

# KNR Construction

**BSE SENSEX**

37,973

**S&P CNX**

11,222


**Stock Info**

	KNRC IN
Bloomberg	KNRC IN
Equity Shares (m)	141
M.Cap.(INRb)/(USD\$b)	35.5 / 0.5
52-Week Range (INR)	311 / 172
1, 6, 12 Rel. Per (%)	-3/3/10
12M Avg Val (INR M)	58
Free float (%)	45.0

**Financials Snapshot (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	2.2	3.2
EBITDA (%)	21.1	19.5	19.0
EPS (INR)	14.5	16.0	22.5
EPS Gr. (%)	-18.3	10.3	40.4
BV/Sh. (INR)	115.5	130.3	151.5

**Ratios**

Net D/E	0.1	-0.1	-0.2
RoE (%)	13.4	13.0	15.9
RoCE (%)	13.9	13.2	16.3
Payout (%)	6.8	7.5	5.3

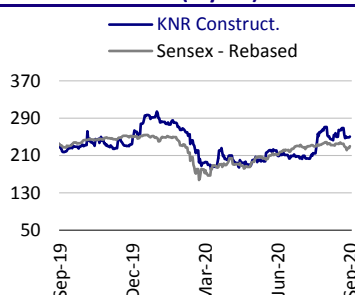
**Valuations**

P/E (x)	17.4	15.8	11.3
P/BV (x)	2.2	1.9	1.7
EV/EBITDA (x)	8.0	7.1	5.4
Div Yield (%)	0.4	0.4	0.4
FCF Yield (%)	5.4	7.4	7.0

**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

**Stock Performance (1-year)**

**CMP: INR253**
**TP: INR310 (+23%)**
**Buy**
**BOT asset sale concludes; balance sheet turns net cash**

- KNR completes monetization of Walayar road project:** KNR has completed the sale of the Walayar road project to Cube Highways at an enterprise value of INR5.1b. Debt on the project stands at INR1.3b. Thus, the deal's equity value is estimated to be ~INR3.8b or P/Inv of ~1x. While this is almost in line with the announced deal value in Jan'20, part of the proceeds is subject to the fulfillment of certain conditions. In lieu of an equity value of INR3.8b, KNR is likely to immediately realize a payment of INR3.1b, while the remaining INR0.7b would flow in over the next two years. Further NHAI claims and other governmental instrumentalities amount to INR1.7b – a pass-through to KNR as and when realized. We are yet to factor in any arbitration proceeds in our model. Any such realization could further boost the balance sheet.
- Balance sheet strengthens further; KNR has best balance sheet in Roads sector:** We factor in proceeds of INR3.1b in 1H21, much before our earlier expectation of realization in FY22. KNR has already monetized three of its HAM projects. We expect the balance sheet to strengthen further, with a net cash position of ~INR2b/INR4b by FY21/FY22. The company has the best balance sheet position among the 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 a strong balance sheet position, KNR is well-positioned to bid on new projects as and when bidding commences in the Roads sector.
- Telangana receivables remain key monitorable:** While KNR has continued to surprise with its steady performance, the working capital cycle has seen marginal deterioration. This is primarily on account of pending dues from the Telangana government, which have been stalled since Feb'20 and amounted to INR6.8b by Aug'20. These receivables remain a key monitorable in the near term.
- Maintain Buy, with higher TP of INR310:** We increase our FY21/FY22E EPS by 6%/4% on account of the early realization of asset monetization, leading to lower interest costs. We forecast a revenue/EBITDA/PAT CAGR of 18%/12%/25% over FY20–22E. Despite 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 higher TP of INR310 (prior: INR295), based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

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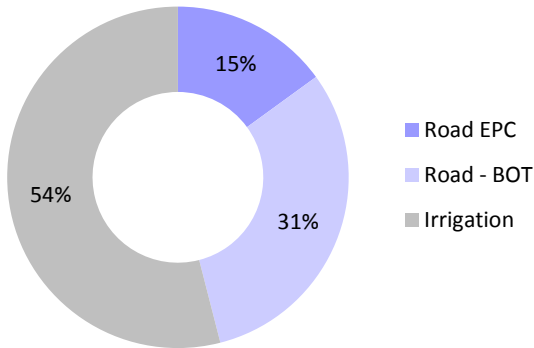
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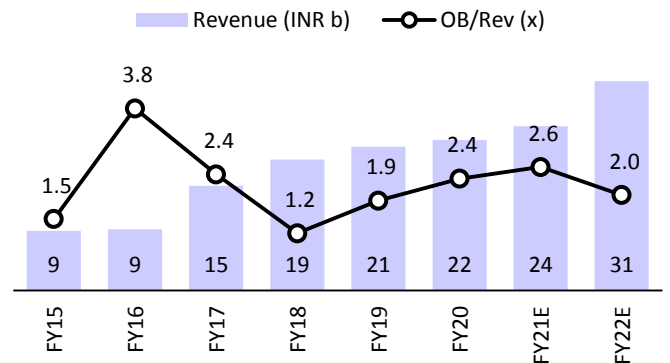
Story in charts

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



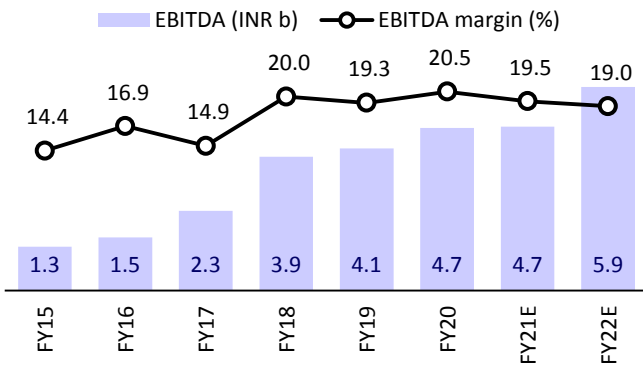
Source: MOFSL, Company

Exhibit 2: Current order book provides strong revenue visibility



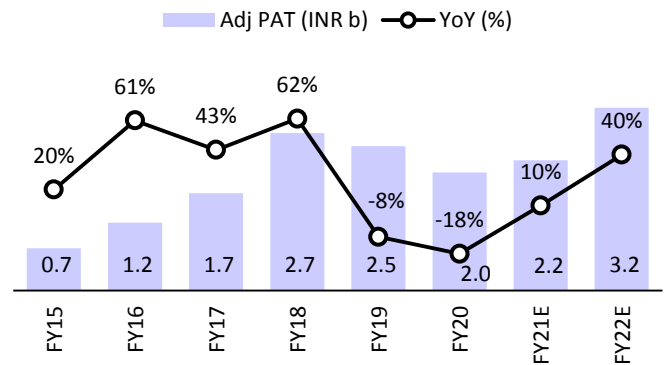
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



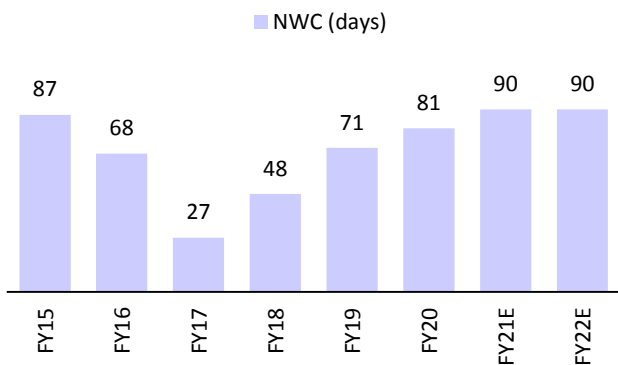
Source: MOFSL, Company

Exhibit 4: Adj. PAT to grow at 25% CAGR over FY20–22E



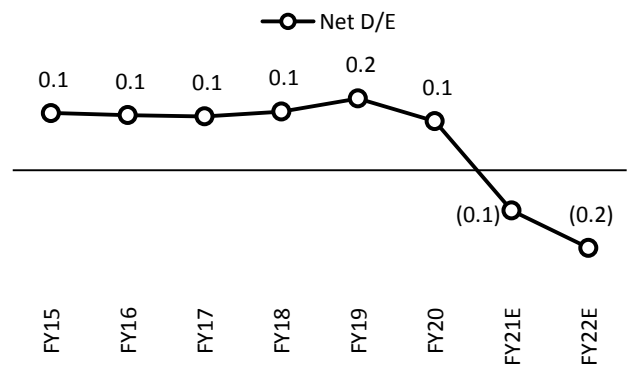
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 6: Monetization of Walayar road project has led to net cash balance sheet



Source: MOFSL, Company

## 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 poised to bid for new projects as and when bidding commences in the Roads sector.
- **Maintain Buy:** We increase our FY21/FY22E EPS by 6%/4% on account of the early realization of asset monetization, leading to lower interest costs. We forecast a revenue/EBITDA/PAT CAGR of 18%/12%/25% over FY20–22E. Despite 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 higher TP of INR310 (prior: INR295), based on: (a) unchanged 12x Mar'22E EPS to the EPC business and (b) the book value of road assets.

## Financials and valuations

### Standalone – Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Income from Operations</b>	<b>19,317</b>	<b>21,204</b>	<b>22,212</b>	<b>24,234</b>	<b>30,901</b>	<b>35,081</b>
Change (%)	25.3	9.8	4.8	9.1	27.5	13.5
<b>EBITDA</b>	<b>3,861</b>	<b>4,101</b>	<b>4,691</b>	<b>4,726</b>	<b>5,871</b>	<b>6,665</b>
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
<b>EBIT</b>	<b>2,520</b>	<b>2,420</b>	<b>2,772</b>	<b>3,033</b>	<b>4,081</b>	<b>4,746</b>
Int. and Finance Charges	231	291	474	269	169	185
Other Income	393	634	346	242	309	351
<b>PBT bef. EO Exp.</b>	<b>2,682</b>	<b>2,763</b>	<b>2,644</b>	<b>3,006</b>	<b>4,222</b>	<b>4,911</b>
EO Items	2	138	213	0	0	0
<b>PBT after EO Exp.</b>	<b>2,683</b>	<b>2,901</b>	<b>2,857</b>	<b>3,006</b>	<b>4,222</b>	<b>4,911</b>
Total Tax	-37	268	605	757	1,063	1,236
Tax Rate (%)	-1.4	9.2	21.2	25.2	25.2	25.2
<b>Reported PAT</b>	<b>2,721</b>	<b>2,633</b>	<b>2,252</b>	<b>2,249</b>	<b>3,159</b>	<b>3,675</b>
<b>Adjusted PAT</b>	<b>2,719</b>	<b>2,495</b>	<b>2,039</b>	<b>2,249</b>	<b>3,159</b>	<b>3,675</b>
Change (%)	61.7	-8.2	-18.3	10.3	40.4	16.3
Margin (%)	14.1	11.8	9.2	9.3	10.2	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	18,038	21,029	24,535
<b>Net Worth</b>	<b>11,578</b>	<b>14,143</b>	<b>16,239</b>	<b>18,320</b>	<b>21,310</b>	<b>24,816</b>
Total Loans	2,118	2,641	2,300	300	300	300
Deferred Tax Liabilities	-1,408	-1,739	-1,610	-1,610	-1,610	-1,610
<b>Capital Employed</b>	<b>12,289</b>	<b>15,045</b>	<b>16,929</b>	<b>17,010</b>	<b>20,000</b>	<b>23,506</b>
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
<b>Net Fixed Assets</b>	<b>3,936</b>	<b>4,340</b>	<b>4,438</b>	<b>3,246</b>	<b>2,456</b>	<b>1,536</b>
Capital WIP	0	0	102	102	102	102
<b>Total Investments</b>	<b>5,356</b>	<b>6,448</b>	<b>7,149</b>	<b>5,568</b>	<b>5,438</b>	<b>4,832</b>
<b>Current Assets</b>	<b>8,959</b>	<b>10,176</b>	<b>13,880</b>	<b>17,519</b>	<b>24,023</b>	<b>30,681</b>
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	2,115	4,381	8,382
Other current assets	5,489	6,751	7,557	8,244	10,512	11,935
<b>Current Liability</b>	<b>5,962</b>	<b>5,919</b>	<b>8,639</b>	<b>9,425</b>	<b>12,018</b>	<b>13,644</b>
Current Liabilities	5,777	5,754	8,407	9,172	11,695	13,277
Provisions	184	164	232	253	323	367
<b>Net Current Assets</b>	<b>2,997</b>	<b>4,258</b>	<b>5,241</b>	<b>8,094</b>	<b>12,005</b>	<b>17,037</b>
<b>Appl. of Funds</b>	<b>12,290</b>	<b>15,045</b>	<b>16,929</b>	<b>17,010</b>	<b>20,000</b>	<b>23,506</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>19.3</b>	<b>17.7</b>	<b>14.5</b>	<b>16.0</b>	<b>22.5</b>	<b>26.1</b>
Cash EPS	28.9	29.7	28.1	28.0	35.2	39.8
BV/Share	82.3	100.6	115.5	130.3	151.5	176.5
DPS	0.2	0.4	0.9	1.0	1.0	1.0
Payout (%)	1.2	2.6	6.8	7.5	5.3	4.6
<b>Valuation (x)</b>						
P/E	13.1	14.3	17.4	15.8	11.3	9.7
P/BV	3.1	2.5	2.2	1.9	1.7	1.4
EV/EBITDA	9.6	9.3	8.0	7.1	5.4	4.1
Dividend Yield (%)	0.1	0.2	0.4	0.4	0.4	0.4
FCF per share	-3.4	3.1	13.5	18.8	17.6	26.7
<b>Return Ratios (%)</b>						
RoE	26.5	19.4	13.4	13.0	15.9	15.9
RoCE	24.7	18.2	13.9	13.2	16.3	16.3
RoIC	47.7	29.4	24.5	24.4	31.6	35.0
<b>Working Capital Ratios</b>						
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	1.4	1.5	1.5
Inventory (Days)	13	16	20	20	20	20
Debtor (Days)	44	40	78	88	88	88
<b>Leverage Ratio (x)</b>						
Current Ratio	1.5	1.7	1.6	1.9	2.0	2.2
Interest Cover Ratio	10.9	8.3	5.8	11.3	24.2	25.6
Net Debt/Equity	0.1	0.2	0.1	-0.1	-0.2	-0.3

### Standalone – Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>(INR m)</b>						
<b>OP/(Loss) before Tax</b>	<b>2,682</b>	<b>2,906</b>	<b>2,937</b>	<b>3,006</b>	<b>4,222</b>	<b>4,911</b>
Depreciation	1,341	1,681	1,923	1,692	1,790	1,920
Interest & Finance Charges	209	291	473	269	169	185
Direct Taxes Paid	-237	-550	-844	-757	-1,063	-1,236
(Inc)/Dec in WC	-2,347	-1,506	-310	-1,069	-1,645	-1,031
<b>CF from Operations</b>	<b>1,648</b>	<b>2,822</b>	<b>4,180</b>	<b>3,143</b>	<b>3,473</b>	<b>4,749</b>
Others	-120	-347	-239	0	0	0
<b>CF from Operating incl EO</b>	<b>1,528</b>	<b>2,474</b>	<b>3,941</b>	<b>3,143</b>	<b>3,473</b>	<b>4,749</b>
(Inc)/Dec in FA	-2,009	-2,034	-2,036	-500	-1,000	-1,000
<b>Free Cash Flow</b>	<b>-480</b>	<b>441</b>	<b>1,905</b>	<b>2,643</b>	<b>2,473</b>	<b>3,749</b>
(Pur)/Sale of Investments	-23	-1,083	-1,098	1,580	130	607
Others	184	262	291	0	0	0
<b>CF from Investments</b>	<b>-1,848</b>	<b>-2,855</b>	<b>-2,843</b>	<b>1,080</b>	<b>-870</b>	<b>-394</b>
Inc/(Dec) in Debt	763	268	-511	-2,000	0	0
Interest Paid	-167	-298	-401	-269	-169	-185
Dividend Paid	-85	-68	-153	-169	-169	-169
Others	0	170	168	0	0	0
<b>CF from Fin. Activity</b>	<b>512</b>	<b>73</b>	<b>-897</b>	<b>-2,438</b>	<b>-337</b>	<b>-354</b>
<b>Inc/Dec of Cash</b>	<b>192</b>	<b>-308</b>	<b>200</b>	<b>1,785</b>	<b>2,265</b>	<b>4,001</b>
Opening Balance	246	438	130	331	2,115	4,381
<b>Closing Balance</b>	<b>438</b>	<b>130</b>	<b>331</b>	<b>2,115</b>	<b>4,381</b>	<b>8,382</b>

**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

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