

RETAIL EQUITY RESEARCH

KNR Constructions Ltd

Construction & Engineering

BSE CODE:532942

NSE CODE:KNRCON

Bloomberg CODE: KNRC:IN

SENSEX: 33,588

23rd November, 2017

Accumulate

Rating as per Mid Cap

12months investment period

CMP Rs. 276 TARGET Rs. 302 RETURN 10%↑

Positive surprise on margins...

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.

- Q2FY18 revenue grew only by 5% as GST related uncertainty and heavy monsoon impacted the execution.
- EBITDA margin improved significantly by 598bps YoY to 21% in Q2FY18 due to 61% YoY reduction in subcontracting expenses.
- Received an order of Rs451cr in irrigation while EPC inflow remains subdued as a result order book declined by 22% YoY.
- Given better execution capability & superior operating margin we revise upwards FY18E/19E PAT estimates by 8% & 12% respectively.
- Order inflow remains the key catalyst to monitor for re-rating while govt's prime focus on road development is keeping the outlook positive.
- We value core business at a P/E of 18x on FY19 EPS and BOT projects at 1.2xP/B to arrive at SOTP target price of Rs302 with a change in rating from Buy to Accumulate.

Order inflow a key factor for re-rating...

Order book continued to remain strong @ 2.1x TTM revenue and total outstanding order book stands at Rs3,587cr. During the quarter KNR has received an order of Rs451cr in the state of Telangana for irrigation works. However subdued trend in EPC order booking dragged the order book by-22% YoY. The management indicated that the inflow in Q2FY18 impacted due to issues related to land acquisition and GST led disruption. On the other hand, the company continues to maintain their order inflow target of Rs2,000cr to Rs2,500cr in FY18E which is a key trigger to monitor for re-rating. Consequently, we expect order intake to grow at a CAGR of 36% over FY17-19E.

Margins improved significantly...

Q2FY18 revenue grew only by 5% to Rs393cr as GST related uncertainty and heavy monsoon impacted the execution. On a positive note, EBITDA margin improved significantly by 598bps YoY to 21% on account of 61% YoY reduction in subcontracting expenses and provision reversal in projects nearing completion. We expect execution will ramp up in H2FY18E as most of the projects are now operational which continue to construct growth. Improving execution coupled with strong order book will stimulate the revenue to grow by 20% CAGR over FY17-19E.

Better earnings potential...

Adj. PAT grew by 34% YoY to Rs59cr supported by improved operational efficiency and lower tax expenses. Given strong order book, better execution capability and improving operational efficiency we increased FY18E/FY19E PAT estimate by 8%&12% respectively.

Valuations

Sound balance sheet (standalone D/E 0.1x FY17) and the earnings visibility keep KNR in premium valuation. While Government's strong focus on developing road projects is keeping the outlook positive. We value core business at a P/E of 18x on FY19E EPS and BOT projects at 1.2xP/B to arrive at SOTP target price Rs302 & revised our rating to Accumulate' from 'Buy'.

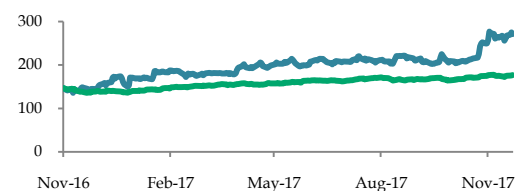
Company Data

| | |
|-------------------------|-----------|
| Market Cap (cr) | Rs. 3,878 |
| Enterprise Value (cr) | Rs. 3,998 |
| Outstanding Shares (cr) | 14.1 |
| Free Float | 42.62% |
| Dividend Yield | 0.2 |
| 52 week high | Rs293 |
| 52 week low | Rs140 |
| 6m average volume (cr) | 0.24 |
| Beta | 1.04 |
| Face value | Rs2 |

| Shareholding % | Q4FY17 | Q1FY18 | Q2FY18 |
|----------------|--------|--------|--------|
| Promoters | 57.95 | 57.38 | 57.38 |
| FII's | 4.59 | 3.94 | 3.26 |
| MFs/Insti | 26.99 | 28.34 | 28.53 |
| Public | 10.47 | 10.34 | 10.83 |
| Others | | | |
| Total | 100.0 | 100.0 | 100.0 |

| Price Performance | 3Month | 6Month | 1 Year |
|-------------------|--------|--------|--------|
| Absolute Return | 24.3% | 36.5% | 91.6% |
| Absolute Sensex | 6.2% | 10.8% | 29.3% |
| Relative Return* | 18.1% | 25.7% | 62.3% |

*over or under performance to benchmark index



| Standalone (Rs.cr) | FY17 | FY18E | FY19E |
|--------------------|-------|-------|-------|
| Sales | 1,541 | 1,866 | 2,213 |
| Growth (%) | 70.7 | 21.1 | 18.6 |
| EBITDA | 230 | 314 | 345 |
| Margin(%) | 14.9 | 16.8 | 15.6 |
| PAT Adj | 168 | 205 | 222 |
| Growth (%) | 53.9 | 21.9 | 8.4 |
| Adj.EPS | 12.0 | 14.6 | 15.8 |
| Growth (%) | 53.9 | 21.9 | 8.4 |
| P/E | 23.1 | 18.9 | 17.5 |
| P/B | 4.3 | 3.5 | 2.9 |
| EV/EBITDA | 17.5 | 12.8 | 11.6 |
| RoE (%) | 20.7 | 20.6 | 18.4 |
| D/E | 0.15 | 0.11 | 0.08 |

Antu Eapen Thomas
Analyst

SOTP Valuation

| Particulars | Segments | Value (Rs Cr) | Stake | Value/Share (Rs) | Rationale |
|------------------------------|---------------|---------------|-------|------------------|------------------|
| Standalone EPC | Core Business | 3,999 | - | 284 | PE 18x FY19E EPS |
| Kerala BOT | Road Toll | 136 | 100% | 11.6 | 1.2x P/BV |
| Muzaffarpur Barauni BOT | Road Toll | 72 | 51% | 6.1 | 1.2x P/BV |
| Total Value per share | | | | 302 | |

Quarterly Financials (Standalone)

Profit & Loss Account

| (Rs cr) | Q2FY18 | Q2FY17 | YoY Growth(%) | Q1FY18 | QoQ Growth (%) |
|---------------------|-----------|-----------|---------------|-----------|----------------|
| Sales | 393 | 373 | 5.3 | 481 | -18.2 |
| EBITDA | 82 | 58 | 47.4 | 85 | -2.4 |
| Margin% | 21.0 | 15.0 | 598bps | 17.6 | 339bps |
| Depreciation | 24 | 15 | 60.8 | 24 | -3.5 |
| EBIT | 62 | 55 | 13.0 | 72 | -14.9 |
| Interest | 4 | 6 | -23.5 | 5 | -18.0 |
| Other Income | 3 | 13 | -79.6 | 12 | -78.0 |
| Exceptional Items | - | - | | - | |
| PBT | 57 | 49 | 17.1 | 67 | -14.6 |
| Tax | -1.7 | 5 | | -0.4 | |
| Reported PAT | 59 | 44 | 34.5 | 68 | -12.6 |
| Adjustment | - | - | | 17 | |
| Adj PAT | 59 | 44 | 34.5 | 51 | 16.3 |
| No. of shares (cr) | 14.1 | 14.1 | | 14.1 | |
| EPS (Rs) | 4.2 | 3.1 | 34.5 | 3.6 | 16.3 |

Change in estimates

| Year / Rs cr | Old estimates | | New estimates | | Change % | |
|--------------|---------------|-------|---------------|-------|----------|-------|
| | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E |
| Revenue | 1,857 | 2,149 | 1,866 | 2,212 | 0.5 | 3.0 |
| EBITDA | 275 | 316 | 314 | 345 | 14.0 | 9.2 |
| Margins (%) | 14.8 | 14.7 | 16.8 | 15.6 | 199bps | 90bps |
| PAT | 189 | 199 | 205 | 222 | 8.4 | 11.7 |
| EPS | 13.4 | 14.2 | 14.6 | 15.8 | 8.4 | 11.7 |

Standalone Financials

Profit & Loss Account

| Y.E March (Rs cr) | FY15A | FY16A | FY17A | FY18E | FY19E |
|---------------------|------------|------------|--------------|--------------|--------------|
| Sales | 876 | 903 | 1,541 | 1,866 | 2,213 |
| % change | 5 | 3 | 70.7 | 21.1 | 18.6 |
| EBITDA | 126 | 155 | 230 | 314 | 345 |
| % change | 0 | 23 | 48 | 37 | 10 |
| Depreciation | 54 | 43 | 64 | 87 | 78 |
| EBIT | 72 | 112 | 166 | 227 | 267 |
| Interest | 12 | 13 | 22 | 21 | 19 |
| Other Income | 12 | 30 | 30 | 27 | 31 |
| PBT | 72 | 130 | 163 | 233 | 279 |
| % change | 8 | 80 | 25 | 43 | 20 |
| Tax | (1) | (31) | 6 | 28 | 57 |
| Tax Rate (%) | (1) | (24) | 4 | 12 | 21 |
| Reported PAT | 73 | 161 | 157 | 205 | 222 |
| Adj* | - | 52 | 10.9 | - | - |
| Adj PAT | 73 | 109 | 168 | 205 | 222 |
| % change | 20 | 50 | 53.9 | 21.9 | 8.4 |
| No. of shares (mn) | 14.1 | 14.1 | 14.1 | 14.1 | 14 |
| Adj EPS (Rs) | 5 | 8 | 12.0 | 14.6 | 15.8 |
| % change | 20 | 50 | 53.9 | 21.9 | 8.4 |
| DPS (Rs) | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| CEPS (Rs) | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |

Balance Sheet

| Y.E March (Rs cr) | FY15A | FY16A | FY17A | FY18E | FY19E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 5 | 16 | 25 | 60 | 112 |
| Accounts Receivable | 177 | 129 | 164 | 184 | 218 |
| Inventories | 36 | 35 | 57 | 68 | 93 |
| Other Cur. Assets | 439 | 718 | 460 | 639 | 758 |
| Investments | 23 | 35 | 466 | 490 | 514 |
| Gross Fixed Assets | 548 | 611 | 666 | 726 | 786 |
| Net Fixed Assets | 224 | 244 | 322 | 208 | 190 |
| CWIP | 3 | 3 | 2 | 3 | 3 |
| Intangible Assets | 0.03 | 0.02 | 0.02 | 0.01 | 0.01 |
| Def. Tax (Net) | 24 | 28 | 43 | 52 | 61 |
| Other Assets | 73 | 69 | 79 | 80 | 80 |
| Total Assets | 1,003 | 1,278 | 1,618 | 1,785 | 2,029 |
| Current Liabilities | 248 | 207 | 559 | 492 | 505 |
| Provisions | 31 | 53 | 15 | 26 | 48 |
| Debt Funds | 88 | 113 | 130 | 120 | 110 |
| Other Liabilities | 67 | 179 | 18 | 50 | 50 |
| Equity Capital | 28 | 28 | 28 | 28 | 28 |
| Reserves & Surplus | 541 | 699 | 867 | 1,068 | 1,286 |
| Shareholder's Fund | 569 | 727 | 895 | 1,096 | 1,315 |
| Total Liabilities | 1,003 | 1,278 | 1,618 | 1,785 | 2,029 |
| BVPS (Rs) | 40 | 52 | 64 | 78 | 93 |

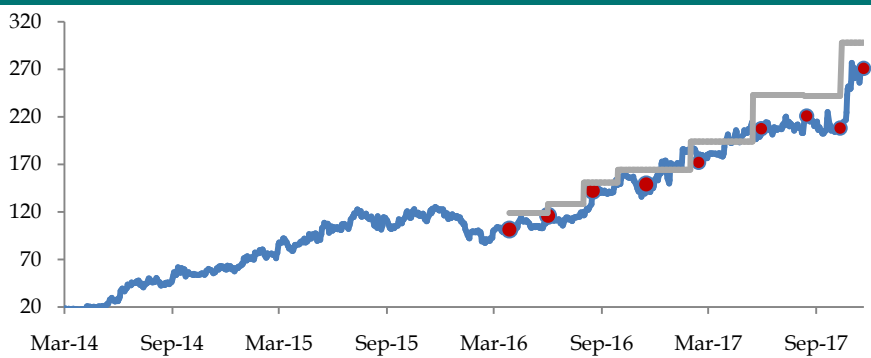
Cash flow

| Y.E March (Rs cr) | FY15A | FY16A | FY17A | FY18E | FY19E |
|------------------------|-------------|-------------|--------------|-------------|-------------|
| Net inc. + Depn. | 126 | 173 | 227 | 320 | 357 |
| Non-cash adj. | (8) | 26 | 16 | (4) | (43) |
| Changes in W.C | (52) | (251) | 516 | (266) | (141) |
| C.F.O | 67 | (56) | 744 | 41 | 165 |
| Capital exp. | (31) | (63) | (54) | (61) | (60) |
| Change in inv. | (1) | - | - | - | - |
| Other invest.CF | 6 | 18 | (0) | (3) | 4 |
| C.F - investing | (25) | (58) | (485) | (88) | (80) |
| Issue of equity | - | - | - | - | - |
| Issue/repay debt | 6 | 29 | 8 | (11) | (10) |
| Dividends paid | (3) | (4) | (4) | (4) | (4) |
| Other finance.CF | (43) | 99 | (253) | 98 | (19) |
| C.F - Financing | (41) | 124 | (249) | 83 | (33) |
| Chg. in cash | 1 | 10 | 9 | 36 | 52 |
| Closing cash | 5 | 15 | 25 | 60 | 112 |

Ratios

| Y.E March | FY15A | FY16A | FY17A | FY18E | FY19E |
|-------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 14.4 | 15.6 | 14.9 | 16.8 | 15.6 |
| EBIT margin (%) | 8.2 | 12.4 | 10.8 | 12.1 | 12.1 |
| Net profit mgn.(%) | 8.3 | 12.1 | 10.9 | 11.0 | 10.0 |
| ROE (%) | 13.5 | 16.9 | 20.7 | 20.6 | 18.4 |
| ROCE (%) | 11.0 | 13.2 | 15.9 | 17.5 | 14.4 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 61.2 | 61.8 | 34.7 | 34.0 | 33.2 |
| Inventory (days) | 25.7 | 29.1 | 19.3 | 23.0 | 24.3 |
| Payables (days) | 22.7 | 58.2 | 53.1 | 31.4 | 8.8 |
| Current ratio (x) | 2.4 | 3.5 | 1.2 | 1.8 | 2.1 |
| Quick ratio (x) | 0.7 | 0.7 | 0.3 | 0.5 | 0.7 |
| Turnover & Levq. | | | | | |
| Gross asset T.O (x) | 1.6 | 1.6 | 2.4 | 2.7 | 2.9 |
| Total asset T.O (x) | 0.9 | 0.8 | 1.1 | 1.1 | 1.2 |
| Int. covge. ratio (x) | 5.9 | 8.9 | 7.6 | 11.0 | 14.2 |
| Adj. debt/equity (x) | 0.15 | 0.15 | 0.15 | 0.11 | 0.08 |
| Valuation ratios | | | | | |
| EV/Sales (x) | 4.5 | 4.4 | 2.6 | 2.1 | 1.8 |
| EV/EBITDA (x) | 31.4 | 25.7 | 17.5 | 12.8 | 11.6 |
| P/E (x) | 53.1 | 35.5 | 23.1 | 18.9 | 17.5 |
| P/BV (x) | 6.8 | 5.3 | 4.3 | 3.5 | 2.9 |

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

| Dates | Rating | Target |
|-----------------|------------|--------|
| 31-March-16 | *Buy | 119 |
| 06-June-16 | Accumulate | 128 |
| 23-August-16 | HOLD | 151 |
| 17-November-16 | Accumulate | 164 |
| 16-February -17 | Accumulate | 194 |
| 02-June -17 | Buy | 243 |
| 18-August -17 | Accumulate | 242 |
| 13 October- 17 | Buy | 242 |
| 23-November -17 | Accumulate | 302 |

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;

| | | |
|--------|---|-----------------------------|
| Buy | - | Upside is 10% or more. |
| Hold | - | Upside is between 0% - 10%. |
| Reduce | - | Downside is more than 0%. |

Mid Cap and Small Cap;

| | | |
|-------------|---|------------------------------|
| Buy | - | Upside is above 15%. |
| Accumulate | - | Upside is between 10% - 15%. |
| Hold | - | Upside is between 0% - 10%. |
| Reduce/Sell | - | Downside is more than 0%. |

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Antu Eapen Thomas, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of

its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

- (iii) he/his associates/his relatives holds shares in the subject company/has other financial interest in the subject company
- (iv) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

- (a) Have not received any compensation from the subject company;
- (b) Have not managed or co-managed public offering of securities for the subject company
- (c) Have not * received any compensation for investment banking or merchant banking or brokerage services from the subject company.
- (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company
- (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report
- (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Antu Eapen Thomas Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Fax: +91 484-2979695, Website: geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Regn.Nos.: NSE: INB/INF/INE231337230 I BSE:INB011337236 & INF011337237 | MSEI: INE261337230, INB261337233 & INF261337233, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, NSDL: IN-DP-NSDL-24-97, CDSL: IN-DP-CDSL-648-2012, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.
Research Entity SEBI Registration Number: INH200000345