

View: Spike in execution in FY20E, maintain Buy

We downgrade our revenue estimates by 5.6%/ 13.7% for FY19E/ FY20E due to delay in receiving appointed date for 5 HAM projects. We upgrade/maintain our FY19E/ FY20E EBITDA margins by 115bps to 19.1%/ 16% on the back of 9MFY19 results. We factor 11.6% tax rate for FY19E vs. 15% earlier. Accordingly, we upgrade/ downgrade our PAT estimates for FY19E/ FY20E by 4.3%/ 18.0%. We estimate revenue growth of 4.5%/ 30.1%/ 19.8% in FY19E/ FY20E/ FY21E. Our revenue estimates of ₹20.2 bn/ ₹26.3 bn for FY19E/ FY20E are higher than management guidance of ₹18-19bn/ ₹23-24bn, respectively.

Though stock has corrected ~29% during YTD FY19, the upside potential likely to remain restricted in near term as we expect ~35%/ ~0.2% de-growth in PAT in Q4FY19E/ FY20E. However, considering healthy return ratios, well managed balance sheet, comfortable working capital, low D:E and quality management, we maintain BUY with a revised SOTP of ₹250 (Exhibit 1).

Muted quarter

KNR's revenue up 3.6% YoY in Q3FY19 to ₹4.5 bn (8.7% below estimates) due to lower executable order book. EBITDA margin down 264 bps YoY to 20.1% (261 bps above estimates) due to higher other expenses and employee costs which was partially offset by lower construction costs. Reported PAT down 20.7% YoY to ₹521 mn (15.2% above estimates) due to muted operating performance coupled with higher depreciation, higher interest expense and higher tax expense at 12.5% vs. (5.2%) which was partially offset by rise in other income (includes ₹110 mn write back).

Win of 5 HAM leads to ₹55.2 bn order book (2.7x TTM revenue)

KNR bagged 5 HAM projects worth ₹56.1 bn (EPC cost ₹39.7bn) during Mar-Apr'18, taking the order book to ₹55.2 bn from ₹15.4 bn (Q3FY19) providing revenue visibility for 2.7x TTM revenue. We expect a fresh order inflow of ₹10 bn/ ₹30 bn/ ₹30 bn in Q4FY19E/ FY20E/ FY21E. KNR has bid for 2 HAM projects worth ₹10 bn where the bid is not yet opened. The management expects order inflow of ₹20 bn in next 3-6 months.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	4,489	4,332	3.6	4,163	7.8
Total Expense	3,588	3,348	7.2	3,331	7.7
EBITDA	901	984	(8.4)	831	8.4
Depreciation	450	371	21.2	393	14.6
EBIT	451	612	(26.3)	439	2.8
Other Income	217	61	256.2	88	145.9
Interest	73	49	48.1	74	(2.3)
EBT	595	624	(26.3)	453	31.5
Tax	74	(33)	(327.3)	3	2709.4
RPAT	521	657	(20.7)	450	15.8
APAT	521	657	(20.7)	450	15.8
			(bps)		(bps)
Gross Margin (%)	37.5	35.8	176	36.8	72
EBITDA Margin (%)	20.1	22.7	(264)	20.0	10
NPM (%)	11.6	15.2	(356)	10.8	80
Tax Rate (%)	12.5	(5.2)	1770	0.6	1188
EBIT Margin (%)	10.1	14.1	(409)	10.5	(49)

CMP	₹ 200
Target / Upside	₹ 250 / 25%
BSE Sensex	36,154
NSE Nifty	10,831

Script Details

Equity / FV	₹ 281mn / ₹ 2
Market Cap	₹ 28bn
	US\$ 398mn
52-week High/Low	₹ 340/₹ 165
Avg. Volume (no)	98,211
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN

Shareholding Pattern Dec'18(%)

Promoters	55.4
MF/Banks/FIs	28.7
FII	3.0
Public / Others	12.9

Valuation (x)

	FY19E	FY20E	FY21E
P/E	12.6	12.7	10.9
EV/EBITDA	7.5	6.8	5.5
ROE (%)	17.6	15.0	15.1
RoACE (%)	16.7	14.4	14.6

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	20,192	26,259	31,459
EBITDA	3,847	4,202	5,051
PAT	2,228	2,223	2,593
EPS (₹)	15.8	15.8	18.4

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Exhibit 1: SOTP Valuation

Component	Valuation Method	₹/sh	%
Standalone cons business	10x FY21E EPS	184.4	73.7
BOT Toll project – Walayar - Vadakkancherry	1xBV	28.3	11.3
BOT Toll project – Muzzarpur - Barauni	1xBV	6.3	2.5
HAM equity investments (FY21E)	1.5xBV	31.2	12.5
Total		250.2	100.0
CMP		200.2	
Potential upside (%)		25.0	

Source: DART, Company

Exhibit 2: Assumption – Equity investment in HAM projects

Component (₹ bn)	FY19E	FY20E	FY21E
4 NHAI HAM project			
100% equity requirement	3.89	-	-
51% KNR's share in equity requirement	1.98	-	-
Our assumption – equity investment (A)	0.73	1.26	-
KSHIP HAM project			
100% equity requirement	0.53	-	-
Our assumption – equity investment (B)	-	0.27	0.27
Order Inflow Assumption	-	30	30
30% HAM inflow	-	-	9.0
9% equity requirement for HAM inflow	-	-	0.81
Our assumption – equity investment (C)	-	-	0.41
Total Equity Investment assumption (A+B+C)	0.73	1.53	0.68

Source: DART, Company

Sale of 4 HAM projects to Cube Highways

KNR received appointed date for Chittor-Malavaram and achieved financial closure for 3 NHAI HAM projects (Meensurutti-Chidambaram, Ramsanpalle-Mangloor and Tiruchirapalli-Kallagam). KNR expects appointed date for 2 HAM in Feb'19 and remaining one in Mar-Apr'19. KSHIP HAM (Magadi-Somwarpeth) concession agreement is signed on 18 Jan'19.

KNR has also entered into share purchase agreement with Cube highways for 3 HAM projects wherein KNR will receive ₹2.6 bn against its equity investment of ₹1.45 bn (51% share). The average deal valuation works out at 1.8x P/B. Cube Highways will be investing 49% equity (₹1.4 bn) out of total requirement of ₹2.85 bn during construction period. On achieving CoD, Cube Highways will acquire 25% equity stake out of 51% from KNR and will acquire remaining 26% after expiry of lock in period (~2 years) post CoD. Thus, acquiring 100% stake from KNR. KNR and Cube Highways will be executing similar deal for 4th NHAI HAM project (Ramsanpalle-Mangloor).

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/ 9MFY19/ Q3FY19 stood at ₹517mn/ ₹512mn/ ₹163mn (22.4% YoY). Currently, toll collection per day is ₹1.77mn. 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/ 9MFY19/ Q3FY19 stood at ₹453mn/ ₹515mn/ ₹181mn (up 54.7% YoY). Toll collection per day stood at ₹1.97mn in Q3FY19.

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

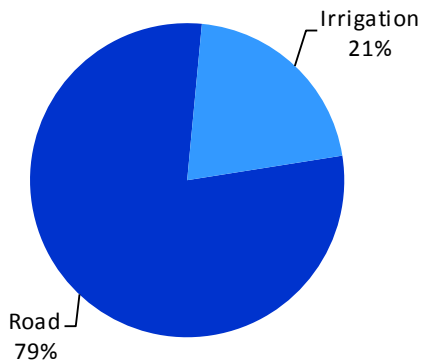
Claim receipt: We have not factored in ~₹5bn (KNR's share) various claims which if comes in its favour, can positively impact its financials.

Exhibit 3: Q3FY19 Performance (Standalone)

Particulars (₹ mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	9MFY19	9MFY18	YoY (%)
Revenue	4,489	4,332	3.6	4,163	7.8	14,215	13,073	8.7
Material consumed	1,480	1,276	16.0	1,652	(10.4)	4,502	3,411	32.0
Sub-contractors work bills	453	879	(48.5)	394	15.1	1,245	2,940	(57.6)
Spreading & Assortment	870	627	38.9	584	49.0	3,271	2,383	37.3
Employees cost	236	181	30.4	249	(5.5)	681	521	30.6
Other expenditure	549	385	42.3	452	21.3	1,685	1,163	44.8
Total expenditure	3,588	3,348	7.2	3,331	7.7	11,384	10,419	9.3
EBITDA	901	984	(8.4)	831	8.4	2,831	2,654	6.7
Depreciation	450	371	21.2	393	14.6	1,203	850	41.4
Operating profit	451	612	(26.3)	439	2.8	1,629	1,804	(9.7)
Other income	217	61	256.2	88	145.9	482	210	129.4
EBIT	668	673	(0.8)	527	26.7	2,111	2,014	4.8
Interest	73	49	48.1	74	(2.3)	219	144	52.4
EBT	595	624	(4.6)	453	31.5	1,892	1,870	1.2
Provision for taxation	74	(33)	-	3	2,709.4	181	(53)	-
Net income	521	657	(20.7)	450	15.8	1,711	1,923	(11.0)
Adjustments	-	-	-	-	-	-	(236)	-
Adjusted net income	521	657	(20.7)	450	15.8	1,711	1,687	1.4
EPS (₹)	3.7	4.7	(20.7)	3.2	15.8	12.2	12.0	1.4
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	20.1	22.7	(264)	20.0	10	19.9	20.3	(39)
EBIDTA Margin (Incl. O.I.)	24.9	24.1	79	22.1	281	23.3	21.9	140
NPM (%)	11.1	15.0	(388)	10.6	49	11.6	12.7	(106)
Tax/PBT (%)	12.5	(5.2)	1,770	0.6	1,188	9.6	(2.8)	1,241
Construction/Revenue (%)	62.5	64.2	(176)	63.2	(72)	63.4	66.8	(337)

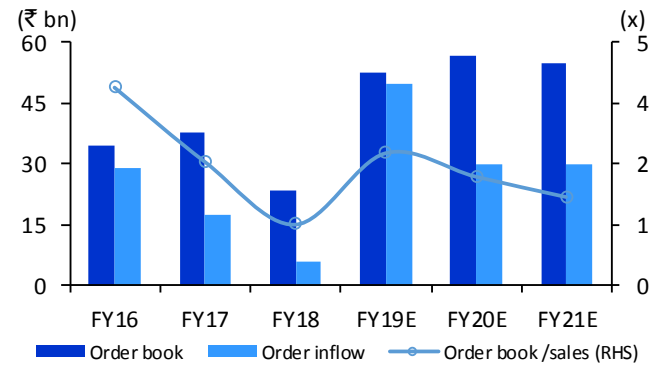
Source: Company, DART

Exhibit 4: ₹15.4 bn order book break up



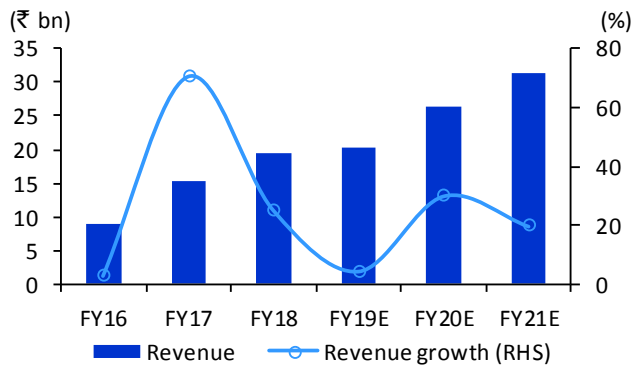
Source: DART, Company

Exhibit 5: Order book trend



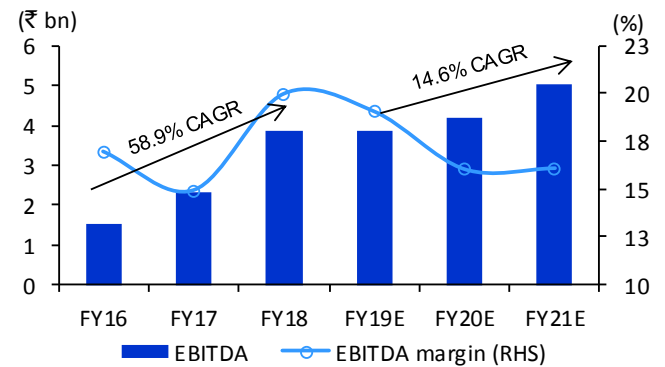
Source: DART, Company

Exhibit 6: 24.8% Revenue CAGR over FY19E-21E



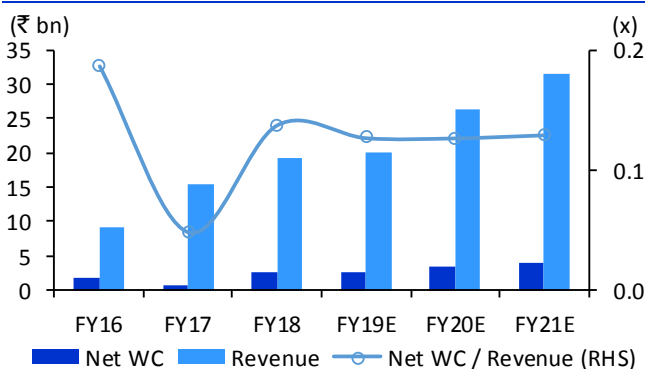
Source: DART, Company

Exhibit 7: 14.6% EBITDA CAGR over FY19E-21E



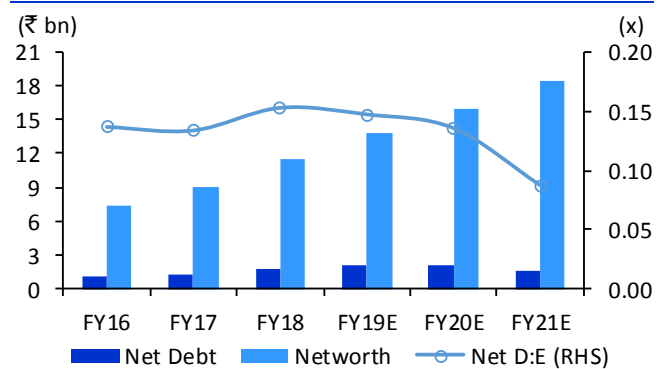
Source: DART, Company

Exhibit 8: Efficient working capital management



Source: DART, Company

Exhibit 9: One of the lowest net D:E in the sector



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	19,317	20,192	26,259	31,459
Total Expense	15,455	16,345	22,057	26,408
COGS	12,854	12,977	17,678	21,159
Employees Cost	721	945	1,228	1,474
Other expenses	1,880	2,423	3,151	3,775
EBIDTA	3,861	3,847	4,202	5,051
Depreciation	1,341	1,606	1,407	1,528
EBIT	2,520	2,241	2,795	3,523
Interest	231	300	305	285
Other Income	393	580	522	522
Exc. / E.O. items	0	0	0	0
EBT	2,682	2,521	3,012	3,760
Tax	(39)	293	789	1,167
RPAT	2,721	2,228	2,223	2,593
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,486	2,228	2,223	2,593

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	281	281	281	281
Minority Interest	0	0	0	0
Reserves & Surplus	11,297	13,457	15,613	18,138
Net Worth	11,578	13,738	15,894	18,419
Total Debt	2,204	2,670	2,820	2,300
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	13,782	16,408	18,714	20,719

Applications of Funds

Net Block	3,936	4,335	4,228	4,199
CWIP	0	0	0	0
Investments	5,100	5,827	7,352	8,023
Current Assets, Loans & Advances	10,623	11,805	14,697	17,853
Inventories	712	981	1,323	1,584
Receivables	2,320	1,615	2,101	2,517
Cash and Bank Balances	438	652	669	694
Loans and Advances	279	294	419	502
Other Current Assets	6,617	6,803	8,645	10,456
Less: Current Liabilities & Provisions	5,876	5,558	7,562	9,357
Payables	2,184	1,733	2,338	2,799
Other Current Liabilities	3,692	3,825	5,224	6,558
Net Current Assets	4,746	6,247	7,135	8,496
Total Assets	13,782	16,408	18,714	20,719

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	33.5	35.7	32.7	32.7
EBIDTA Margin	20.0	19.1	16.0	16.1
EBIT Margin	13.0	11.1	10.6	11.2
Tax rate	(1.5)	11.6	26.2	31.0
Net Profit Margin	14.1	11.0	8.5	8.2
(B) As Percentage of Net Sales (%)				
COGS	66.5	64.3	67.3	67.3
Employee	3.7	4.7	4.7	4.7
Other	9.7	12.0	12.0	12.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.1
Interest Coverage	10.9	7.5	9.2	12.4
Inventory days	13	18	18	18
Debtors days	44	29	29	29
Average Cost of Debt	12.7	12.3	11.1	11.1
Payable days	41	31	32	32
Working Capital days	90	113	99	99
FA T/O	4.9	4.7	6.2	7.5
(D) Measures of Investment				
AEPS (₹)	17.7	15.8	15.8	18.4
CEPS (₹)	27.2	27.3	25.8	29.3
DPS (₹)	0.6	0.5	0.5	0.5
Dividend Payout (%)	3.4	3.0	3.0	2.6
BVPS (₹)	82.3	97.7	113.0	131.0
RoANW (%)	26.5	17.6	15.0	15.1
RoACE (%)	24.4	16.7	14.4	14.6
RoAIC (%)	21.5	15.4	16.5	18.5
(E) Valuation Ratios				
CMP (₹)	200	200	200	200
P/E	11.3	12.6	12.7	10.9
Mcap (₹ Mn)	28,145	28,145	28,145	28,145
MCap/ Sales	1.5	1.4	1.1	0.9
EV	29,654	28,703	28,756	27,651
EV/Sales	1.5	1.4	1.1	0.9
EV/EBITDA	7.7	7.5	6.8	5.5
P/BV	2.4	2.0	1.8	1.5
Dividend Yield (%)	0.3	0.2	0.2	0.2
(F) Growth Rate (%)				
Revenue	25.3	4.5	30.1	19.8
EBITDA	68.2	(0.4)	9.2	20.2
EBIT	52.1	(11.1)	24.7	26.0
PBT	64.3	(6.0)	19.5	24.8
APAT	47.9	(10.4)	(0.2)	16.6
EPS	47.9	(10.4)	(0.2)	16.6
Cash Flow				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	1,568	3,671	2,883	3,135
CFI	(1,866)	(3,422)	(2,643)	(2,458)
CFF	490	(36)	(223)	(653)
FCFF	(440)	1,671	1,583	1,635
Opening Cash	246	438	652	669
Closing Cash	438	652	669	694

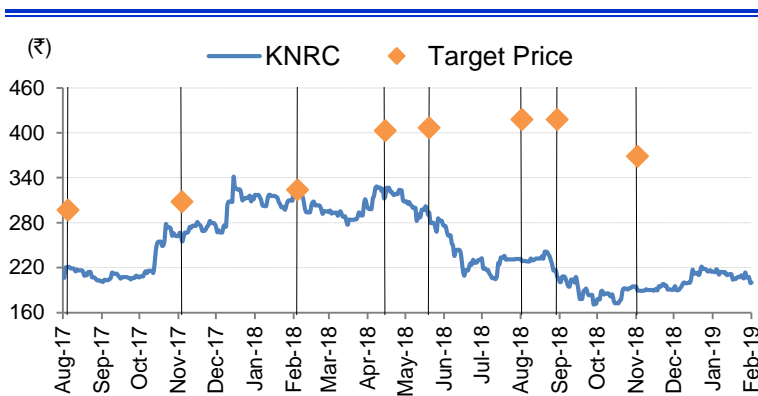
E – Estimates

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
Nov-18	Buy	369	190

*Price as on recommendation date

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