7209 crore, book to bill of 3.2x with irrigation now forming ~54% of order book. Including Palani HAM project (~₹ 640 crore), total backlog at ~₹ 7849 crore gives strong revenue visibility of 2.5-3 years. Also, the company has submitted bids for seven projects totalling ~ ₹ 6000-6500 crore and is looking to bid for 10 more projects worth ₹ 8000-9000 crore. Hence, KNR expects incremental ~₹ 2000 crore order inflow in road segment in FY21.

Company expects flattish FY21 revenues in base case

The company indicated that currently project sites are operating at 60%+ efficiency. It is likely that optimum efficiency could only be possible from Q3, Q4, given monsoons. It also indicated that on the raw material front, both cement and steel have seen some price hike, which may restrict margins. It indicated that it is looking at flattish revenues at least with some growth likely only if execution gets ramped up in new irrigation projects.

Working capital deteriorates; normalisation likely by Q2 end

Net working capital day deteriorated to 66 days (vs. 53 days) with net debt up ₹ 120 crore QoQ to ₹ 334 crore. KNR, however, indicated that post disbursement by HAM SPVs, it is back to ₹ 230 crore, as on date. Receivables days stretch was owing to irrigation dues (~₹ 680 crore) and post collections of ₹ 440 crore from Telangana in next couple of weeks, should normalise. KNR has already infused ~₹ 223 crore equity towards HAM projects and remaining equity commitment is ₹ 388 crore. It has guided for ₹ 250 crore further equity infusion towards HAM projects in FY21E with ₹ 110 crore, ₹ 40.8 crore infusion in FY22, FY23, respectively. Equity commitment is likely to be supported by internal cash generation, irrigation dues recovery and Walayar sale proceeds and should not entail new debt at standalone levels.

Valuation & Outlook

Considering strong execution, best in class WC, monetisation of BOT/HAM assets, healthy balance sheet, strong return ratios, we maintain **BUY** on the stock with revised SoTP TP of ₹ 300. We will closely monitor irrigation receivables, execution that could be a key trigger for upgrade/downgrade.

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	1,931.7	2,137.3	2,244.2	2,228.9	2,631.3	8.3%
EBITDA	386.1	427.0	487.1	411.4	525.2	3.8%
EBITDA Margin (%)	20.0	20.0	21.7	18.5	20.0	
PAT	272.1	263.3	225.2	179.6	246.7	4.7%
EPS (₹)	19.4	18.7	16.0	12.8	17.5	
P/E (x)	13.2	13.7	16.0	20.0	14.6	
EV/EBITDA (x)	9.8	9.0	7.7	9.3	6.9	
RoNW (%)	23.5	18.6	13.9	10.0	12.1	
RoCE (%)	20.5	19.0	19.0	14.5	16.3	

Source: Company, ICICI Direct Research



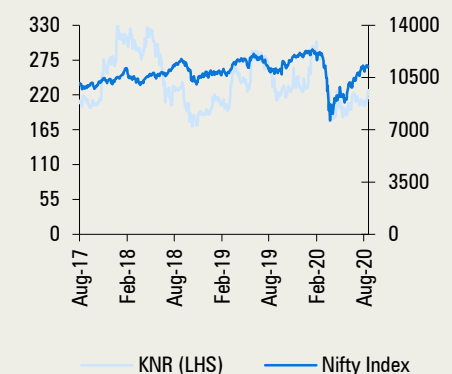
Particulars

Particular	Amount (₹ crore)
Market Capitalization	3,655.6
Total Debt	214.1
Cash	33.1
EV	3,836.7
52 week H/L (₹)	311/ 171
Equity capital	28.1
Face value	2.0

Key Highlights

- Including Palani HAM project, total backlog at ~₹ 7849 crore, provides strong revenue visibility of 2.5-3 years
- Maintain BUY with target price of ₹ 300/share

Price Chart



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Exhibit 1: Variance analysis

Particulars	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	479.4	420.6	464.6	3.2	675.6	-29.0	Revenue impacted by Covid-19
Other Income	6.1	10.0	16.8	-63.6	7.3	-16.2	
Consumption of raw materials	189.9	168.2	186.0	2.1	220.0	-13.7	
Employee benefit expenses	27.8	25.2	27.1	2.3	31.5	-11.9	
Other Expenses	42.3	42.1	42.1	0.3	89.1	-52.6	
EBITDA	94.3	75.7	90.0	4.8	146.9	-35.8	
EBITDA Margin(%)	19.7	18.0	19.4	30 bps	21.7	-206 bps	
Depreciation	33.1	45.0	38.9	-14.9	53.8	-38.4	
Interest	10.2	13.0	9.0	13.0	14.5	-29.3	
PBT	57.1	27.7	58.9	-3.0	85.9	-33.5	
Taxes	17.3	7.0	11.2	55.4	18.7	NM	
PAT	39.8	20.7	47.7	-16.6	67.2	-40.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY19	FY20	FY21E			FY22E			Comments
			Old	New	% Change	Old	New	Change	
Revenue	2,137.3	2,244.2	2,002.9	2,228.9	11.3	2,511.6	2,631.3	4.8	
EBITDA	427.0	487.1	369.7	411.4	11.3	501.3	525.2	4.8	
EBITDA Margin (%)	20.0	21.7	18.5	18.5	0 bps	20.0	20.0	0 bps	
PAT	263.3	225.2	140.5	179.6	27.8	234.2	246.7	5.4	
Diluted EPS (₹)	18.7	16.0	10.0	12.8	27.8	16.7	17.5	5.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

EPC	FY19	FY20	Current		Earlier		Comments
			FY21E	FY22E	FY21E	FY22E	
Order Inflow	1,736	1,573	4,000	4,000	3,000	4,000	
Order Backlog	5,901	5,230	7,001	8,370	6,227	7,815	

Source: Company, ICICI Direct Research

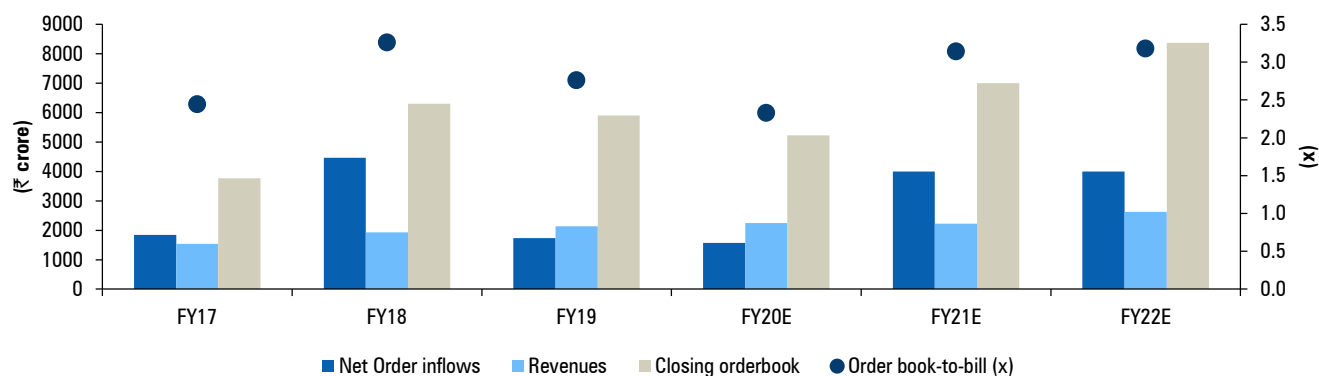
Company Analysis

Exhibit 4: Order book update

Key Projects	(₹ crore)
Magadi to Somwarpath Project (KSHIP HAM)	814
Ramsanpalle to Mangloor Project (HAM)	508
Chittor to Mallavarm Project (HAM)	508
Trichy to Kallagam Project (HAM)	435
Hubli – Hospet Section of NH – 63	233
Top five projects	2498.3
Other Road projects	840.7
Irrigation projects	3869.9
Other projects	
Total	7208.9

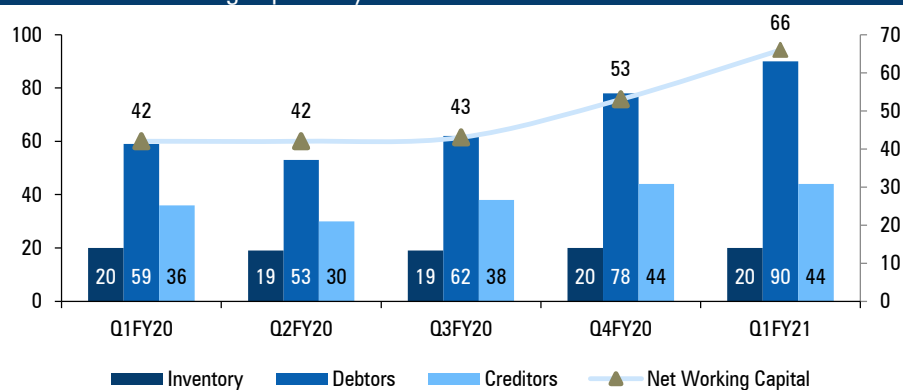
Source: Company, ICICI Direct Research

Exhibit 5: Strong order book position



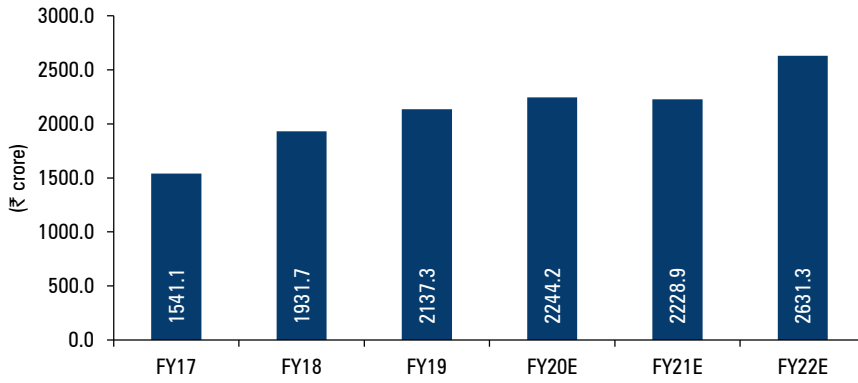
Source: Company, ICICI Direct Research

Exhibit 6: Net working capital days trend



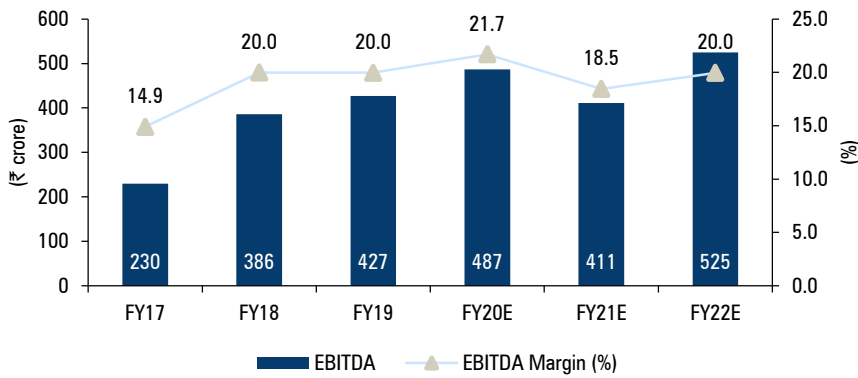
Source: Company, ICICI Direct Research

Exhibit 7: Revenue to be flattish in FY21



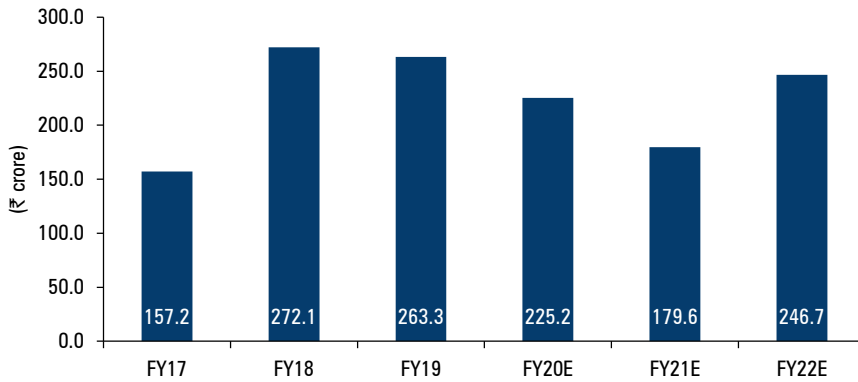
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA & EBITDA margin trend



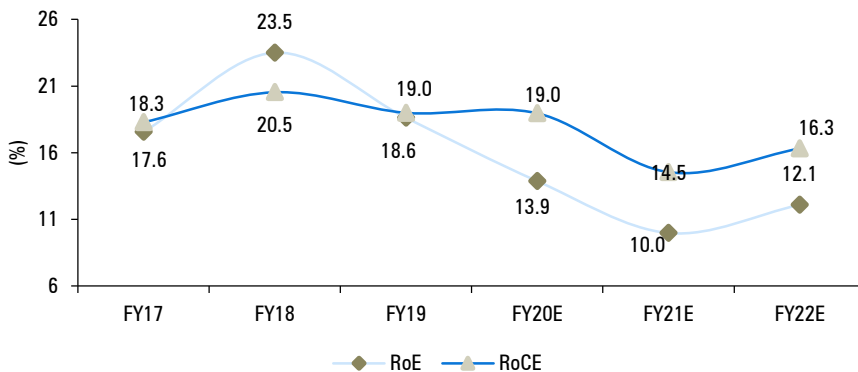
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

At the CMP, KNR is trading at attractive valuations of 7x FY22E EV/EBITDA. The company is a focused road based EPC player that enjoys a strong execution track record with the reputation of completing projects on time/ahead of the schedule. KNR also enjoys best in class WC cycle with very healthy balance sheet and strong return ratio. The company has entered into a share purchase agreement with Cube Highways for monetisation of its Walayar BOT project at an EV of ₹ 529.3 crore (some downward revision likely given Covid-19 impact), which gives us confidence on the company's focus on EPC projects.

Hence, we maintain our **BUY** recommendation on the stock with an SoTP based revised target price of ₹ 300/share. We value its core EPC business at ₹ 214/share (7.5x FY22E EV/EBITDA).

Exhibit 11: SoTP valuation

	Value (₹crore)	Per Share (₹)	Comment
EPC Business (A)	3939	280	7.5x FY 22E EV/EBITDA
BOT toll Investment (B =C +D)	90	6	
Muzaffarpur tollway (D)	90	6	1x P/BV
HAM Projects Investment (E)	223	16	1x P/BV
Total Equity Investment (F=B+E)	314	22	
Less: Net Debt (G)	40	3	FY 22E Net Debt
SoTP Value (A +F-G)	4213	300	
Rounded-off target price		300	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	2,137.3	2,244.2	2,228.9	2,631.3
Other operating income	-	-	-	-
Total Revenues	2,137.3	2,244.2	2,228.9	2,631.3
Raw Material Expense	643.2	753.3	713.2	842.0
Other Construction Exp.	744.9	601.7	702.1	789.4
Employee benefit expen	92.9	125.2	127.0	150.0
Other Expenses	229.3	277.0	275.1	324.7
Total Operating Exp	1,710.3	1,757.2	1,817.4	2,106.1
EBITDA	427.0	487.1	411.4	525.2
Other Income	63.4	56.6	61.7	67.2
Interest	29.1	47.4	46.1	36.2
Depreciation	168.1	191.8	170.4	226.3
PBT	290.6	304.4	256.6	329.9
Total Tax	27.3	68.5	77.0	83.1
Reported PAT	263.3	235.9	179.6	246.7
Adjusted PAT	263.3	235.9	179.6	246.7
EPS (Diluted)	18.7	16.0	12.8	17.5

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
₹crore	FY19	FY20	FY21E	FY22E
Profit before Tax	290.6	304.4	256.6	329.9
Depreciation	168.1	191.8	170.4	226.3
Interest Paid	29.1	47.4	46.1	36.2
Cash Flow before WC chang	453.1	476.3	411.4	525.2
Net Increase in Current Assets	(168.5)	(350.5)	(35.4)	(240.5)
Net Increase in Current Liabilitie	17.9	286.7	(46.1)	149.4
Net CF from Operating Activ	254.1	338.2	253.0	350.9
(Purchase)/Sale of Fixed Asset	(203.4)	(198.7)	(100.0)	(250.0)
Purchase of Investment	(108.3)	(70.2)	(231.1)	83.0
Interest Income	(4.5)	(56.6)	(61.7)	(67.2)
Net CF from Investing Activi	(285.4)	(212.3)	(269.4)	(99.8)
Proceeds from share capital	-	-	-	-
Interest Paid	29.1	47.4	46.1	36.2
Net CF from Financing Activi	7.2	(105.9)	0.4	(123.6)
Net Cash flow	(24.1)	20.1	(16.1)	127.6
Opening Cash/ Cash Equivalent	37.1	13.0	33.1	17.0
Closing Cash/ Cash Equivale	13.0	33.1	17.0	144.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	28.1	28.1	28.1	28.1
Reserves & Surplus	1,386.1	1,595.8	1,771.8	2,011.2
Networth	1,414.2	1,623.9	1,799.9	2,039.3
Secured Loan	33.6	33.7	109.5	179.5
Unsecured Loan	230.6	180.5	154.6	4.6
Total Debt	264.1	214.1	264.1	184.1
Deferred Tax Liability	-	-	-	-
Total Liabilities	1,696	1,856	2,082	2,243
Assets				
Gross Block	1,012.4	1,211.1	1,311.1	1,561.1
Net Block	371.1	377.9	307.5	331.2
Capital WIP	0.0	10.2	10.2	10.2
Non-current Investment:	683.0	755.7	986.8	903.8
Current Assets				
Inventories	95.0	123.2	122.1	144.2
Sundry Debtors	234.4	476.1	519.0	576.7
Loans and Advances	9.1	6.9	6.9	7.4
Other Current Assets	533.9	635.2	630.8	744.7
Cash	13.0	33.1	17.0	144.5
Total Current Assets	872.3	1,241.4	1,278.9	1,473.0
Creditors	223.6	251.1	249.4	294.4
Provisions	11.8	17.3	17.2	20.3
Other Current Liabilities	338.4	593.7	549.6	648.8
Other Long Term Liabiliti	13.3	11.6	11.5	13.6
Total Current Liabilities	573.8	862.2	816.2	963.5
Net Current Assets	331.1	433.2	500.6	674.9
Total Assets	1,696	1,856	2,082	2,243

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS (Fully Diluted)	18.7	16.0	12.8	17.5
Cash EPS	30.7	29.7	24.9	33.6
BV	100.6	115.5	128.0	145.0
Operating Ratios				
EBITDA / Net Sales	20.0	21.7	18.5	20.0
PAT / Net Sales	12.3	10.0	8.1	9.4
Inventory Days	16	20	20	20
Debtor Days	40	77	85	80
Creditor Days	38	41	41	41
Return Ratios				
RoE	18.6	13.9	10.0	12.1
RoCE	19.0	19.0	14.5	16.3
RoIC	26.5	28.6	23.1	25.8
Valuation Ratios				
EV / EBITDA	9.1	7.8	9.4	7.0
P/E	13.9	16.2	20.3	14.8
EV / Net Sales	1.8	1.7	1.7	1.4
Market Cap / Sales	1.7	1.6	1.6	1.4
Price to Book Value	2.6	2.3	2.0	1.8
Turnover Ratios				
Asset turnover	1.3	1.2	1.1	1.2
Gross Block Turnover	2.1	1.9	1.7	1.7
Solvency Ratios				
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	1.5	1.4	1.6	1.5
Debt / EBITDA	0.6	0.4	0.6	0.4
Quick Ratio	1.4	1.3	1.4	1.4

Source: Company, ICICI Direct Research

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