

### View: Spike in execution from Q3FY21E, Maintain Buy

- KNR posted revenue in line however, EBITDA margins and PAT above estimates.
- KNR posted 3.2%/ 4.8%/ (16.6%) YoY growth in revenue/ EBITDA/ Adj. PAT to Rs4.8 bn/ Rs943 mn/ Rs398 mn in Q1FY21.
- We broadly maintain our revenue estimates however, we increase our EBITDA margin estimates by 48/ 50 bps for FY21E/ FY22E factoring Q1FY21 results. We have sizably lowered our depreciation estimates and increase our tax rate and accordingly increased our PAT estimates by 10.9%/ 10.4% for FY21E/ FY22E. Labour availability currently stands at 60% which is expected to increase to 80-85% in 1-2 months.
- We expect a 19.2%/ 15.3% revenue/ APAT CAGR over FY20-22E, with EBITDA margins of 17.5% 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 Rs337 (15x FY22E EPS and 1.2x PB for HAM + BOT investment). We have excluded KNR Walayar Tollways valuation from our SOTP as KNR is finalizing a deal with Cube Highways.

### Orderbook of Rs78.5 bn provides revenue visibility of 3.5x TTM revenue

KNR won orders worth Rs21 bn/ Rs23 bn during FY20/ YTD FY21, taking the order book to Rs72.1 bn (Q1FY21). Total order book including Oddanchatram HAM project (EPC value - Rs6.4 bn), stands at Rs78.5 bn, providing revenue visibility for 3.5x TTM revenue. We expect order inflow of Rs53 bn (Rs23 bn already received) / Rs35 bn in FY21E/ FY22E.

### HAM equity investment

KNR invested Rs2 bn/ Rs2.2 bn till FY20/ Q1FY21 in five HAM projects. We factor equity investment of Rs3.7 bn in FY21E and reduction of Rs0.5 bn in FY22E (49% stake sale in 3 HAM to Cube Highways on COD). The above assumption includes Rs360 mn/ Rs400 mn in FY21E/ FY22E for Oddanchatram HAM, Rs1 bn/ Rs152 mn in FY21E/ FY22E for KSHIP HAM project and 50% (Rs1 bn) equity of Rs20 bn FY21E HAM inflow.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	4,794	4,646	3.2	6,756	(29.0)
Total Expense	3,850	3,746	2.8	5,287	(27.2)
EBITDA	943	900	4.8	1,469	(35.8)
Depreciation	331	389	(14.9)	538	(38.4)
EBIT	612	511	19.7	931	(34.2)
Other Income	61	168	(63.6)	73	(16.2)
Interest	102	90	13.0	145	(29.3)
EBT	571	589	(3.0)	859	(33.5)
Tax	173	112	55.3	187	(7.5)
RPAT	398	477	(16.6)	672	(40.8)
APAT	398	477	(16.6)	672	(40.8)
			(bps)		(bps)
Gross Margin (%)	34.3	34.3	0	39.6	(531)
EBITDA Margin (%)	19.7	19.4	30	21.7	(206)
NPM (%)	8.3	10.3	(197)	9.9	(165)
Tax Rate (%)	30.3	19.0	1138	21.8	855
EBIT Margin (%)	12.8	11.0	177	13.8	(101)

CMP	Rs 257
Target / Upside	Rs 337 / 31%
BSE Sensex	38,640
NSE Nifty	11,408

### Scrip Details

Equity / FV	Rs 281mn / Rs 2
Market Cap	Rs 36bn
	US\$ 483mn
52-week High/Low	Rs 312/Rs 171
Avg. Volume (no)	2,60,977
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN

### Shareholding Pattern Jun'20(%)

Promoters	55.0
MF/Banks/FIs	34.0
FIs	1.6
Public / Others	9.3

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	17.9	17.1	13.5
EV/EBITDA	7.8	7.9	6.2
ROE (%)	13.4	12.3	13.7
RoACE (%)	17.8	14.1	15.7

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	22,442	27,000	31,906
EBITDA	4,871	4,720	5,585
PAT	2,018	2,112	2,683
EPS (Rs.)	14.4	15.0	19.1

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**Exhibit 1: Actual vs. DART estimates**

(Rs mn)	Actual	DART Est.	% Variation	Comment
Revenue	4,794	4,813	(0.4)	In line with estimates
EBITDA	943	850	10.9	-
EBITDA Margin (%)	19.7	17.7	201 bps	Led by lower employee and other expense vs. estimates
Adj. PAT	398	239	66.3	Led by better operating efficiency vs expected

Source: Company, DART

**Exhibit 2: Change in estimates – Maintain Revenue estimates however, increase EBITDA margin/PAT estimates**

(Rs mn)	FY21E			FY22E		
	New	Old	% chg	New	Old	% chg
Revenue	27,000	26,738	1.0	31,906	31,030	2.8
EBITDA	4,720	4,545	3.8	5,585	5,276	5.9
EBITDA Margin (%)	17.5	17.0	48	17.5	17.0	50
Adj. PAT	2,112	1,904	10.9	2,683	2,429	10.4
EPS (Rs)	15.0	13.5	10.9	19.1	17.3	10.4

Source: Company, DART

### Key earnings takeaways

- Bid pipeline: NHAI has awarded 460 kms YTFY21 vs target of 4,500 kms for FY21E. KNR has submitted 7 bids (3 each from Kerala and TN state govt and 1 HAM from TN ranging from Rs5-10 bn) and outcome is expected in 2-3 weeks. KNR plans to submit 10 more bids (2 in Aug'20 and 8 in Sept'20) ranging from Rs5-15 bn. Will focus on road sector only. Less number of tenders in Road EPC and competition is very high with 15 bidders in each project.
- Order inflow target of additional Rs20 bn in FY21E. Expect flat revenue in FY21E, but will try to execute Rs3 bn from 2 new irrigation orders.
- Labour coming in from Bihar, Jharkhand and UP, should touch 80% in couple of months from 60% currently. Efficiency too will increase to 80% by Q3FY21E. Irrigation has 90% labour during day shift and nil during night shift and efficiency of 70%. Roads has 55-60% labour and efficiency of 60%.
- Physical progress – Chittor - 57.6%, Ramsanpalle - 51.5%, Trichy - 43.0%. KSHIP - 9.3%. Projects are running slower due to monsoon, ramp up in execution from Q3FY21E.
- Land status - Oddanchatram 72% is available as on 15 Aug'20 and expect 80% by Aug'20 end. Expect AD by Aug'20 end if 80% land is available.
- New irrigation orders (Rs23 bn) are under mobilization, can start execution in 2 months.
- Though irrigation has higher EBITDA margins of 18-20%, payments are not on time. However, NHAI payments are on time.
- Equity requirement of 5 HAM is Rs6.25 bn of which Rs2.23 bn is invested and Rs2.5 bn/ Rs1.1 bn/ Rs408 mn to be invested in FY21E/ FY22E/ FY23E.
- Expect 30%/ 25% tax rate in FY21E/ FY22E.
- Total Rs6.8 bn (Rs1.27 bn receivables, Rs4.4 bn unbilled revenue and Rs1.8 bn work not certified) are outstanding from Telangana government for irrigation projects.

- Telangana orders have no mobilization advance thus not much bidders and KNR can bid higher.
- Total debt stands at Rs3.34 bn and will further reduce in FY21E.
- Capex guidance of Rs1-1.2 bn for FY21E, done Rs150 mn in Q1FY21. Gross block/ net block for Irrigation stands at Rs3 bn/ Rs750 mn. Quarterly depreciation run rate of Rs400 mn will continue. Not much incremental capex required for irrigation projects.
- Mobilization advance/ Retention money stood at Rs1.02 bn/ Rs1.63 bn. Gross debt/ Cash stood at Rs3.34 bn/ Rs160 mn. Unbilled revenue stood at Rs4.4 bn (entirely irrigation).
- Debtors stands at Rs4.75 bn (Rs1.27 bn for Irrigation and Rs2 bn for NHAI. KNR received Rs1.25 bn for Tirumala project in Jul'20).
- Walayar BOT project sale deal expect to complete in couple of months.

#### **Sale of 3 HAM projects to Cube Highways**

KNR received appointed date for Chittor-Malavaram, Ramsanpalle-Mangloor, Tiruchirapalli-Kallagam and KSHIP HAM (Magadi-Somwarpath). Oddanchatram – Madathukulam FC documents submitted on 22 May'20 where appointed date is expected by 1<sup>st</sup> week of Sept'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/ Q1FY21 stood at Rs517mn/ Rs672 mn/ Rs678 mn/ Rs70 mn. Currently, toll collection per day is Rs0.77 mn in Q1FY21. 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 24<sup>th</sup> Aug'17 and toll collection started from 1<sup>st</sup> Oct'17. Toll collection during FY18/ FY19/ FY20/ Q1FY21 stood at Rs453mn/ Rs728 mn/ Rs692 mn/ Rs102.5 mn. Toll collection per day stood at Rs1.13 mn in Q1FY21.

**Exhibit 3: Q1FY21 Performance (Standalone)**

Particulars (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Revenue</b>	<b>4,794</b>	<b>4,646</b>	<b>3.2</b>	<b>6,756</b>	<b>(29.0)</b>	<b>22,442</b>	<b>21,373</b>	<b>5.0</b>
Material consumed	1,899	1,860	2.1	2,200	(13.7)	7,533	6,432	17.1
Sub-contractors work bills	410	414	(1.1)	107	281.4	770	1,755	(56.1)
Spreading & Assortment	842	779	8.1	1,773	(52.5)	5,247	5,694	(7.8)
Employees cost	278	271	2.3	315	(11.9)	1,252	929	34.9
Other expenditure	423	421	0.3	891	(52.6)	2,770	2,293	20.8
<b>Total expenditure</b>	<b>3,850</b>	<b>3,746</b>	<b>2.8</b>	<b>5,287</b>	<b>(27.2)</b>	<b>17,572</b>	<b>17,103</b>	<b>2.7</b>
<b>EBITDA</b>	<b>943</b>	<b>900</b>	<b>4.8</b>	<b>1,469</b>	<b>(35.8)</b>	<b>4,871</b>	<b>4,270</b>	<b>14.1</b>
Depreciation	331	389	(14.9)	538	(38.4)	1,918	1,681	14.1
<b>Operating profit</b>	<b>612</b>	<b>511</b>	<b>19.7</b>	<b>931</b>	<b>(34.2)</b>	<b>2,952</b>	<b>2,589</b>	<b>14.0</b>
Other income	61	168	(63.6)	73	(16.2)	566	634	(10.7)
<b>EBIT</b>	<b>673</b>	<b>679</b>	<b>(0.9)</b>	<b>1,004</b>	<b>(32.9)</b>	<b>3,518</b>	<b>3,222</b>	<b>9.2</b>
Interest	102	90	13.0	145	(29.3)	474	291	62.9
Exceptional item	-	-	-	-	-	107	25	320.5
<b>EBT</b>	<b>571</b>	<b>589</b>	<b>(3.0)</b>	<b>859</b>	<b>(33.5)</b>	<b>2,937</b>	<b>2,906</b>	<b>1.1</b>
Provision for taxation	173	112	55.3	187	(7.5)	685	273	150.5
<b>Net income</b>	<b>398</b>	<b>477</b>	<b>(16.6)</b>	<b>672</b>	<b>(40.8)</b>	<b>2,252</b>	<b>2,633</b>	<b>(14.5)</b>
Adjustments	-	-	-	-	-	(234)	25	-
<b>Adjusted net income</b>	<b>398</b>	<b>477</b>	<b>(16.6)</b>	<b>672</b>	<b>(40.8)</b>	<b>2,018</b>	<b>2,658</b>	<b>(24.1)</b>
<b>EPS (Rs)</b>	<b>2.8</b>	<b>3.4</b>	<b>(16.6)</b>	<b>4.8</b>	<b>(40.8)</b>	<b>14.4</b>	<b>18.9</b>	<b>(24.1)</b>
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	19.7	19.4	30	21.7	(206)	21.7	20.0	173
EBIDTA Margin (Incl. O.I.)	21.0	23.0	(204)	22.8	(187)	24.2	22.9	128
NPM (%)	8.2	9.9	(172)	9.8	(165)	8.8	12.1	(331)
Tax/PBT (%)	30.3	19.0	1,138	21.8	855	23.3	9.4	1,391
Construction/Revenue (%)	65.7	65.7	0	60.4	531	60.4	64.9	(457)

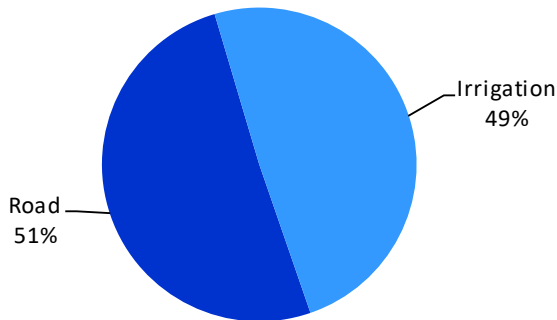
Source: Company, DART

**Exhibit 4: SOTP Valuation**

Component	Valuation Method	Rs/sh	%
Standalone cons business	15x FY22E EPS	286.2	84.9
BOT Toll project – Muzzarpur - Barauni	0.5xBV	3.2	0.9
HAM equity investments (FY22E)	1.2xBV	47.8	14.2
<b>Total</b>		<b>337.2</b>	<b>100.0</b>
CMP		257.1	
Potential upside (%)		31.1	

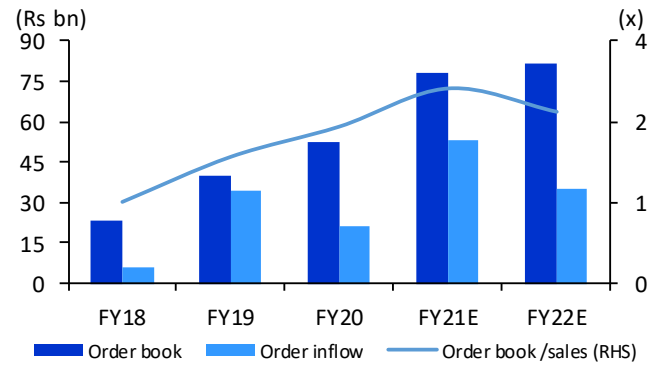
Source: DART, Company

**Exhibit 5: Rs78.5 bn order book break up**



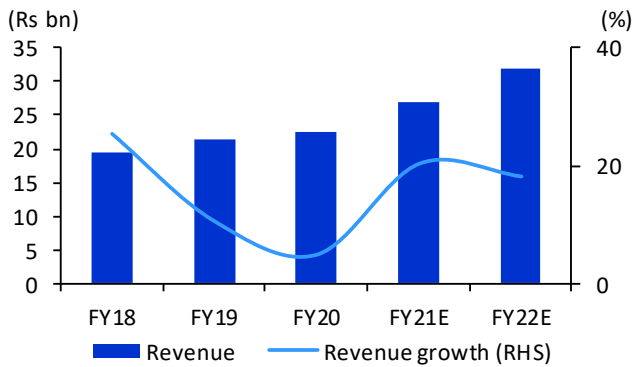
Source: DART, Company

**Exhibit 6: Order book trend**



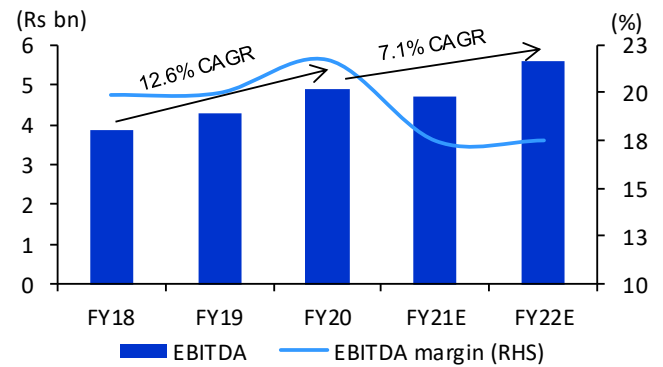
Source: DART, Company

**Exhibit 7: 19.2% Revenue CAGR over FY20-22E**



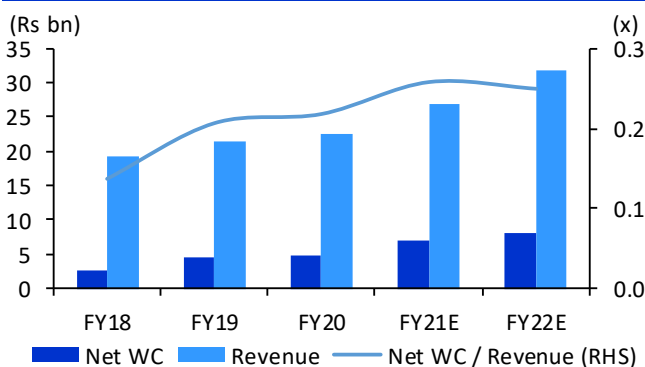
Source: DART, Company

**Exhibit 8: 7.1% EBITDA CAGR over FY20-22E**



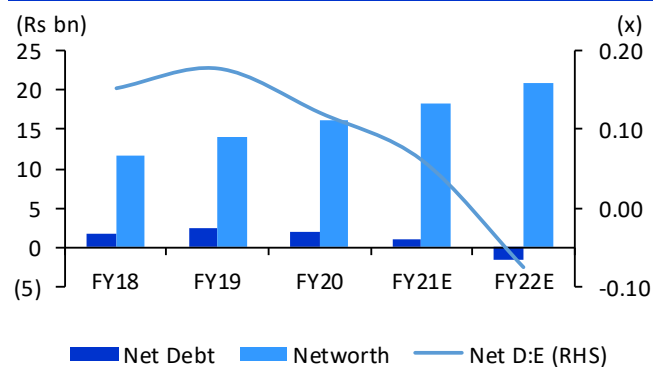
Source: DART, Company

**Exhibit 9: Efficient working capital management**



Source: DART, Company

**Exhibit 10: One of the lowest net D:E in the sector**



Source: DART, Company

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>21,373</b>	<b>22,442</b>	<b>27,000</b>	<b>31,906</b>
<b>Total Expense</b>	<b>17,103</b>	<b>17,572</b>	<b>22,280</b>	<b>26,321</b>
COGS	13,881	13,550	17,995	21,074
Employees Cost	929	1,252	1,315	1,578
Other expenses	2,293	2,770	2,970	3,669
<b>EBIDTA</b>	<b>4,270</b>	<b>4,871</b>	<b>4,720</b>	<b>5,585</b>
Depreciation	1,681	1,918	1,713	2,101
<b>EBIT</b>	<b>2,589</b>	<b>2,952</b>	<b>3,007</b>	<b>3,484</b>
Interest	291	474	330	285
Other Income	634	566	340	407
Exc. / E.O. items	(25)	(107)	0	0
<b>EBT</b>	<b>2,906</b>	<b>2,937</b>	<b>3,016</b>	<b>3,606</b>
Tax	273	685	904	924
RPAT	2,633	2,252	2,112	2,683
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>2,658</b>	<b>2,018</b>	<b>2,112</b>	<b>2,683</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	281	281	281	281
Minority Interest	0	0	0	0
Reserves & Surplus	13,862	15,958	17,999	20,612
<b>Net Worth</b>	<b>14,143</b>	<b>16,239</b>	<b>18,280</b>	<b>20,893</b>
Total Debt	2,641	2,300	1,400	650
Net Deferred Tax Liability	(1,739)	(1,610)	(1,668)	(1,696)
<b>Total Capital Employed</b>	<b>15,045</b>	<b>16,929</b>	<b>18,013</b>	<b>19,847</b>

**Applications of Funds**

Net Block	<b>4,340</b>	<b>4,464</b>	<b>3,853</b>	<b>4,252</b>
CWIP	0	102	0	0
Investments	6,200	7,149	6,937	5,433
<b>Current Assets, Loans &amp; Advances</b>	<b>10,424</b>	<b>13,854</b>	<b>16,417</b>	<b>20,713</b>
Inventories	951	1,232	1,560	1,842
Receivables	2,344	4,761	5,670	5,743
Cash and Bank Balances	130	330	282	2,224
Loans and Advances	65	57	89	105
Other Current Assets	6,932	7,474	8,816	10,799
<b>Less: Current Liabilities &amp; Provisions</b>	<b>5,919</b>	<b>8,639</b>	<b>9,194</b>	<b>10,551</b>
Payables	2,236	2,511	3,008	3,422
Other Current Liabilities	3,683	6,128	6,186	7,129
<i>sub total</i>				
Net Current Assets	4,505	5,215	7,223	10,162
<b>Total Assets</b>	<b>15,045</b>	<b>16,929</b>	<b>18,013</b>	<b>19,847</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	35.1	39.6	33.4	34.0
EBIDTA Margin	20.0	21.7	17.5	17.5
EBIT Margin	12.1	13.2	11.1	10.9
Tax rate	9.4	23.3	30.0	25.6
Net Profit Margin	12.4	9.0	7.8	8.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	64.9	60.4	66.7	66.1
Employee	4.3	5.6	4.9	4.9
Other	10.7	12.3	11.0	11.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.1	0.1	0.0
Interest Coverage	8.9	6.2	9.1	12.2
Inventory days	16	20	21	21
Debtors days	40	77	77	66
Average Cost of Debt	12.0	19.2	17.8	27.8
Payable days	38	41	41	39
Working Capital days	77	85	98	116
FA T/O	4.9	5.0	7.0	7.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	18.9	14.4	15.0	19.1
CEPS (Rs)	30.9	28.0	27.2	34.0
DPS (Rs)	0.5	1.1	0.5	0.5
Dividend Payout (%)	2.6	7.6	3.3	2.6
BVPS (Rs)	100.6	115.5	130.0	148.6
RoANW (%)	20.8	13.4	12.3	13.7
RoACE (%)	21.7	17.8	14.1	15.7
RoAIC (%)	22.1	18.1	14.3	16.8
<b>(E) Valuation Ratios</b>				
CMP (Rs)	257	257	257	257
P/E	13.6	17.9	17.1	13.5
Mcap (Rs Mn)	36,153	36,153	36,153	36,153
MCap/ Sales	1.7	1.6	1.3	1.1
EV	38,663	38,122	37,271	34,579
EV/Sales	1.8	1.7	1.4	1.1
EV/EBITDA	9.1	7.8	7.9	6.2
P/BV	2.6	2.2	2.0	1.7
Dividend Yield (%)	0.2	0.4	0.2	0.2
<b>(F) Growth Rate (%)</b>				
Revenue	10.6	5.0	20.3	18.2
EBITDA	11.2	14.1	(3.1)	18.3
EBIT	3.6	14.0	1.8	15.9
PBT	8.4	1.1	2.7	19.6
APAT	6.9	(24.1)	4.6	27.0
EPS	6.9	(24.1)	4.6	27.0
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,485	3,941	1,935	3,910
CFI	(2,865)	(2,843)	(842)	(863)
CFF	72	(898)	(1,141)	(1,105)
FCFF	451	1,905	935	1,410
Opening Cash	438	130	330	282
Closing Cash	130	330	282	2,224

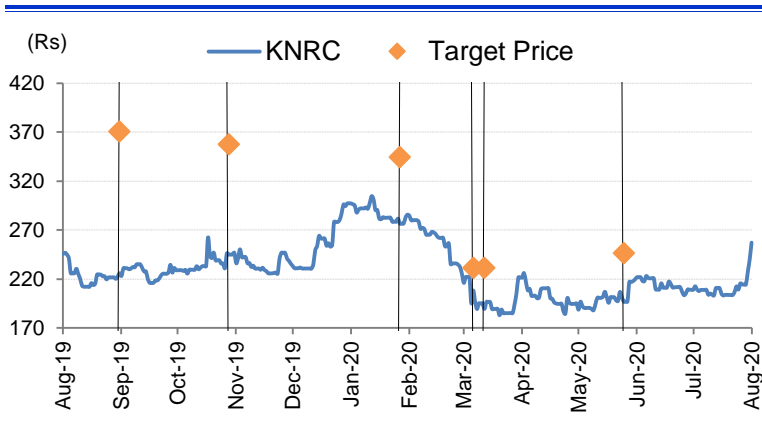
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Jun-20	Buy	247	197

\*Price as on recommendation date

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