

Spike in execution in FY20E

KNR's revenue grew 5.8% YoY in Q2FY19 to ₹4.2bn (18.1% above estimates) led by robust execution. EBITDA margin down 100 bps YoY to 20.0% (319 bps above estimates) due to higher other expenses and employee costs which was partially offset by lower construction costs by 67 bps YoY to 63.2% of revenue. Reported PAT down 23.8% YoY to ₹450 mn (122.2% above estimates) due to muted operating performance coupled with higher depreciation and higher interest expense which was partially offset by rise in other income.

Win of 5 HAM leads to ₹58.1 bn order book (2.9x TTM revenue)

KNR received fresh inflow of ₹5.6 bn / ₹17.6 bn during FY18/ FY17. KNR bagged 5 HAM projects worth ₹56.1 bn (EPC cost ₹39.7bn) during Mar-Apr'18, taking the order book to ₹58.1 bn from ₹18.3 bn (Q2FY19) providing revenue visibility for 2.9x TTM revenue. Being a well-experienced EPC player, we expect it to benefit from the ongoing opportunity. We expect a fresh order inflow of ₹25 bn/ ₹30bn in FY19E/ FY20E. The management expects order inflow of ₹20-25bn in 2HFY19E.

Outlook and Valuation

We downgrade our revenue estimates by 6.0%/ 7.1% for FY19E/ FY20E due to delay in receiving appointed date for HAM projects. We upgrade/maintain our FY19E/ FY20E EBITDA margins by 109bps to 17.9%/ 16% on the back of H1FY19 results. We factor 15% tax rate for FY19E vs. 18% earlier. Accordingly, we upgrade/ downgrade our PAT estimates for FY19E/ FY20E by 3.4%/ 7.7%. We estimate revenue growth of 10.7%/ 42.2% in FY19E/ FY20E. Our revenue estimates of ₹21.4 bn/ ₹30.4 bn for FY19E/ FY20E are much higher than management guidance of ₹18-20bn/ ₹23bn+, respectively.

Though stock has corrected ~45% in last 1 year, the upside potential likely to remain restricted in near term as we expect ~35% de-growth in PAT in H2FY19E. However, considering healthy return ratios, well managed balance sheet, comfortable working capital, low D:E and attractive valuations, we maintain BUY with a revised SOTP of ₹369 (Exhibit 1).

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	4,163	3,933	5.8	5,564	(25.2)
Total Expense	3,331	3,109	7.2	4,465	(25.4)
EBITDA	831	825	0.8	1,099	(24.3)
Depreciation	393	235	66.9	360	9.1
EBIT	439	590	(25.6)	739	(40.6)
Other Income	88	27	227.5	178	(50.4)
Interest	74	43	74.4	72	3.2
EBT	453	574	(25.6)	844	(46.4)
Tax	3	(17)	(115.8)	104	(97.5)
RPAT	450	591	(23.8)	740	(39.2)
APAT	450	591	(23.8)	740	(39.2)
			(bps)		(bps)
Gross Margin (%)	36.8	36.2	67	35.6	126
EBITDA Margin (%)	20.0	21.0	(100)	19.7	23
NPM (%)	10.8	15.0	(421)	13.3	(249)
Tax Rate (%)	0.6	(2.9)	350	12.3	(1176)
EBIT Margin (%)	10.5	15.0	(445)	13.3	(273)

CMP	₹ 190
Target / Upside	₹ 369 / 95%
BSE Sensex	35,145
NSE Nifty	10,583

Scrip Details

Equity / FV	₹ 281mn / ₹ 2
Market Cap	₹ 27bn
	US\$ 367mn
52-week High/Low	₹ 349/₹ 165
Avg. Volume (no)	145,466
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN

Shareholding Pattern Sep'18(%)

Promoters	55.4
MF/Banks/FIs	27.9
FII	3.4
Public / Others	13.4

Valuation (x)

	FY18A	FY19E	FY20E
P/E	10.7	12.5	9.8
EV/EBITDA	7.3	7.5	6.0
ROE (%)	26.5	16.9	18.1
RoACE (%)	21.2	13.5	14.7

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	19,317	21,387	30,410
EBITDA	3,861	3,829	4,865
PAT	2,721	2,136	2,711
EPS (₹)	17.7	15.2	19.3

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Exhibit 1: SOTP Valuation

Component	Valuation Method	₹/sh	%
Standalone cons business	16x FY20E EPS	308.5	83.6
BOT Toll project – Walayar - Vadakkancherry	1xBV	28.3	7.7
BOT Toll project – Muzzarpur - Barauni	1xBV	6.3	1.7
HAM equity investments (FY20E)	1xBV	25.9	7.0
Total		369.0	100.0
CMP		189.7	
Potential upside (%)		94.6	

Source: DART, Company

Exhibit 2: Assumption – Equity investment in HAM projects

Component (₹ bn)	FY19E	FY20E
4 NHAI HAM project		
100% equity requirement	3.89	-
51% KNR's share in equity requirement	1.98	-
Our assumption – equity investment (A)	1.98	-
KSHIP HAM project		
100% equity requirement	0.53	-
Our assumption – equity investment (B)	-	0.53
Order Inflow Assumption	25	30
50% HAM inflow	12.5	15
9% equity requirement for HAM inflow	1.13	1.35
Our assumption – equity investment (C)	-	1.13
Total Equity Investment assumption (A+B+C)	1.98	1.66

Source: DART, Company

KNR received financial sanctions for four NHAI HAM projects in H1FY19 and awaiting signing of concession agreement for KSHIP HAM.

BOT Toll project update

KNR's toll BoT project 'Walayar-Vadakkancherry' in Kerala received final 100% CoD on 31st October 2015. Toll collection during FY18/ H1FY19/ Q2FY19 stood at ₹517mn/ ₹292mn/ ₹138mn (8.4% YoY). Currently, toll collection per day is ₹1.5mn. The company infused ₹2.6bn as quasi equity in addition to ₹1.36bn equity already invested (total ₹3.97bn) and expects no further equity infusion.

The company has received 100% CoD for its Muzaffarpur-Barauni Toll project on 24th Aug'17 and toll collection started from 1st Oct'17. Toll collection during FY18/ H1FY19/ Q2FY19 stood at ₹453mn/ ₹358mn/ ₹147mn (up 79.9% YoY). Toll collection per day stood at ₹1.6mn in Q2FY19.

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.

Upside risk to our valuation

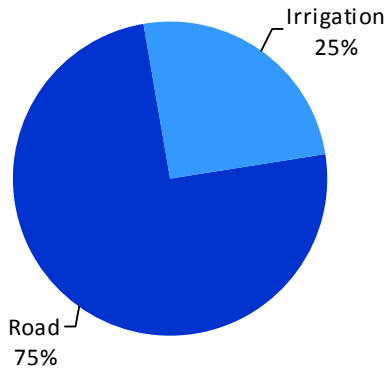
Claim receipt: We have not factored in ~₹5bn (KNR's share) various claims which if comes in its favour, can positively impact its financials.

Exhibit 3: Q2FY19 Performance (Standalone)

Particulars (₹ mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue	4,163	3,933	5.8	5,564	(25.2)	9,726	8,741	11.3
Material consumed	1,652	1,122	47.3	1,370	20.6	3,022	2,134	41.6
Sub-contractors work bills	394	451	(12.7)	399	(1.3)	792	2,061	(61.6)
Spreading & Assortment	584	939	(37.8)	1,817	(67.8)	2,401	1,756	36.7
Employees cost	249	193	29.4	196	27.2	445	341	30.7
Other expenditure	452	405	11.8	684	(33.9)	1,136	778	46.0
Total expenditure	3,331	3,109	7.2	4,465	(25.4)	7,796	7,071	10.3
EBITDA	831	825	0.8	1,099	(24.3)	1,930	1,670	15.6
Depreciation	393	235	66.9	360	9.1	753	479	57.1
Operating profit	439	590	(25.6)	739	(40.6)	1,177	1,191	(1.2)
Other income	88	27	227.5	178	(50.4)	266	149	77.8
EBIT	527	617	(14.5)	916	(42.5)	1,443	1,341	7.6
Interest	74	43	74.4	72	3.2	146	95	54.7
EBT	453	574	(21.1)	844	(46.4)	1,297	1,246	4.1
Provision for taxation	3	(17)	-	104	(97.5)	107	(20)	-
Net income	450	591	(23.8)	740	(39.2)	1,190	1,267	(6.0)
Adjustments	-	-	-	-	-	-	(236)	-
Adjusted net income	450	591	(23.8)	740	(39.2)	1,190	1,030	15.5
EPS (₹)	3.2	4.2	(23.8)	5.3	(39.2)	8.5	7.3	15.5
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	20.0	21.0	(100)	19.7	23	19.8	19.1	74
EBIDTA Margin (Incl. O.I.)	22.1	21.7	43	22.9	(85)	22.6	20.8	176
NPM (%)	10.6	14.9	(433)	12.9	(230)	11.9	11.6	32
Tax/PBT (%)	0.6	(2.9)	350	12.3	(1176)	8.2	(1.6)	988
Construction/Revenue (%)	63.2	63.8	(67)	64.4	(126)	63.9	68.1	(419)

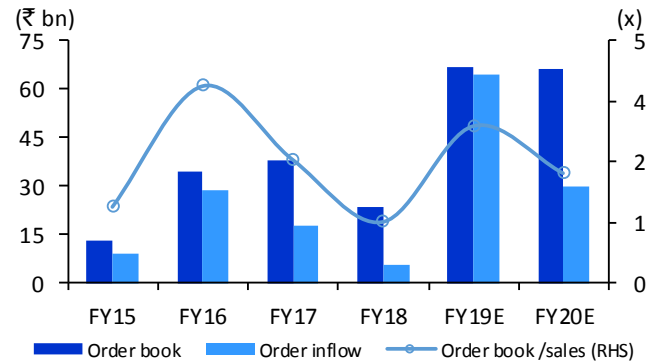
Source: Company, DART

Exhibit 1: ₹18.3 bn order book break up



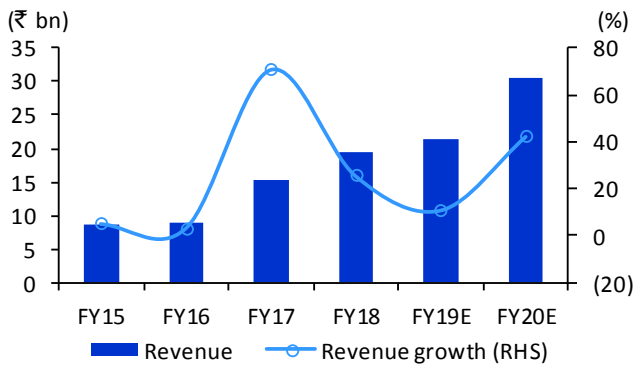
Source: DART, Company

Exhibit 2: Order book trend



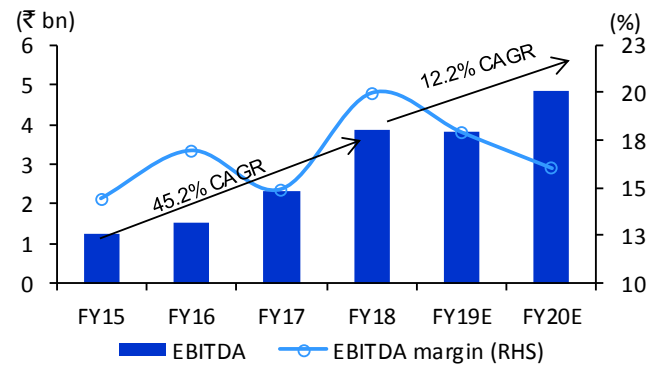
Source: DART, Company

Exhibit 3: 25.5% Revenue CAGR over FY18-20E



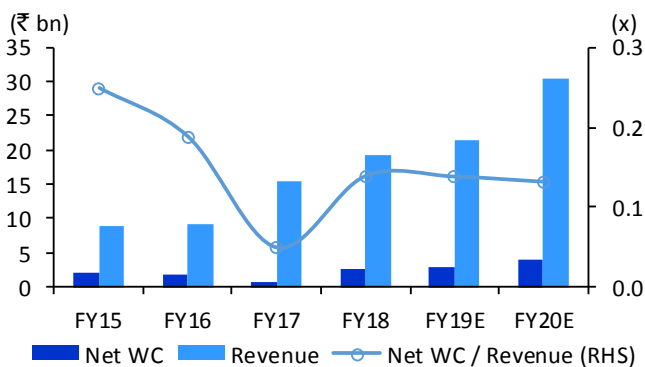
Source: DART, Company

Exhibit 4: 12.2% EBITDA CAGR over FY18-20E



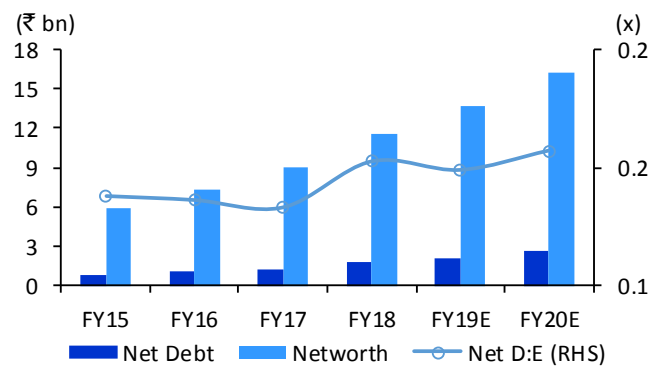
Source: DART, Company

Exhibit 5: Efficient working capital management



Source: DART, Company

Exhibit 6: One of the lowest net D:E in the sector



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	15,411	19,317	22,093	30,481
Total Expense	13,115	15,455	18,138	25,605
COGS	11,145	12,854	14,542	20,767
Employees Cost	552	721	945	1,181
Other expenses	1,417	1,880	2,651	3,658
EBIDTA	2,296	3,861	3,956	4,876
Depreciation	639	1,341	1,428	1,070
EBIT	1,657	2,520	2,527	3,806
Interest	219	231	290	305
Other Income	303	393	402	442
Exc. / E.O. items	(109)	0	0	0
EBT	1,632	2,682	2,639	3,943
Tax	60	(39)	474	1,224
RPAT	1,573	2,721	2,165	2,719
APAT	1,681	2,486	2,165	2,719

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	281	281	281	281
Minority Interest	0	0	0	0
Reserves & Surplus	8,674	11,297	13,395	16,046
Net Worth	8,955	11,578	13,676	16,327
Total Debt	1,441	2,204	2,892	2,820
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	10,395	13,782	16,568	19,147

Applications of Funds

Net Block	3,222	3,936	4,012	4,443
CWIP	15	0	0	0
Investments	4,797	5,100	7,344	8,735
Current Assets, Loans & Advances	8,145	10,623	11,437	14,849
Inventories	574	712	907	1,280
Receivables	1,640	2,320	2,209	3,048
Cash and Bank Balances	246	438	612	367
Loans and Advances	349	279	326	487
Other Current Assets	4,783	6,617	7,382	9,667
Less: Current Liabilities & Provisions	5,784	5,876	6,225	8,879
Payables	1,427	2,184	1,923	2,714
Other Current Liabilities	4,357	3,692	4,302	6,165
Net Current Assets	2,361	4,746	5,212	5,970
Total Assets	10,395	13,782	16,568	19,148

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	27.7	33.5	34.3	31.9
EBIDTA Margin	14.9	20.0	17.9	16.0
EBIT Margin	10.8	13.0	11.2	12.5
Tax rate	3.7	(1.5)	15.0	31.0
Net Profit Margin	10.2	14.1	10.0	8.9
(B) As Percentage of Net Sales (%)				
COGS	72.3	66.5	65.7	68.1
Employee	3.6	3.7	4.4	3.9
Other	9.2	9.7	12.0	12.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	7.6	10.9	8.3	12.4
Inventory days	14	13	15	15
Debtors days	39	44	37	37
Average Cost of Debt	16.8	12.7	11.4	10.7
Payable days	34	41	32	33
Working Capital days	56	90	93	71
FA T/O	4.8	4.9	5.3	6.8
(D) Measures of Investment				
AEPS (₹)	12.0	17.7	15.2	19.3
CEPS (₹)	16.5	27.2	25.3	26.9
DPS (₹)	0.0	0.6	0.5	0.5
Dividend Payout (%)	0.0	3.4	3.2	2.5
BVPS (₹)	63.7	82.3	97.1	115.9
RoANW (%)	19.3	26.5	16.9	18.1
RoACE (%)	16.9	21.2	13.5	14.7
RoAIC (%)	17.9	21.5	16.5	22.0
(E) Valuation Ratios				
CMP (₹)	190	190	190	190
P/E	15.9	10.7	12.5	9.8
Mcap (₹ Mn)	26,668	26,668	26,668	26,668
MCap/ Sales	1.7	1.4	1.2	0.9
EV	27,309	28,177	28,700	29,225
EV/Sales	1.8	1.5	1.3	1.0
EV/EBITDA	11.9	7.3	7.5	6.0
P/BV	3.0	2.3	2.0	1.6
Dividend Yield (%)	0.0	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	70.7	25.3	10.7	42.2
EBITDA	50.1	68.2	(0.8)	27.1
EBIT	49.8	52.1	(4.7)	58.1
PBT	26.4	64.3	(6.3)	56.5
APAT	76.7	47.9	(14.1)	26.9
EPS	76.7	47.9	(14.1)	26.9
Cash Flow				
(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	3,165	1,568	3,220	2,928
CFI	(3,133)	(1,866)	(2,972)	(3,102)
CFF	53	490	174	(423)
FCFF	1,782	(440)	1,720	1,428
Opening Cash	161	246	438	860
Closing Cash	246	438	860	263

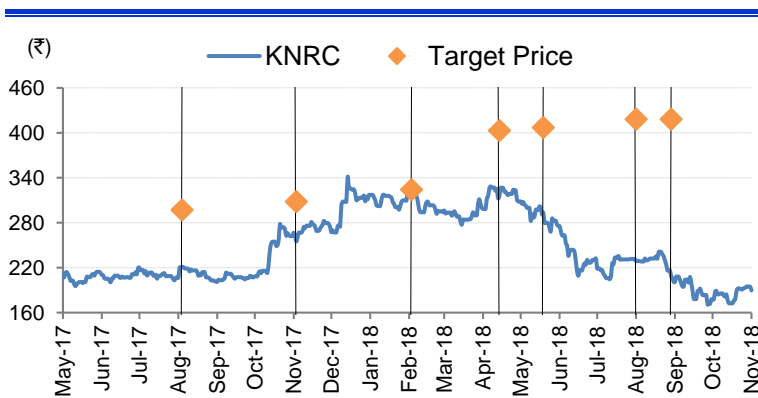
E – Estimates

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 (₹)*
Aug-17	Buy	297	221
Nov-17	Buy	308	255
Feb-18	Accumulate	324	322
Apr-18	Buy	403	316
May-18	Buy	407	293
Aug-18	Buy	418	229
Sep-18	Buy	418	208

*Price as on Recommendation Date

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