2 August 2018

Update | Sector: Infrastructure

KNR Constructions

BSE SENSEX	S&P CNX
37,522	11,346

Stock Info

Bloomberg	KNRC IN
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	31.9 / 0.5
52-Week Range (INR)	349 / 194
1, 6, 12 Rel. Per (%)	-1/-30/-8
12M Avg Val (INR M)	67
Free float (%)	44.6

Financials Snapshot (INR b)

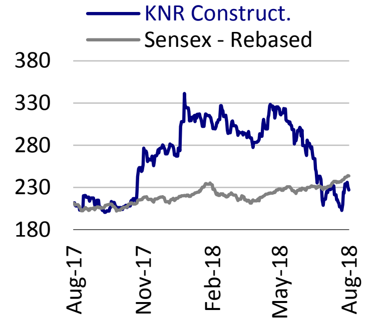
Y/E Mar	2017	2018E	2019E
Net Sales	19.3	20.2	28.0
EBITDA	3.9	3.3	4.2
PAT	2.7	1.9	2.4
EPS (INR)	19.4	13.8	17.2
Gr. (%)	61.8	-28.7	24.8
BV/Sh (INR)	82.3	95.3	112.3
RoE (%)	26.5	15.5	16.6
RoCE (%)	19.5	13.3	15.9
P/E (x)	11.7	16.4	13.1
P/BV (x)	2.7	2.4	2.0

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	55.4	55.4	57.4
DII	27.3	28.1	28.4
FII	3.3	3.8	3.9
Others	14.0	12.8	10.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR226 TP: INR320(+42%) Buy

Satisfactory progress on new HAM projects

Focus to shift to timely execution

We met the management of KNR Construction. Our key takeaways:

In principle, financial closures in place for three of the four HAM projects

KNRC has received in principle financial sanctions for three of the four HAM projects the company has won from NHAI and the fourth project is expected to achieve financial closure by August 2018. Full financial closure should happen once KNRC has 80% land available on 3H basis to execute the projects. Currently, three projects have 50-60% physical land available and one project has 80% land available. With financial sanctions in place for the three projects, focus will now be on NHAI making 80% of the land available, which will aid timely execution of the projects in hand.

In advanced-stage talks to rope in financial partner for HAM projects

KNRC is in advanced-stage talks to rope in an equity partner in the four NHAI HAM projects it has won. The financial partner will infuse money by way of optionally-convertible bonds during the construction stage, the bonds will have 14% cost of borrowing, and on completion of the project, the bonds will be converted to equity. The due diligence for the projects is expected to be completed by August 2018 and the transaction is likely to be completed by September 2018. KNRC plans to remain as an asset-light EPC player and hive off the projects post completion.

BoT projects on self-sustaining mode

Both of KNRC's BOT projects have received 100% CoD. Toll collection stands at INR1.6m per day for the Walayar project and at INR2m per day for the Muzzafarpur project. Peak traffic for the Muzzafarpur project had reached INR3m per day; however, the recent sand mining ban has led to decline in traffic, which has now stabilized at INR2m per day.

NHAI has recently released a list of 20 national highways that it intends to buy back from private developers to augment the capacity of projects to meet the future traffic demands and develop few of them as an economic corridor under the Bharatmala Program. KNRC's Muzzafarpur project has been qualified for the buyback and KNRC intends to give the project to NHAI. Total equity investment in the Muzzafarpur project stands at INR9b. Monetization of the Muzzafarpur project will further aid in supporting the equity requirement for the incremental HAM projects that KNRC bids for.

Wins arbitration claims worth INR2b; incremental INR5b claim yet to be settled

KNRC has recently received arbitration claims of INR2b in its favor, and incrementally, claims worth INR5b are still pending with NHAI for settlement. KNRC has received an arbitration award worth INR1b for Patel KNR Tollways and another INR1b for the Assam project it had executed earlier.

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Order backlog provides strong medium-term revenue visibility

KNRC has been able to ramp up order inflows by winning four HAM projects with an EPC business opportunity of INR31b, leading to order backlog of INR59b and providing revenue visibility of 3.3x its TTM revenue. Incrementally, KNRC has bagged the KSHIP HAM project and expects the irrigation project to be finalized, which should further improve revenue visibility. With healthy order inflows and potentially strong order inflow pipeline, concerns on growth have been addressed by the company.

Earnings growth to pick up in FY20

As the order inflow has been back-ended in FY18, revenue growth is expected to remain muted in 1HFY19, as appointed date of the newly-won HAM projects will be achieved by the end of 1HFY19. Traction should pick up post this, with four new HAM projects contributing. Even the ongoing key projects are nearing 80% completion, which will slow down revenue contribution from existing projects. The management expects a muted FY19 (INR20b revenue guidance for FY19) and expects growth to pick up from FY20, as HAM project execution picks up. We estimate revenue growth of 5%/39% and earnings growth of -29%/25% in FY19/20.

Valuation and view

We like KNRC for its robust execution track record, driven by backward integration, strong balance sheet with net debt-equity of 0.1x, and consistent operating margins of 14-15%. We believe that the recent price correction provides good opportunity to invest and play the road infra capex theme. We maintain our Buy rating. We value the company on SOTP basis: INR275/share for standalone EPC business (16x FY20E EPS of INR17.2) and INR45/share for investments in BOT projects and land parcels (1x FY20E BV).

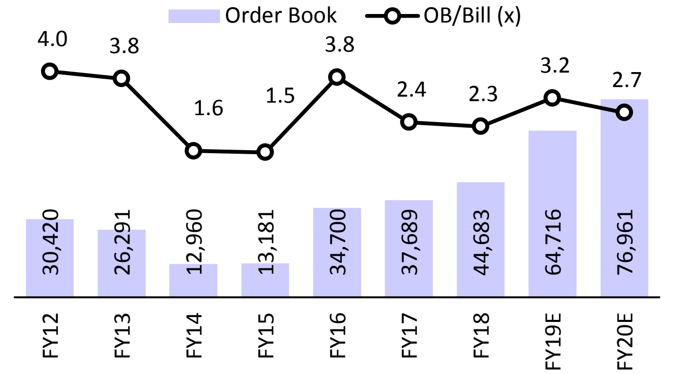
Exhibit 1: Details of HAM projects

	Equity	Grant	Debt	BPC	Total Cost	EPC value
Trichiraopalli Kallagam	954	4,323	3,815	10,205	9,092	7,464
Meensurutti- Chidambaram	453	2,043	1,810	4,820	4,306	3,518
Ramsanpalle-Mangloor	1,005	5,228	4,020	12,340	10,253	8,438
Chittor-Mallacaram	1,353	7,397	5,410	17,301	14,159	11,607
Total	**3,764**	**18,991**	**15,055**	**44,666**	**37,810**	**31,027**

Source: MOSL, Company

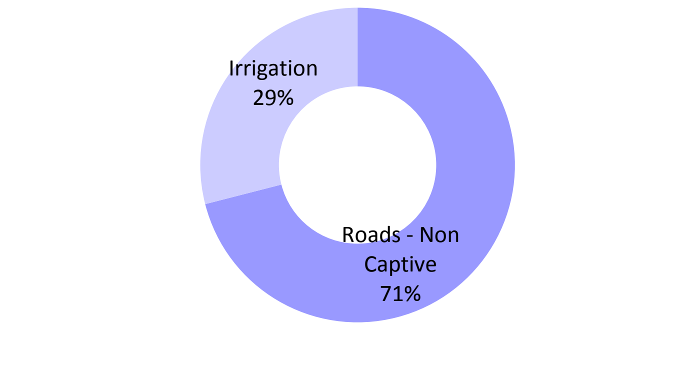
Story in Charts

Exhibit 2: Order backlog provides medium term revenue visibility



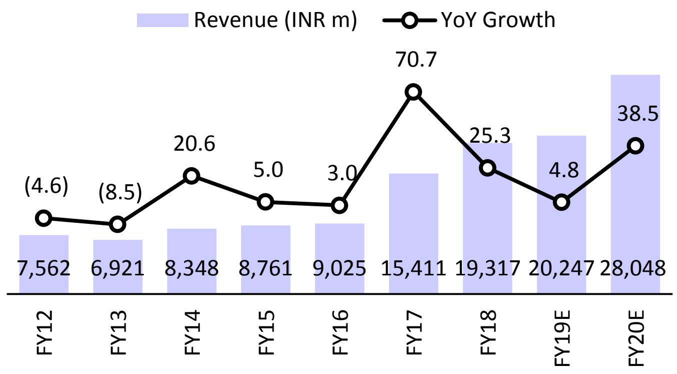
Source: MOSL, Company

Exhibit 3: 71% of the order backlog originates from road segment



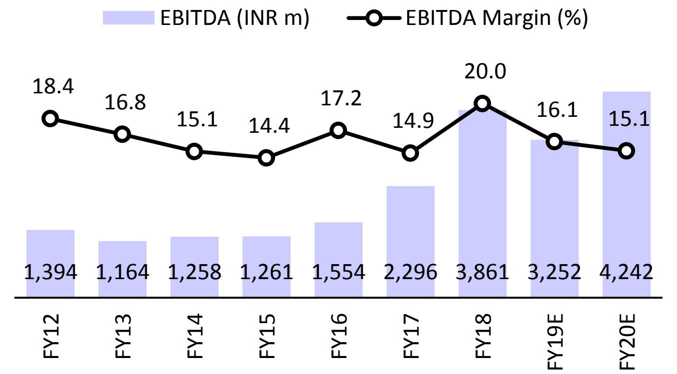
Source: MOSL, Company

Exhibit 4: Revenue to register 21% CAGR over FY18-20E as execution of the recently won HAM project begins



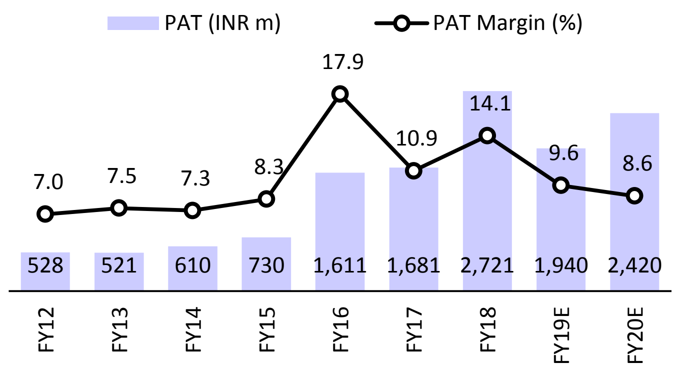
Source: MOSL, Company

Exhibit 5: EBIDTA margins to stabilize at 15-16% going ahead



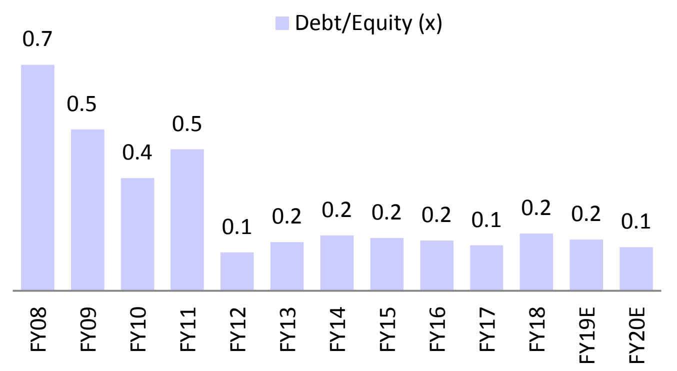
Source: MOSL, Company

Exhibit 6: PAT growth to be muted despite strong revenue growth given expiry of 80IA benefit



Source: MOSL, Company

Exhibit 7: Lean balance sheet to take care of the growth opportunities going ahead



Source: MOSL, Company

Financials and Valuations

Standalone - Income Statement									(INR m)
Y/E March	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Total Income from Operations	**7,562**	**6,921**	**8,348**	**8,761**	**9,025**	**15,411**	**19,317**	**20,247**	**28,048**
Change (%)	-4.6	-8.5	20.6	5.0	3.0	70.7	25.3	4.8	38.5
Materials & Subcontracting Cost	5,693	5,291	6,510	6,696	6,805	11,145	12,854	14,679	20,475
Employees Cost	269	295	349	381	435	552	721	899	1,249
Other Expenses	205	171	230	423	231	1,417	1,880	1,418	2,082
Total Expenditure	**6,167**	**5,757**	**7,090**	**7,500**	**7,471**	**13,115**	**15,455**	**16,995**	**23,806**
% of Sales	81.6	83.2	84.9	85.6	82.8	85.1	80.0	83.9	84.9
EBITDA	**1,394**	**1,164**	**1,258**	**1,261**	**1,554**	**2,296**	**3,861**	**3,252**	**4,242**
Margin (%)	18.4	16.8	15.1	14.4	17.2	14.9	20.0	16.1	15.1
Depreciation	514	557	572	541	431	639	1,341	1,223	1,363
EBIT	**881**	**608**	**686**	**721**	**1,123**	**1,657**	**2,520**	**2,029**	**2,879**
Int. and Finance Charges	96	113	172	122	126	219	231	286	308
Other Income	0	175	155	125	305	303	393	413	454
PBT bef. EO Exp.	**784**	**670**	**669**	**723**	**1,301**	**1,741**	**2,682**	**2,155**	**3,025**
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	**784**	**670**	**669**	**723**	**1,301**	**1,741**	**2,682**	**2,155**	**3,025**
Total Tax	257	149	59	-7	-310	60	-39	216	605
Tax Rate (%)	32.7	22.2	8.8	-1.0	-23.8	3.4	-1.5	10.0	20.0
Minority Interest	0	0	0	0	0	0	0	0	0
Reported PAT	**528**	**521**	**610**	**730**	**1,611**	**1,681**	**2,721**	**1,940**	**2,420**
Adjusted PAT	**528**	**521**	**610**	**730**	**1,611**	**1,681**	**2,721**	**1,940**	**2,420**
Change (%)	-13.6	-1.2	17.0	19.7	120.7	4.3	61.8	-28.7	24.8
Margin (%)	7.0	7.5	7.3	8.3	17.9	10.9	14.1	9.6	8.6

Standalone - Balance Sheet									(INR m)
Y/E March	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Equity Share Capital	281	281	281	281	281	281	281	281	281
Total Reserves	3,787	4,275	4,852	5,411	6,988	8,674	11,297	13,124	15,511
Net Worth	**4,068**	**4,557**	**5,133**	**5,692**	**7,270**	**8,955**	**11,578**	**13,405**	**15,792**
Total Loans	499	710	908	964	1,168	1,303	2,119	2,201	2,201
Deferred Tax Liabilities	7	-36	-118	-239	-276	-432	-1,408	-2,382	-2,382
Capital Employed	**4,574**	**5,231**	**5,923**	**6,417**	**8,162**	**9,827**	**12,290**	**13,224**	**15,612**
Gross Block	4,736	5,083	5,252	5,482	5,784	7,236	8,236	9,236	10,236
Less: Accum. Deprn.	1,637	2,181	2,615	3,239	3,375	4,014	5,355	6,578	7,941
Net Fixed Assets	**3,098**	**2,901**	**2,637**	**2,243**	**2,409**	**3,222**	**3,936**	**2,657**	**2,294**
Capital WIP	4	39	3	26	59	15	0	0	0
Total Investments	**546**	**483**	**400**	**315**	**434**	**5,351**	**5,180**	**5,430**	**5,680**
Curr. Assets, Loans&Adv.	**4,510**	**6,081**	**6,386**	**7,211**	**9,603**	**7,158**	**8,933**	**12,578**	**17,080**
Inventory	268	297	341	359	353	574	712	998	1,403
Account Receivables	934	1,213	1,171	1,765	1,294	1,640	2,320	3,606	5,072
Cash and Bank Balance	85	72	112	157	161	246	438	3,645	4,717
Loans and Advances	3,223	4,499	4,763	4,930	7,794	4,698	5,463	4,329	5,889
Curr. Liability & Prov.	**3,585**	**4,274**	**3,505**	**3,379**	**4,343**	**5,920**	**5,962**	**7,441**	**9,443**
Account Payables	1,020	1,063	786	705	1,121	1,427	2,184	1,641	2,281
Other Current Liabilities	1,664	2,118	2,282	2,365	2,690	2,127	3,391	3,399	4,761
Provisions	900	1,093	437	309	532	2,366	184	2,401	2,401
Net Current Assets	**925**	**1,808**	**2,881**	**3,832**	**5,259**	**1,238**	**3,174**	**5,137**	**7,637**
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	**4,574**	**5,231**	**5,922**	**6,417**	**8,162**	**9,827**	**12,290**	**13,224**	**15,612**

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)									
EPS	**3.8**	**3.7**	**4.3**	**5.2**	**11.5**	**12.0**	**19.4**	**13.8**	**17.2**
Cash EPS	7.4	7.7	8.4	9.0	14.5	16.5	28.9	22.5	26.9
BV/Share	28.9	32.4	36.5	40.5	51.7	63.7	82.3	95.3	112.3
DPS	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Payout (%)	6.2	6.3	5.4	4.5	2.0	1.9	1.2	1.7	1.4
Valuation (x)									
P/E				43.5	19.7	18.9	11.7	16.4	13.1
Cash P/E				25.0	15.6	13.7	7.8	10.0	8.4
P/BV				5.6	4.4	3.5	2.7	2.4	2.0
EV/Sales				3.7	3.6	2.1	1.7	1.5	1.0
EV/EBITDA				25.8	21.1	14.3	8.7	9.3	6.9
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FCF per share	1.0	-8.2	7.7	2.8	0.6	36.5	0.3	26.3	11.8
Return Ratios (%)									
RoE	13.8	12.1	12.6	13.5	24.9	20.7	26.5	15.5	16.6
RoCE	12.1	12.7	11.9	10.7	15.1	16.8	19.5	13.3	15.9
RoIC	14.8	11.3	10.9	10.2	13.4	22.6	37.0	30.0	49.2
Working Capital Ratios									
Fixed Asset Turnover (x)	1.6	1.4	1.6	1.6	1.6	2.1	2.3	2.2	2.7
Asset Turnover (x)	1.7	1.3	1.4	1.4	1.1	1.6	1.6	1.5	1.8
Inventory (Days)	13	16	15	15	14	14	13	18	18
Debtor (Days)	45	64	51	74	52	39	44	65	66
Creditor (Days)	49	56	34	29	45	34	41	30	30
Leverage Ratio (x)									
Current Ratio	1.3	1.4	1.8	2.1	2.2	1.2	1.5	1.7	1.8
Interest Cover Ratio	9.1	5.4	4.0	5.9	8.9	7.6	10.9	7.1	9.3
Net Debt/Equity	0.0	0.0	0.1	0.1	0.1	0.1	0.1	-0.1	-0.2

Standalone - Cash Flow Statement **(INR m)**

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	784	670	669	723	1,301	1,632	2,682	2,155	3,025
Depreciation	514	557	572	541	431	639	1,341	1,223	1,363
Interest & Finance Charges	110	112	175	128	126	219	231	286	308
Direct Taxes Paid	-414	-266	-235	-251	-22	-60	39	-216	-605
(Inc)/Dec in WC	-149	-1,838	165	-516	-1,423	4,108	-3,269	1,243	-1,429
CF from Operations	**844**	**-764**	**1,345**	**624**	**414**	**6,538**	**1,025**	**4,693**	**2,662**
Others	-14	-6	-13	47	0	0	0	0	0
CF from Operating incl EO	**830**	**-770**	**1,332**	**671**	**414**	**6,538**	**1,025**	**4,693**	**2,662**
(Inc)/Dec in FA	-688	-383	-252	-272	-334	-1,408	-985	-1,000	-1,000
Free Cash Flow	**142**	**-1,153**	**1,081**	**400**	**80**	**5,130**	**40**	**3,693**	**1,662**
(Pur)/Sale of Investments	187	71	52	52	-119	-4,917	171	-250	-250
Others	-85	-269	-599	-30	-2	64	0	0	0
CF from Investments	**-585**	**-581**	**-799**	**-250**	**-455**	**-6,261**	**-813**	**-1,250**	**-1,250**
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-197	155	197	56	204	136	815	82	0
Interest Paid	-110	-112	-172	-130	-126	-219	-231	-286	-308
Dividend Paid	-65	-33	-33	-33	-33	0	0	-33	-33
Others	-344	556	-517	-302	0	0	-603	0	0
CF from Fin. Activity	-717	566	-524	-409	45	-83	-19	-236	-341
Inc/Dec of Cash	**49**	**-12**	**40**	**45**	**4**	**85**	**193**	**3,206**	**1,072**
Opening Balance	36	85	72	112	157	161	246	439	3,645
Closing Balance	**85**	**72**	**112**	**157**	**161**	**246**	**439**	**3,645**	**4,717**

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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Analyst ownership of the stock	No

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