

KNR Constructions Limited

BUY

CMP Rs257

Target Rs304

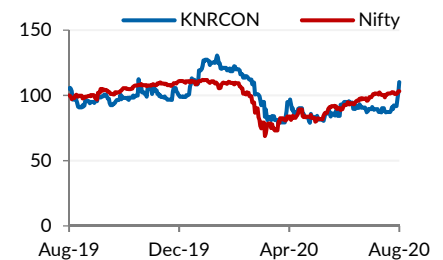
Upside 18.4%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ KNR Constructions (KNRC) reported topline growth of 3.2% yoy (to Rs.4.8bn), well ahead of street and our expectations. Despite Covid-19 impacting operations, the execution stands out as compared to some of the other EPC Companies which have reported significant de-growth. ✓ Operating margin remained at an elevated level of 19.7% (up 30bps yoy). PAT declined 16.6% yoy to Rs.398mn largely due to lower other income and higher tax outgo. ✓ At the end of Jun'20, KNR's order book stood healthy at ~Rs.72bn (excluding 1 HAM projects estimated to have EPC value of Rs.6.4 bn). Additionally, the management is targeting ~Rs.20bn of inflows during FY21 (mainly from road segment). ✓ The appointed dates (AD) in 4 HAM projects are in-place and are under-execution. In the 5th HAM project namely KNR Palani, the company has submitted financial closure document to NHA on 22nd May'20 and expects to achieve AD by 31st Aug'20. ✓ KNR expects execution to commence in the recently won irrigation projects over next two-three months. The entire order book (current) is expected to come under execution during H2 FY21.
Our View	<ul style="list-style-type: none"> ✓ The order inflow has been very strong in the last few months and KNR is comfortably placed in terms of order book. ✓ The execution has been much better than peers considering the COVID related issues. ✓ Operating margin is likely to be robust with increasing share of high margin irrigation segment in order book. ✓ Total equity requirement in 5 HAM projects is Rs.6.2bn. Till 30th Jun'20, KNR has infused ~Rs.2.3bn towards equity investment in various projects. The deal with Cube highways is expected to be completed in the next three months.
Valuation	<ul style="list-style-type: none"> ✓ With faster-than-expected ramp-up in operations and entire order book (current) coming under execution during H2 FY21, we have marginally increased our revenue estimates for FY21/FY22. Continued focus on asset monetization and comfortable balance sheet position provide comfort. ✓ We maintain our BUY rating on the stock for revised target of Rs.304 (Based on SOTP valuation).
Risk to our call	<ul style="list-style-type: none"> ✓ Slower than expected ramp up in execution.

Stock data (as on Aug 19, 2020)

Nifty	11,408
52 Week h/l (Rs)	312 / 171
Market cap (Rs/USD mn)	36153 / 483
Outstanding Shares (mn)	141
6m Avg t/o (Rs mn):	57
Div yield (%):	0.2
Bloomberg code:	KNRC IN
NSE code:	KNRCON

Stock performance



	1M	3M	1Y
Absolute return	23.0%	36.4%	5.1%

Shareholding pattern (As of Jun'20 end)

Promoter	55.2%
FII+DII	34.5%
Others	10.3%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	16.0	12.7	20.2
EPS (Old)	16.0	11.4	18.5
% change	-	11.4	8.9

Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs mn)	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue	4,794	4,646	3.2	6,756	(29.0)
Operating Profit	943	900	4.8	1,469	(35.8)
OPM(%)	19.7	19.4	30 bps	21.7	-207 bps
Other Income	61	168	(63.6)	73	(16.2)
Depreciation	(331)	(389)	(14.9)	(538)	(38.4)
Interest	(102)	(90)	13.0	(145)	(29.3)
PBT	571	589	(3.0)	860	(33.5)
Tax	(173)	(112)	55.3	(187)	(7.4)
Reported PAT	398	477	(16.6)	672	(40.8)
Adjusted PAT	398	477	(16.6)	672	(40.8)

Source: Company, YES Sec - Research

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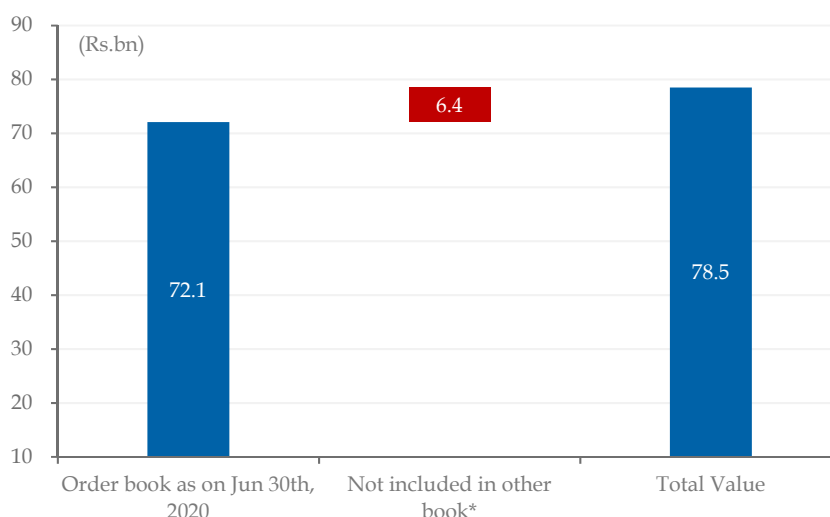
CON-CALL HIGHLIGHTS

- ✓ Labor strength across project sites have improved to ~55-60% of the pre-covid levels. The management expects further improvement with more labours coming from Bihar, Uttar Pradesh and West Bengal regions over next few months. Operations are getting currently impacted with heavy monsoons and running at ~60% efficiency levels. The management expects ~80% efficiency by Q3-end and normalization of operating activity in Q4 FY21.
- ✓ At the end of Jun'20, KNR's order book stood healthy at ~Rs.72bn (excluding 1 HAM projects estimated to have EPC value of Rs.6.4 bn), with irrigation contributing ~54% to the overall order book and rest by road projects.
- ✓ The management expects to achieve flat topline growth during FY21 with entire order book (current) coming under execution during H2 FY21. Also, the operating margin has remained at an elevated level of 19.7% (during Q1 FY21) with better project mix (23% contribution from irrigation projects), and is likely to remain at an elevated level with higher contribution from better margin irrigation projects (forms 54% of the current order book) going forward.
- ✓ KNR expects NHAI to award ~4,500 km of road projects during FY21 (better than ~3,200 km awarded in FY20). The company has already submitted bids for 7 projects (mostly HAM; having ticket size in the range of ~Rs.5bn-Rs.12bn) mainly located in Kerala and Tamil Nadu regions, and outcome is expected over next couple of months. Also, another 8 road projects are under company's radar.
- ✓ As per the management, the competitive intensity among bidders in the road segment is high (average bidders: 15-16 contractors). However, the company is confident of bagging ~Rs.20bn of inflows during remaining period of FY21 (mainly from road segment).
- ✓ KNR along with its JV partners has received 2 irrigation projects worth ~Rs.23bn from Irrigation & CAD Department, Govt. of Telangana on 17th May'20. The debt finalization/tie-up is under-progress between various lenders and Govt. of Telangana, which is likely to get concluded over next couple of months. With this, the management expects execution on the project to commence thereafter.
- ✓ Order book position for major irrigation projects at the end of Jun'20 are a) Mallanna Sagar project (Megha Engineering & Infrastructure Ltd): Rs.5.2bn, b) Venkatadri Reservoir bund (Navayuga Engineering Company Ltd): Rs.8.5bn, c) Kaleshwaram Project – Parallel Conveyor System – Thukkapur to Sri Komuravelli Mallanna Sagar: Rs.16bn and d) KP Sagar: Rs.840mn.
- ✓ Out of its Portfolio of 5 HAM Projects, a) KNR Srirangam has achieved 43% physical progress, b) KNR Tirumala achieved 57.6%, c) KNR Shankampet achieved 51.5% and d) KNR Somwarpeth achieved 9.3% progress. In the 5th HAM project namely KNR Palani, the company has submitted financial closure document to NHAI on 22nd May'20 and expects to achieve Appointed date by 31st Aug'20 (current land availability:72%)
- ✓ As per the management, the suspension of BOT-Toll operations due to lockdown has resulted into revenue loss of 19 days in Q1 FY21. However, the traffic has reached to ~75% of the pre-covid levels and likely to get normalized by Q3 FY21.
- ✓ For the KNR Walayar BOT project, the company has signed SPA with Cube Highways and Infrastructure III Pte. Ltd for sale of its 100% stake for an enterprise value of Rs.5.3bn. The company is in final stage of discussions with Cube Highways (mainly on revenues shortage and costs due to Covid-19) and the whole process is likely to get completed over next two-three months.
- ✓ Net working capital days for the company has increased to 66 days at the end of Jun'20 (vis-à-vis 53 days at the end of Mar'20), mainly due to sharp jump in debtors (90 days at the end of Jun'20 vis-à-vis 78 days at the end of Mar'20). The receivables from Telangana govt. is ~Rs.5.4bn (as of Jun'20 end), for which the bills are submitted and are likely to get paid by 31st Aug'20. With this, the management expects net working capital days to get normalized by end-FY21.

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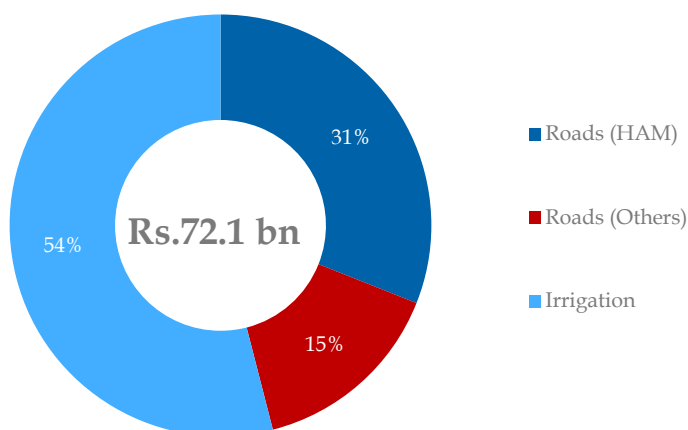
- ✓ During the quarter, its gross standalone debt has increased to Rs.3.3bn mainly due to increase in working capital requirement. However, the management expects it to come down to normalized level of Rs.2bn with expected improvement in working capital position. Also, as on 30th Jun'20, mobilization advance/retention money stood at Rs.1bn/Rs.1.6bn respectively.
- ✓ Total equity requirement in 5 HAM projects is Rs.6.2bn. Till 30th Jun'20, the company has infused ~Rs.2.3bn towards equity investment in various projects (infused ~Rs.300mn in Q1 FY21). Total Equity requirement towards existing projects during FY21E/FY22E/FY23E is estimated to be ~Rs.2.7bn./~Rs.1.1bn/~Rs.410mn respectively.
- ✓ The management has guided for ~25% effective tax rate for FY21 (under old tax regime). However, the company would opt for new tax regime in FY22.
- ✓ As on 30th Jun'20, receivables/unbilled revenues/work done but not certified stood at Rs.1.3bn/Rs.4.4bn/Rs.1.8bn respectively. Out of the unbilled revenues, Rs.1.3bn is pertaining to irrigation and rest is from road segment.

Exhibit 2: Order book (June 2020)



Source: Company, YES Sec – Research; *Excludes Oddanchatram – Madathukulam HAM project

Exhibit 3: Well diversified Order book



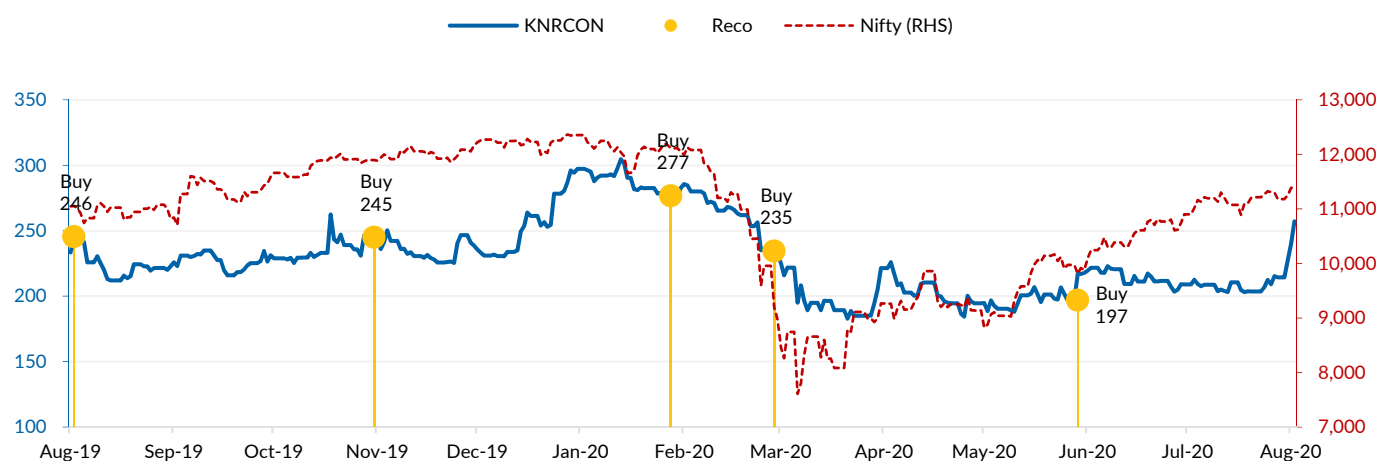
Source: Company, YES Sec – Research; *Excludes Oddanchatram – Madathukulam HAM project

Exhibit 4: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	21,373	22,442	22,633	28,178
yoy growth (%)	10.6	5.0	0.8	24.5
Operating profit	4,270	4,871	4,233	5,569
OPM (%)	20.0	21.7	18.7	19.8
Reported PAT	2,633	2,252	1,785	2,834
Adjusted PAT	2,658	2,360	1,785	2,834
yoy growth (%)	(2.3)	(11.2)	(24.3)	58.7
EPS (Rs)	18.7	16.0	12.7	20.2
P/E (x)	13.7	16.0	20.2	12.8
EV/EBITDA (x)	9.0	7.8	8.9	5.6
Debt/Equity (x)	0.2	0.1	0.1	0.1
RoE (%)	20.5	14.8	10.4	14.6

Source: Company, YES Sec – Research

Recommendation Tracker



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