Result Update

KNR Constructions

Buy

DART
DOLAT ANALYSIS & RESEARCH THEMES
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View: Spike in execution from Q3FY21E, maintain Buy

- KNR posted results above estimates on all fronts.
- KNR posted (5.6%)/ 1.9%/ (29.0%) YoY growth in revenue/ EBITDA/ Adj. PAT to Rs6.8 bn/ Rs1.5 bn/ Rs672 mn in Q4FY20.
- We reduce our revenue/ PAT estimates by 5.1%/ 9.3% for FY21E/ FY22E on account of loss of revenue due to lockdown caused by covid-19. We broadly maintain our estimates for FY22E. The company is facing labour shortage and is currently operating with 50-65% strength.
- We expect a 17.6%/ 9.7% revenue/ Adj. PAT CAGR over FY20-22E, with EBITDA margins of 17.0% each for FY21E/ FY22E. Considering pick up in execution from Q3FY21E, healthy return ratios, a well-managed balance sheet, comfortable working capital, low D:E, and quality management, we maintain BUY with a SOTP-based TP to Rs247 (12x FY22E EPS and 1.2x PB for HAM + BOT investment). We have excluded KNR Walayar Tollways valuation from our SOTP as KNR has signed a deal with Cube Highways for sale at EV of Rs5.3 bn.

Orderbook of Rs78.9 bn provides revenue visibility of 3.5x FY20 revenue

KNR won orders worth Rs21 bn during FY20, taking the order book to Rs52.3 bn (Q4FY20). Total order book including Oddanchatram HAM project (EPC value - Rs6.4 bn) and 2 irrigation projects (Rs20.2 bn) won in May'20 where execution is yet to start, stands at Rs78.9 bn, providing revenue visibility for 3.5x FY20 revenue. We expect order inflow of Rs50.2 bn (Rs20.2 bn already received) / Rs35 bn in FY21E/ FY22E.

HAM equity investment

Total equity of Rs2 bn invested in five HAM projects till FY20 and Rs1.4-1.5 bn to be invested in FY21E. Equity required for KSHIP/ Oddanchatram (AD by Aug'20) HAM project is Rs1.2bn/ Rs800 mn of which Rs1 bn/ Rs400 mn will be invested in FY21E. If all the milestones as per deal signed with Cube Highways for 3 HAM are not achieved, then KNR will invest ~Rs1 bn in FY21E out of Rs1.7 bn investment required by Cube Highways for 3 HAM.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	6,756	7,157	(5.6)	5,579	21.1
Total Expense	5,287	5,716	(7.5)	4,335	22.0
EBITDA	1,469	1,441	1.9	1,244	18.1
Depreciation	538	478	12.4	517	4.0
EBIT	931	963	(3.3)	727	28.1
Other Income	73	151	(51.9)	70	4.4
Interest	145	75	93.1	142	2.1
EBT	859	1,039	(17.3)	655	31.2
Tax	187	92	103.2	186	0.8
RPAT	672	947	(29.0)	469	43.2
APAT	672	973	(30.9)	505	33.0
			(bps)		(bps)
Gross Margin (%)	39.6	32.1	754	41.6	(198)
EBITDA Margin (%)	21.7	20.1	161	22.3	(56)
NPM (%)	9.9	13.6	(364)	9.1	89
Tax Rate (%)	21.8	8.9	1293	28.4	(658)
EBIT Margin (%)	13.8	13.4	33	13.0	75

CMP	Rs 197
Target / Upside	Rs 247 / 26%
BSE Sensex	33,725
NSE Nifty	10,116

Scrip Details

Equity / FV	Rs 281mn / Rs 2
Market Cap	Rs 28bn
	USD 365mn
52-week High/Low	Rs 312/Rs 171
Avg. Volume (no)	2,86,224
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN

Shareholding Pattern Mar'20(%)

Promoters	55.2
MF/Banks/FIs	34.0
FIIs	1.9
Public / Others	8.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	13.7	14.5	11.4
EV/EBITDA	6.1	5.9	4.6
ROE (%)	13.4	11.2	12.6
RoACE (%)	17.8	12.9	14.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	22,442	26,738	31,030
EBITDA	4,871	4,545	5,276
PAT	2,018	1,904	2,429
EPS (Rs.)	14.4	13.5	17.3

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Exhibit 1: Actual vs. DART estimates

(in Rs mn)	Actual	DART Est.	% Variation	Comment
Revenue	6,756	6,001	12.6	Higher execution vs expected
EBITDA	1,469	1,010	45.4	-
EBITDA Margin (%)	21.7	16.8	491 bps	Due to better operating efficiency vs expected
Adj. PAT	672	392	71.3	Due to better operating efficiency vs expected

Source: Company, DART

Exhibit 2: Change in estimates – Reduce estimates for FY21E and maintain for FY22E

(Rs mn)	FY21E			FY22E		
	New	Old	% chg	New	Old	% chg
Revenue	26,738	28,180	(5.1)	31,030	30,888	0.5
EBITDA	4,545	4,774	(4.8)	5,276	5,154	2.4
EBITDA Margin (%)	17.0	16.9	6	17.0	16.7	32
Adj. PAT	1,904	2,100	(9.3)	2,429	2,370	2.5
EPS (Rs)	13.5	14.9	(9.3)	17.3	16.9	2.5

Source: Company, DART

Key earnings takeaways

- **Bid pipeline:** NHAI targets to award 4-4,500 kms in FY21E. Currently tenders are getting postponed. KNR has identified 5-6 HAM projects worth Rs60-70 bn. (3 in TN, 1 in AP and 1 in Telangana). KNR also submitted bid for TN state annuity road project worth Rs5 bn.
- **Order inflow** target of Rs30-40 bn in FY21E for NHAI projects only. Won’t bid for irrigation projects in FY21, only road HAM and EPC.
- **Physical progress** – Chittor – 54.4%, Ramsanpalle – 43.7%, Trichy – 37.4%. KSHIP – 6.9%. Expect Oddanchatram AD in Aug’20. Projects are running at 55-65% level. Ramp up in execution from Q3FY21E.
- **Irrigation projects/ GHMC projects** contributed **revenue** of Rs3 bn/ Rs600 mn in Q1FY21E.
- **Labour** is a big issue now, currently working with 50-65% labour. Will have to wait till end of Jun’20 to get a clarity. **Steel & Cement** prices are rising.
- **Navyuga irrigation project** is progressing slow due to land issues. Only 1 km out of 4 km is received and expect balance in 3-4 months.
- Q1 & Q2FY21E will witness dip in **EBITDA margins** by ~200-300 bps vs. last year. Fixed cost per month is Rs150 mn. NHAI EPC projects have escalation but NHAI HAM not.
- **Payments from irrigation projects** are not on time. Total Rs2/5 bn are outstanding for irrigation projects as on Mar’20/today.
- Increase in **gap between bank rate and borrowing cost** will impact HAM projects.
- **Land status** – KSHIP 72% land is available and Oddanchatram 50% is available. Oddanchatram FC is done at 9%.
- Expect 25%/ 25% **tax rate** in FY21E/ FY22E. MAT credit stands at Rs340 mn. Will adopt to new tax regime in FY22E.
- Total **debt** stands at Rs2.3 bn (FY20) which includes promoter loan of Rs1.8 bn. KNR has not opted for RBI moratorium.

- **Capex** guidance of Rs500 mn for FY21E and KNR expect sizable capex in FY22E for irrigation projects. Quarterly depreciation run rate of Rs500 mn will continue.
- Retention money stood at Rs1.5 bn. Mobilization advance of Rs600 mn pending from KSHIP HAM.
- **Walayar BOT project sale deal proceeds** expected to receive in H1FY21E.
- **Arbitration claims** worth Rs5.4 bn (KNR's share) are pending. Received Rs610 mn claims in FY20.

Exhibit 3: Assumption – Equity investment in HAM projects

Component (Rs bn)	FY19	FY20	FY21E	FY22E
3 NHAI HAM project				
100% equity requirement	3.75	-	-	-
51% KNR's share in equity requirement	1.91	-	-	-
Our assumption – equity investment (A)	0.97	1.88	-	(0.96)
Oddanchatram-Madathukulam NHAI HAM				
100% equity requirement	0.8	-	-	-
100% KNR's share in equity requirement (B)	-	0.04	0.4	0.4
KSHIP HAM project				
100% equity requirement	1.22	-	-	-
Our assumption – equity investment (C)	-	0.07	1.0	0.15
HAM order Inflow Assumption	**-**	**-**	**20**	**10**
10% equity requirement for HAM inflow	-	-	2.0	1.0
Our assumption – equity investment (D)	-	-	-	1.0
Total Equity Investment assumption (A+B+C+D)	**0.97**	**1.99**	**1.4**	**1.55**

Source: DART, Company

Sale of 3 HAM projects to Cube Highways

KNR received appointed date for Chittor-Malavaram, Ramsanpalle-Mangloor, Tiruchirapalli-Kallagam and KSHIP HAM (Magadi-Somwarpeth). Oddanchatram – Madathukulam FC documents submitted on 22 May'20 where appointed date is expected by Aug'20.

KNR has also entered into share purchase agreement with Cube highways for 3 HAM projects wherein KNR will receive Rs3.22 bn against its equity investment of Rs1.9 bn (51% share). The average deal valuation works out at 1.7x P/B. Cube Highways will be investing 49% equity (Rs1.84 bn) out of total requirement of Rs3.44 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.

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/ FY19/ FY20 stood at Rs517mn/ Rs672 mn/ Rs678 mn (+0.9% YoY). Currently, toll collection per day is Rs1.79 mn in Q4FY20. The company infused Rs2.6bn as quasi equity in addition to Rs1.36bn equity already invested (total Rs3.97bn) 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/ FY19/ FY20 stood at Rs453mn/ Rs728 mn/ Rs692 mn (-5.0% YoY). Toll collection per day stood at Rs1.58 mn in Q4FY20.

Exhibit 4: Q4FY20 Performance (Standalone)

Particulars (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	**6,756**	**7,157**	**(5.6)**	**5,579**	**21.1**	**22,442**	**21,373**	**5.0**
Material consumed	2,200	1,930	14.0	1,752	25.6	7,533	6,432	17.1
Sub-contractors work bills	107	510	(78.9)	126	(15.0)	770	1,755	(56.1)
Spreading & Assortment	1,773	2,423	(26.8)	1,381	28.4	5,247	5,694	(7.8)
Employees cost	315	248	27.1	303	4.0	1,252	929	34.9
Other expenditure	891	606	47.1	773	15.4	2,770	2,293	20.8
Total expenditure	**5,287**	**5,716**	**(7.5)**	**4,335**	**22.0**	**17,572**	**17,103**	**2.7**
EBITDA	**1,469**	**1,441**	**1.9**	**1,244**	**18.1**	**4,871**	**4,270**	**14.1**
Depreciation	538	478	12.4	517	4.0	1,918	1,681	14.1
Operating profit	**931**	**963**	**(3.3)**	**727**	**28.1**	**2,952**	**2,589**	**14.0**
Other income	73	151	(51.9)	70	4.4	566	634	(10.7)
EBIT	**1,004**	**1,114**	**(9.9)**	**797**	**26.0**	**3,518**	**3,222**	**9.2**
Interest	145	75	93.1	142	2.1	474	291	62.9
Exceptional item	-	25	(100.0)	(67)	-	107	25	320.5
EBT	**859**	**1,014**	**(15.2)**	**588**	**46.1**	**2,937**	**2,906**	**1.1**
Provision for taxation	187	92	103.2	186	0.8	685	273	150.5
Net income	**672**	**922**	**(27.1)**	**402**	**67.1**	**2,252**	**2,633**	**(14.5)**
Adjustments	-	25	(100.0)	36	(100.0)	(234)	25	-
Adjusted net income	**672**	**947**	**(29.0)**	**438**	**53.4**	**2,018**	**2,658**	**(24.1)**
EPS (Rs)	**4.8**	**6.7**	**(29.0)**	**3.1**	**53.4**	**14.4**	**18.9**	**(24.1)**
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	21.7	20.1	161	22.3	(56)	21.7	20.0	173
EBIDTA Margin (Incl. O.I.)	22.8	22.2	57	23.5	(73)	24.2	22.9	128
NPM (%)	9.8	13.0	(312)	7.8	209	8.8	12.1	(331)
Tax/PBT (%)	21.8	9.1	1,271	31.6	(982)	23.3	9.4	1,391
Construction/Revenue (%)	60.4	67.9	(753)	58.4	198	60.4	64.9	(457)

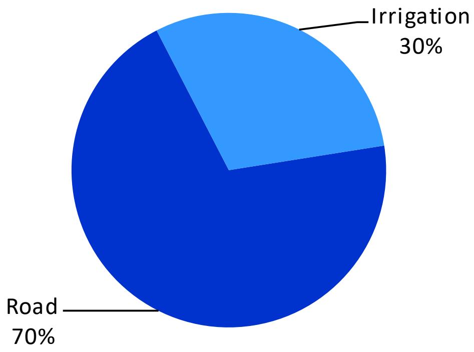
Source: Company, DART

Exhibit 5: SOTP Valuation

Component	Valuation Method	Rs/sh	%
Standalone cons business	12x FY22E EPS	207.3	83.9
BOT Toll project – Muzzarpur - Barauni	0.5xBV	3.2	1.3
HAM equity investments (FY22E)	1.3xBV	36.8	14.9
Total		**247.2**	**100.0**
CMP		196.9	
Potential upside (%)		25.6	

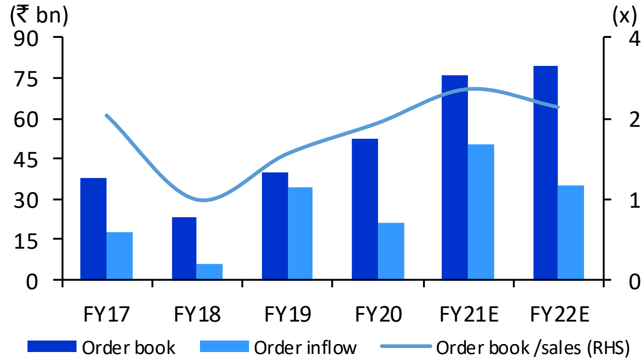
Source: DART, Company

Exhibit 6: Rs52.3 bn order book break up



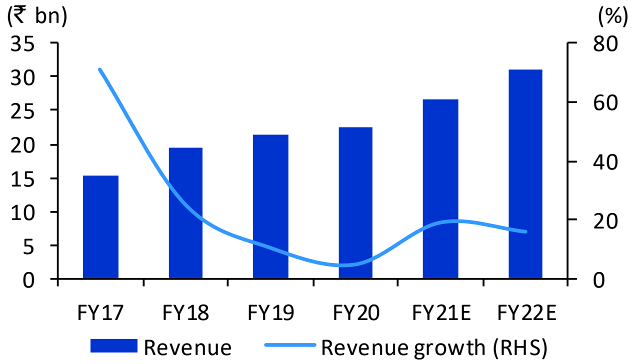
Source: DART, Company

Exhibit 7: Order book trend



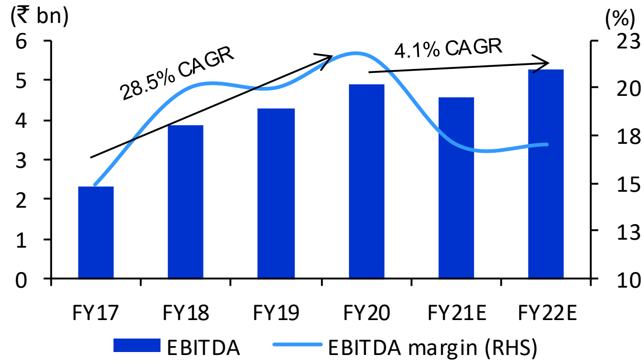
Source: DART, Company

Exhibit 8: 17.6% Revenue CAGR over FY20-22E



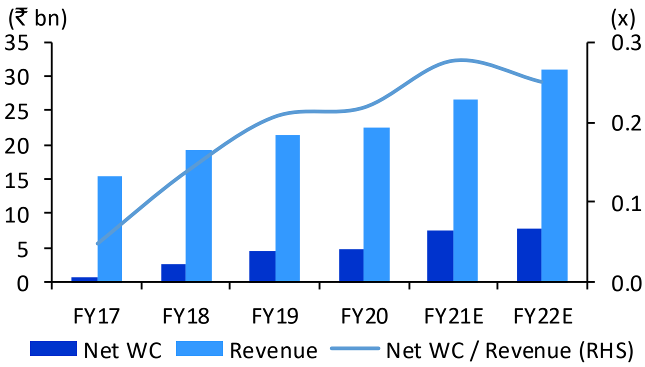
Source: DART, Company

Exhibit 9: 4.1% EBITDA CAGR over FY20-22E



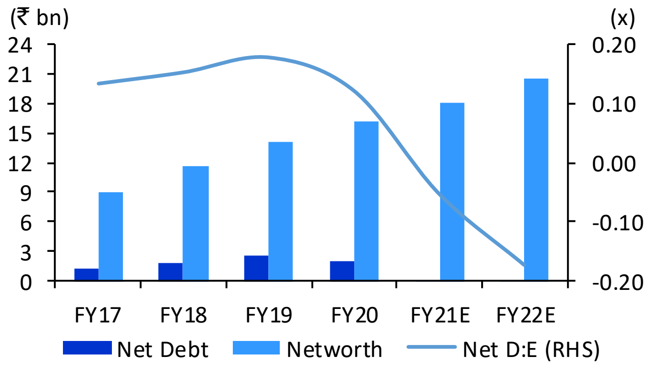
Source: DART, Company

Exhibit 10: Efficient working capital management



Source: DART, Company

Exhibit 11: One of the lowest net D:E in the sector



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**21,373**	**22,442**	**26,738**	**31,030**
Total Expense	**17,103**	**17,572**	**22,193**	**25,754**
COGS	13,881	13,550	17,741	20,532
Employees Cost	929	1,252	1,377	1,653
Other expenses	2,293	2,770	3,075	3,568
EBIDTA	**4,270**	**4,871**	**4,545**	**5,276**
Depreciation	1,681	1,918	2,094	2,174
EBIT	**2,589**	**2,952**	**2,451**	**3,102**
Interest	291	474	285	285
Other Income	634	566	374	448
Exc. / E.O. items	(25)	(107)	0	0
EBT	**2,906**	**2,937**	**2,540**	**3,266**
Tax	273	685	636	836
RPAT	2,633	2,252	1,904	2,429
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**2,658**	**2,018**	**1,904**	**2,429**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	281	281	281	281
Minority Interest	0	0	0	0
Reserves & Surplus	13,862	15,958	17,792	20,151
Net Worth	**14,143**	**16,239**	**18,073**	**20,432**
Total Debt	2,641	2,300	750	650
Net Deferred Tax Liability	(1,739)	(1,610)	(1,630)	(1,655)
Total Capital Employed	**15,045**	**16,929**	**17,193**	**19,427**
Applications of Funds				
Net Block	**4,340**	**4,464**	**3,472**	**3,799**
CWIP	0	102	0	0
Investments	2,226	3,242	4,642	3,696
Current Assets, Loans & Advances	**10,424**	**13,854**	**18,075**	**22,245**
Inventories	951	1,232	1,554	1,803
Receivables	2,344	4,761	5,615	5,585
Cash and Bank Balances	130	330	1,703	4,186
Loans and Advances	65	57	89	103
Other Current Assets	6,932	7,474	9,115	10,567
Less: Current Liabilities & Provisions	**5,919**	**8,639**	**8,996**	**10,313**
Payables	2,236	2,511	2,996	3,348
Other Current Liabilities	3,683	6,128	6,000	6,965
sub total				
Net Current Assets	4,505	5,215	9,079	11,931
Total Assets	**11,071**	**13,022**	**17,193**	**19,427**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	35.1	39.6	33.7	33.8
EBIDTA Margin	20.0	21.7	17.0	17.0
EBIT Margin	12.1	13.2	9.2	10.0
Tax rate	9.4	23.3	25.0	25.6
Net Profit Margin	12.4	9.0	7.1	7.8
(B) As Percentage of Net Sales (%)				
COGS	64.9	60.4	66.4	66.2
Employee	4.3	5.6	5.2	5.3
Other	10.7	12.3	11.5	11.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.0	0.0
Interest Coverage	8.9	6.2	8.6	10.9
Inventory days	16	20	21	21
Debtors days	40	77	77	66
Average Cost of Debt	12.0	19.2	18.7	40.7
Payable days	38	41	41	39
Working Capital days	77	85	124	140
FA T/O	4.9	5.0	7.7	8.2
(D) Measures of Investment				
AEPS (Rs)	18.9	14.4	13.5	17.3
CEPS (Rs)	30.9	28.0	28.4	32.7
DPS (Rs)	0.5	1.1	0.5	0.5
Dividend Payout (%)	2.6	7.6	3.7	2.9
BVPS (Rs)	100.6	115.5	128.5	145.3
RoANW (%)	20.8	13.4	11.2	12.6
RoACE (%)	21.7	17.8	12.9	14.8
RoAIC (%)	22.1	18.1	13.7	17.7
(E) Valuation Ratios				
CMP (Rs)	197	197	197	197
P/E	10.4	13.7	14.5	11.4
Mcap (Rs Mn)	27,681	27,681	27,681	27,681
MCap/ Sales	1.3	1.2	1.0	0.9
EV	30,191	29,650	26,727	24,144
EV/Sales	1.4	1.3	1.0	0.8
EV/EBITDA	7.1	6.1	5.9	4.6
P/BV	2.0	1.7	1.5	1.4
Dividend Yield (%)	0.2	0.6	0.3	0.3
(F) Growth Rate (%)				
Revenue	10.6	5.0	19.1	16.0
EBITDA	11.2	14.1	(6.7)	16.1
EBIT	3.6	14.0	(17.0)	26.6
PBT	8.4	1.1	(13.5)	28.6
APAT	6.9	(24.1)	(5.6)	27.6
EPS	6.9	(24.1)	(5.6)	27.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,485	3,941	1,626	4,287
CFI	(2,865)	(2,843)	1,493	(1,349)
CFF	72	(898)	(1,746)	(455)
FCFF	451	1,905	626	1,787
Opening Cash	438	130	330	1,703
Closing Cash	130	330	1,703	4,186

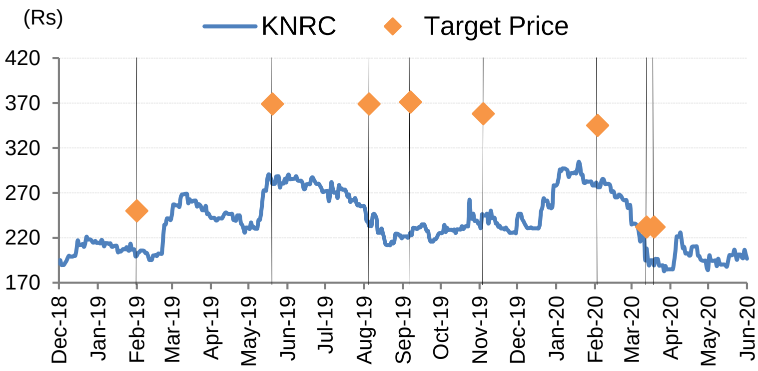
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Buy	250	200
May-19	Buy	369	280
Aug-19	Buy	369	233
Sep-19	Buy	371	226
Nov-19	Buy	358	245
Feb-20	Buy	345	277
Mar-20	Buy	232	208
Mar-20	Buy	232	189

**Price as on recommendation date*

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