KNR Constructions

Upgrade to Buy - (Prev. Accumulate)

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Visit Note

Spike in execution from 2HFY19E post dip in 1HFY19E

Company and Strategy

KNR, primarily focused on road EPC, HAM and irrigation shall behold spike in growth in revenue from 2HFY19E as execution on recently won ₹44.7bn (EPC value ₹31bn) HAM projects kicks in. Albeit, the revenue is expected to decline during 1HFY19E due to slower execution pace on old projects impacted by project specific issues (land acquisition, etc.) particularly in road segment. The company will continue to focus on road and irrigation sector and expect fresh order inflow of ₹20bn/ ₹30bn in FY19E/ FY20E, respectively given the huge tender pipeline and opportunity.

Site visit: Pollachi-Coimbatore EPC project – 54.9% completed

Our site visit to Pollachi-Coimbatore road EPC project in Tamil Nadu gave us a first-hand understanding of faster execution on the ground. KNR received appointed date for this NHAI project on 1st Dec'16 and has completed 54.9% (in 16 months) of EPC value of ₹4.15bn as on 31st Mar'18. It has also received increase in scope of work worth ₹396.7mn in Mar'18.

The company targets to complete original EPC value of ₹4.15bn by 3 months ahead of the scheduled completion date of 30 Nov'18. Thus, KNR will be eligible for ₹124.5mn early completion bonus. It expects to complete the entire project by Dec'18. The scope of the project includes 26.85 km four lane with paved shoulder of NH-209. The company is using new imported (Germany) 9-meter concrete paver and installed artificial sand making plant.

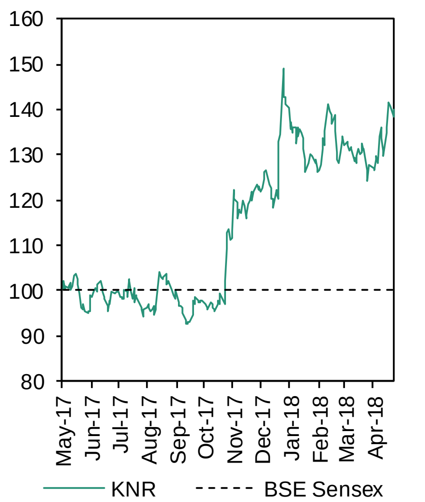
Outlook

We downgrade our revenue/ EBITDA margin/ Adj. PAT estimates by 4.8%/ 18bps/ 10% for FY19E due to slower execution on existing orders in 1HFY19E. However, we upgrade our revenue/ Adj. PAT estimates for FY20E by 15.2%/ 19.6% due to higher order inflow of ₹36.6bn/ ₹37.9bn in FY18/ FY19E vs. earlier estimate of ₹24.5bn/ ₹28.2bn and better execution on HAM projects.

We expect KNR's revenue/ Adj. PAT to grow at a healthy CAGR of 33.7%/ 15.1% over FY18-20E. We expect KNR to witness healthy revenue growth over FY17-20E, healthy margins and return ratios coupled with well managed balance sheet, comfortable working capital and low D:E. Hence, we upgrade to Buy with an upward revised SOTP of ₹403 (Exhibit 1).

CMP	₹313
Target / Upside	₹403/29%
BSE Sensex	34,423
NSE Nifty	10,547
Scrip Details	
Equity / FV	₹281mn/₹2/-
Market Cap	₹44bn
	USD 659mn
52-week High/Low	₹349/185
Avg. Volume (no)	401,913
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN
Shareholding Pattern Mar'18(%)	
Promoters	55.4
MF/Banks/FIs	28.1
FIIs	3.8
Public / Others	12.8

KNR Relative to Sensex



FINANCIALS (₹ Mn)

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Revenue	10,108	15,411	18,311	22,740	32,725
Growth (%)	3.0	70.7	18.8	24.2	43.9
EBITDA excl. OI	2,612	2,296	3,596	3,824	5,237
EBITDA excl. OI (%)	16.9	14.9	19.6	16.8	16.0
Adj. PAT	2,035	1,681	2,126	1,974	2,817
Growth (%)	28.4	76.7	26.5	(7.1)	42.7
EPS (₹)	6.8	12.0	15.1	14.0	20.0
Growth (%)	28.4	76.7	26.5	(7.1)	42.7
PER(x)	46.3	26.2	20.7	22.3	15.6
ROANW (%)	24.4	19.3	23.4	16.2	19.4
ROACE (%)	18.6	20.7	21.9	17.9	25.5

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DOLAT CAPITAL

April 26, 2018

Win of 4 HAM projects leads to ~₹56.2bn order book (3.1x FY18E revenue)

KNR has bagged 4 HAM projects worth ₹44.7bn (EPC cost ~₹31bn) during Q4FY18 taking the FY18 order inflow to ₹36.6bn and the order book to ₹56.2bn at the end of FY18E which provides revenue visibility for 3.1x FY18E revenue. The company is also L1 in one state HAM project (KSHIP) in Karnataka worth ₹11.7bn which is expected to receive LoA in couple of months. Considering EPC cost of ₹7.9bn for the same, the order book stands at ₹64.1bn which provides revenue visibility for 3.5x FY18E revenue. We have considered fresh inflow of ₹37.9bn (including ₹7.9bn KSHIP HAM project) and ₹30bn in FY19E and FY20E.

Exhibit 1: SOTP Valuation

Component	Valuation Method	₹ /sh	%
Standalone cons business	17x FY20E EPS	340.5	84.5
BOT Toll project – Walayar - Vadakkancherry	1x FY20E P/B	28.3	7.0
BOT Toll project – Muzzarpur - Barauni	1x FY20E P/B	3.7	0.9
HAM projects	1x FY20E P/B	30.7	7.6
Total		403.2	100.0
CMP		313.0	
Potential upside (%)		28.8	

Source: Company, DART

We have assumed ₹15bn (50% of total inflow of ₹30bn excluding KSHIP HAM project) as HAM projects order inflow in FY19E and FY20E each year. We assumed 9% equity requirement for the same and for KSHIP HAM project (higher than 8.4% in 4 HAM projects won in Q4FY18) and 50% of it to be infused in FY19E and FY20E for HAM order inflow in FY19E. We have also factored ₹1.92bn being 51% share of equity investment for 4 HAM projects won in Q4FY18 to be invested in FY19E and remaining by its new equity partner (KNR is looking for equity partner for 4 HAM projects won in Q4FY18). Accordingly, we have valued its equity investments in HAM projects at 1x FY20E book value.

Downside risk to our valuation

Execution Delay: Project delays due to delay at the client's end or other regulatory bottlenecks could adversely affect KNR's revenue and profitability going forward.

Delays in order intake: Any capex delay from private and government sector which will in turn lead to delay in order awarding to KNR. Such delay in order awarding could negatively affect revenues and profitability of KNR.

Unsuccessful new business verticals: Any unsuccessful new business ventures such as mining, railways, etc. would impact profitability of KNR and would be downside risk to our valuation.

Upside risk to our valuation

Claim receipt: We have not factored in ~₹5bn (KNR's share) various claims which if comes in its favour, can positively impact its financials.

Exhibit 2: Projects won in FY18

Project	Authority	Segment	State	₹ mn	Length in km	During
Konda Pochamma Sagar for a capacity of 15 TMC	Irrigation & CAD Dept.	Irrigation - EPC	Telangana	5,607		Q2FY18
Tiruchirapalli-Kallagam	NHAI	Road – HAM	TN	10,206	39	Q4FY18
Meensurutti-Chidambaram			TN	4,820	31	
Chittor-Mallavaram			AP	17,301	61	
Ramsanpalle-Mangloor			Telangana	12,340	47	
Total Inflow				**50,274***		

** Total EPC value - ₹36.6bn*

Key highlights of site visit of Pollachi-Coimbatore NHAI EPC project

Project details

- Bid Project cost - ₹ 4.55bn (includes ₹ 397mn increase in scope of work)
- Rehabilitation and up-gradation of NH-209 of Dindigul-Bangalore Road (Pollachi to Coimbatore section) to 4 lane in TN for 26.85 km under NHDP Phase-IV.
- Appointed date – 1st Dec'16.
- Schedule completion date – 30th Nov'18.
- Expected completion date – End of Aug'18 (3 months early) for ₹ 4.15bn and Dec'18 for entire value.
- Construction period – 730 days (2 years).
- Cumulative financial progress - ₹2.28bn (54.9%)

Exhibit 3: Financial progress

₹ mn	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Unexecuted Order Book	3,499	3,081	2,599	2,223	1,871
Revenue	650	417	483	375	352
% completion	15.7	25.7	37.4	46.4	54.9

Exhibit 4: Site progress - Aggregates Mining

Source: Company

Exhibit 5: Site progress - Aggregate Crushing

Source: Company

Exhibit 6: Site progress – Cement paver

Source: Company

Exhibit 7: Site progress – Curing

Source: Company

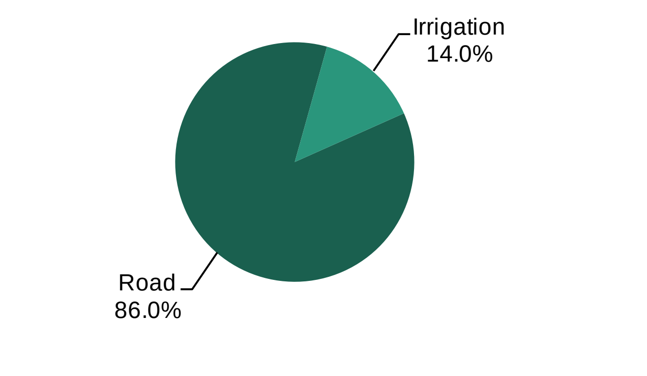
Exhibit 8: Site progress – Elevated Flyover

Source: Company

Exhibit 9: Site progress – RE Wall

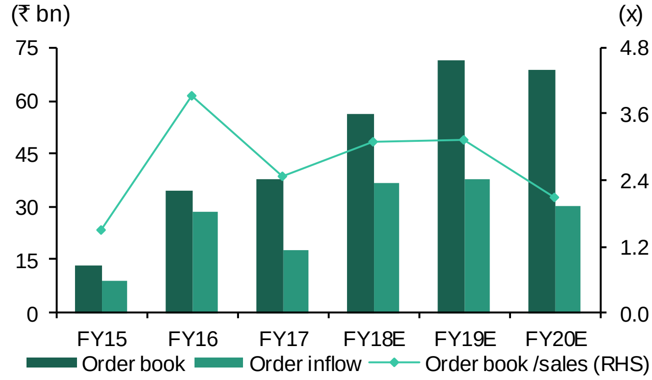
Source: Company

Exhibit 10: ₹56.2 bn (FY18E) order book break-up



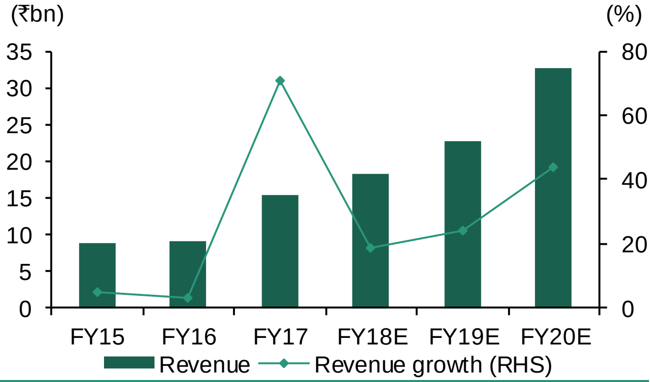
Source: Company, DART

Exhibit 11: Order book trend



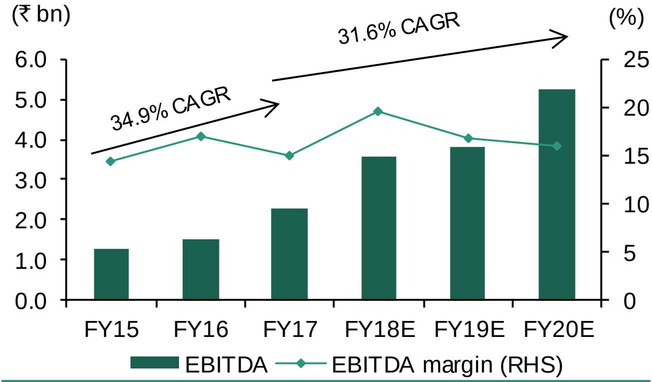
Source: Company, DART

Exhibit 12: 28.5% revenue CAGR over FY17-20E



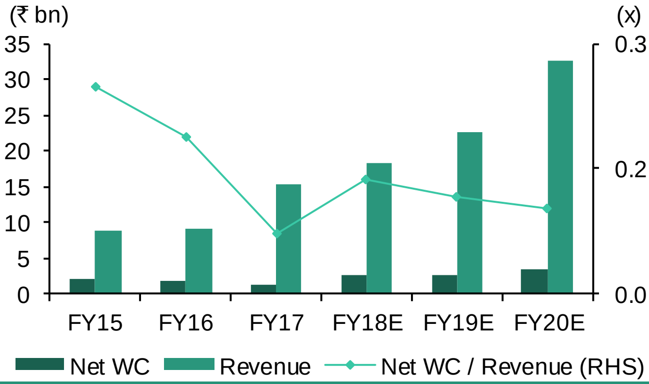
Source: Company, DART

Exhibit 13: 31.6% EBITDA CAGR over FY17-20E



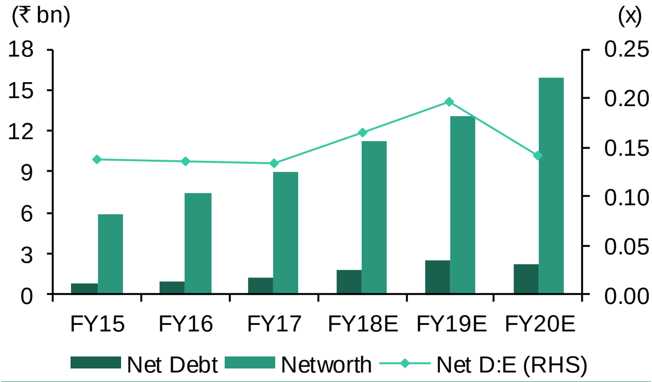
Source: Company, DART

Exhibit 14: Efficient working capital management



Source: Company, DART

Exhibit 15: One of the lowest net D:E in the sector



Source: Company, DART

Exhibit 16: Q3FY18 Performance (Standalone)

Particulars (₹ mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	**4,332**	**3,823**	**13.3**	**3,933**	**10.1**	**13,073**	**10,590**	**23.5**
Material consumed	1,276	806	58.4	1,122	13.8	3,411	2,376	43.5
Sub-contractors work bills	879	1,502	(41.5)	451	95.0	2,940	3,623	(18.9)
Spreading & Assortment	627	465	34.7	939	(33.2)	2,383	1,660	43.6
Employee cost	181	148	22.0	193	(6.2)	521	407	28.2
Other expenditure	385	325	18.6	405	(4.7)	1,163	950	22.5
Total expenditure	**3,348**	**3,246**	**3.1**	**3,109**	**7.7**	**10,419**	**9,016**	**15.6**
EBITDA	**984**	**577**	**70.5**	**825**	**19.3**	**2,654**	**1,574**	**68.7**
Depreciation	371	166	123.9	235	57.9	850	444	91.6
Operating profit	**612**	**411**	**49.0**	**590**	**3.9**	**1,804**	**1,130**	**59.7**
Other income	61	102	(40.5)	27	126.0	210	293	(28.2)
EBIT	**673**	**513**	**31.2**	**617**	**9.2**	**2,014**	**1,423**	**41.6**
Interest	49	66	(26.2)	43	15.1	144	165	(12.9)
Exceptional items	-	109	(100.0)	-	-	-	109	(100.0)
EBT	**624**	**338**	**84.6**	**574**	**8.8**	**1,870**	**1,149**	**62.8**
Provision for taxation	(33)	31	-	(17)	-	(53)	101	-
Net income	**657**	**307**	**114.2**	**591**	**11.2**	**1,923**	**1,048**	**83.5**
Adjustments	-	109	(100.0)	-	-	(236)	109	-
Adjusted net income	**657**	**415**	**58.1**	**591**	**11.2**	**1,687**	**1,157**	**45.8**
EPS (₹)	**4.7**	**3.0**	**58.1**	**4.2**	**11.2**	**12.0**	**8.2**	**45.8**
			bps		***bps***			***bps***
EBIDTA Margin (excl. O.I.)	22.7	15.1	762	21.0	174	20.3	14.9	544
EBIDTA Margin (incl. O.I.)	24.1	17.8	635	21.7	246	21.9	17.6	428
NPM (%)	15.0	10.6	437	14.9	4	12.7	10.6	207
Tax/PBT (%)	(5.2)	9.3	-	(2.9)	-	(2.8)	8.8	-
Const. cost/Revenue (%)	64.2	72.5	(831)	63.8	37	66.8	72.3	(552)

Source: Company, DART

Income Statement (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Revenue	**15,411**	**18,311**	**22,740**	**32,725**
Growth (%)	*70.7*	*18.8*	*24.2*	*43.9*
Total Expenditure	**13,115**	**14,715**	**18,916**	**27,487**
Material consumed	3,351	4,944	6,797	10,891
Sub-contractors work bills	5,405	4,028	4,548	5,890
Spreading & Assortment Exp	2,389	3,296	4,548	6,545
Employee cost	552	707	863	1,052
Other expenditure	1,417	1,740	2,160	3,109
Other Income	303	252	207	228
EBIDTA (Excl. O.I.)	**2,296**	**3,596**	**3,824**	**5,237**
Growth (%)	*50.1*	*56.6*	*6.3*	*37.0*
EBIDTA (Incl. O.I.)	**2,599**	**3,848**	**4,031**	**5,465**
Depreciation	639	1,222	1,388	1,075
EBIT	**1,960**	**2,625**	**2,643**	**4,390**
Interest	219	215	290	305
Profit Before Tax	**1,632**	**2,410**	**2,353**	**4,085**
Tax	60	46	379	1,268
Prior period adj.	(0)	3	0	0
Net Profit	**1,573**	**2,361**	**1,974**	**2,817**
Adjustments	109	(235)	0	0
Adj. Net Profit	**1,681**	**2,126**	**1,974**	**2,817**
Growth (%)	*76.7*	*26.5*	*(7.1)*	*42.7*

Balance Sheet (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	281	281	281	281
Reserves	8,674	10,950	12,839	15,571
Net Worth	**8,955**	**11,231**	**13,120**	**15,853**
Long Term Loans	1,441	1,887	2,442	2,220
Short Term Loans	0	500	350	400
Loan Funds	**1,441**	**2,387**	**2,792**	**2,620**
Deferred Tax Liability	(432)	(617)	(638)	(678)
Total Capital Employed	**9,963**	**13,001**	**15,274**	**17,795**
Applications of Funds				
Gross Block	6,403	8,503	10,003	11,503
Less: Accumulated Dep.	3,796	5,018	6,406	7,481
Net Block	**2,607**	**3,485**	**3,597**	**4,022**
Capital Work in Progress	15	15	15	15
Investments	**5,351**	**5,801**	**8,186**	**9,386**
Current Assets, Loans & Advances				
Inventories	574	809	1,040	1,512
Sundry Debtors	1,640	2,197	2,842	4,091
Cash and Bank Balance	246	542	222	367
Loans and Advances	349	412	549	825
Other Current Assets	4,965	5,914	6,880	9,459
sub total	7,774	9,874	11,533	16,253
Less: Current Liabilities & Provisions				
Current Liabilities	5,639	6,020	7,888	11,594
Provisions	145	155	169	287
sub total	5,784	6,174	8,057	11,881
Net Current Assets	1,990	3,700	3,476	4,372
Total Assets	**9,963**	**13,001**	**15,274**	**17,795**

E – Estimates

Cash Flow (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	**1,632**	**2,410**	**2,353**	**4,085**
Depreciation	639	1,222	1,388	1,075
Finance Cost	219	215	290	305
Other Income	(47)	(252)	(207)	(228)
Other	68	(19)	0	(0)
Direct taxes paid	(75)	(235)	(400)	(1,307)
Change in Working Capital	730	(1,130)	(40)	(517)
(A) CF from Operations	**3,165**	**2,212**	**3,384**	**3,414**
Capex	(1,383)	(2,100)	(1,500)	(1,500)
Free Cash Flow to Firm	**1,782**	**112**	**1,884**	**1,914**
Inc./ (Dec.) in Investments	(1,607)	(450)	(2,385)	(1,200)
Other	(144)	36	205	(29)
(B) CF from Investments	**(3,133)**	**(2,514)**	**(3,680)**	**(2,729)**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	273	897	350	(150)
Interest exp net	(220)	(215)	(290)	(305)
Dividend Paid (Incl. Tax)	0	(85)	(85)	(85)
Other	0	0	0	0
(C) CF from Financing	**53**	**598**	**(25)**	**(540)**
Net Change in Cash	85	296	(320)	145
Opening Cash balances	**161**	**246**	**542**	**222**
Closing Cash balances	**246**	**542**	**222**	**367**

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	14.9	19.6	16.8	16.0
EBIDTA Margin (incl. O.I.)	16.9	21.0	17.7	16.7
EBIT Margin	12.7	14.3	11.6	13.4
Interest/EBIT	11.2	8.2	11.0	6.9
Tax/PBT	3.7	2.1	16.1	31.0
Net Profit Margin	10.9	11.6	8.7	8.6
(B) As Percentage of Net Sales				
Raw Material	21.7	27.0	29.9	33.3
Subcontracting expenses	35.1	22.0	20.0	18.0
Employees expenses	3.6	3.9	3.8	3.2
Other Expenses	9.2	9.5	9.5	9.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.2	0.2	0.2	0.2
Interest Coverage (x)	11.9	17.9	13.9	17.9
Average Cost of Debt (%)	16.8	11.2	11.2	11.3
Debtors Period (days)	39	44	46	46
Closing stock (days)	14	16	17	17
Working Capital (days)	33	61	46	42
Fixed Assets Turnover (x)	2.4	2.2	2.3	2.8
(D) Measures of Investment				
Diluted EPS (₹)	12.0	15.1	14.0	20.0
CEPS (₹)	16.5	23.8	23.9	27.7
DPS (₹)	0.5	0.5	0.5	0.5
Book Value (₹)	63.7	79.9	93.3	112.7
RoANW (%)	19.3	23.4	16.2	19.4
RoACE (%)	20.7	21.9	17.9	25.5
RoAIC (%)	46.0	47.6	39.1	58.9
(E) Valuation Ratios				
CMP (₹)	313	313	313	313
P/E (x)	26.2	20.7	22.3	15.6
Market Cap. (₹ Mn)	44,013	44,013	44,013	44,013
MCap/ Sales (x)	2.9	2.4	1.9	1.3
EV (₹ Mn)	45,207	45,858	46,583	46,266
EV/Sales (x)	2.9	2.5	2.0	1.4
EV/EBDITA (x)	19.7	12.7	12.1	8.9
P/BV (x)	4.9	3.9	3.4	2.8
FCFE Yield (%)	5.3	2.3	5.1	4.0
Dividend Yield (%)	0.2	0.2	0.2	0.2

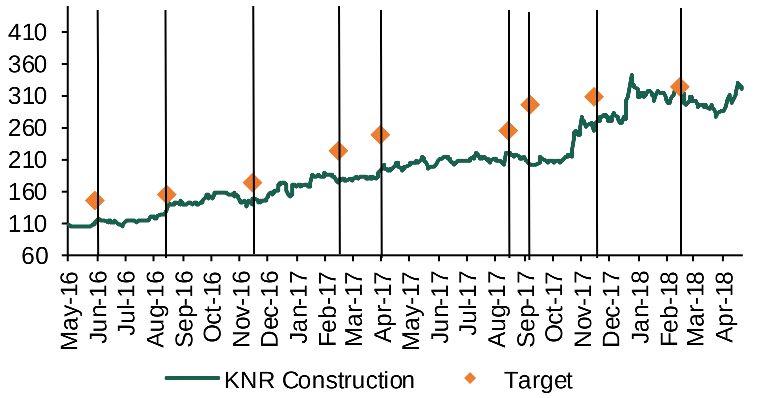
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
May-16	BUY	144	111
Aug-16	BUY	153	128
Nor-16	BUY	173	140
Feb-17	BUY	222	173
May-17	BUY	247	201
Aug-17	BUY	255	221
Sept-17	BUY	297	266
Nov-17	BUY	308	255
Feb-18	Accumulate	324	322

** As on Recommended Dated*

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