

# KNR construction

# BUY

Weak quarter; expect execution to pick up in 2H

## Summary

KNR construction LTD (KNR) reported weak 1QFY20 results which were a miss to our as well as consensus estimates. The company reported 16.5% YoY decline in revenue and 35.5% YoY decline in PAT. Lower execution was on account of lack of ADs for the HAM projects and generally lower construction activities due to ongoing elections. Nevertheless, given the orderbook at ~Rs46bn, which implies ~2.25x trailing book to bill ratio, will be sufficient to achieve the management guidance of Rs24bn revenue in FY20. EBITDA for KNR at Rs900mn was down 18% YoY, however margins at 19.4% were above our estimates of 17.5%. The management has guided for margins of 17-18% for FY20. Given the strong balance sheet and return ratios, derisked and conservative approach of the management and deleveraging through sale of assets, we expect KNR to trade at premium to peers. We maintain our estimates and TP of Rs324 on the stock based on SOTP method (15x FY21 EPS for construction business and 0.8x P/B for BOT assets). As the stock has corrected by 10% in the last one month, we have upgraded the same to BUY from ACCUMULATE.

## Key Highlights and Investment Rationale

- Irrigation order inflow to be higher this year:** KNR has received orders in irrigation segment worth Rs8.5bn from Navyuga construction during the quarter. The management expects to bag another Rs8.5bn order in this segment this year. Additionally, HAM projects worth Rs19bn, where AD is expected to be received shortly, will be added to the orderbook. Overall, Rs25bn of new orders are expected this year for KNR which we believe is conservative.
- Limited equity requirement for HAM projects:** KNR has sold four of its HAM projects to Cube highways and hence incremental equity infusion will largely be the responsibility of the investor. We expect full equity contribution from KNR for KSHIP (Karnataka State) project.
- Upgrade to BUY:** We expect KNR to continue to trade at premium valuations and have assigned 15x PER for FY21 EPS of construction segment to arrive at our TP of Rs324. As the stock has corrected by 10% over the last one month, we upgrade the stock to BUY from ACCUMULATE.

<b>TP</b>	<b>Rs324</b>
<b>CMP</b>	<b>Rs245</b>
Potential upside / downside	32%
Previous Rating	ACCUMULATE

### V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	15.7	19.2
Consensus	17.4	21.0
% difference	(9.8)	(8.6)

### Shareholding Pattern (%)

Promoters	55.2
FII	3.2
DII	30.0
Public	11.6

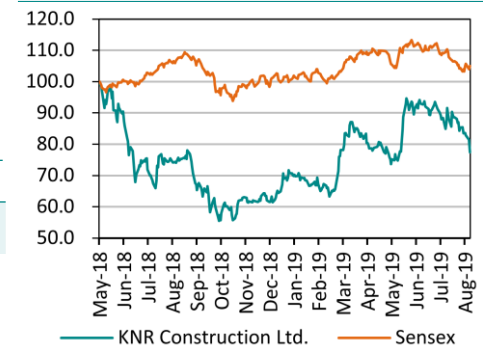
### Price Performance (%)

	-1m	-3m	-12m
Absolute	(9.8)	2.3	5.1
Rel to Sensex	(6.4)	8.1	8.3

### Key Stock Data

Bloomberg/Reuters	KNRC IN / KNRL.BO
Sector	Construction
Shares o/s (mn)	141
Market cap. (Rs mn)	34,416
Market cap. (US\$ mn)	497
3-m daily average value (Rs mn)	32.3
52-week high / low	Rs303 / 163
Sensex / Nifty	37,060 / 10,919

### Relative to Sensex (%)



### Financial snapshot

Year	FY2017	FY2018	FY2019	FY2020E	FY2021E
Revenue	15,411	19,317	21,373	24,407	31,111
EBITDA	2,187	3,861	4,272	4,213	5,047
EBITDA (%)	14.2	20.0	20.0	17.3	16.2
Adj. PAT	1,489	2,721	2,658	2,211	2,700
EPS (Rs)	10.6	19.4	18.9	15.7	19.2
Adj. EPS Growth (%)	(7.5)	82.7	(2.3)	(16.8)	22.1
PE (x)	23.5	12.9	13.2	15.8	13.0
Adj. Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	16.5	9.5	8.7	8.8	6.8
RoE (%)	18.2	26.5	20.7	14.5	15.3
RoCE (%)	16.0	20.5	16.9	13.8	16.3

Source: Company; IDBI Capital Research

**Exhibit 1: Financial snapshot**

(Rs mn)

Particulars	Q1FY20	Q4FY19	QoQ Chg (%)	Q1FY19	YoY Chg (%)
<b>Net Sales</b>	<b>4,646</b>	<b>7,157</b>	<b>(35.1)</b>	<b>5,564</b>	<b>(16.5)</b>
<b>EBIDTA</b>	<b>900</b>	<b>1,441</b>	<b>(37.5)</b>	<b>1,098</b>	<b>(18.0)</b>
<i>EBITDA margin (%)</i>	<i>19.4</i>	<i>20.1</i>	<i>(70bps)</i>	<i>19.7</i>	<i>(30bps)</i>
Other income	168	151	11.3	178	(5.6)
<b>PBITD</b>	<b>1,068</b>	<b>1,592</b>	<b>(32.9)</b>	<b>1,276</b>	<b>(16.3)</b>
Depreciation	389	478	(18.6)	360	8.1
Interest	90	75	20.0	72	25.0
<b>Pre-tax profit</b>	<b>589</b>	<b>1,039</b>	<b>(43.3)</b>	<b>844</b>	<b>(30.2)</b>
Tax (current+deferred)	112	92	21.7	104	7.7
<b>Adjusted net profit</b>	<b>477</b>	<b>947</b>	<b>(49.6)</b>	<b>740</b>	<b>(35.5)</b>
Exceptional items	-	25	-	-	-
<b>Profit after tax</b>	<b>477</b>	<b>922</b>	<b>(48.3)</b>	<b>740</b>	<b>(35.5)</b>
<b>Adj. EPS (Rs.)</b>	<b>3.4</b>	<b>6.6</b>	<b>(48.3)</b>	<b>5.3</b>	<b>(35.5)</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. estimates**

Year to March	Q1FY20E	Q1FY20A	Variance (%)
Sales	6,398	4,646	(27.4)
EBITDA	1,120	900	(19.6)
<i>EBITDA (%)</i>	<i>17.5</i>	<i>19.4</i>	<i>190bps</i>
Net Profit	596	477	20.0
EPS	4.2	3.4	19.1

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
<b>Net sales</b>	<b>19,317</b>	<b>21,373</b>	<b>24,407</b>	<b>31,111</b>
<i>growth (%)</i>	25.3	10.6	14.2	27.5
Operating expenses	(15,455)	(17,100)	(20,194)	(26,063)
<b>EBITDA</b>	<b>3,861</b>	<b>4,272</b>	<b>4,213</b>	<b>5,047</b>
<i>growth (%)</i>	76.5	10.6	(1.4)	19.8
Depreciation	(1,342)	(1,681)	(1,736)	(1,798)
<b>EBIT</b>	<b>2,520</b>	<b>2,591</b>	<b>2,477</b>	<b>3,250</b>
Interest paid	(231)	(294)	(341)	(265)
Other income	393	634	568	550
<b>Pre-tax profit</b>	<b>2,682</b>	<b>2,931</b>	<b>2,703</b>	<b>3,535</b>
Tax	39	(273)	(492)	(835)
<i>Effective tax rate (%)</i>	(1.5)	9.3	18.2	23.6
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>2,721</b>	<b>2,658</b>	<b>2,211</b>	<b>2,700</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>2,721</b>	<b>2,658</b>	<b>2,211</b>	<b>2,700</b>
<i>growth (%)</i>	82.7	(2.3)	(16.8)	22.1
<i>Shares o/s (mn nos)</i>	141	141	141	141

### Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	2,682	2,931	2,703	3,535
Depreciation	1,065	1,681	1,736	1,798
Tax paid	(553)	(605)	(492)	(835)
Chg in working capital	(840)	3	93	(112)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>2,354</b>	<b>4,011</b>	<b>4,040</b>	<b>4,386</b>
Capital expenditure	(1,763)	(2,086)	(1,300)	(1,000)
Chg in investments	123	(1,101)	(2,250)	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,627)</b>	<b>(3,191)</b>	<b>(3,550)</b>	<b>(1,000)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	763	178	331	(1,000)
Dividend (incl. tax)	(56)	(56)	(56)	(56)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>707</b>	<b>122</b>	<b>274</b>	<b>(1,056)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,434</b>	<b>941</b>	<b>765</b>	<b>2,330</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	3,936	4,340	3,904	3,106
Investments	5,398	6,499	8,749	8,749
Other non-curr assets	2,308	3,060	3,192	3,338
<b>Current assets</b>	<b>8,017</b>	<b>8,804</b>	<b>11,178</b>	<b>15,420</b>
Inventories	712	951	1,217	1,714
Sundry Debtors	2,320	2,344	3,343	4,262
Cash and Bank	371	58	527	2,128
Marketable Securities	68	72	72	72
Loans and advances	1,802	1,864	2,340	2,983
<b>Total assets</b>	<b>19,658</b>	<b>22,703</b>	<b>27,024</b>	<b>30,613</b>
<b>Shareholders' funds</b>	<b>11,578</b>	<b>14,143</b>	<b>16,298</b>	<b>18,941</b>
Share capital	281	281	281	281
Reserves & surplus	11,297	13,862	16,016	18,660
<b>Total Debt</b>	<b>2,204</b>	<b>2,382</b>	<b>2,712</b>	<b>1,712</b>
Secured loans	2,204	2,212	2,712	1,712
Unsecured loans	-	169	-	-
Other liabilities	160	134	134	134
<b>Curr Liab &amp; prov</b>	<b>5,717</b>	<b>6,044</b>	<b>7,880</b>	<b>9,826</b>
Current liabilities	5,532	5,880	7,692	9,610
Provisions	184	164	188	216
<b>Total liabilities</b>	<b>8,080</b>	<b>8,560</b>	<b>10,726</b>	<b>11,672</b>
<b>Total equity &amp; liabilities</b>	<b>19,658</b>	<b>22,703</b>	<b>27,024</b>	<b>30,613</b>
<b>Book Value (Rs)</b>	<b>82</b>	<b>101</b>	<b>116</b>	<b>135</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	19.4	18.9	15.7	19.2
Adj. EPS growth (%)	82.7	(2.3)	(16.8)	22.1
EBITDA margin (%)	20.0	20.0	17.3	16.2
Pre-tax margin (%)	13.9	13.7	11.1	11.4
ROE (%)	26.5	20.7	14.5	15.3
ROCE (%)	20.5	16.9	13.8	16.3
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.1	1.0	1.0	1.1
Leverage factor (x)	1.7	1.6	1.6	1.6
Net margin (%)	14.1	12.4	9.1	8.7
Net Debt/Equity (x)	0.2	0.2	0.1	0.0
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	13.4	16.2	18.2	20.1
Receivable days	43.8	40.0	50.0	50.0
Payable days	51.6	47.7	50.0	50.0

**Valuation**

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	12.9	13.2	15.8	13.0
Price / Book value (x)	3.0	2.5	2.1	1.8
PCE (x)	8.6	8.1	8.9	7.8
EV / Net sales (x)	1.9	1.7	1.5	1.1
EV / EBITDA (x)	9.5	8.7	8.8	6.8
Dividend Yield (%)	0.2	0.2	0.2	0.2



# Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

**Key to Ratings Stocks:**

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

**IDBI Capital Markets & Securities Ltd.**
**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cufee Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

**SEBI Registration:** BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

## Analyst Disclosures

I, Mangesh Bhadang, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, I will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

## Other Disclosure

IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on [www.idbicapital.com](http://www.idbicapital.com) IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at [www.bseindia.com](http://www.bseindia.com); [www.nseindia.com](http://www.nseindia.com) and [www.economictimes.indiatimes.com/markets/stocks/stock-quotes](http://www.economictimes.indiatimes.com/markets/stocks/stock-quotes).