

## Strong performance again ...

**About the stock:** KNR Constructions is one of the leading companies in the roads and highways sector having executed 6,000+ lane km of projects across 12 states in India. The company also has an established presence in irrigation and urban water infrastructure management.

- Reported 24.5% revenue CAGR over FY16-21 and has consistently delivered industry-leading operating margin of ~20% throughout past three years
- Prudent management, net debt free, robust return ratios (RoCE: >23%)

### Q2FY22 Results: KNR reported a healthy performance in Q2FY22.

- Standalone revenue improved 25.7% YoY to ₹ 755.6 crore, largely backed by its healthy order book position and pick-up in execution post second-wave disruptions. On QoQ basis, topline improved by 2.1%
- The company delivered industry leading EBITDA margin and was at 22.2% (up 154 bps YoY). Effectively, EBITDA at ₹ 167.5 crore, was up 35.1% YoY
- PAT improved 91.1% YoY to ₹ 59.4 crore

**What should investors do?** KNR's share price has grown at 31% CAGR over the past five years (from ~₹ 74 in November 2016 to ~₹ 282 levels in November 2021).

- We maintain our BUY rating on the company

**Target Price and Valuation:** We value KNR at ₹ 340/share.

### Key triggers for future price performance:

- KNR is likely to be one of the prime beneficiaries of thriving roads and water segments (Jal Jeevan Mission)
- Strong order book position, receipt of appointed date in most of its projects, and execution pick-up to translate into 18.8% topline CAGR over FY21-23E
- Price escalation clause in roads agreement, and higher margins at irrigation projects likely to keep operating margin at an elevated level
- Asset-light strategy via monetisation to bring-in incremental cash flows

**Alternate Stock Idea:** Besides KNR, we like HG Infra in the EPC space.

- Strong execution and lean balance sheet
- BUY with a target price of ₹ 885/share

### Key Financial Summary

₹ crore	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2,137.3	2,244.2	2,702.6	24.5%	3,177.8	3,817.3	18.8%
EBITDA	427.0	487.1	535.8	28.5%	587.9	706.2	14.8%
EBITDA Margin (%)	20.0	21.7	19.8		18.5	18.5	
PAT	263.3	225.2	244.2	15.8%	325.8	445.3	35.0%
EPS (₹)	18.7	16.0	8.7		11.6	15.8	
P/E (x)	15.1	17.6	32.5		24.3	17.8	
EV/EBITDA (x)	19.1	16.7	14.6		13.2	10.8	
RoNW (%)	18.6	13.9	13.1		14.9	17.0	
RoCE (%)	19.0	19.0	23.4		23.2	23.4	

Source: Company, ICICI Direct Research



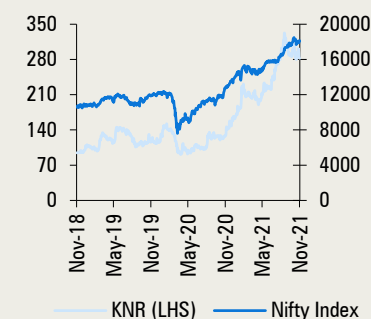
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	7,933.6
Total Debt (FY21)	0.7
Cash (FY21)	117.3
EV	7,817.0
52 week H/L (₹)	344/ 127
Equity capital	56.2
Face value (₹)	2

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	55.0	55.0	53.3	51.5
DII	34.1	32.4	34.4	33.7
FII	1.5	2.1	2.3	4.3
Other	9.4	10.5	10.1	10.5

### Price Chart



### Key Risks

**Key Risk:** (i) Delay in HAM projects execution; (ii) Any working capital stress in water/irrigation projects

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## Key business highlight and outlook

### Healthy order book position to drive growth

KNR's order book at the end of Q2FY22 was at ₹ 6,511 crore, mainly contributed by irrigation (47%), roads - HAM (18%) and roads - EPC (35%) segments. Including the recently won three HAM and one EPC projects (worth ₹ 5,083 crore), its order book position was robust at ₹ 11,594 crore (3.7x book to TTM revenues). With a handful of orders, the company is aiming to bag ₹ 2,000-3,000 crore of orders in the rest of FY22. On the execution front, KNR's efficiency has improved to desired level after second wave-related disturbances during April-May 2021. Thus, with strong order book position and picked-up productivity, the company has conservatively guided for ~₹ 3,000 crore of revenue during FY22, which we believe it will exceed comfortably. Operating margin is likely to remain at an elevated level of 18-19%.

### Working capital likely to normalise further

KNR's net working capital at the end of Q2FY22 improved to 45 days (vs. 66 days in end-Q1FY22) with reduction in receivables on a QoQ basis. Additionally, dues from the irrigation segment are currently at ~₹ 700 crore (including unbilled revenues), majority of these receivables are expected to get cleared by FY22-end, thereby, improving working capital cycle even further. Also, the company had net debt of ₹ 65 crore at the end of Q2FY22. However, working capital debt to the tune of ~₹ 100 crore was repaid during October 2021, enabling the company to accomplish the cash surplus position as of now.

### Key conference call takeaways

- **Industry outlook and ordering pipeline:** MoRTH constructed 3,824 km of highways during H1FY22 (vs. 3,950 km in H1FY21). Also, the road project awarding was healthy at 4,609 km during H1FY22 (vs. 5,052 km in H1FY21). Going forward, the management expects construction pace to pick up considerably during H2FY22 enabling the ministry to achieve initially targeted 40 km/day of highway construction during FY22. Tendering activities are also likely to gain additional momentum to reach 6,000 km of overall awarding during FY22
- **Bid pipeline:** Currently, KNR is in the process to submit bids for 10 road projects having average ticket size of ₹ 1,000-1,200 crore. Overall, the management is aiming to secure two to three HAM projects in FY22 and aiming to win ₹ 2,000-3,000 crore of orders in the rest of FY22
- **Revenue Breakup:** Roads-HAM projects contributed majority (46%) to the overall topline during Q2FY22, followed by irrigation (~30% share), roads-EPC (18%) and others (6%) segment
- **HAM projects:** As on Q2FY22, the physical progress on KNR's five under-construction HAM projects was at: a) Trichy-Kallagam: 81.9%, b) Chittoor-Mallavaram: 94%, c) Ramsanpalle-Mangloor: 87.8% d) Magadi-Somwarpath: 45.9% and e) Oddanchatram-Madathukulam: 39.2%. Additionally, among the recently secured HAM projects, execution in a) two projects in the state of Kerala (EPC value: ₹ 3,340 crore) to commence by Q4FY22-end; delays likely due to land issues, and b) Chittoor – Thatchur section (Package 3): to begin in FY23
- **Irrigation projects:** The National Green Tribunal had ordered a stay on Palamuru-Rangareddy lift irrigation project during October 2021, and has directed Telangana government/contractors working on the project not to go ahead until environmental clearances are obtained from the Centre. In line with these, KNR has stopped working on the mentioned project (outstanding order book: ₹ 250 crore; ~70% completed) and has mobilised its manpower and equipment base to other jobs. Also, Kaleshwaram lift irrigation project Package-4 is facing land acquisition issues and work on the project has not commenced yet. Except these two sites, all other irrigation jobs are currently on track. As per the management, total receivables from the irrigation segment is at ~₹ 700 crore (majority of the debtors likely to get received by FY22-end)

- **Labour availability:** With decline in Covid-19 cases, workers have returned to the project sites and the construction pace have picked-up considerably with availability of desired level of labour
- **Quarry land:** KNR is looking to acquire quarry land in Kerala to primarily safeguard its two HAM projects (having EPC value: ₹ 3,340 crore; total aggregate requirement: 4.3 mn MT) from expected raw material crunch. The total investment would be ~₹ 100 crore
- **Equity requirement** Out of the total equity requirement of ₹ 1,092 crore for HAM projects, KNR has already infused ₹ 457 crore equity till September 2021. The management has guided for ₹ 270 crore, ₹ 230 crore, and ₹ 135 crore during rest of FY22, FY23E and FY24E, respectively
- **Bonus and arbitration claims:** During YTD FY22, KNR achieved PCOD on three projects namely a) KNR Tirumala Infra project Ltd (on 10th May 2021; 142 days ahead of schedule). The management expects ₹ 9 crore early completion bonus for the same, b) KNR Srirangam Infra (on May 30, 2021; 89 days ahead of schedule) and c) KNR Shankarampet Project (on October 5, 2021). Additionally, the inflows of ₹ 70 crore are expected over next three to six months towards arbitration award for the Odisha road project. These are likely to boost profitability in FY22
- **Debt and Working capital:** Gross, net debt at the end of Q2FY22 on standalone level were at ₹ 100 crore, ₹ 65 crore, respectively. However, the company has repaid overall ₹ 100 crore of working capital loan post Q2, thereby, attaining the cash surplus position as of now. Additionally, working capital days at the end of Q2FY22 were at 45 days backed by a reduction in receivables
- **Monetization:** As per the management, monetisation deal of three HAM projects with Cube Highways are currently on track. Cumulative equity investment for these projects stood at ₹ 392.3 crore whereas total consideration to be received from these assets would be ₹ 465.5 crore (1.2x of invested equity). Additionally, the company is under initial stage of discussion to monetize Oddanchatram to Madathukulam project with the potential investor
- **Credit rating:** India Ratings and Research has upgraded the company's long-term facilities rating to "IND AA" from "IND AA-", and short term facilities reaffirmed as "IND A1+". The outlook is stable
- **Capex:** KNR has incurred capex of ₹ 100 crore during Q2FY22 (plant and machinery: ~₹ 60 crore; Purchase of quarry land at Bengaluru: ~₹ 18 crore; advance towards machinery: ~₹ 20 crore) and the management has guided for ₹ 150 crore of overall capex in FY22 (excluding investment towards Kerala's quarry land: ~₹ 100 crore)

KNR is a proxy play on increased focus on roads and overall infrastructure push. Considering a) strong execution, b) healthy margins, c) monetisation of BOT/HAM assets, d) healthy balance sheet, and e) strong return ratios, we maintain BUY on the stock with TP of ₹ 340.

**Exhibit 1: Variance analysis**

Particulars	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Operating Income	755.6	661.3	601.2	25.7	740.0	2.1	Strong execution led to topline beat
Other Income	10.5	5.0	7.6	38.8	4.8	119.3	
Consumption of raw materials	274.6	280.0	190.5	44.2	329.2	-16.6	
Employee benefit expenses	36.1	34.0	29.3	23.3	33.5	7.6	
Other Expenses	65.0	50.0	53.9	20.5	62.7	3.7	
EBITDA	167.5	122.3	124.0	35.1	143.3	16.9	
EBITDA Margin(%)	22.2	18.5	20.6	154 bps	19.4	281 bps	Margin remained at an elevated level with better project mix
Depreciation	32.0	28.0	35.2	-9.1	26.9	18.7	
Interest	7.2	7.9	15.8	-54.5	7.9	-8.9	
PBT	138.9	91.4	80.7	72.2	113.3	22.6	
Taxes	43.7	32.0	19.6	123.0	40.3	8.5	
PAT	95.2	59.4	49.8	91.1	73.0	30.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20	FY21	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	2,244.2	2,702.6	3,177.8	3,177.8	0.0	3,817.3	3,817.3	0.0	Realign estimates
EBITDA	487.1	535.8	572.0	587.9	2.8	706.2	706.2	0.0	
EBITDA Margin (%)	21.7	19.8	18.0	18.5	50 bps	18.5	18.5	0 bps	
PAT	225.2	244.2	315.0	325.8	3.4	441.5	445.3	0.8	
Diluted EPS (₹)	8.0	4.3	11.2	11.6	3.4	15.7	15.8	0.8	

Source: Company, ICICI Direct Research

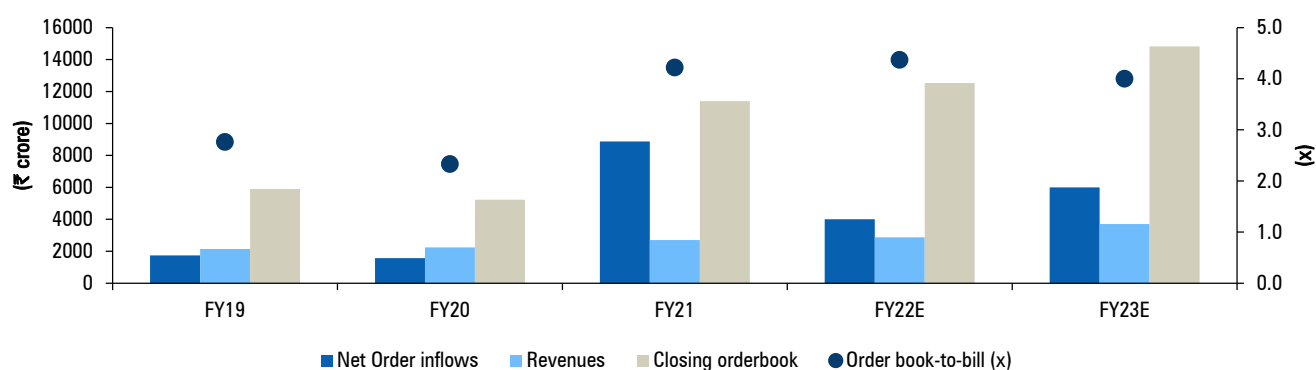
## Company Analysis

### Exhibit 3: Order book update

Key Projects	(₹ crore)
Elevated Highway along Avinashi Road in Coimbatore City (EPC)	917
Magadi to Somwarpeth Project (KSHIP HAM)	483
Cheyyur-Panayur Road (EPC)	539
Oddanchatram to Madathukulam Project (HAM)	404
HGCL - Widening of Existing Service roads (EPC)	313
<b>Top six projects</b>	<b>2655.2</b>
Other Road projects	781.6
<b>Irrigation projects</b>	<b>3074.5</b>
<b>Total</b>	<b>6511.3</b>

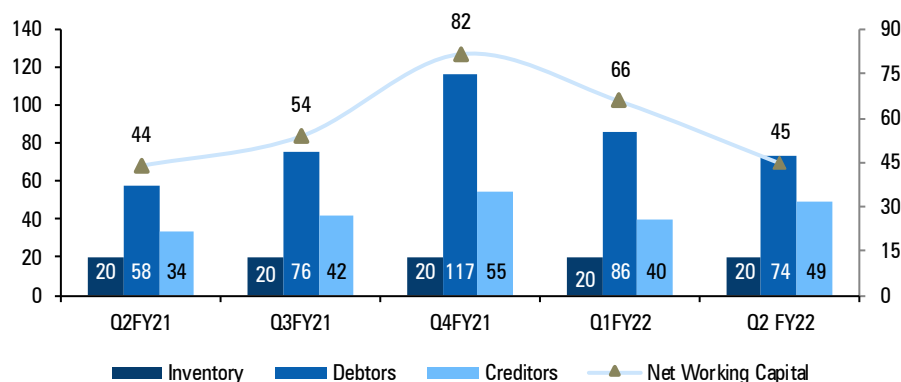
Source: Company, ICICI Direct Research

### Exhibit 4: Strong order book position



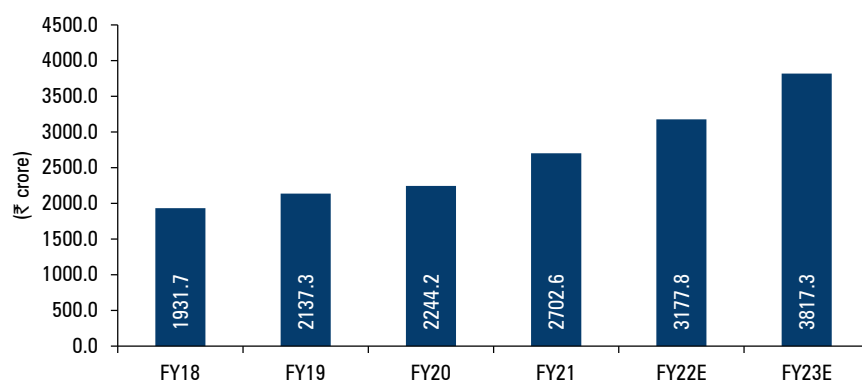
Source: Company, ICICI Direct Research; FY21 order book includes won 2 HAM and 1 EPC project worth ₹4,323 crore

### Exhibit 5: Net working capital days trend



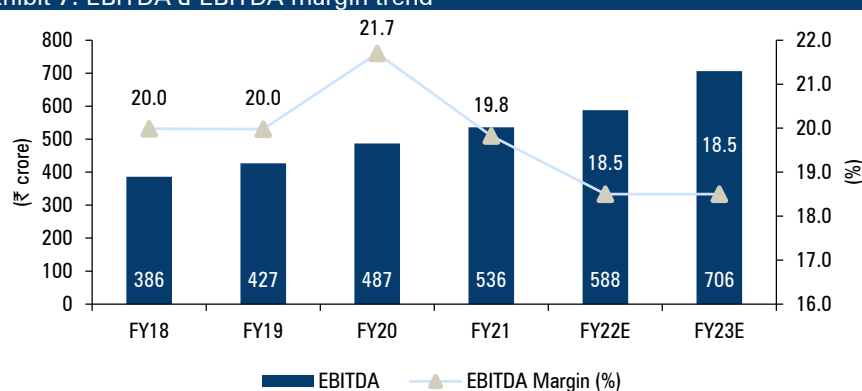
Source: Company, ICICI Direct Research

**Exhibit 6: Revenue recovery better than anticipated**



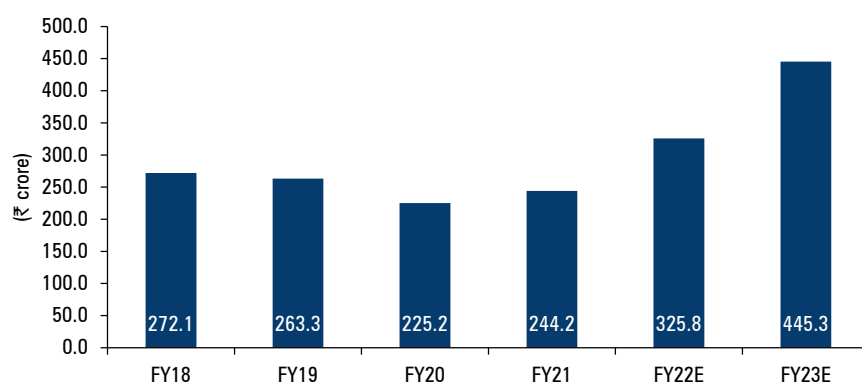
Source: Company, ICICI Direct Research

**Exhibit 7: EBITDA & EBITDA margin trend**



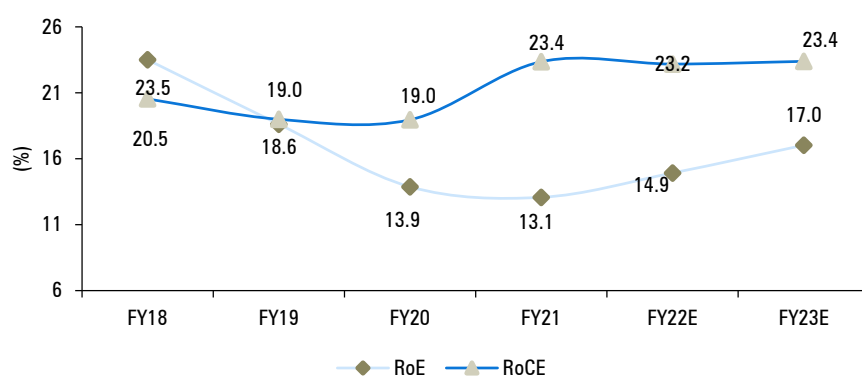
Source: Company, ICICI Direct Research

**Exhibit 8: PAT trend**



Source: Company, ICICI Direct Research

**Exhibit 9: Return ratios trend**



Source: Company, ICICI Direct Research

## Valuation & Outlook

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 very healthy balance sheet and strong return ratio. With net debt free position at standalone levels (as on date), equity commitment is likely to be supported by internal cash generation, HAM monetisation and irrigation dues recovery and should not entail new debt at standalone levels

Hence, we maintain our **BUY** recommendation on the stock with an SoTP based revised target price of ₹ 340/share. We value its core EPC business at ₹ 317/share (20x FY23E P/E).

### Exhibit 10: SoTP valuation

	Value (₹ crore)	Per Share (₹ )	Comment
<b>EPC Business (A)</b>	<b>8905</b>	<b>317</b>	20x FY23E P/E
<b>BOT toll Investment (B = C+D)</b>	<b>90</b>	<b>3</b>	
Muzaffarpur tollway (D)	90	3	1x P/BV
<b>HAM Projects Investment (E)</b>	<b>530</b>	<b>19</b>	Cube highway deal assigned value and 1x P/BV - investment till date for remaining
<b>Total Equity Investment (F=B+E)</b>	<b>621</b>	<b>22</b>	
<b>SoTP Value (A+F-G)</b>	<b>9526</b>	<b>339</b>	
<b>Rounded-off target price</b>		<b>340</b>	

Source: Company, ICICI Direct Research

## Financial summary

**Exhibit 11: Profit and loss statement** ₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	2,244.2	2,702.6	3,177.8	3,817.3
Other operating income	-	-	-	-
<b>Total Revenues</b>	<b>2,244.2</b>	<b>2,702.6</b>	<b>3,177.8</b>	<b>3,817.3</b>
Raw Material Expense	753.3	926.5	1,112.2	1,336.1
Other Construction Exp.	601.7	810.0	953.3	1,145.2
Employee benefit expenses	125.2	132.1	155.7	187.0
Other Expenses	277.0	298.3	368.6	442.8
<b>Total Operating Exp</b>	<b>1,757.2</b>	<b>2,166.8</b>	<b>2,589.9</b>	<b>3,111.1</b>
EBITDA	<b>487.1</b>	<b>535.8</b>	<b>587.9</b>	<b>706.2</b>
Other Income	56.6	49.6	69.0	79.9
Interest	47.4	48.7	32.3	22.3
Depreciation	191.8	144.4	145.5	168.6
<b>PBT</b>	<b>304.4</b>	<b>392.4</b>	<b>479.1</b>	<b>595.3</b>
Total Tax	68.5	137.0	153.3	150.0
Reported PAT	235.9	255.4	325.8	445.3
<b>Adjusted PAT</b>	<b>235.9</b>	<b>255.4</b>	<b>325.8</b>	<b>445.3</b>
<b>EPS (Diluted)</b>	<b>8.0</b>	<b>4.3</b>	<b>11.6</b>	<b>15.8</b>

Source: Company, ICICI Direct Research

**Exhibit 12: Cash flow statement** ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E
<b>Profit before Tax</b>	<b>293.7</b>	<b>381.1</b>	<b>479.1</b>	<b>595.3</b>
Depreciation	192.3	144.4	145.5	168.6
Interest Paid	47.4	48.7	32.3	22.3
Others	(24.0)	2.8	(69.0)	(79.9)
<b>Cash Flow before WC changes</b>	<b>509.4</b>	<b>577.1</b>	<b>587.9</b>	<b>706.2</b>
Net Increase in Current Assets	(309.8)	(361.5)	16.5	(345.4)
Net Increase in Current Liabilities	278.9	161.1	152.3	240.6
Taxes paid	(84.4)	(78.7)	(153.3)	(150.0)
<b>Net CF from Operating Activities</b>	<b>394.1</b>	<b>298.0</b>	<b>603.3</b>	<b>451.4</b>
(Purchase)/Sale of Fixed Assets	(203.6)	(93.9)	(150.0)	(150.0)
Loans and Inv in JV/SPV	(108.7)	138.8	(400.0)	(255.4)
Others	28.1	16.3	69.0	79.9
<b>Net CF from Investing Activities</b>	<b>(284.3)</b>	<b>61.2</b>	<b>(480.9)</b>	<b>(325.5)</b>
Debt Proceeds/Repayment	(34.4)	(229.0)	-	-
Interest Paid	(40.1)	(45.9)	(32.3)	(22.3)
Others	(15.3)	-	(9.8)	(13.4)
<b>Net CF from Financing Activities</b>	<b>(89.8)</b>	<b>(274.9)</b>	<b>(42.0)</b>	<b>(35.6)</b>
<b>Net Cash flow</b>	<b>20.1</b>	<b>84.3</b>	<b>80.4</b>	<b>90.3</b>
Opening Cash/ Cash Equivalent	13.0	33.1	117.3	197.7
<b>Closing Cash/ Cash Equivalent</b>	<b>33.1</b>	<b>117.3</b>	<b>197.7</b>	<b>288.0</b>

Source: Company, ICICI Direct Research

**Exhibit 13: Balance sheet** ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Share Capital	28.1	56.2	56.2	56.2
Reserves & Surplus	1,595.8	1,811.6	2,127.6	2,559.5
<b>Networth</b>	<b>1,623.9</b>	<b>1,867.8</b>	<b>2,183.9</b>	<b>2,615.8</b>
Secured Loan	33.7	0.7	0.7	0.7
Unsecured Loan	180.5	-	-	-
<b>Total Debt</b>	<b>214.1</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
Deferred Tax Liability	-	-	-	-
<b>Total Liabilities</b>	<b>1,856</b>	<b>1,888</b>	<b>2,206</b>	<b>2,641</b>
<b>Assets</b>				
Gross Block	1,201.1	1,305.3	1,455.3	1,605.3
Net Block	377.8	337.7	342.1	323.6
Capital WIP	10.2	2.4	2.4	2.4
Non-current Investments	780.7	555.7	955.7	1,211.1
<b>Current Assets</b>				
Inventories	123.2	148.0	174.1	209.2
Sundry Debtors	476.1	863.2	661.7	794.8
Loans and Advances	6.9	33.8	35.1	36.9
Other Current Assets	635.2	633.1	744.4	894.2
Cash	33.1	117.3	197.7	288.0
<b>Total Current Assets</b>	<b>1,241.4</b>	<b>1,678.1</b>	<b>1,615.3</b>	<b>1,935.2</b>
Creditors	251.1	239.7	281.8	338.6
Provisions	17.3	25.7	30.3	36.3
Other Current Liabilities	593.7	766.9	870.6	1,045.8
Other Long Term Liabilities	11.6	11.0	12.9	15.5
<b>Total Current Liabilities</b>	<b>862.2</b>	<b>1,032.4</b>	<b>1,182.7</b>	<b>1,420.8</b>
Net Current Assets	408.2	736.8	604.1	776.2
<b>Total Assets</b>	<b>1,856</b>	<b>1,888</b>	<b>2,206</b>	<b>2,641</b>

Source: Company, ICICI Direct Research

**Exhibit 14: Key ratios**

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per Share Data</b>				
EPS (Fully Diluted)	16.0	8.7	11.6	15.8
Cash EPS	29.7	13.8	16.8	21.8
BV	115.5	66.4	77.7	93.0
<b>Operating Ratios</b>				
EBITDA / Net Sales	21.7	19.8	18.5	18.5
PAT / Net Sales	10.0	9.0	10.3	11.7
Inventory Days	20	20	20	20
Debtor Days	77	117	76	76
Creditor Days	41	32	32	32
<b>Return Ratios</b>				
RoE	13.9	13.1	14.9	17.0
RoCE	19.0	23.4	23.2	23.4
RoIC	28.6	32.3	42.1	47.2
<b>Valuation Ratios</b>				
EV / EBITDA	16.7	14.6	13.2	10.8
P/E	17.6	32.5	24.3	17.8
EV / Net Sales	3.6	2.9	2.4	2.0
Market Cap / Sales	3.5	2.9	2.5	2.1
Price to Book Value	2.4	4.2	3.6	3.0
<b>Turnover Ratios</b>				
Asset turnover	1.2	1.4	1.4	1.4
Gross Block Turnover	1.9	2.1	2.2	2.4
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.4	1.6	1.4	1.4
Debt / EBITDA	0.4	0.0	0.0	0.0
<b>Quick Ratio</b>	<b>1.3</b>	<b>1.5</b>	<b>1.2</b>	<b>1.2</b>

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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