Retail Equity Research (South India Focus)

KNR Constructions Ltd

Construction & Engineering

BUY

BSE CODE : 532942 NSE CODE: KNRCON
BLOOMBERG CODE: KNRC:IN SENSEX : 40,652

12M Investment Period | Rating as per Small Cap

CMP Rs 242 TARGET Rs 295 RETURN 22%
(Closing: 20-11-19)

KEY CHANGES: *TARGET* ↓ *RATING* ↑ *EARNINGS* ↑

Execution to pick up pace in H2FY20E...

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.

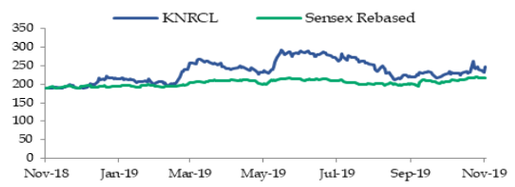
- **Q2FY20 revenue grew by 31% YoY due to strong execution in recently won HAM projects.**
- **EBITDA margin improved by 306bps YoY to 23% due to fall in sub-contracting expenses (-69%YoY), booking of arbitration claim of Rs18cr and execution of high margin irrigation work.**
- **KNR received appointed date for three HAM projects out of five and execution is in full swing.**
- **Company expects an order inflow of ~Rs1,500cr in remaining quarters of FY20, mainly from irrigation and highways.**
- **Going forward execution to pick up as HAM projects will start to contribute to revenue and we expect revenue to grow at a CAGR of 16% over FY19-FY21E.**
- **We revise our rating to BUY and value core business at a P/E of 13x on FY21 EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price of Rs295.**

Company Data	
Market Cap (cr)	Rs. 3,396
Enterprise Value (cr)	Rs. 3,364
Outstanding Shares (cr)	14.1
Free Float	44.83%
Dividend Yield	0.2
52 week high	Rs303
52 week low	Rs181
6m average volume (cr)	0.25
Beta	1.05
Face value	Rs2

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	55.17	55.17	55.17
FII's	3.04	3.15	2.83
MFs/Insti	29.66	30.17	31.00
Public	12.13	11.51	11.00
Total	100.0	100.0	100.0
Promoter pledge%	*Nil*	*Nil*	*Nil*

Price Performance	3 month	6 Month	1 Year
Absolute Return	23%	47%	6%
Absolute Sensex	9%	12%	15%
Relative Return*	13%	35%	-9%

over or under performance to benchmark index



Execution is picking up...

Q2FY20 revenue grew by 31.2% YoY to Rs546cr which is above our estimate as recently won HAM projects starts contributing to the top-line. Timely execution of irrigation projects helped to contribute 17% of revenue book and yielding better margin of more than 21%. During the quarter KNR booked arbitration claims of Rs23cr in other income as interest income and Rs18cr in revenue from operation. Gross margin improved by 1541bps YoY to 66.3% on account of sharp fall in subcontracting expenses (-69% YoY) and increased contribution from high margin irrigation projects while EBITDA margin improved by 306bps YoY to 23%. Adj. PAT increased by 59% YoY to Rs70cr supported by operational efficiency and higher other income. We expect execution to pick up pace in H2FY20 as KNR received appointed date for three HAM projects and expected to receive balance two HAM projects in coming quarter. We expect revenue to grow at a CAGR of 16% over FY19-FY21E.

Strong order book...

Order book remain strong @ 3.1x TTM revenue and total outstanding order book increased by 15% YoY and now stands at 6,682cr (including EPC value of HAM projects). To improve execution outlook, the company continue to bid for projects and expects to win projects around Rs2,000cr to Rs2500cr in FY20. KNR received LOA for irrigation project of Rs850cr. Any turnaround in order inflow will fillip revenue guidance for FY20E.

Status of HAM projects.

Total equity infused in total five HAM project is at Rs177cr while KNR-Chidambaram project got mutually terminated with NHAI. The outstanding equity commitment for all HAM projects is Rs200cr. Appointed date received for three HAM projects and execution is in full swing. Trichy– Kallagam over 17% of work is completed (85% land acquired), Chittor to Mallavaram 28% work completed (95% land acquired) and Ramsanpalle to Mangloor 21% work completed (80% land acquired).

Valuations

Going forward, execution to pick up as projects are getting financial closure and appointed date. While healthy balance sheet, strong execution capability with better operational margin to support valuation. We value standalone business at a P/E of 13x FY21E EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price Rs295 & revise our rating to Buy.

Standalone (cr)	FY19A	FY20E	FY21E
Sales	2,137	2,422	2,891
Growth (%)	10.3	13.3	19.3
EBITDA	427	477	535
EBITDA Margin(%)	20.0	19.7	18.5
PAT Adj.	273	253	288
Growth (%)	(11.2)	(7.6)	13.9
Adj.EPS	19.4	18	20
Growth (%)	(11.2)	(7.6)	13.9
P/E	12.7	13.7	12.0
P/B	2.4	2.1	1.8
EV/EBITDA	8.7	7.8	7.0
ROE (%)	21.3	16.4	15.9
D/E	0.17	0.2	0.2

Saji John
Research Analyst

SOTP Valuation

Particulars	Invested Equity (Rs Cr)	No. of shares	Value/Share (Rs)	Rationale
Standalone EPC			266	P/E 13x FY21E EPS
BOT Projects	226	14.1	16	1x P/BV
HAM	177	14.1	13	1x P/BV
Total Value per share			**295**	

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY20	Q1FY19	YoY Growth %	H1FY20	H1FY19	YoY Growth %
Sales	546	416	31.2	1,011	973	3.9
EBITDA	126	83	51.3	216	193	11.8
EBITDA margins %	23.0	20.0	3.06	21.3	19.8	1.5
Depreciation	48	39	21.0	86	75	14.8
EBIT	26	9	190.1	172	144	19.0
Interest	104	53	97.0	19	15	28.6
Other Income	10	7	31.5	42	27	59.3
Exceptional Items	4			4		
PBT	90	45	98.9	149	130	14.8
Tax	20	0		31	11	191.3
Share of profit from Associate						
Minority Interest						
Reported PAT	70	45	55.8	118	119	-1.0
Adjustments	(0)	1		(0)	3	
Adj PAT	70	44	59.4	118	116	1.6
No. of Shares	14.1	14.1		14.1	14.1	
EPS (Rs)	5.0	3.1	59.4	8	8	1.6

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**FY19E**	**FY20E**
Revenue	2,276	2,934	2,422	2,891	*6.4*	*(1.5)*
EBITDA	382	475	477	535	*24.9*	*12.6*
Margins (%)	16.8	16.2	19.7	18.5	*292bps*	*231bps*
Adj. PAT	212	271	253	288	*19.2*	*6.2*
EPS	15.1	19.2	18.0	20.5	*19.2*	*6.2*

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	1,541	1,932	2,137	2,422	2,891
% change	71	25	11	13	19
EBITDA	230	386	427	477	535
% change	48	68	11	12	12
Depreciation	64	134	168	188	211
EBIT	166	252	259	289	324
Interest	22	23	29	44	47
Other Income	30	39	63	80	80
PBT	163	268	291	329	358
% change	25	64	8	13	9
Tax	6	-4	27	72	70
Tax Rate (%)	4	-1	9	22	20
Reported PAT	157	272	263	257	288
Adj.*	11	36	10	4.0	0.0
Adj. PAT	168	308	273	253	288
% change	54	83	-11	-7.6	13.9
No. of shares (cr)	14	14	14	14	14
Adj EPS (Rs)	12	22	19	18.0	20.5
% change	54	83	-11	-0.08	0.14
DPS (Rs)	0.3	0.3	0.3	0.25	0.25

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	25	44	13	74	181
Accounts Receivable	164	232	234	285	325
Inventories	57	71	95	100	122
Other Cur. Assets	460	466	557	637	689
Investments	466	536	708	885	1,150
Gross Fixed Assets	666	886	1,086	1,266	1,366
Net Fixed Assets	322	393	371	345	234
CWIP	2	0	0	1	1
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	43	141	174	210	242
Other Assets	79	82	118	130	150
Total Assets	**1,618**	**1,966**	**2,270**	**2,666**	**3,093**
Current Liabilities	559	564	588	687	802
Provisions	15	18	16	19	22
Debt Funds	130	212	238	278	303
Other Liabilities	18	13	13	15	15
Equity Capital	28	28	28	28	28
Reserves & Surplus	867	1,130	1,386	1,639	1,923
Shareholder's Fund	895	1,158	1,414	1,667	1,951
Total Liabilities	**1,618**	**1,966**	**2,270**	**2,666**	**3,093**
BVPS	64	82	101	119	139

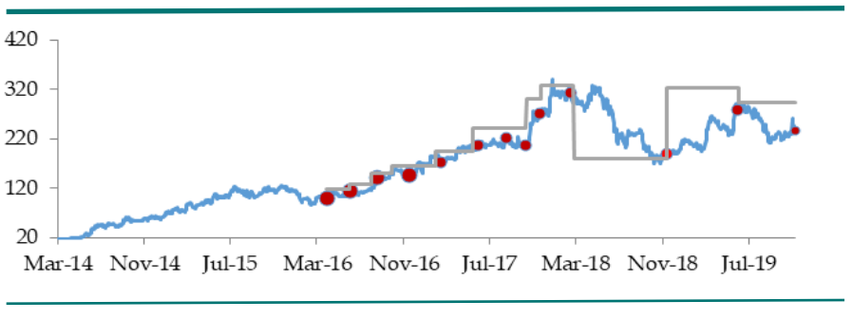
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	227	402	459	517	568
Non-cash adj.	16	18	-22	-45	-23
Changes in W.C	516	-80	-95	-34	4
C.F. Operation	**744**	**243**	**309**	**402**	**518**
Capital exp.	-54	-218	-200	-181	-100
Change in inv.	0	0	0	0	0
Other invest.CF	0	9	24	17	0
C.F - Investment	**-485**	**-279**	**-348**	**-341**	**-365**
Issue of equity	0	0	0	0	0
Issue/repay debt	8	78	-10	28	5
Dividends paid	-4	-4	-4	-4	-4
Other finance.CF	-253	59	-29	-42	-47
C.F - Finance	**-249**	**133**	**9**	**0**	**-45**
Chg. in cash	9	97	-31	61	107
Closing cash	25	44	13	74	181

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	14.9	20.0	20.0	19.7	18.5
EBIT margin (%)	10.8	13.0	12.1	11.9	11.2
Net profit mgn.(%)	10.9	15.9	12.8	10.4	10.0
ROE (%)	20.7	30.0	21.3	16.4	15.9
ROCE (%)	18.1	24.2	19.6	15.9	15.5
W.C & Liquidity					
Receivables (days)	34.7	37.4	39.8	39.2	38.5
Inventory (days)	19.3	25.5	37.1	37.1	34.5
Payables (days)	53.1	71.6	98.5	90.3	77.9
Current ratio (x)	1.2	1.4	1.5	1.6	1.6
Quick ratio (x)	0.3	0.5	0.4	0.5	0.6
Turnover &Leverage					
Gross asset T.O (x)	2.4	2.5	2.2	2.1	2.2
Total asset T.O (x)	1.1	1.1	1.0	1.0	1.0
Int. covge. ratio (x)	7.6	10.9	8.8	6.6	7.0
Adj. debt/equity (x)	0.15	0.18	0.17	0.17	0.16
Valuation					
EV/Sales (x)	2.3	1.9	1.7	1.5	1.3
EV/EBITDA (x)	15.6	9.5	8.7	7.8	7.0
P/E (x)	20.6	11.2	12.7	13.7	12.0
P/BV (x)	3.9	3.0	2.4	2.1	1.8

Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-March- 6	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

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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