

Retail Equity Research (South India Focus)
KNR Constructions Ltd
Construction & Engineering

BUY

BSE CODE : 532942 NSE CODE: KNRCON
BLOOMBERG CODE: KNRC:IN SENSEX : 51,039

12M Investment Period Rating as per Small Cap
CMP Rs 209 TARGET Rs 259 RETURN 24% ↑
(Closing: 25-02-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Order book provides visibility...

KNR Constructions Ltd (KNR) is a leading EPC player largely focusing on national and state highway projects. KNR has successfully executed ~6,000 lane km road projects across 12 states in India.

- Order book grew by 30% YoY aided by ~Rs4,000cr of inflows in 9MFY21 and with strong order pipeline KNR is targeting for ~Rs 4,000cr of new orders in Q4FY21.
- Q3FY21 revenue grew by 23% YoY as execution efficiency normalised to pre-Covid level.
- EBITDA margin declined by 259bps YoY to 19.7% due to higher sub-contracting and employee cost.
- We expect execution to improve in the coming quarters due to increasing order book and labour availability.
- KNR is diversifying its operation to water and urban infra projects. The road and irrigation projects now constitutes 55:45 of order book.
- We maintain our BUY rating and value core business at a P/E of 15x on FY23E EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price of Rs259.

Strong order pipeline...

The order book is strong at Rs7,664cr which is 3x TTM revenue supported by Rs4,000cr of order inflows in 9MFY21. The order visibility improved as the NHAI bid pipe line is strong and KNR is targeting to get Rs3,000 to Rs4,000cr of fresh orders in Q4FY21. Most of these orders are from the states of AP, Karnataka, Kerala and Punjab, where the company has a geographical advantage. Currently, irrigation works constitute 45% of the order book, provides better margin visibility. Most of its under construction road projects would be finished by Q2FY22 and KNR is also looking for diversifying its order book to water and urban infra projects. Govt's strong thrust on infra and NHAI's strong order pipeline supports growth prospects in the long term.

Execution back to pre-Covid level...

Q3FY21 revenue grew by 23% YoY to Rs683cr as execution efficiency normalized to pre-Covid level. The management expects FY21E/FY22E top-line of Rs 2,500 and Rs 2,800cr. KNR has bid for 15 projects, totaling of Rs20,000cr and expects to get 2 to 3 HAM projects. KNR has collected receivables of Rs540cr from Telangana irrigation projects and balance of Rs200cr is left of the old liability. We expect top-line to grow at a CAGR of 26% over FY21E-FY23E on account of pick up in execution.

Margins declined...

EBITDA margin declined by 259bps YoY to 19.7% due to higher sub-contracting expenses (134% YoY), employee cost (33% YoY) and other expenses (24% YoY). While higher other income (281% YoY) supported by interest income received from old projects and lower tax rate of 26.9% (vs 31.6% in Q3FY20) led to 66% YoY growth in Adj.PAT to Rs78cr.

Valuations

Healthy balance sheet, strong execution capability with better operational margin to support valuation. While increasing execution efficiency and pick up in order inflow improved the outlook for FY22. We value standalone business at a P/E of 15x FY23E EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price Rs259 & maintain Buy rating.

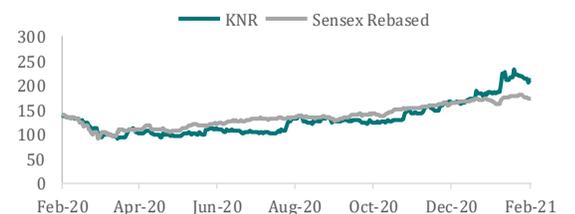
Company Data

Market Cap (cr)	₹ 5,844
Enterprise Value (cr)	₹ 5,958
Outstanding Shares (cr)	28
Free Float	44.97%
Dividend Yield	0.24
52 week high	₹ 242
52 week low	₹ 86
6m average volume (cr)	0.25
Beta	1.05
Face value	₹ 2

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	55.03	55.03	55.03
FII's	1.63	1.54	1.53
MFs/Insti	34.11	34.34	34.27
Public	9.34	9.1	9.16
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	48%	59%	50%
Absolute Sensex	14%	27%	23%
Relative Return*	34%	31%	27%

over or under performance to benchmark index



Standalone (cr)	FY21E	FY22E	FY23E
Sales	2,597	3,229	4,131
Growth (%)	15.7	24.3	27.9
EBITDA	514	646	814
EBITDA Margin(%)	19.8	20.0	19.7
PAT Adj.	234	306	427
Growth (%)	-0.9	31.1	39.3
Adj.EPS	8	11	15
Growth (%)	-0.9	31.1	39.3
P/E	25.3	19.3	13.8
P/B	1.6	1.4	1.1
EV/EBITDA	5.8	4.9	3.9
ROE (%)	13.2	15.1	17.9
D/E	0.1	0.1	0.1

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Research Analyst

SOTP Valuation

Particulars	Invested Equity (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		228	P/E 15x FY23E EPS
BOT Projects	90	6	1x P/BV
HAM	346	25	1x P/BV
Total Value per share		259	

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q3FY21	Q3FY20	% YoY Growth	Q2FY21	% QoQ Growth	9MFY21	9MFY20	% YoY Growth
Sales	686	557.9	23.0	601.2	14.1	1767	1569	12.6
EBITDA	135	124.4	8.7	124.1	9.0	354	340	4.0
EBITDA margins %	19.7	22.3	-2.59	20.6	-0.92	20.0	21.7	-1.67
Depreciation	37.3	51.7	-27.8	35.2	6.1	106	138	-23.5
EBIT	97.9	72.7	34.7	88.9	10.2	248	202	22.7
Interest	18.4	14.2	30.0	15.8	16.6	44	33	34.8
Other Income	26.6	7.0	281.1	7.6	250.1	40	49	-18.3
Exceptional Items						11	11	
PBT	106.1	58.8	80.4	69.4	52.8	233	208	12.0
Tax	28.5	18.6	53.4	19.6	45.7	65	50	31.6
Share of profit from Associate								
Minority Interest								
Reported PAT	77.6	40.2	92.9	49.8	55.7	167	158	5.8
Adjustments	0.0	6.7		11.3		11	7	
Adj PAT	77.6	46.9	65.5	61.1	27.0	178	165	8.4
No. of Shares	28	28		28		28	28	
EPS (Rs)	5.5	3.3	65.5	4.3	27.0	12.7	11.7	8.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	2,427	2,992	2,597	3,229	4,131	7.0	7.9
EBITDA	466	598	514	646	814	10.3	8.0
Margins (%)	19.2	20.0	19.8	20.0	19.7	60bps	0bps
Adj. PAT	188	272	234	306	427	24.4	12.7
EPS	13.4	19.4	8.3	10.9	15.2	24.4	12.7

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY223
Sales	2,137	2,244	2,597	3,229	4,131
% change	11	5	16	24	28
EBITDA	427	487	514	646	814
% change	11	14	6	26	26
Depreciation	168	192	178	225	235
EBIT	259	295	337	421	579
Interest	29	47	64	51	47
Other Income	63	57	48	50	53
PBT	291	294	320	420	585
% change	8	1	9	31	39
Tax	27	68	86	113	158
Tax Rate (%)	9	23	27	27	27
Reported PAT	263	225	234	306	427
Adj.*	10	10.7	0.0	0.0	0.0
Adj. PAT	273	236	234	306	427
% change	-11	-13.7	-0.9	31.1	39.3
No. of shares (cr)	28	28	28	28	28
Adj EPS (Rs)	19	8.4	8.3	10.9	15.2
% change	-11	-13.7	-0.9	31.1	39.3
DPS (Rs)	0.3	0.25	0.26	0.30	0.31

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	13	33	100	173	224
Accounts Receivable	234	476	534	637	815
Inventories	95	123	143	183	235
Other Cur. Assets	557	664	790	938	1,166
Investments	708	781	898	1,077	1,239
Gross Fixed Assets	1,086	1,266	1,366	1,466	1,666
Net Fixed Assets	371	380	264	139	104
CWIP	0	10	5	3	3
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	174	161	187	217	251
Other Assets	118	89	150	150	150
Total Assets	2,270	2,718	3,070	3,516	4,187
Current Liabilities	588	846	941	1,097	1,358
Provisions	16	23	28	31	34
Debt Funds	238	214	214	204	194
Other Liabilities	13	11	10	10	10
Equity Capital	28	28	56	56	56
Reserves & Surplus	1,386	1,596	1,821	2,118	2,535
Shareholder's Fund	1,414	1,624	1,877	2,174	2,591
Total Liabilities	2,270	2,718	3,070	3,516	4,187
BVPS	101	115	134	155	184

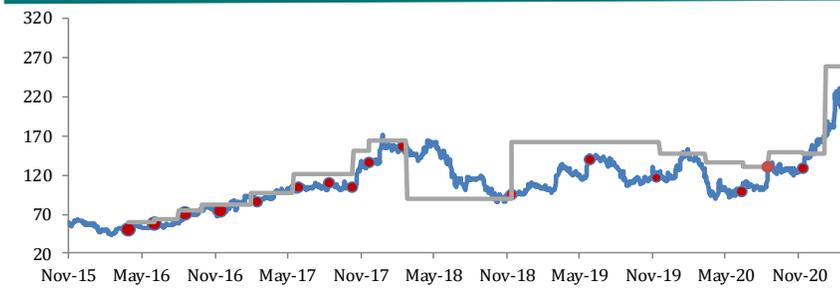
CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20E	FY21E	FY22E	FY23E
Net inc. + Depn.	459	486	498	645	820
Non-cash adj.	-22	-14	-14	-64	-114
Changes in W.C	-95	-112	-104	-131	-194
C.F. Operation	309	372	354	419	476
Capital exp.	-200	-190	-95	-98	-200
Change in inv.	0	0	0	0	0
Other invest.CF	24	-7	-9	2	3
C.F - Investment	-348	-270	-221	-276	-359
Issue of equity	0	0	0	0	0
Issue/repay debt	-10	5	-61	-10	-10
Dividends paid	-4	-4	-8	-10	-10
Other finance.CF	-29	-50	-65	-51	-47
C.F - Finance	9	-82	-95	-71	-67
Chg. in cash	-31	20	38	73	51
Closing cash	13	33	100	173	224

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	20.0	21.7	19.8	20.0	19.7
EBIT margin (%)	12.1	13.2	13.0	13.0	14.0
Net profit mgn.(%)	12.8	10.5	9.0	9.5	10.3
ROE (%)	21.3	15.5	13.2	15.1	17.9
ROCE (%)	19.6	15.3	14.2	15.4	17.9
W.C & Liquidity					
Receivables (days)	39.8	57.8	71.0	66.2	64.1
Inventory (days)	37.1	48.0	49.3	47.3	46.2
Payables (days)	98.5	104.3	92.7	72.5	55.2
Current ratio (x)	1.5	1.5	1.6	1.7	1.8
Quick ratio (x)	0.4	0.6	0.7	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	2.2	1.9	2.0	2.3	2.6
Total asset T.O (x)	1.0	0.9	0.9	1.0	1.1
Int. covge. ratio (x)	8.8	6.2	5.2	8.2	12.4
Adj. debt/equity (x)	0.17	0.13	0.11	0.09	0.07
Valuation					
EV/Sales (x)	1.5	1.4	1.2	1.0	0.8
EV/EBITDA (x)	7.4	6.3	5.8	4.9	3.9
P/E (x)	21.6	25.0	25.3	19.3	13.8
P/BV (x)	2.1	1.8	1.6	1.4	1.1

Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-March-16	BUY*	119
06-June-16	Accumulate	128
23-August-16	Hold	151
17-November-16	Accumulate	164
19-February-17	Accumulate	194
02-June-17	Buy	243
18-August-17	Accumulate	242
13-October-17	Buy	242
23-November-17	Accumulate	302
26-February-18	Accumulate	329
21-November-18	Reduce	180
6-June-19	Accumulate	162
21-November-19	Buy	148
16-March-20	Buy	136
16-June-20	Buy	130
20-August-20	Buy	150
17-November-20	Buy	147
25-February-21	Buy	259

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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