

INDUSTRY INFRASTRUCTURE

CMP (as on 30 May 2017) Rs 202

Target Price Rs 228

Nifty 9,625

Sensex 31,159

KEY STOCK DATA

Bloomberg KNRC IN

No. of Shares (mn) 141

MCap (Rs bn) / (\$ mn) 28/438

6m avg traded value (Rs mn) 27

STOCK PERFORMANCE (%)

52 Week high / low Rs 216/104

3M 6M 12M

Absolute (%) 12.8 35.3 86.5

Relative (%) 4.4 18.4 69.9

SHAREHOLDING PATTERN (%)

Promoters 57.95

FIs & Local MFs 26.99

FPIs 4.59

Public & Others 10.47

Source : BSE

Doesn't stop surprising

KNRC delivered a stellar 4QFY17 net profit beat, 32.3% ahead of our estimates. This was achieved despite a loss of Rs 30mn from JV, and other income reversal of Rs 110mn. The B/S is healthy, with standalone net debt at Rs 1.21bn (net D/E at 0.13x, -0.01x adjusting for promoters' loan of Rs 1.2bn).

Order intake for FY17 stood at Rs 17.9bn. KNRC has gone slow on new bids, after strong order inflows in FY16. For the last 3 qtrs, KNRC has not won any new orders, despite bidding for multiple EPC/HAM projects. KNRC's conservative bidding stance has resulted in strong EBIDTA margins in prev years. We forecast Rs 20bn of new order inflows during FY18E, largely driven by the roads segment.

KNRC continues to surprise on earnings in many previous quarters, and has outperformed its own growth guidance. Debtor's days remain the best in the industry at 38 days. We rate KNRC as **BUY** with an SOTP of Rs 228/sh on 18x Mar-19E EPS.

Financial Summary (Standalone)

Y/E Mar (Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17E	FY18E	FY19E
Net Revenues	4,821	2,958	63.0	3,823	26.1	9,025	15,411	17,713	20,443
EBITDA	722	428	68.6	577	25.2	1,529	2,296	2,601	3,033
APAT	464	357	30.2	347	33.9	1,091	1,444	1,489	1,732
Diluted EPS (Rs)	3.3	2.5	30.2	2.5	33.9	7.8	10.3	10.6	12.3
P/E (x)						26.0	19.7	19.1	16.4
EV / EBITDA (x)						19.2	12.6	10.8	8.8
RoE (%)						16.8	18.2	15.8	15.5

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- **Strong order book at 2.4x FY17 rev:** KNRC's FY17 order backlog stands at Rs 37.7bn (2.4x FY17 revenues). KNRC is cautiously bidding for the EPC projects, as competitive intensity is high. HAM projects are witnessing relatively lower interest now, and KNRC is targeting to win at least one HAM during FY18E.
- **WC cycle stable, net D/E at 0.13x:** Receivable days is stable at 38days end-FY17. KNRC's gross debt is Rs 1,460mn, of which bank debt is at Rs 250mn. A large chunk of debt is the promoter's loan at Rs 1,210mn. Kerala BOT achieved COD on 31st Oct 2016, and is clocking Rs 1.3mn/day toll collections. Muzaffarpur toll collection is expected to ramp up to Rs 1.7mn/day post COD in June-17E, from the current PCOD collection of Rs 1.3mn/day toll.
- **Near-term outlook:** KNRC, with its strong balance sheet, is well placed to take up new EPC/HAM orders. We remain positive on the company's prospects.

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KNRC's standalone 4QFY17 revenue/EBITDA/APAT came in 22.1/21.4/32.3% ahead of our estimates respectively

Lower other inc of Rs 10mn (-93.7% YoY) was the key reason for YoY RPAT decline

KNR reversed `Rs 110mn of other income during 4QFY17 for 9MFY17 period as interest reversals on L&A to BOT's. These L&A are now being treated as quasi equity to optimise tax

We have adjusted Rs 60mn of MAT credit as exceptional

Major maintenance in Patel KNR BOT JV caused Rs 30mn loss in other op income or else RPAT would have been higher by Rs 30mn

FY17 order intake stands at Rs17.9bn and order backlog is Rs 37.7bn. There was no new order win during 4Q

Change in estimates to factor in better execution. We upgrade our PBT by 5.7/8.5% over FY18/19E

Standalone Quarterly Financial

Particulars (Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY17	FY16	YoY (%)
Net Sales	4,821	2,958	63.0	3,823	26.1	15,411	9,025	70.7
Material Expenses	(3,486)	(2,029)	71.7	(2,773)	25.7	(11,145)	(6,063)	83.8
Employee Expenses	(146)	(115)	26.9	(148)	(1.7)	(552)	(431)	28.1
Other Operating Expenses	(468)	(386)	21.2	(325)	43.9	(1,417)	(1,002)	41.4
EBITDA	722	428	68.6	577	25.2	2,296	1,529	50.1
Interest Cost	(54)	(42)	30.6	(66)	(18.4)	(219)	(133)	64.9
Depreciation	(195)	(108)	81.0	(166)	17.5	(639)	(423)	51.2
Other Income (Incl. EO Items)	10	156	(93.7)	(7)	(231.9)	194	317	(38.8)
PBT	483	436	10.8	337	43.2	1,632	1,291	26.4
Tax	41	138	(70.1)	(31)	(231.4)	(60)	319	
RPAT	524	574	(8.6)	306	71.5	1,573	1,610	(2.3)
E/o (adj for tax)	(60)	(217)	(72.3)	41	(246.6)	(129)	(519)	
APAT	464	357	30.2	347	33.9	1,444	1,091	32.3

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)	FY17	FY16	YoY (bps)
Material Expenses % Net Sales	72.3	68.6	370	72.5	(23)	72.3	67.2	515
Employee Expenses % Net Sales	3.0	3.9	(86)	3.9	(86)	3.6	4.8	(119)
Other Ope Exp % Net Sales	9.7	13.0	(334)	8.5	120	9.2	11.1	(191)
EBITDA Margin (%)	15.0	14.5	50	15.1	(11)	14.9	16.9	(204)
Tax Rate (%)	(8.6)	(31.7)	2,314	9.3	(1,790)	3.7	(24.7)	2,840
APAT Margin (%)	9.6	12.1	(243)	9.1	56	10.2	17.8	(764)

Source: Company, HDFC sec Inst Research

Change in estimates

	FY18E New	FY18E Old	% Change	FY19E New	FY19E Old	% Change
Revenues (Rs mn)	17,713	16,258	9.0	20,443	18,756	9.0
EBITDA (Rs mn)	2,601	2,414	7.8	3,033	2,738	10.8
PBT (Rs mn)	1,861	1,760	5.7	2,192	2,021	8.5
APAT (Rs mn)	1,489	1,302	14.3	1,732	1,414	22.4
EPS (Rs)	10.6	9.3	14.3	12.3	10.1	22.4

Source: Company, HDFC sec Inst Research

We expect 20.3% FY17-19E order book CAGR

FY17-19E revenue CAGR 15.2%, EBIDTA CAGR 14.9%

FY17-19E RPAT CAGR of 8.9%

The reported PAT includes impact of MAT credit. We have adjusted this to arrive at normalized PAT

FY17-19E RPAT CAGR of 9.5%

KNR to generate strong FCF

Key Assumptions And Estimates

STANDALONE (Rs mn)	FY17E	FY18E	FY19E	Comments
Closing order book	37,690	39,977	54,534	We expect 20.3% FY17-19E order book CAGR on back of strong NHAI & State EPC roads pipeline
Order book growth (%)	8.8	6.1	36.4	
New order booking	17,900	20,000	35,000	
Book to bill ratio	2.4	2.3	2.7	Book to bill ratio to improve on new orders wins
Total Revenue	15,411	17,713	20,443	FY17-19E Revenue CAGR of 15.2%
Growth (%)	70.7	14.9	15.4	
EBIDTA	2,296	2,601	3,033	FY17-19E EBIDTA CAGR of 14.9%
EBIDTA margin (%)	14.9	14.7	14.8	Margins to remain in 14.5-15% range
Depreciation	639	803	894	
Financial Charges	219	248	282	In line with borrowing
PBT	1,632	1,861	2,192	FY17-19E PBT CAGR of 15.9%
PBT margin (%)	10.6	10.5	10.7	
Tax	59.7	186.1	328.9	
Tax rate (%)	3.7	10.0	15.0	KNRC does 80I tax benefit reporting in P&L whilst paying marginal tax rate in cash flows. The tax benefit will expire in FY19E
RPAT	1,573	1,675	1,863	FY17-19E APAT CAGR of 8.9%
Net margin (%)	10.2	9.5	9.1	Margins to remain muted
Extraordinary	(128.7)	(186.1)	(131.5)	To reflect MAT rate we taken additional provisioning. KNRC numbers will be reflected in RPAT
Adjusted PAT	1,444	1,489	1,732	FY17-19E APAT CAGR of 9.5%
Gross Block Turnover	2.5	2.4	2.5	Improvement on account of new orders inflow
Debtor days	38	66	66	
CFO - a	1,720	1,953	2,389	Higher revenue growth, robust client advance to result in higher positive cash flow from operations
CFI - b	(873)	(900)	(750)	
FCF - a+b	847	1,053	1,639	KNR to generate strong FCF
CFF - c	251	(430)	(415)	
Total change in cash - a+b+c	1,098	623	1,224	

Source: HDFC sec Inst Research

We value standalone EPC business at Rs 196/share (18x one-year forward Mar-19E EPS)

Kerala BOT at Rs 23/share (at 0.8x P/BV of equity invested)

Muzaffarpur Barauni BOT at Rs 4/share (at 1x P/BV of equity invested)

Real estate at Rs 5/share (at 1x P/BV of amount invested)

Our SOTP target price is Rs 228/share

Outlook and valuation

TP of Rs 228/sh

Valuation methodology

- We have valued KNRC's EPC business at 18x vs 15x one-year forward earlier. Our rationale behind this is (1) Strong order backlog of Rs 37.7bn (2.5x), (2) Robust balance sheet net D/E of 0.13x, (3) Superior earnings quality vs. similar-sized peers makes a case for valuation premium and (4) Limited near-term BOT capex (Kerala BOT equity of Rs 3,970mn already invested, Muzaffarpur-Barauni BOT project – Rs 530mn invested).
- KNR's promoter's share of debt is Rs 1,210mn of the total net debt of Rs 1,213.6mn.. Promoters have utilised the own stake sale proceeds to retire bank debt, which has been replaced as promoters' loans (at bank rate of borrowing). Adjusted for promoters' loans standalone is debt free. This gives us comfort on

gearing. Apart from that, improvement in the working capital cycle (driven by 10% interest-free mobilisation advances on NHAI road EPC order) will keep debt under check.

- Investments in the road sector will continue to drive stock performance. KNRC, with its strong execution skills, is likely to benefit from the pick-up in order activity. We rate KNRC as BUY with an SOTP-based target price of Rs 228/share.
- We value the (1) Standalone EPC business at Rs 196/share (18x one-year forward Mar-19E EPS), (2) Kerala BOT at Rs 23/share (at 0.8x P/BV of equity invested), (3) Muzaffarpur Barauni BOT at Rs 4/share (at 1x P/BV of equity invested) and (4) Real estate at Rs 5/share (at 1x P/BV of amount invested).

SOTP Valuation

Particulars	Segments	Value (Rsmn)	Value per share (Rs)	Rationale
KNR Standalone	Core construction business	27,624	196	At 18x Mar-19E EPS. We have factored in 30% of tax for valuation purpose vs 10% P&L tax provisioning
Kerala BOT	Roads toll	3,176	23	At 0.8x P/BV(x) of invested equity
Muzaffarpur Barauni BOT	Roads toll	530	4	At 1x P/BV(x) of invested equity
Real Estate	Land on Book	694	5	At book value in balance sheet
Total		31,494	228	

Source: HDFC sec Inst Research

Income Statement (Standalone)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	8,843	9,025	15,411	17,713	20,443
Growth (%)	5.9	2.1	70.7	14.9	15.4
Material Expenses	6,696	6,063	11,145	13,794	15,969
Employee Expenses	381	431	552	668	771
Other Operating Expenses	423	1,002	1,417	650	670
EBIDTA	1,344	1,529	2,296	2,601	3,033
EBIDTA (%)	15.2	16.9	14.9	14.7	14.8
EBIDTA Growth (%)	2.7	13.8	50.1	13.3	16.6
Depreciation	541	423	639	803	894
EBIT	803	1,106	1,657	1,798	2,139
Other Income (Incl. EO Items)	42	317	194	311	335
Interest	122	133	219	248	282
PBT	723	1,291	1,632	1,861	2,192
Tax	(7)	(319)	60	186	329
RPAT	730	1,610	1,573	1,675	1,863
EO items (net of tax)	-	(519)	(129)	(186)	(132)
APAT	730	1,091	1,444	1,489	1,732
APAT Growth (%)	19.7	49.5	32.3	3.1	16.3
EPS	5.2	7.8	10.3	10.6	12.3
EPS Growth (%)	19.7	49.5	32.3	3.1	16.3

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	281	281	281	281	281
Reserves	5,411	6,988	8,337	9,979	11,810
Total Shareholders Funds	5,692	7,270	8,618	10,260	12,091
Long Term Debt	2	70	83	83	83
Short Term Debt	962	1,098	1,598	1,448	1,348
Total Debt	964	1,168	1,681	1,531	1,431
Deferred Taxes	(239)	(276)	(276)	(276)	(276)
TOTAL SOURCES OF FUNDS	6,417	8,162	10,023	11,515	13,246
APPLICATION OF FUNDS					
Net Block	2,243	2,409	2,780	2,877	2,733
CWIP	26	59	59	59	59
Investments, LT Loans & Advances	1,885	3,846	4,819	4,819	4,819
Total Non-current Assets	4,154	6,314	7,659	7,756	7,611
Inventories	359	353	671	1,082	1,388
Debtors	1,765	1,294	2,598	3,203	3,697
Cash & Equivalents	157	161	1,259	1,882	3,106
ST Loans & Advances, Others	3,360	4,382	3,689	3,905	4,546
Total Current Assets	5,642	6,190	8,217	10,071	12,737
Creditors	705	1,121	1,560	1,926	2,224
Other Current Liabilities & Provns	2,674	3,223	4,293	4,387	4,879
Total Current Liabilities	3,379	4,343	5,853	6,313	7,103
Net Current Assets	2,262	1,847	2,364	3,759	5,634
TOTAL APPLICATION OF FUNDS	6,417	8,162	10,023	11,515	13,246

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
PBT	723	1,301	1,543	1,861	2,192
Non-operating & EO items	47	(28)	0	0	0
Interest expenses	128	127	230	248	282
Depreciation	541	431	628	803	894
Working Capital Change	(516)	712	(519)	(772)	(651)
Tax paid	(251)	22	(162)	(186)	(329)
OPERATING CASH FLOW (a)	671	2,565	1,720	1,953	2,389
Capex	(310)	(641)	(1,000)	(900)	(750)
Free cash flow (FCF)	361	1,924	720	1,053	1,639
Investments	60	(1,950)	127	0	0
INVESTING CASH FLOW (b)	(250)	(2,591)	(873)	(900)	(750)
Share capital Issuance	-	-	-	-	-
Debt Issuance	56	204	513	(150)	(100)
Interest expenses	(130)	(123)	(230)	(248)	(282)
Dividend	(33)	(68)	(33)	(33)	(33)
Others	(302)	16			
FINANCING CASH FLOW (c)	(409)	30	251	(430)	(415)
NET CASH FLOW (a+b+c)	13	4	1,098	623	1,224
Opening cash balance	112	157	161	1,259	1,882
Closing Cash & Equivalents	124	161	1,259	1,882	3,106

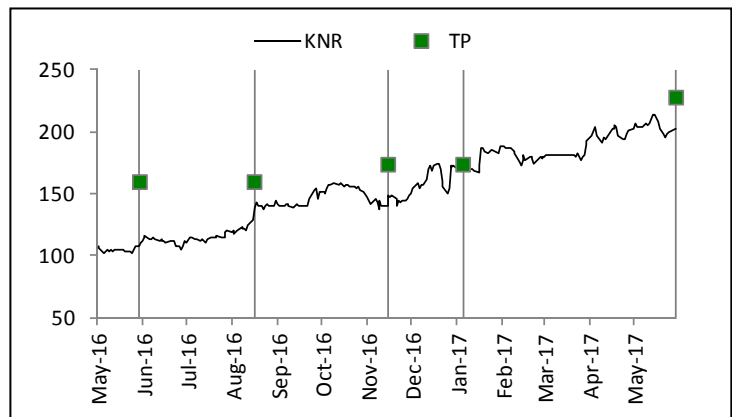
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	24.3	32.8	27.7	22.1	21.9
EBITDA Margin	15.2	16.9	14.9	14.7	14.8
EBIT Margin	9.1	12.3	10.8	10.2	10.5
APAT Margin	8.3	12.1	9.4	8.4	8.5
RoE	13.5	16.8	18.2	15.8	15.5
Core RoCE	18.5	33.2	40.5	33.6	34.2
RoCE	13.3	15.4	16.5	14.9	14.9
EFFICIENCY					
Tax Rate (%)	(1.0)	(24.7)	3.7	10.0	15.0
Asset Turnover (x)	2.0	2.1	3.0	2.6	2.4
Inventory (days)	15	14	16	22	25
Debtors (days)	73	52	62	66	66
Payables (days)	29	45	37	40	40
Cash Conversion Cycle (days)	59	21	40	49	51
Other Current Assets (days)	139	177	87	80	81
Other Current Liab (days)	110	130	102	90	87
Net Working Capital Cycle (Days)	87	68	26	39	45
Debt/EBITDA (x)	0.7	0.8	0.7	0.6	0.5
Net D/E	0.14	0.14	0.05	(0.03)	(0.1)
Interest Coverage	6.6	8.3	7.6	7.3	7.6
PER SHARE DATA					
EPS (Rs/sh)	5.2	7.8	10.3	10.6	12.3
CEPS (Rs/sh)	9.0	10.8	14.8	16.3	18.7
DPS (Rs/sh)	0.2	0.4	0.2	0.2	0.2
BV (Rs/sh)	40	52	61	73	86
VALUATION					
P/E	38.9	26.0	19.7	19.1	16.4
P/BV	5.0	3.9	3.3	2.8	2.3
EV/EBITDA	21.7	19.2	12.6	10.8	8.8
OCF/EV (%)	2.3	8.7	0.1	0.1	0.1
FCF/EV (%)	1.2	6.5	2.5	3.8	6.1
FCFE/Market Cap (%)	1.0	7.1	3.5	2.3	4.4
Dividend Yield (%)	0.1	0.2	0.1	0.1	0.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
31-May-16	108	BUY	160
16-Aug-16	128	BUY	160
15-Nov-16	140	BUY	174
6-Jan-17	169	BUY	174
14-Feb-17	175	UR	174
30-May-17	202	BUY	228

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

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