

KNR Construction

Estimate change



TP change



Rating change



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Bloomberg	KNRC IN
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	36.2 / 0.5
52-Week Range (INR)	311 / 172
1, 6, 12 Rel. Per (%)	19/-3/2
12M Avg Val (INR M)	51

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	22.2	24.2	30.9
EBITDA	4.7	4.7	5.9
PAT	2.0	2.1	3.0
EBITDA (%)	21.1	19.5	19.0
EPS (INR)	14.5	15.1	21.7
EPS Gr. (%)	-18.3	4.1	43.6
BV/Sh. (INR)	115.5	129.4	149.8

Ratios

Net D/E	0.1	0.1	-0.2
RoE (%)	13.4	12.3	15.5
RoCE (%)	13.9	12.6	15.7
Payout (%)	6.8	8.0	5.5

Valuations

P/E (x)	17.7	17.0	11.9
P/BV (x)	2.2	2.0	1.7
EV/EBITDA (x)	8.1	7.9	5.4
Div Yield (%)	0.4	0.4	0.4
FCF Yield (%)	5.3	7.4	6.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	55.0	55.2	55.2
DII	34.0	32.6	30.2
FII	1.6	1.9	3.2
Others	9.3	10.4	11.5

FII Includes depository receipts

CMP: INR257
TP: INR295 (+15%)
Buy

Surprises with revenue growth against all odds

Receivables from Telangana government need to be monitored

- KNR Construction (KNR) outperformed in terms of execution by reporting revenue growth v/s our expectation of 35% YoY decline. The EBITDA margin expanded YoY on account of the rising share of higher margin irrigation projects, resulting in a strong beat on earnings. Including L1 orders, the order book (OB) stood strong at INR78.5b, implying OB/rev at 3.5x and providing healthy revenue visibility.
- KNR continues to surprise with its steady performance. However, the working capital cycle has witnessed marginal deterioration. This is primarily on account of pending dues from the Telangana government, which have been stalled since Feb'20 and currently stand at INR6.8b. The management hopes to receive INR4.4b within the next few weeks.
- Factoring the strong performance in 1QFY21, we increase our FY21/FY22E EPS by 28%/7%. We maintain our **Buy** rating, with TP of INR295 (prior: INR280) based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

Strong order book provides higher revenue visibility

- Revenue increased 3% to INR4.8b. The positive growth came as a surprise and was 60% ahead of our expectations. EBITDA was up 5% to INR943m (2x our expectation). Lower depreciation and interest income aided profitability, although it was marginally offset by lower other income and a higher tax rate. Thus, KNR reported adj. PAT of INR398m (-16% YoY), much better than our expectation of loss of INR82m.
- OB stood at INR72.1b, with the OB/rev ratio at 3.2x. The company has the L1 position in a Hybrid Annuity Model (HAM) project, with an EPC value of INR6.4b. In 1QFY21, KNR bagged two irrigation project orders worth INR23.1b from the Telangana government, which is on hold as negotiations are underway for debt tie-ups. Including L1 orders, OB stood at INR78.5b, with the OB/rev ratio at 3.5x, among the highest since FY17.

Key takeaways from management commentary

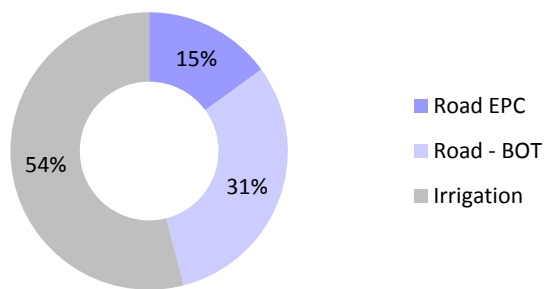
- Efficiency in irrigation projects is at ~90%, with labor strength at ~70%. For road projects, efficiency stood at ~60%, with labor availability at 55–60%.
- Proceeds from the Walayar project sale (INR5.3b) are expected to be received in 1HFY21, with the deal closure in the final stages.
- KNR has already submitted its bids for seven projects and is awaiting their outcome; it is in the process of submitting 10 more bids by the end of September. KNR expects incremental order inflow of ~INR20b in 9MFY21.
- The company achieved financial closure for the Oddanchatram-Madathukulam HAM project in 1QFY21. With 72% of land available currently, management expects to receive the appointed date by the end of Sep'20.
- Margins in irrigation projects are usually 18–20%, but final realizations can be 16–17% due to payment delays.

Valuation and view

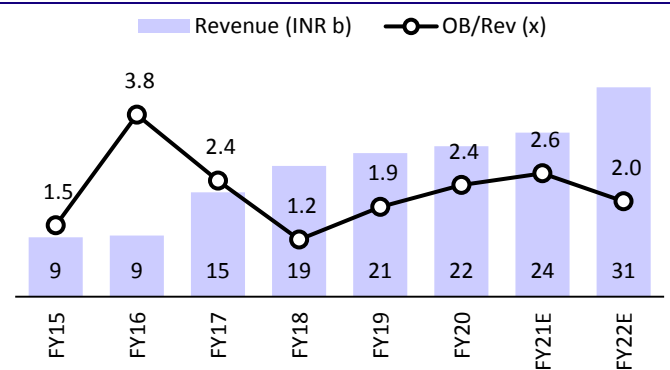
We increase our FY21/FY22E EPS by 28%/7% on account of a strong performance in 1QFY21. We forecast revenue/EBITDA/PAT growth of 18%/12%/22%. In spite of a recent increase in receivables, we believe KNR's strong balance sheet gives it a key competitive advantage v/s peers: (a) in bidding for newer projects and (b) in terms of strong execution despite financing challenges in the sector as the dependency on bank financing is minimal. We maintain our **Buy** rating, with TP of INR295, based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

Quarterly Performance

Y/E March	FY20				FY21E				FY20	FY21E	MOSL	(INR m)	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Net Sales	4,646	5,232	5,579	6,756	4,794	5,250	6,000	8,190	22,212	24,234	3,000	60	
YoY Change (%)	-13.9	25.7	24.3	-5.6	3.2	0.3	7.6	21.2	4.8	9.1	-35.4		
Total Expenditure	3,746	4,154	4,335	5,287	3,850	4,305	4,800	6,553	17,522	19,508	2,550		
EBITDA	900	1,078	1,244	1,469	943	945	1,200	1,637	4,691	4,726	450	110	
Margins (%)	19.4	20.6	22.3	21.7	19.7	18.0	20.0	20.0	21.1	19.5	15.0		
Depreciation	389	475	517	538	331	400	450	511	1,918	1,692	500		
Interest	90	98	142	145	102	120	100	117	474	439	130		
Other Income	168	36	70	73	61	65	65	51	346	242	70		
Extraordinary expense	0	280	-67	0	0	0	0	0	213	0	0		
PBT	589	541	655	859	571	490	715	1,060	2,644	2,836	-110	NA	
Tax	112	120	186	187	173	123	180	237	605	714	-28		
Rate (%)	19.0	22.1	28.4	21.8	30.3	25.2	25.2	22.3	22.9	25.2	25.2		
Reported PAT	477	701	402	672	398	367	535	823	2,252	2,122	-82	NA	
Adj PAT	477	421	469	672	398	367	535	823	2,039	2,122	-82	NA	
YoY Change (%)	-16.6	-6.5	-10.0	-29.0	-16.6	-12.9	14.0	22.5	-18.3	4.1	-117.2		
Margins (%)	10.3	8.0	8.4	9.9	8.3	7.0	8.9	10.0	9.2	8.8	-2.7		

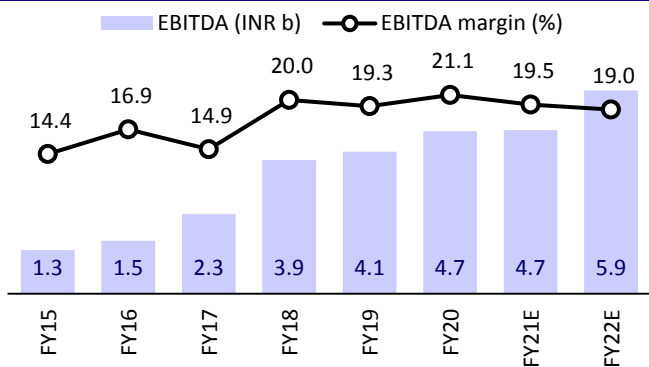
Exhibit 1: Order book breakup (1QFY21: INR72.1b)

Source: MOFSL, Company

Exhibit 2: Current order book provides strong revenue visibility

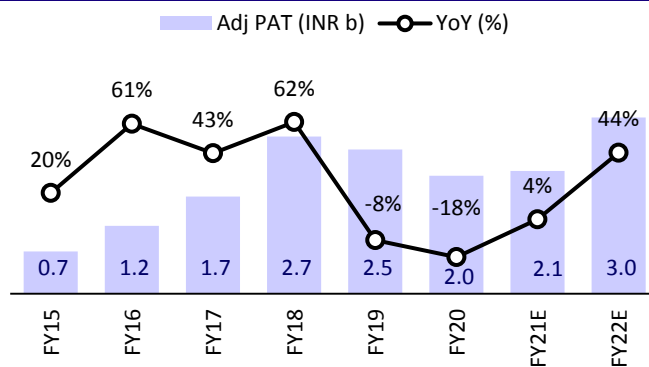
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



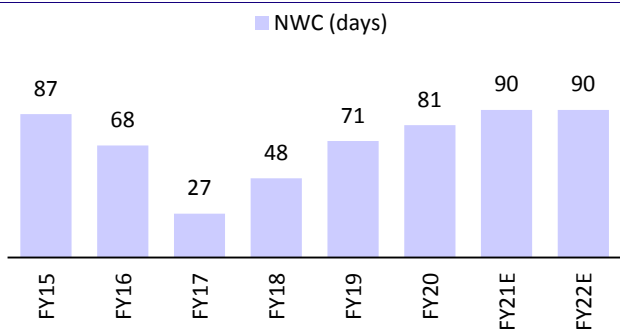
Source: MOFSL, Company

Exhibit 4: Adj. PAT to grow at 22% CAGR over FY20–22E



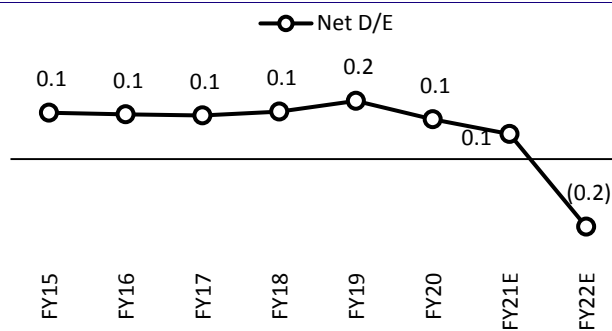
Source: MOFSL, Company

Exhibit 5: Working capital cycle to elongate owing to rise in receivables



Source: MOFSL, Company

Exhibit 6: KNR has one of the strongest balance sheets in the Road sector, with net D/E of 0.1x in FY20 and a likely net cash balance sheet by FY22



Source: MOFSL, Company

Management commentary highlights

Sector update

- Capex from the state government is expected to decline, while that from the central government is expected to increase.

NHAI

- Awarding was at a lull in April and May, but picked up in June. INR530b worth of project awarding is underway.
- ~460kms of projects were awarded in Jul'20.
- NHAI started awarding BOT projects once again after three years.
- Normalcy in construction is expected to return only post the monsoons. 10–11% decline is expected in road construction in FY21.
- Road traffic stood at ~75% of pre-COVID-19 levels.
- Payment has been prompt from NHAI, with KNR receiving quick grants for some projects.

HAM project update

- Project completion: Chittor to Mallavaram – 27%, Ramsanpalle to Mangloor – 29%, Trichy to Kallagam – 49%, Magadi to Somwarpeth – 53%
- ~INR6.3b equity is required for five HAM projects, of which KNR has invested ~INR2.2b. The balance amount would be invested over the next three years.

Divestment

- The deal to divest three HAM projects is on track and would be completed over the next two years, as per agreement.
- **CUBE deal:** Certain cost increases related to insurance and revenue shortage have been reported on account of the COVID-19 crisis. KNR would accordingly evaluate the impact and book losses, and exit the project.

Irrigation project

- The projects won in 1QFY21 are under mobilization, with processes such as loan tie-ups with banks in progress. The project is expected to commence over the next one to two months.
- Revenue from irrigation projects stood at INR1.08b in 1QFY21 (v/s INR570m in 1QFY20).

Receivables

- **Receivables from Telangana** stood at INR5.4b at the end of 1QFY21. Bills have been submitted and are in queue for a payout. Management expects the payout (INR4.4b) over the next couple of weeks.
- Total receivables from the Telangana government stand at INR6.8b currently (unbilled revenue – INR4.4b, receivables – INR1.3b, work done but not billed – INR1.1b).

Tax rate

- Pending MAT credit would be utilized in FY21, and the company would migrate to the new tax rate in FY22.

Others

- Toll collections resumed from 20th April. They stood at INR70m for Walayar and at INR103m for the Bihar project in 1QFY21.
- Gross debt stood at INR3.34b.

Valuation and view

- **Strong balance sheet:** KNR has already monetized three of its HAM projects. We expect the balance sheet to strengthen further, with a net cash position of ~INR4b by FY22E. The company has the best balance sheet position among mid-cap road EPC companies. This should support premium valuations for KNR, in our view.
- **Strong order book to support revenue growth:** Given the company's strong order book position (OB/rev: 3.2x) and superior execution capability, we expect a revenue CAGR of 18% over FY20–22E. Owing to its strong balance sheet position, KNR is well-poised to bid for new projects as and when bidding commences in the Roads sector. We expect NHAI's awarding to pick up in 2HFY21, with total awarding of ~4,000kms for FY21.
- **Maintain Buy:** We increase our FY21/FY22E EPS by 28%/7% on account of a strong performance in 1QFY21. We forecast revenue/EBITDA/PAT growth of 18%/12%/22%. In spite of the recent increase in receivables, we believe KNR's strong balance sheet gives it a key competitive advantage v/s peers: (a) in bidding

for newer projects and (b) in terms of strong execution despite financing challenges in the sector as the dependency on bank financing is minimal. We maintain our **Buy** rating, with TP of INR295, based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

Exhibit 7: We increase our FY21/FY22E EPS estimate by 28%/7%

Earnings Change INR m	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	23,534	30,606	24,234	30,901	3.0%	1.0%
EBITDA	4,354	5,815	4,726	5,871	8.5%	1.0%
EBITDA margin	18.5%	19.0%	19.5%	19.0%	1.0%	0.0%
Adj. PAT	1,665	2,843	2,122	3,047	27.5%	7.2%

Source: MOFSL, Company

Financials and valuations

Standalone – Income Statement						(INR m)
Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	19,317	21,204	22,212	24,234	30,901	35,081
Change (%)	25.3	9.8	4.8	9.1	27.5	13.5
EBITDA	3,861	4,101	4,691	4,726	5,871	6,665
Margin (%)	20.0	19.3	21.1	19.5	19.0	19.0
Depreciation	1,341	1,681	1,918	1,692	1,790	1,920
EBIT	2,520	2,420	2,772	3,033	4,081	4,746
Int. and Finance Charges	231	291	474	439	319	185
Other Income	393	634	346	242	309	351
PBT bef. EO Exp.	2,682	2,763	2,644	2,836	4,072	4,911
EO Items	2	138	213	0	0	0
PBT after EO Exp.	2,683	2,901	2,857	2,836	4,072	4,911
Total Tax	-37	268	605	714	1,025	1,236
Tax Rate (%)	-1.4	9.2	21.2	25.2	25.2	25.2
Reported PAT	2,721	2,633	2,252	2,122	3,047	3,675
Adjusted PAT	2,719	2,495	2,039	2,122	3,047	3,675
Change (%)	61.7	-8.2	-18.3	4.1	43.6	20.6
Margin (%)	14.1	11.8	9.2	8.8	9.9	10.5

Standalone – Balance Sheet						(INR m)
Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	281	281	281	281	281	281
Total Reserves	11,297	13,862	15,958	17,911	20,789	24,295
Net Worth	11,578	14,143	16,239	18,192	21,070	24,577
Total Loans	2,118	2,641	2,300	2,300	300	300
Deferred Tax Liabilities	-1,408	-1,739	-1,610	-1,610	-1,610	-1,610
Capital Employed	12,289	15,045	16,929	18,882	19,761	23,267
Gross Block	8,795	10,752	12,769	13,269	14,269	15,269
Less: Accum. Deprn.	4,859	6,412	8,331	10,023	11,813	13,733
Net Fixed Assets	3,936	4,340	4,438	3,246	2,456	1,536
Capital WIP	0	0	102	102	102	102
Total Investments	5,356	6,448	7,149	8,649	4,942	4,942
Current Assets	8,959	10,176	13,880	16,312	24,279	30,331
Inventory	712	951	1,232	1,344	1,713	1,945
Account Receivables	2,320	2,344	4,761	5,816	7,416	8,419
Cash and Bank Balance	438	130	330	908	4,637	8,032
Other current assets	5,489	6,751	7,557	8,244	10,512	11,935
Current Liability	5,962	5,919	8,639	9,425	12,018	13,644
Current Liabilities	5,777	5,754	8,407	9,172	11,695	13,277
Provisions	184	164	232	253	323	367
Net Current Assets	2,997	4,258	5,241	6,887	12,261	16,687
Appl. of Funds	12,290	15,045	16,929	18,883	19,761	23,267

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)						
EPS	19.3	17.7	14.5	15.1	21.7	26.1
Cash EPS	28.9	29.7	28.1	27.1	34.4	39.8
BV/Share	82.3	100.6	115.5	129.4	149.8	174.8
DPS	0.2	0.4	0.9	1.0	1.0	1.0
Payout (%)	1.2	2.6	6.8	8.0	5.5	4.6
Valuation (x)						
P/E	13.3	14.5	17.7	17.0	11.9	9.8
P/BV	3.1	2.6	2.2	2.0	1.7	1.5
EV/EBITDA	9.8	9.4	8.1	7.9	5.4	4.3
Dividend Yield (%)	0.1	0.2	0.4	0.4	0.4	0.4
FCF per share	-3.4	3.1	13.5	19.1	17.9	26.7
Return Ratios (%)						
RoE	26.5	19.4	13.4	12.3	15.5	16.1
RoCE	24.7	18.2	13.9	12.6	15.7	16.5
RoIC	47.7	29.4	24.5	24.4	31.6	35.0
Working Capital Ratios						
Fixed Asset Turnover (x)	2.2	2.0	1.7	1.8	2.2	2.3
Asset Turnover (x)	1.6	1.4	1.3	1.3	1.6	1.5
Inventory (Days)	13	16	20	20	20	20
Debtor (Days)	44	40	78	88	88	88
Leverage Ratio (x)						
Current Ratio	1.5	1.7	1.6	1.7	2.0	2.2
Interest Cover Ratio	10.9	8.3	5.8	6.9	12.8	25.6
Net Debt/Equity	0.1	0.2	0.1	0.1	-0.2	-0.3

Standalone – Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	2,682	2,906	2,937	2,836	4,072	4,911
Depreciation	1,341	1,681	1,923	1,692	1,790	1,920
Interest & Finance Charges	209	291	473	439	319	185
Direct Taxes Paid	-237	-550	-844	-714	-1,025	-1,236
(Inc)/Dec in WC	-2,347	-1,506	-310	-1,069	-1,645	-1,031
CF from Operations	1,648	2,822	4,180	3,185	3,510	4,749
Others	-120	-347	-239	0	0	0
CF from Operating incl EO	1,528	2,474	3,941	3,185	3,510	4,749
(Inc)/Dec in FA	-2,009	-2,034	-2,036	-500	-1,000	-1,000
Free Cash Flow	-480	441	1,905	2,685	2,510	3,749
(Pur)/Sale of Investments	-23	-1,083	-1,098	-1,500	3,706	0
Others	184	262	291	0	0	0
CF from Investments	-1,848	-2,855	-2,843	-2,000	2,706	-1,000
Inc/(Dec) in Debt	763	268	-511	0	-2,000	0
Interest Paid	-167	-298	-401	-439	-319	-185
Dividend Paid	-85	-68	-153	-169	-169	-169
Others	0	170	168	0	0	0
CF from Fin. Activity	512	73	-897	-608	-2,487	-354
Inc/Dec of Cash	192	-308	200	577	3,729	3,395
Opening Balance	246	438	130	331	908	4,637
Closing Balance	438	130	331	908	4,637	8,032

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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