

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

- KNR posted revenue in line however, EBITDA margins and PAT above estimates.
- KNR posted 10.1%/ -1.4%/ 19.5% YoY growth in revenue/ EBITDA/ Adj. PAT to Rs6.0 bn/ Rs1.2 bn/ Rs611 mn in Q2FY21.
- We maintain our revenue estimates and slightly increase our EBITDA margin estimates by 213/ 49 bps for FY21E/ FY22E factoring H1FY21 results. Accordingly, we increased our APAT estimates by 17.0%/ 2.4% for FY21E/ FY22E. We introduce FY23E. Labour availability currently stands at 80% (60% in Aug'20) which is expected to increase to 100% post festive season.
- We expect a 18.8%/ 19.0% revenue/ APAT CAGR over FY20-23E, with EBITDA margins of 19.6%/ 18.0%/ 18.0% for FY21E/ FY22E/ FY23E. 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 Rs387 (15x Sep'22E EPS and 1.2x PB for HAM investment).

**Orderbook of Rs85.5 bn provides revenue visibility of 3.7x TTM revenue**  
KNR won orders worth Rs21 bn/ Rs39.7 bn during FY20/ YTD FY21, taking the order book to Rs85.5 bn (Q2FY21) providing revenue visibility for 3.7x TTM revenue. We expect order inflow of Rs59.7 bn (Rs39.7 bn already received) / Rs35 bn/ Rs40 bn in FY21E/ FY22E/ FY23E.

### HAM equity investment

KNR invested Rs2 bn/ Rs2.3 bn till FY20/ H1FY21 in five HAM projects. We factor equity investment of Rs3.5 bn in FY21E and reduction of Rs312 mn in FY22E (49% stake sale in 3 HAM to Cube Highways on COD) and addition of Rs1.75 bn in FY23E.

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	6,012	5,462	10.1	4,794	25.4
Total Expense	4,772	4,204	13.5	3,850	23.9
EBITDA	1,240	1,258	(1.4)	943	31.5
Depreciation	352	475	(26.0)	331	6.3
EBIT	889	783	13.6	612	45.1
Other Income	76	256	(70.3)	61	24.4
Interest	158	98	61.8	102	54.6
EBT	694	901	(22.9)	571	21.5
Tax	196	200	(1.9)	173	13.0
RPAT	498	701	(28.9)	398	25.2
APAT	611	431	41.8	398	53.5
			(bps)		(bps)
Gross Margin (%)	34.5	42.2	(773)	34.3	19
EBITDA Margin (%)	20.6	23.0	(239)	19.7	95
NPM (%)	10.2	7.9	227	8.3	186
Tax Rate (%)	28.2	22.2	605	30.3	(214)
EBIT Margin (%)	14.8	14.3	45	12.8	201

CMP	Rs 255
Target / Upside	Rs 387 / 52%
NIFTY	12,720

### Scrip Details

Equity / FV	Rs 281mn / Rs 2
Market Cap	Rs 36bn
	USD 481mn
52-week High/Low	Rs 312/ 171
Avg. Volume (no)	195,645
Bloom Code	KNRC IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	18	10
Rel to NIFTY (%)	(8)	5	2

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	55.2	55.0	55.0
MF/Banks/FIs	32.6	34.0	34.3
FIs	1.9	1.6	1.5
Public / Others	10.4	9.3	9.1

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	14.5	13.0	10.5
EV/EBITDA	6.7	6.1	5.0
ROE (%)	14.3	13.8	14.9
RoACE (%)	16.7	15.8	16.7

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	27,140	31,909	37,644
EBITDA	5,321	5,742	6,776
PAT	2,470	2,748	3,403
EPS (Rs.)	17.6	19.5	24.2

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**Exhibit 1: Actual V/s DART estimates (Rs mn)**

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	6,012	5,940	1.2	In line with estimates
EBITDA (Rs mn)	1,240	1,009	23.0	-
EBITDA%	20.6	17.0	365	Lower than expected construction, employee and other expense
PAT (Rs mn)	611	428	42.8	Led by better operating performance

Source: Company, DART

**Exhibit 2: Change in estimates – Broadly maintain FY21E/ FY22E and introduce FY23E estimates**

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% change	New	Old	% change	New	Old	% change
Net revenues	27,140	27,000	0.5	31,909	31,906	0.0	37,644	-	-
EBIDTA	5,321	4,720	12.7	5,742	5,585	2.8	6,776	-	-
EBIDTA margin (%)	19.6	17.5	213	18.0	17.5	49	18.0	-	-
Adj. Net Profit	2,470	2,112	17.0	2,748	2,683	2.4	3,403	-	-
EPS (Rs)	17.6	15.0	17.0	19.5	19.1	2.4	24.2	-	-

Source: DART, Company

## Key earnings takeaways

- Industry: NHAI has awarded 1330 kms (28% HAM) YTD FY21 vs target of 4,500 kms for FY21E. Rs2 tn worth of projects are expected to be awarded in H2FY21E. Expect awarding activity to increase in H2FY21E. Govt has tweaked HAM model where interest rate is now linked to average MCLR of top 5 banks + 1.75%. Payment are now disbursed in 10 milestones vs. 5 milestones earlier. This will enhance liquidity and cash flows. Road traffic has now crossed pre covid levels.
- KNR working with 80% efficiency and labour too at 80% strength from 60% in Aug'20. Expect pre covid levels post festive season.
- KNR has bid for 1 project in Telangana. Other opportunities in road are Bengaluru-Chennai and Mumbai Bangalore etc. Order inflow target of additional Rs25-30 bn in FY21E. Revenue guidance of Rs6 bn/ Rs7 bn in Q3FY21/ Q4FY21. 2 new Irrigation orders (Rs23 bn) are expected to start in Jan'21. Expect 17-18% sustainable margins going forward. KNR to focus on road segment, not thinking for water segment.
- Avinashi road project, TN is expected to receive AD by end of Nov'20.
- Physical progress – Chittor – 63.8%, Ramsanpalle – 55.9%, Trichy – 49.9%. KSHIP – 13.94%. KNR expects Chittor/ Ramsanpalle/ Trichy to complete by Feb'21/ Mar'21/ Apr-May'21. Trichy project is delayed due to 5km land not available due to which 14 kms bypass is not opened. Expect delay of 2-3 months in Trichy project.
- Expect Hubli balance order book of Rs1.1 bn to be completed by Mar'21.
- Palamaru lift irrigation 30% completed and receiving funds on time. Rs660 mn are released and expect Rs1.5 bn by Nov'20 for Palamaru. Mallana project 60% completed. Mallana/ Palamaru is expected to complete in 6-8 months/ 1 year+. Palamaru had land issues which are resolved now.
- No impact on execution of NGT issue in Kaleshwaram. Disbursement of funds has started.

- Walayar BOT – Received Rs3.08 bn in Sept'20 of which Rs2.1 bn was utilized to repay promoter debt and Rs980 mn was utilized to repay working capital. Original deal was for Rs3.96 bn but sold for 3.85 bn, thus took a write off Rs60 mn. Rs770 mn is on hold as of now.
- KNR is adding entire equity amount and Cube is not adding its share now. Will sell to Cube on COD. Plans are there to sell Oddanchatram HAM but too early to comment.
- Equity invested as on date is Rs2.27 bn for 5 HAM projects and expect Rs2.4 bn/ Rs1.0 bn/ Rs500 mn in H2FY21E/ FY22E/ FY23E.
- Expect 30%/ 25% tax rate in FY21E/ FY22E.
- Total exposure Rs7.4 bn are outstanding from Telangana government for irrigation projects. Will receive Rs3 bn in Nov'20 and balance in Q4FY21.
- Total debt stands at Rs640 mn and entire promoter loan is repaid.
- Capex guidance of Rs1-1.2 bn for FY21E, done Rs350 mn in Q1FY21. Quarterly depreciation run rate to increase to Rs400 mn.
- Mobilization advance/ Retention money stood at Rs680 mn/ Rs1.5 bn. Unbilled revenue stands at Rs5 bn (Largely for Irrigation and some for Hubli).
- Debtors stands at Rs3.47 bn (Rs1.27 bn for Irrigation and Rs1.77 bn for NHAI).

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

KNR received appointed date for Chittor-Malavaram, Ramsanpalle-Mangloor, Tiruchirapalli-Kallagam and KSHIP HAM (Magadi-Somwarpet). Oddanchatram – Madathukulam AD received on 5 Oct'20 and will monetize the same but too early to comment.

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

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/ H1FY21 stood at Rs453mn/ Rs728 mn/ Rs692 mn/ Rs222.5 mn. Toll collection per day stood at Rs1.3 mn in Q2FY21.

**Exhibit 3: Q2FY21 Performance (Standalone)**

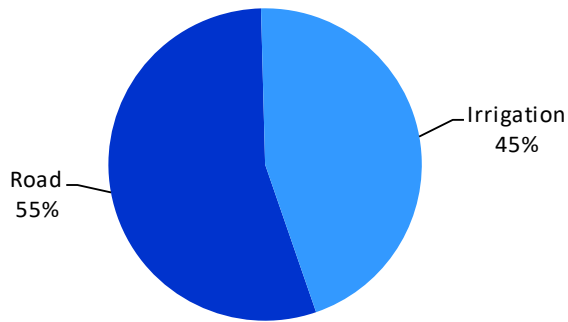
Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Revenue</b>	<b>6,012</b>	<b>5,462</b>	<b>10.1</b>	<b>4,794</b>	<b>25.4</b>	<b>10,806</b>	<b>10,108</b>	<b>6.9</b>
Material consumed	1,905	1,721	10.7	1,899	0.3	3,803	3,581	6.2
Sub-contractors work bills	313	122	157.0	410	(23.6)	723	536	34.8
Spreading & Assortment	1,722	1,314	31.0	842	104.6	2,564	2,093	22.5
Employees cost	293	363	(19.4)	278	5.4	570	634	(10.1)
Other expenditure	539	684	(21.2)	423	27.7	962	1,106	(13.0)
<b>Total expenditure</b>	<b>4,772</b>	<b>4,204</b>	<b>13.5</b>	<b>3,850</b>	<b>23.9</b>	<b>8,622</b>	<b>7,950</b>	<b>8.5</b>
<b>EBITDA</b>	<b>1,240</b>	<b>1,258</b>	<b>(1.4)</b>	<b>943</b>	<b>31.5</b>	<b>2,184</b>	<b>2,158</b>	<b>1.2</b>
Depreciation	352	475	(26.0)	331	6.3	683	864	(21.0)
<b>Operating profit</b>	<b>889</b>	<b>783</b>	<b>13.6</b>	<b>612</b>	<b>45.1</b>	<b>1,501</b>	<b>1,294</b>	<b>16.0</b>
Other income	76	256	(70.3)	61	24.4	137	423	(67.7)
<b>EBIT</b>	<b>965</b>	<b>1,038</b>	<b>(7.1)</b>	<b>673</b>	<b>43.2</b>	<b>1,638</b>	<b>1,717</b>	<b>(4.6)</b>
Interest	158	98	61.8	102	54.6	260	188	38.3
Exceptional item	(112)	(40)	-	-	-	(112)	(40)	-
<b>EBT</b>	<b>694</b>	<b>901</b>	<b>(22.9)</b>	<b>571</b>	<b>21.5</b>	<b>1,265</b>	<b>1,489</b>	<b>(15.0)</b>
Provision for taxation	196	200	(1.9)	173	13.0	369	311	18.6
<b>Net income</b>	<b>498</b>	<b>701</b>	<b>(28.9)</b>	<b>398</b>	<b>25.2</b>	<b>896</b>	<b>1,178</b>	<b>(23.9)</b>
Adjustments	112	(270)	-	-	-	112	(270)	-
<b>Adjusted net income</b>	<b>611</b>	<b>431</b>	<b>41.8</b>	<b>398</b>	<b>53.5</b>	<b>1,009</b>	<b>908</b>	<b>11.1</b>
<b>EPS (Rs)</b>	<b>4.3</b>	<b>3.1</b>	<b>41.8</b>	<b>2.8</b>	<b>53.5</b>	<b>7.2</b>	<b>6.5</b>	<b>11.1</b>
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	20.6	23.0	(239)	19.7	95	20.2	21.3	(114)
EBIDTA Margin (Incl. O.I.)	21.9	27.7	(581)	21.0	94	21.5	25.5	(406)
NPM (%)	10.0	7.5	250	8.2	184	9.2	8.6	60
Tax/PBT (%)	28.2	22.2	605	30.3	(214)	29.2	20.9	828
Construction/Revenue (%)	65.5	57.8	773	65.7	(19)	65.6	61.4	417

Source: Company, DART

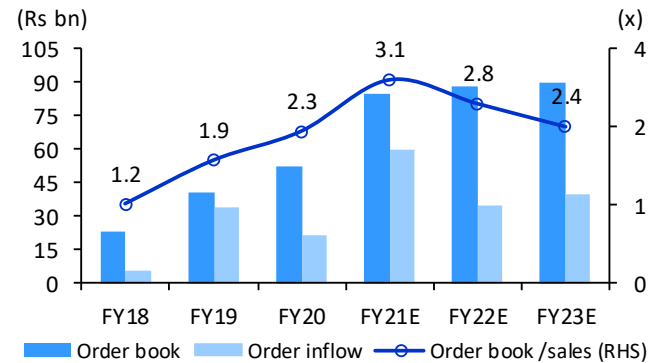
**Exhibit 4: SOTP Valuation**

Component	Valuation Method	Rs/sh	%
Standalone cons business	15x Sep'22E EPS	328.1	84.7
HAM equity investments (FY22E)	1.2x BV	59.1	15.3
Total		387.2	100.0
CMP		254.8	
Potential upside (%)		52.0	

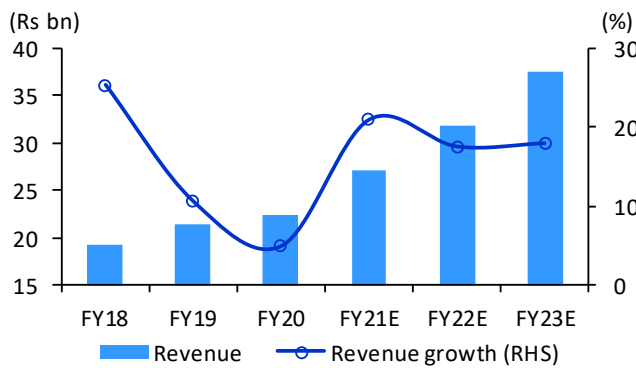
Source: DART, Company

**Exhibit 5: Rs85.5 bn order book break up**


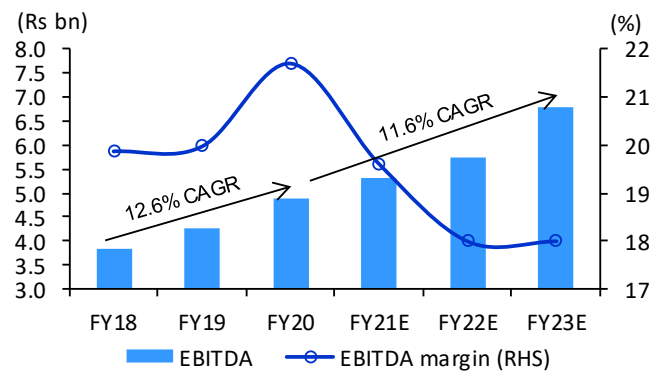
Source: Company, DART

**Exhibit 6: Order book trend**


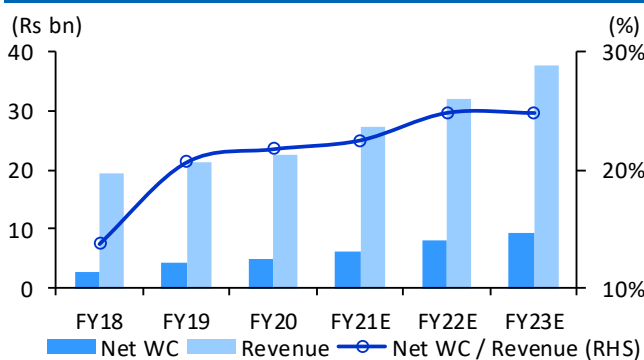
Source: Company, DART

**Exhibit 7: 18.8% Revenue CAGR over FY20-23E**


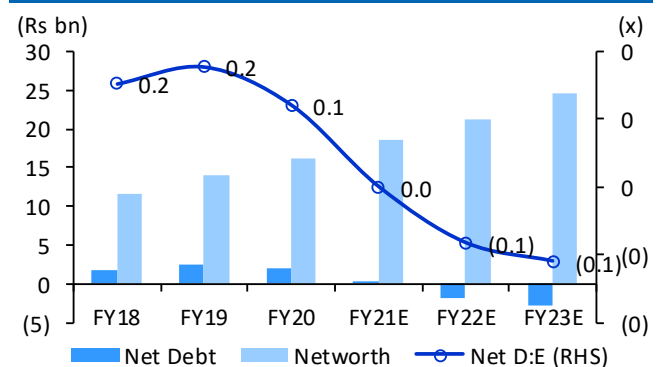
Source: Company, DART

**Exhibit 8: 11.6% EBITDA CAGR over FY20-23E**


Source: Company, DART

**Exhibit 9: Efficient working capital management**


Source: Company, DART

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


Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>22,442</b>	<b>27,140</b>	<b>31,909</b>	<b>37,644</b>
<b>Total Expense</b>	<b>17,572</b>	<b>21,819</b>	<b>26,166</b>	<b>30,868</b>
COGS	13,550	17,519	20,919	24,645
Employees Cost	1,252	1,315	1,578	1,893
Other expenses	2,770	2,985	3,669	4,329
<b>EBIDTA</b>	<b>4,871</b>	<b>5,321</b>	<b>5,742</b>	<b>6,776</b>
Depreciation	1,918	1,726	2,130	2,319
<b>EBIT</b>	<b>2,952</b>	<b>3,595</b>	<b>3,612</b>	<b>4,457</b>
Interest	474	420	285	285
Other Income	566	306	367	403
Exc. / E.O. items	(107)	(112)	0	0
<b>EBT</b>	<b>2,937</b>	<b>3,368</b>	<b>3,694</b>	<b>4,575</b>
Tax	685	1,010	946	1,172
RPAT	2,252	2,358	2,748	3,403
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>2,018</b>	<b>2,470</b>	<b>2,748</b>	<b>3,403</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	281	281	281	281
Minority Interest	0	0	0	0
Reserves & Surplus	15,958	18,245	20,923	24,256
<b>Net Worth</b>	<b>16,239</b>	<b>18,526</b>	<b>21,204</b>	<b>24,537</b>
Total Debt	2,297	1,000	1,000	1,000
Net Deferred Tax Liability	(1,610)	(1,674)	(1,704)	(1,740)
<b>Total Capital Employed</b>	<b>16,926</b>	<b>17,852</b>	<b>20,501</b>	<b>23,797</b>

### Applications of Funds

Net Block	4,464	4,014	4,384	3,564
CWIP	102	0	0	0
Investments	7,149	6,742	6,430	8,180
<b>Current Assets, Loans &amp; Advances</b>	<b>13,854</b>	<b>16,125</b>	<b>20,182</b>	<b>24,428</b>
Inventories	1,232	1,527	1,832	2,161
Receivables	4,761	4,885	5,744	6,776
Cash and Bank Balances	330	990	1,766	2,714
Loans and Advances	57	87	105	123
Other Current Assets	7,474	8,635	10,736	12,654
<b>Less: Current Liabilities &amp; Provisions</b>	<b>8,642</b>	<b>9,028</b>	<b>10,494</b>	<b>12,374</b>
Payables	2,511	2,946	3,402	4,013
Other Current Liabilities	6,131	6,082	7,093	8,361
<i>sub total</i>				
Net Current Assets	5,212	7,097	9,687	12,054
<b>Total Assets</b>	<b>16,926</b>	<b>17,852</b>	<b>20,501</b>	<b>23,797</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	39.6	35.5	34.4	34.5
EBIDTA Margin	21.7	19.6	18.0	18.0
EBIT Margin	13.2	13.2	11.3	11.8
Tax rate	23.3	30.0	25.6	25.6
Net Profit Margin	9.0	9.1	8.6	9.0
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	60.4	64.6	65.6	65.5
Employee	5.6	4.8	4.9	5.0
Other	12.3	11.0	11.5	11.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	6.2	8.6	12.7	15.6
Inventory days	20	21	21	21
Debtors days	77	66	66	66
Average Cost of Debt	19.2	25.5	28.5	28.5
Payable days	41	40	39	39
Working Capital days	85	95	111	117
FA T/O	5.0	6.8	7.3	10.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	14.4	17.6	19.5	24.2
CEPS (Rs)	28.0	29.8	34.7	40.7
DPS (Rs)	1.1	0.5	0.5	0.5
Dividend Payout (%)	7.6	2.8	2.6	2.1
BVPS (Rs)	115.5	131.8	150.8	174.5
RoANW (%)	13.4	14.3	13.8	14.9
RoACE (%)	17.8	16.7	15.8	16.7
RoAIC (%)	18.1	17.3	17.0	18.5
<b>(E) Valuation Ratios</b>				
CMP (Rs)	255	255	255	255
P/E	17.8	14.5	13.0	10.5
Mcap (Rs Mn)	35,822	35,822	35,822	35,822
MCap/ Sales	1.6	1.3	1.1	1.0
EV	37,789	35,832	35,057	34,109
EV/Sales	1.7	1.3	1.1	0.9
EV/EBITDA	7.8	6.7	6.1	5.0
P/BV	2.2	1.9	1.7	1.5
Dividend Yield (%)	0.4	0.2	0.2	0.2
<b>(F) Growth Rate (%)</b>				
Revenue	5.0	20.9	17.6	18.0
EBITDA	14.1	9.2	7.9	18.0
EBIT	14.0	21.8	0.5	23.4
PBT	1.1	14.7	9.7	23.8
APAT	(24.1)	22.4	11.2	23.8
EPS	(24.1)	22.4	11.2	23.8

### Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,941	3,140	3,248	4,469
CFI	(2,843)	(850)	(2,117)	(3,166)
CFF	(898)	(1,631)	(355)	(355)
FCFF	1,905	1,940	748	2,969
Opening Cash	130	330	990	1,766
Closing Cash	330	990	1,766	2,714

E – Estimates

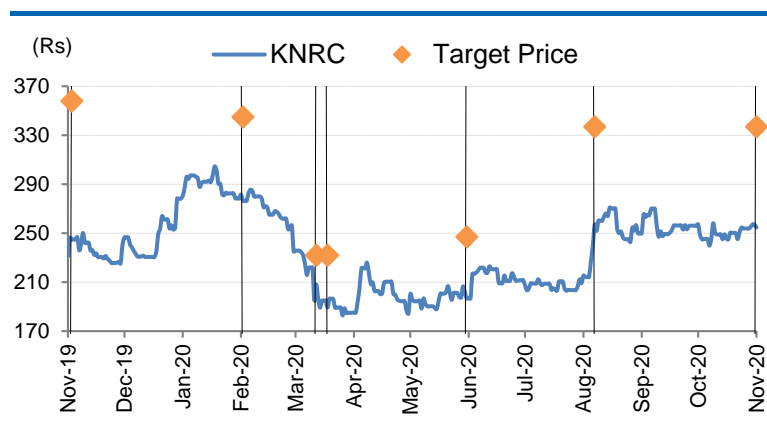


### DART RATING MATRIX

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.)
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
Aug-20	Buy	337	257
Nov-20	Buy	337	255

\*Price as on recommendation date

### DART Team

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