

## Monetizes Walayar BOT asset

In line with its strategy of monetizing BOT assets, KNR Construction's (KNR) has entered into a share purchase agreement (SPA) with Cube Highways to sell its 100% entire equity stake in Walayar BOT project at an enterprise value of ₹ 529.3 crore. This implies equity value of ₹ 386.2 crore and P/BV multiple of 0.97x. The proceeds from the deal could be utilized towards retiring debt and as a growth capital. Also, this could lead to KNR becoming a net cash positive entity. We like the company given its focus on EPC business, best in class WC and healthy balance sheet position. KNR remains our top pick in the sector.

## Enters into SPA with Cube for Walayar BOT project

KNR has entered into a share purchase agreement (SPA) with Cube Highways to sell its 100% entire equity stake in KNR Walayar Tollways BOT toll asset. The EV of this deal is ₹ 529.3 crore excluding claims receivables (worth ₹ 170 crore) from NHAI & other government instrumentalities, which would be passed to KNR Constructions as and when realized. As of Q2FY20, KNR Walayar SPV had total ₹ 143.1 crore debt, implying equity value of ₹ 386.2 crore. KNR had infused total ₹ 397.4 crore in this toll project, which implies a deal multiple of 0.97x. Since KNR has already completed its portion of equity infusion worth ₹ 175.4 crore in these three HAM projects, proceeds from the Walayar deal could be utilized towards debt reduction (which could make KNR cash positive) and also as growth capital. The company is yet to infuse equity in the other two HAM projects (total BPC: ₹ 2,064.5 crore) which are yet to start execution. KNR can easily fund this equity requirement.

## Order book at ₹ 6,681.8 crore as of Q2FY20

KNR's order book (OB) stands at a strong ₹ 6,681.8 crore (including two HAM projects on which appointed date is awaited), implying order book-to-bill ratio of 3.1x (on TTM basis). The OB consists of ₹ 4,830.6 crore from roads division and ₹ 1,850.4 crore from irrigation. On new orders front, it secured order inflows (OI) worth ₹ 1,800 crore and is targeting incremental OI worth ₹ 1,000-1,500 crore in H2FY20E. Overall, we expect revenues to grow at 19.1% CAGR to ₹ 3,031.1 crore in FY19-21E.

## Valuation & Outlook

The monetization of Walayar BOT project is in line with the company's strategy of exiting BOT project and concentrating towards more asset-light EPC projects. The proceeds from this deal could make KNR net cash positive and freed up capital could also be utilized as growth capital. On execution front, with execution of large fast track irrigation orders & overall strong execution on HAM projects, we expect revenues to grow 19.1% CAGR to ₹ 3,031.1 crore in FY19-21E. We fine tune our estimates to factor in this deal in FY21E and maintain our **BUY** recommendation on the stock with a SoTP target price of ₹ 325/share.

### Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR FY19-21E
Net Sales	1,541.1	1,931.7	2,137.3	2,506.6	3,031.1	19.1%
EBITDA	229.6	386.1	427.0	458.7	545.6	13.0%
EBITDA Margin (%)	14.9	20.0	20.0	18.3	18.0	
PAT	157.2	272.1	263.3	238.3	273.7	2.0%
EPS (₹)	11.2	19.4	18.7	16.9	19.5	
P/E (x)	24.8	14.3	14.8	16.3	14.2	
EV/EBITDA (x)	17.3	10.5	9.7	8.9	6.7	
RoNW (%)	17.6	23.5	18.6	14.5	14.3	
RoCE (%)	18.3	20.5	19.0	16.2	19.6	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount (₹ crore)
Market Capitalization	3,894.6
Total Debt	264.1
Cash	13.0
EV	4,145.8
52 week H/L (₹)	303/ 187
Equity capital	28.1
Face value	2.0

### Key Highlights

- KNR has entered in SPA with Cube Highways for monetization of Walayar BOT project
- EV of the deal is ₹ 529.3 crore, implying equity value of ₹ 386.2 crore
- We expect KNR's revenues to grow 19.1% CAGR to ₹ 3,031.1 crore in FY19-21E
- Maintain BUY with a target price of ₹ 325/share

### Price Chart



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## Valuation & Outlook

At the CMP, KNR is trading at attractive valuations of 6.7x FY21E EV/EBITDA and 14.2x FY21E EPS. 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 (RoCE: 19.0% & RoE: 18.6%). Going ahead, with a healthy order book, and strong execution on captive as well as shorter duration irrigation projects, we expect KNR's revenues to grow at 19.1% CAGR in FY19-21E.

The monetization of Walayar BOT project is in line with the company's strategy of exiting BOT project and concentrating towards more asset-light EPC projects. The proceeds from this deal could make KNR net cash positive and also could be utilized as growth capital. Hence, we fine tune our estimates to factor in this deal in FY21E and maintain our **BUY** recommendation on the stock with a SoTP based target price of ₹ 325/ share. We value its core EPC business at ₹ 297/share (7.5x FY21E EV/EBITDA, implying 15.7x FY21E fully tax adjusted EPS).

### Exhibit 1: SoTP Valuation

	Value (₹ crore)	Per Share (₹ )	Comment
<b>EPC Business (A)</b>	<b>4092</b>	<b>291</b>	7.5x FY21E EV/EBITDA
<b>BOT toll Investment</b>	<b>90</b>	<b>6</b>	
Muzaffarpur tollway (D)	90	6	1x P/BV
<b>HAM Projects Investment (E)</b>	<b>147</b>	<b>10</b>	1x P/BV
<b>Total Equity Investment (F=B+E)</b>	<b>237</b>	<b>17</b>	
Less: Net Debt (G)	-200	-14	FY21E Net Debt
<b>SoTP Value (A+F-G)</b>	<b>4529</b>	<b>322</b>	
<b>Rounded-off target price</b>		<b>325</b>	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	1,931.7	2,137.3	2,506.6	3,031.1
Other operating income	-	-	-	-
<b>Total Revenues</b>	<b>1,931.7</b>	<b>2,137.3</b>	<b>2,506.6</b>	<b>3,031.1</b>
Raw Material Expense	505.5	643.2	744.5	909.3
Other Construction Expenses	929.8	744.9	914.9	1,106.4
Employee benefit expenses	72.1	92.9	112.8	136.4
Other Expenses	38.1	229.3	275.7	333.4
<b>Total Operating Expenditure</b>	<b>1,545.5</b>	<b>1,710.3</b>	<b>2,047.9</b>	<b>2,485.5</b>
EBITDA	<b>386.1</b>	<b>427.0</b>	<b>458.7</b>	<b>545.6</b>
Other Income	39.3	63.4	36.0	43.2
Interest	23.1	29.1	32.6	15.0
Depreciation	134.1	168.1	181.8	197.7
<b>PBT</b>	<b>268.2</b>	<b>290.6</b>	<b>280.3</b>	<b>376.1</b>
Total Tax	(3.9)	27.3	42.0	91.2
Reported PAT	272.1	263.3	238.3	284.9
<b>Adjusted PAT</b>	<b>272.1</b>	<b>263.3</b>	<b>238.3</b>	<b>284.9</b>
<b>EPS (Diluted)</b>	<b>19.4</b>	<b>18.7</b>	<b>16.9</b>	<b>19.5</b>

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
₹ crore	FY18	FY19	FY20E	FY21E
<b>Profit before Tax</b>	<b>268.2</b>	<b>290.6</b>	<b>280.3</b>	<b>376.1</b>
Depreciation	134.1	168.1	181.8	197.7
Interest Paid	23.1	29.1	32.6	15.0
<b>Cash Flow before WC changes</b>	<b>413.5</b>	<b>453.1</b>	<b>458.7</b>	<b>534.4</b>
Net Increase in Current Assets	(240.8)	(168.5)	(215.7)	(239.1)
Net Increase in Current Liabilities	7.8	17.9	101.5	144.1
<b>Net CF from Operating Activities</b>	<b>156.8</b>	<b>247.5</b>	<b>302.4</b>	<b>348.2</b>
(Purchase)/Sale of Fixed Assets	(200.9)	(203.4)	(200.0)	(200.0)
Purchase of Investment	(2.3)	(108.3)	(56.8)	241.2
Interest Income	(8.5)	(4.5)	(36.0)	(43.2)
<b>Net CF from Investing Activities</b>	<b>(183.1)</b>	<b>(285.4)</b>	<b>(220.8)</b>	<b>84.4</b>
Proceeds from share capital	-	-	-	-
Interest Paid	23.1	29.1	32.6	15.0
<b>Net CF from Financing Activities</b>	<b>51.2</b>	<b>7.2</b>	<b>(39.7)</b>	<b>(230.5)</b>
<b>Net Cash flow</b>	<b>24.9</b>	<b>(30.7)</b>	<b>41.9</b>	<b>202.1</b>
Opening Cash/ Cash Equivalent	16.4	37.1	13.0	54.9
<b>Closing Cash/ Cash Equivalent</b>	<b>41.3</b>	<b>6.4</b>	<b>54.9</b>	<b>257.0</b>

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>				
Share Capital	28.1	28.1	28.1	28.1
Reserves & Surplus	1,129.7	1,386.1	1,617.2	1,882.7
<b>Total Shareholders funds</b>	<b>1,157.8</b>	<b>1,414.2</b>	<b>1,645.3</b>	<b>1,910.8</b>
Secured Loan	-	33.6	59.5	56.9
Unsecured Loan	240.3	230.6	204.6	-
<b>Total Debt</b>	<b>240.3</b>	<b>264.1</b>	<b>264.1</b>	<b>56.9</b>
Deferred Tax Liability	-	-	-	-
<b>Liability side total</b>	<b>1,427</b>	<b>1,696</b>	<b>1,930</b>	<b>1,991</b>
<b>Assets</b>				
Gross Block	817.6	1,012.4	1,212.4	1,412.4
Net Block	331.6	371.1	389.3	391.6
Capital WIP	0.0	0.0	0.0	0.0
Non-current Investments	572.0	683.0	739.8	498.6
<b>Current Assets</b>				
Inventories	71.2	95.0	137.3	166.1
Sundry Debtors	232.0	234.4	309.0	373.7
Loans and Advances	27.9	9.1	9.8	10.7
Other Current Assets	428.4	533.9	626.1	757.1
Cash	43.8	13.0	54.9	257.0
<b>Total Current Assets</b>	<b>759.5</b>	<b>872.3</b>	<b>1,082.3</b>	<b>1,307.6</b>
Creditors	218.4	223.6	262.2	317.1
Provisions	14.2	11.8	13.8	16.7
Other Current Liabilities	314.9	338.4	396.9	480.0
Other Long Term Liabilities	13.2	13.3	15.5	18.8
<b>Total Current Liabilities</b>	<b>547.5</b>	<b>573.8</b>	<b>673.0</b>	<b>813.8</b>
<b>Net Current Assets</b>	<b>288.1</b>	<b>331.1</b>	<b>483.8</b>	<b>770.5</b>
<b>Assets side total</b>	<b>1,427</b>	<b>1,696</b>	<b>1,930</b>	<b>1,991</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per Share Data</b>				
EPS (Fully Diluted)	19.4	18.7	16.9	19.5
Cash EPS	28.9	30.7	29.9	33.5
BV	82.3	100.6	117.0	135.9
<b>Operating Ratios</b>				
EBITDA / Net Sales	20.0	20.0	18.3	18.0
PAT / Net Sales	14.1	12.3	9.5	9.0
Inventory Days	13	16	20	20
Debtor Days	44	40	45	45
Creditor Days	41	38	38	38
<b>Return Ratios</b>				
RoE	23.5	18.6	14.5	14.3
RoCE	20.5	19.0	16.2	19.6
RoIC	32.4	26.5	24.9	28.7
<b>Valuation Ratios</b>				
EV / EBITDA	10.5	9.7	8.9	6.7
P/E	14.3	14.8	16.3	14.2
EV / Net Sales	2.1	1.9	1.6	1.2
Market Cap / Sales	2.0	1.8	1.6	1.3
Price to Book Value	3.4	2.8	2.4	2.0
<b>Turnover Ratios</b>				
Asset turnover	1.4	1.3	1.3	1.5
Gross Block Turnover	2.4	2.1	2.1	2.1
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.2	0.2	0.0
Current Ratio	1.4	1.5	1.6	1.6
Debt / EBITDA	0.6	0.6	0.6	0.1
<b>Quick Ratio</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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