

KNR Constructions (KNRC IN)

Rating: BUY | CMP: Rs278 | TP: Rs304

January 10, 2020

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	304		304	
Sales (Rs. m)	30,333	35,642	30,333	35,642
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,732	5,560	4,732	5,560
% Chng.	-	-	-	-
EPS (Rs.)	16.8	20.6	16.8	20.6
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	21,373	23,386	30,333	35,642
EBITDA (Rs. m)	4,270	3,976	4,732	5,560
Margin (%)	20.0	17.0	15.6	15.6
PAT (Rs. m)	2,658	1,926	2,363	2,894
EPS (Rs.)	18.9	13.7	16.8	20.6
Gr. (%)	(2.3)	(27.6)	22.7	22.5
DPS (Rs.)	0.5	0.4	0.4	0.5
Yield (%)	0.2	0.1	0.2	0.2
RoE (%)	20.7	12.8	13.8	14.7
RoCE (%)	16.4	11.6	13.1	14.0
EV/Sales (x)	1.9	1.8	1.4	1.2
EV/EBITDA (x)	9.7	10.5	8.8	7.5
PE (x)	14.7	20.3	16.6	13.5
P/BV (x)	2.8	2.4	2.1	1.9

Key Data

KNRL.BO | KNRC IN

52-W High / Low	Rs.303 / Rs.187
Sensex / Nifty	41,600 / 12,257
Market Cap	Rs.39bn/ \$ 552m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.85.46m

Shareholding Pattern (%)

Promoter's	55.17
Foreign	3.15
Domestic Institution	30.17
Public & Others	11.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	22.8	2.6	28.5
Relative	18.8	(4.9)	11.5

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Stake sale strengthens the Balance Sheet further

KNR Constructions has entered into an agreement with Cube Highways to sell its entire stake in KNR Walayar Tollways BOT project for Rs5,292.7mn

Details of the transaction:

- The project is operational with total project cost of Rs9,005.1mn and has a concession period of 20 years.
- The project has received a COD on 31st Oct'15 (early completion bonus as well) and has witnessed toll revenues of Rs167.7mn in Q2FY20 and Rs338.5mn H1FY20.
- The company has entered into an **agreement to sell its 100% stake in KNR Walayar Tollways BOT project for Rs5,292.7mn to Cube Highways. The company has invested equity of ~Rs3,974mn (includes additional quasi equity of Rs2,615mn towards repayment of loans)** as on 2QFY20 and with enterprise value of the transaction at Rs5292.7mn, **valuation of the asset stands at P/BV of ~1x (which is reasonable).**
- However, **for any incremental claims or arbitration awards from NHAI and other governmental agencies, KNR would be entitled for the same when realised.**
- Management expects the transaction to complete within 2-3 months' subject to approvals.

Exhibit 1: Details of the transaction

Particulars	
Project Cost (Rs mn)	9,005.1
Concession Start Date	18-May-13
Concession End Date	17-May-33
Equity 30-Sep-19 (Rs mn)	3,974.1
Debt 30-Sep-19 (Rs mn)	1,430.9
Implied P/BV	~1x
Toll Revenue (Rs mn)	Q2FY20: 167.7 H1FY20: 338.5

Source: Company, PL

Our View: We believe this development is positive for the company, as it will further strengthen its balance sheet. KNR remains strong in fundamentals backed by strong execution capabilities, healthy operating margins and industry best working capital cycle. KNRC order book stands healthy at ~4x TTM revenues giving us comfortable revenue visibility for next 2-3 years. We expect KNRC to post a revenue/EBITDA CAGR of 19%/9% over FY19-FY22E supported by ramp ups from the existing order book. We maintain **BUY rating with a SOTP of Rs304 which includes ~Rs269 for the standalone EPC business based on 16x FY21E EPS and ~Rs35 for BOT projects based on 1x equity invested.** At the CMP, the stock trades at a P/E of 20.3x FY20E and 16.6x FY21E EPS and EV/EBITDA of 10.5x FY20E and 8.8x FY21E EBITDA.

Exhibit 2: SOTP - Valuation Summary

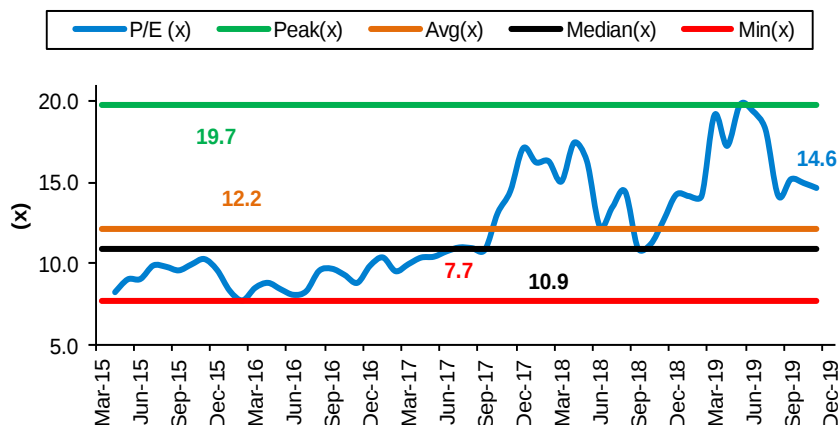
Particulars	Segment	Driver	KNR's share	Multiple	Value (Rsmn)	Value per share (Rs)	Proportionate (%) of value per share	Basis
EPC Business	Construction	2363	100	16	37801	269	89%	16 x on FY21 earnings
Walayar Vadakkancherry BOT Project	BOT	3974	100	1	3974	28	9%	Based on 1 P/B of equity
Muzzafarpur Baruani BOT	BOT	1771	51	1	903	6	2%	Based on 1 P/B of equity
Land Cost								
Total Rs mn						304		

Source: PL

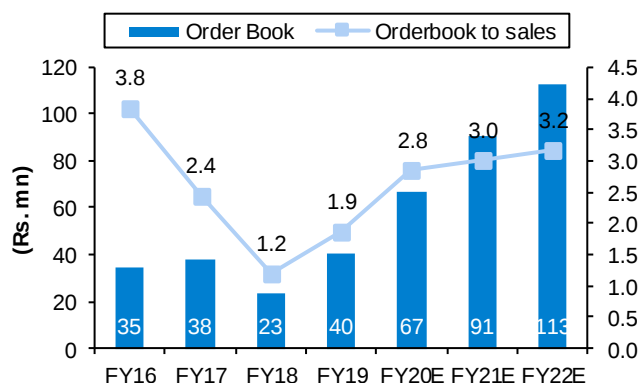
Exhibit 3: Key Projects under Execution as on Q2FY20

Project	Project Value (Rs Mn)
Hubli – Hospet Section of NH - 63	3,070
Chittor to Mallavarm Project (HAM)	8,749
Ramsanpalle to Mangloor Project (HAM)	7,279
Trichy to Kallagam Project (HAM)	6,305
Flyover at Ramanthapuram and Sungam Junction	1,918
Thiruvananthapuram Bypass	700
State Road from Gobuk – Mariyang – Sijhon Nallah in Arunachal Pradesh	530
Construction of Two Tier Flyover in Salam City	800
Dindigul-Bangalore Road (Pollachi to Coimbatore Section)	800

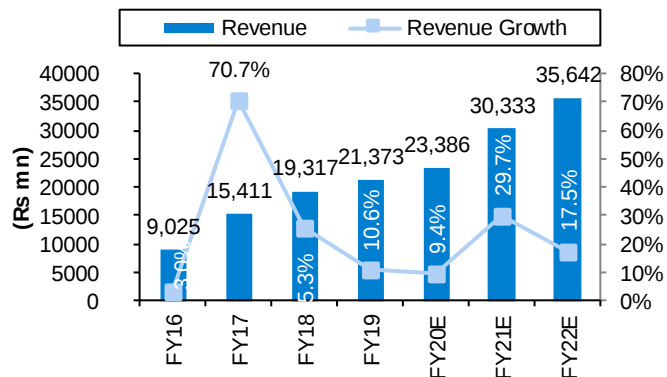
Source: Company, PL

Exhibit 4: Trading a premium to its long term average P/E


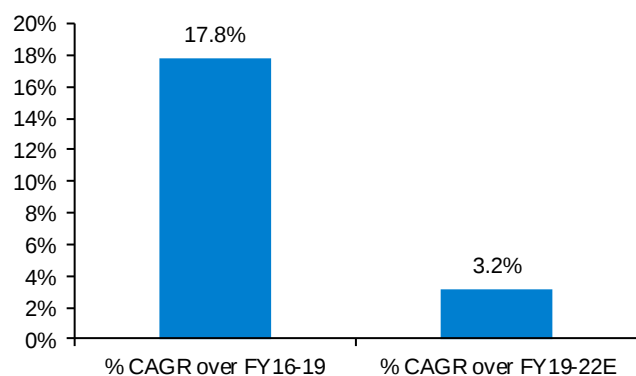
Source: Company, PL

Exhibit 5: Order book-to-sales of 2.4x TTM


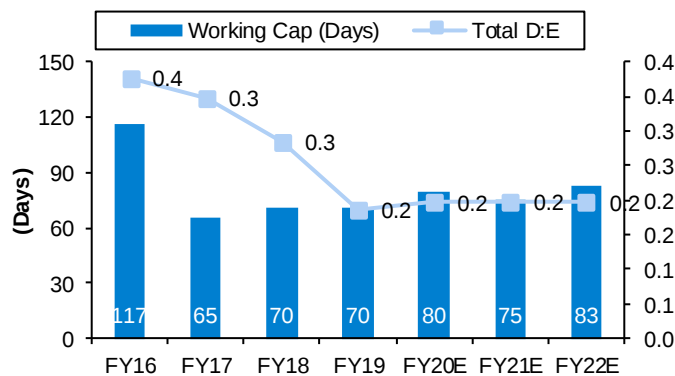
Source: Company, PL

Exhibit 6: Revenues to grow 1.7x to ~Rs36bn by FY22E


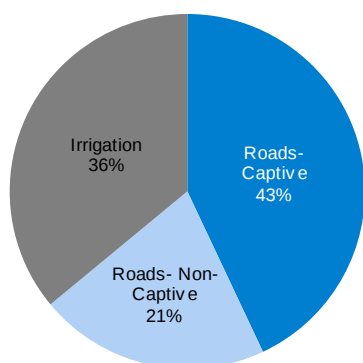
Source: Company, PL

Exhibit 7: Higher tax rate to impact PAT over FY19-22E


Source: Company, PL

Exhibit 8: Industry best working capital ratio


Source: Company, PL

Exhibit 9: Roads account for 64% of Order book


Source: Company, PL

Exhibit 10: Key Assumptions

Rs mn	FY18	FY19	FY20E	FY21E	FY22E
Order inflow	4,853	38,301	49,792	54,771	57,509
Revenues	19,317	21,373	23,386	30,333	35,642
Order book	23,227	40,156	66,561	90,999	1,12,866
Execution cycle (%)	45%	35%	26%	25%	24%
Ob to sales (x)	1.2	1.9	2.8	3.0	3.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	21,373	23,386	30,333	35,642
YoY gr. (%)	10.6	9.4	29.7	17.5
Cost of Goods Sold	6,432	7,016	9,525	11,192
Gross Profit	14,941	16,370	20,808	24,450
Margin (%)	69.9	70.0	68.6	68.6
Employee Cost	929	1,052	1,365	1,604
Other Expenses	7,987	8,887	11,527	13,544
EBITDA	4,270	3,976	4,732	5,560
YoY gr. (%)	10.6	(6.9)	19.0	17.5
Margin (%)	20.0	17.0	15.6	15.6
Depreciation and Amortization	1,681	1,893	2,048	2,265
EBIT	2,589	2,082	2,684	3,295
Margin (%)	12.1	8.9	8.8	9.2
Net Interest	291	377	437	497
Other Income	634	702	910	1,069
Profit Before Tax	2,931	2,407	3,157	3,867
Margin (%)	13.7	10.3	10.4	10.9
Total Tax	273	481	795	973
Effective tax rate (%)	9.3	20.0	25.2	25.2
Profit after tax	2,658	1,926	2,363	2,894
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,658	1,926	2,363	2,894
YoY gr. (%)	(2.3)	(27.6)	22.7	22.5
Margin (%)	12.4	8.2	7.8	8.1
Extra Ord. Income / (Exp)	(25)	-	-	-
Reported PAT	2,633	1,926	2,363	2,894
YoY gr. (%)	(3.2)	(26.9)	22.7	22.5
Margin (%)	12.3	8.2	7.8	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,633	1,926	2,363	2,894
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	18.9	13.7	16.8	20.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	10,122	12,622	14,122	15,622
Tangibles	10,122	12,622	14,122	15,622
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,412	8,305	10,353	12,618
Tangibles	6,412	8,305	10,353	12,618
Intangibles	-	-	-	-
Net fixed assets	3,710	4,317	3,769	3,004
Tangibles	3,710	4,317	3,769	3,004
Intangibles	-	-	-	-
Capital Work In Progress	0	0	0	0
Goodwill	-	-	-	-
Non-Current Investments	6,882	7,657	9,171	11,141
Net Deferred tax assets	1,739	1,739	1,739	1,739
Other Non-Current Assets	1,321	1,567	1,818	2,115
Current Assets				
Investments	247	247	247	247
Inventories	951	1,281	1,662	1,953
Trade receivables	2,344	2,563	3,324	3,906
Cash & Bank Balance	130	162	820	1,141
Other Current Assets	3,514	4,179	4,848	5,641
Total Assets	20,964	24,289	28,346	32,275
Equity				
Equity Share Capital	281	281	281	281
Other Equity	13,862	15,728	18,017	20,821
Total Network	14,143	16,009	18,298	21,102
Non-Current Liabilities				
Long Term borrowings	429	929	1,429	1,929
Provisions	-	-	-	-
Other non current liabilities	708	871	1,010	1,175
Current Liabilities				
ST Debt / Current of LT Debt	2,212	2,212	2,212	2,212
Trade payables	2,236	2,883	3,740	3,906
Other current liabilities	2,974	3,124	3,396	3,690
Total Equity & Liabilities	20,964	24,289	28,346	32,275

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	2,906	2,407	3,157	3,867
Add. Depreciation	1,681	1,893	2,048	2,265
Add. Interest	247	377	437	497
Less Financial Other Income	634	702	910	1,069
Add. Other	(303)	-	-	-
Op. profit before WC changes	4,531	4,677	5,642	6,629
Net Changes-WC	(1,505)	(970)	(1,176)	(1,791)
Direct tax	(550)	(481)	(795)	(973)
Net cash from Op. activities	2,475	3,226	3,671	3,865
Capital expenditures	(3,117)	(3,257)	(3,003)	(3,457)
Interest / Dividend Income	70	-	-	-
Others	188	-	-	-
Net Cash from Invt. activities	(2,860)	(3,257)	(3,003)	(3,457)
Issue of share cap. / premium	-	-	-	-
Debt changes	438	500	500	500
Dividend paid	(68)	(60)	(73)	(90)
Interest paid	(298)	(377)	(437)	(497)
Others	-	-	-	-
Net cash from Fin. activities	72	63	(10)	(87)
Net change in cash	(312)	32	658	322
Free Cash Flow	2,597	726	2,171	2,365

Source: Company Data, PL Research

Key Financial Metrics

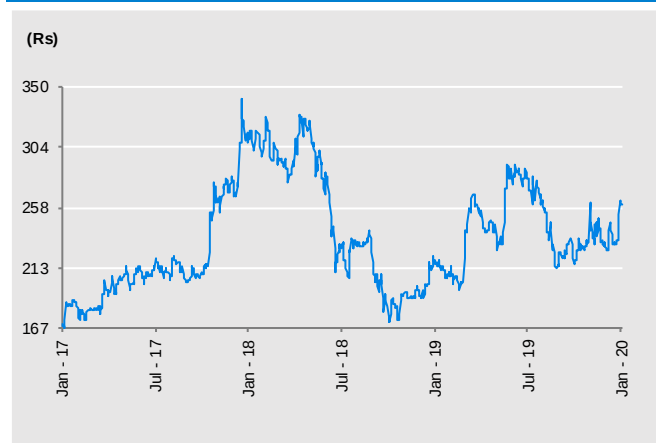
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	18.9	13.7	16.8	20.6
CEPS	30.9	27.2	31.4	36.7
BVPS	100.6	113.8	130.1	150.1
FCF	18.5	5.2	15.4	16.8
DPS	0.5	0.4	0.4	0.5
Return Ratio(%)				
RoCE	16.4	11.6	13.1	14.0
ROIC	15.2	9.5	10.3	11.1
RoE	20.7	12.8	13.8	14.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.1	0.1
Net Working Capital (Days)	18	15	15	20
Valuation(x)				
PER	14.7	20.3	16.6	13.5
P/B	2.8	2.4	2.1	1.9
P/CEPS	9.0	10.2	8.9	7.6
EV/EBITDA	9.7	10.5	8.8	7.5
EV/Sales	1.9	1.8	1.4	1.2
Dividend Yield (%)	0.2	0.1	0.2	0.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20E
Net Revenue	7,157	4,646	5,462	5,613
YoY gr. (%)	14.6	(16.5)	31.2	25.0
Raw Material Expenses	-	-	-	-
Gross Profit	7,157	4,646	5,462	5,613
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	1,441	900	1,258	954
YoY gr. (%)	19.4	(18.1)	51.3	5.9
Margin (%)	20.1	19.4	23.0	17.0
Depreciation / Depletion	478	389	475	473
EBIT	963	511	783	481
Margin (%)	13.4	11.0	14.3	8.6
Net Interest	75	90	98	94
Other Income	151	168	256	139
Profit before Tax	1,014	589	901	526
Margin (%)	14.2	12.7	16.5	9.4
Total Tax	92	112	200	105
Effective tax rate (%)	9.1	19.0	22.2	20.0
Profit after Tax	922	477	701	421
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	947	477	741	421
YoY gr. (%)	18.8	(35.5)	64.7	(19.3)
Margin (%)	13.2	10.3	13.6	7.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	947	477	741	421
YoY gr. (%)	18.8	(35.5)	64.7	(19.3)
Margin (%)	13.2	10.3	13.6	7.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	947	477	741	421
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	6.7	3.4	5.3	3.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-20	BUY	304	261
2	23-Dec-19	BUY	304	231

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,514	1,322
2	Ahluwalia Contracts (India)	Accumulate	283	284
3	Apar Industries	Accumulate	646	396
4	Ashoka Buildcon	BUY	167	107
5	Bharat Electronics	Hold	118	101
6	BHEL	Hold	60	45
7	Capacite's Infraprojects	BUY	292	200
8	Container Corporation of India	BUY	652	570
9	Cummins India	Hold	543	573
10	Engineers India	BUY	156	100
11	GE T&D India	Reduce	150	157
12	H.G. Infra Engineering	BUY	304	266
13	IRB Infrastructure Developers	BUY	130	77
14	ITD Cementation India	BUY	80	58
15	J.Kumar Infraprojects	BUY	239	153
16	Kalpataru Power Transmission	BUY	662	421
17	KEC International	BUY	375	311
18	KNR Constructions	BUY	304	261
19	Larsen & Toubro	BUY	1,800	1,335
20	NCC	BUY	108	58
21	PNC Infratech	BUY	264	195
22	Power Grid Corporation of India	BUY	224	193
23	Sadbhav Engineering	BUY	203	125
24	Siemens	BUY	1,687	1,511
25	Simplex Infrastructure	NR	-	31
26	Thermax	Accumulate	1,143	1,106
27	Triveni Turbine	Accumulate	142	97
28	Voltamp Transformers	BUY	1,610	1,250

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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