

## Strong execution again; healthy growth outlook...

KNR Constructions reported a robust set of Q3FY21 numbers wherein standalone revenue improved 23% YoY to ₹ 686.3 crore, reflecting the sharp pick-up in execution aided by healthy order book position and normalisation of labour availability/raw material supply chain post Covid-19 related disruptions. Furthermore, EBITDA margins, at 19.7%, were down 258 bps YoY, on account of project mix. At the PAT level, robust operating performance coupled with lower depreciation expense translated to 93% YoY growth to ₹ 77.6 crore.

## Healthy order book position; execution to pick up ahead

KNR's order book was robust at ₹ 7,664 crore (3.1x order book to TTM revenues), mainly contributed by irrigation (45%), roads - HAM (30%) and roads - EPC (25%) segments. Additionally, KNR secured a road EPC project worth ₹ 539 crore in Tamil Nadu in January, 2021, strengthening its order book further. Going forward, the company has submitted bids for 16 road projects (15 HAM, one EPC) worth ~₹ 20,000 crore and aims to bag ~₹ 3,000-4,000 crore of orders in remainder of FY21. On execution front, its healthy pace is likely to continue with strong order book position and desired level of labours, raw material on-site. With these, the management expects revenue to reach ₹ 2,500 crore in FY21E and has guided for 15-20% growth in FY22E. Also, operating margin is likely to sustain at 18%+, going ahead.

## Dues from Telangana sharply come down; at net debt-free level

Telangana dues have come down to ₹ 290 crore (including ₹ 140 crore old dues and new billed and unbilled revenues) by Q3 end, mainly backed by receipt of funds worth ~₹ 540 crore in November 2020. The management expects further reduction with older dues getting cleared by FY21 end. Additionally, KNR has infused ₹ 346 crore equity towards HAM projects and remaining equity commitment is ₹ 280 crore. It has guided for ₹ 90 crore further equity infusion in Q4FY21 and ₹ 139 crore, ₹ 50 crore infusion in FY22, FY23, respectively that is likely to be supported by internal cash generation. During Q3FY20, standalone gross debt was at ₹ 16 crore, with ₹ 43 crore of cash, KNR remained net cash. Net working capital moderated to 54 days (vs. 44 days) largely driven HAM receivables of ₹ 333 crore, as the company has not drawn debt at SPV levels.

## Valuation & Outlook

KNR is a proxy play on increased focus on roads and overall infrastructure push. Considering a) strong execution, b) elevated level of margins, c) best in class working capital cycle, d) monetisation of BOT/HAM assets, e) healthy balance sheet, and f) strong return ratios, we maintain **BUY** on the stock with a revised SoTP target price of ₹ 270 (₹ 260, earlier).



### Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,238.4
Total Debt (FY20)	214.1
Cash (FY20)	33.1
EV	6,419.5
52 week H/L (₹)	242/ 86
Equity capital	56.2
Face value	2.0

### Key Highlights

- Total backlog at ~₹ 7,664 crore, provides strong revenue visibility of two to three years
- Maintain BUY with target price of ₹ 270/share

### Key Risks to our Call

- Delay in Telangana's remaining receivables collection
- Weaker than expected execution

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar  
lokesh.kashikar@icicisecurities.com

### Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	2,137.3	2,244.2	2,523.6	2,962.8	3,535.8	16.4%
EBITDA	427.0	487.1	491.6	563.5	690.2	12.3%
EBITDA Margin (%)	20.0	21.7	19.5	19.0	19.5	
PAT	263.3	225.2	259.1	303.6	390.6	20.1%
EPS (₹)	18.7	16.0	9.2	10.8	13.9	
P/E (x)	11.9	14.0	24.3	20.7	16.1	
EV/EBITDA (x)	15.3	13.2	12.7	10.9	8.7	
RoNW (%)	18.6	13.9	13.8	14.0	15.3	
RoCE (%)	19.0	19.0	20.5	18.6	21.0	

**Exhibit 1: Variance analysis**

Particulars	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	686.3	619.0	557.9	23.0	601.2	14.2	Strong execution led to topline beat
Other Income	26.6	15.0	7.0	281.3	7.6	250.1	
Consumption of raw materials	214.1	198.1	175.2	22.2	190.5	12.4	
Employee benefit expenses	40.2	31.0	30.3	32.8	29.3	37.6	
Other Expenses	91.0	58.8	77.3	17.8	53.9	68.7	
EBITDA	135.3	117.6	124.4	8.8	124.0	9.0	
EBITDA Margin(%)	19.7	19.0	22.3	-258 bps	20.6	-92 bps	
Depreciation	37.3	37.1	51.7	-27.8	35.2	6.1	
Interest	18.4	14.0	14.2	30.1	15.8	16.6	
PBT	106.1	81.5	65.5	62.0	80.7	31.5	
Taxes	28.5	20.5	18.6	53.4	19.6	NM	
<b>PAT</b>	<b>77.6</b>	<b>54.2</b>	<b>40.2</b>	<b>93.0</b>	<b>49.8</b>	<b>55.7</b>	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20		FY21E			FY22E			FY23E			Comments
	Old	New	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	2,244.2	2,523.6	2,942.2	2,962.8	0.7	3,529.0	3,535.8	0.2	Realign estimates post Q3			
EBITDA	487.1	491.6	557.8	563.5	1.0	688.1	690.2	0.3				
EBITDA Margin (%)	21.7	19.5	19.0	19.0	6 bps	19.5	19.5	2 bps				
PAT	225.2	259.1	274.3	303.6	10.7	359.6	390.6	8.6				
Diluted EPS (₹)	8.0	9.2	9.8	10.8	10.7	12.8	13.9	8.6				

Source: Company, ICICI Direct Research

## Conference call Highlights

- Ordering & Construction activity:** Construction activities across the infrastructure sector have picked-up in Q3FY21 mainly aided by improved labour availabilities (strength has reached at pre-Covid level), smoothening of supply chain, and passage of monsoon period. During 9MFY21, road construction stood at ~8,200km (up 8% YoY). Additionally, project awarding has witnessed significant improvement across major segments such as roads, urban infrastructure, water infrastructure and irrigation. Particularly, NHAI has awarded 2,423 km during 9MFY21. Going forward, the management expects tendering activities to remain robust (mainly in the road sector) backed by strong visibility provided by NHAI's healthy bidding pipeline of ₹ 72,000 crore (HAM's share: 55%, EPC: 38%, BOT: 2%). NHAI is aiming to award 4,800-5,000km during FY21 (vis-à-vis initial target of 4,500 km)
- Order book and inflows:** KNR's order book at the end of December 2020 was robust at ₹ 7,664 (~3.1x order book to TTM revenues), mainly contributed by irrigation (45%), roads - HAM (30%) and roads - EPC (25%) segments. Additionally, KNR has secured a road EPC project worth ₹ 539 crore in Tamil Nadu post December 2020. During YTD FY21, total inflows for the company were at ~₹ 4,000 crore. Going forward, the company has submitted bids for 16 road projects (15 HAM, one EPC) worth ~₹ 20,000 crore and aims to bag ~₹ 3,000-4,000 crore of orders in the remainder of FY21
- Guidance:** Project execution has gathered pace during Q3FY21 with improved labour availability and the company is currently operating at pre-Covid efficiency levels. With these, the management expects overall revenue to reach ₹ 2,500 crore in FY21E and has guided for 15-20% growth in FY22E. Additionally, operating margin is likely to sustain at 17-18% with a better project mix
- HAM projects:** KNR has received appointed date for KNR Palani Infra (Oddanchatram to Madathukulam) project having bid project cost of ₹ 920 crore on October 5, 2020. With these, all of its five HAM projects are under executions. The physical progress on these projects are: a) Trichy-Kallagam: 58.9%, b) Chittor-Mallavaram: 72.1%, c) Ramsanpalle-Mangloor: 64.2% d) Magadi-Somwarpeth: 22.4% and e) Oddanchatram-Madathukulam: 14.0%. The management has guided to complete first three projects by June 2021
- Equity requirement:** Out of the total equity requirement of ₹ 624.3 crore, KNR has already infused ₹ 345.6 crore equity towards the HAM projects till December 2020. The management has guided for ₹ 90 crore, ₹ 139 crore / ~₹ 50 crore equity infusion towards HAM projects during Q4FY21E, FY22E, FY23E, respectively
- Irrigation project:** The status of its four major projects in the irrigation segments are: a) Mallana Sagar (Megha Engineering): ₹ 195 crore outstanding order book value; likely to get completed by Q1FY22, b) Venkatadri Reservoir bund (Navayuga Engineering) project: ₹775 crore outstanding order book value; likely to get completed over next one year, and c) Kaleshwaram Project: work on first package started during Q3FY21 while work on the second project will commence in Q1FY22. Additionally, old dues from Telangana government have significantly came down from ₹ 680 crore in September 2020-end to ₹ 140 crore by December 2020-end. Currently, the company has ₹ 290 crore (including unbilled revenues) of total exposure towards Telangana government which the management expects to reduce further by March 2021-end

- **Debt:** KNR's standalone debt has declined to ₹ 16 crore at the end of December 2020. Additionally, cash and cash equivalent was at 43 crore, aiding company to achieve net debt free status at standalone level. Its consolidated debt/cash at the end of Q3FY21 was at ₹ 750 crore/ ₹ 75crore, respectively
- **Other income and interest cost:** KNR executed a project in Karnataka around a decade back, which was given to a sub-contractor for implementation on back-to-back basis. On this project, the company has received ~₹ 12.5 crore as interest income from authority during Q3FY21 (accounted under other income), which got passed-on to sub-contractor (accounted under finance cost). Adjusted to this accounting, the management expects interest cost to remain lower at ₹ 6-7 crore on a quarterly basis, going forward
- **Capex:** KNR incurred a capex of ₹ 60 crore during 9MFY21 and expects to incur another ~₹ 40 crore during Q4FY21. Similarly, the company expects capex to remain at ₹ 100-120 crore in FY22
- **Working capital:** Working capital days were at 55 days at the end Q3FY21 (vis-à-vis 44 days in end-Q2FY21) as the company has not drawn new debt at HAM levels. Majority of incremental debtor is from HAM projects

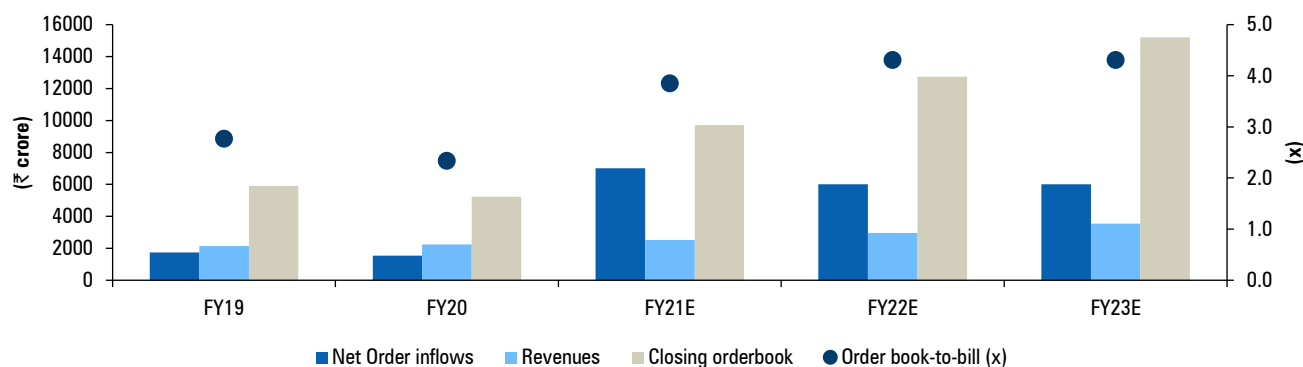
## Company Analysis

Exhibit 3: Order book update

Key Projects	(₹ crore)
Elevated Highway along Avinashi Road in Coimbatore City (EPC)	1025
Magadi to Somwarpath Project (KSHIP HAM)	698
Oddanchatram to Madathukulam Project (HAM)	551
Ramsanpalle to Mangloor Project (HAM)	388
Chittor to Mallavarm Project (HAM)	374
Trichy to Kallagam Project (HAM)	316
<b>Top six projects</b>	<b>3352.2</b>
Other Road projects	845.9
<b>Irrigation projects</b>	<b>3465.6</b>
Other projects	
<b>Total</b>	<b>7663.7</b>

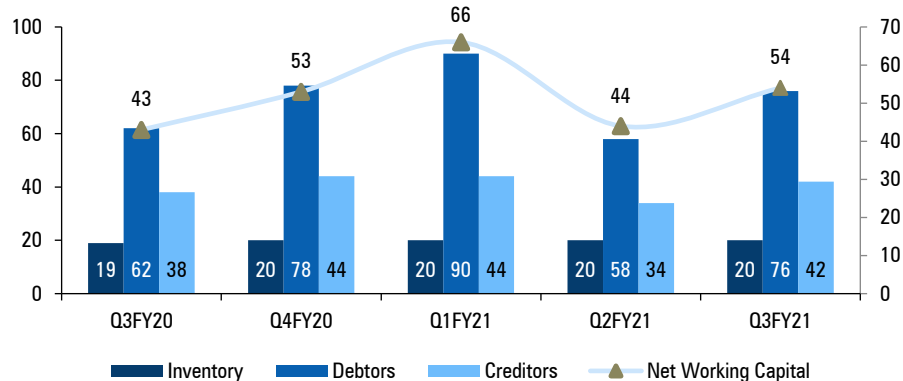
Source: Company, ICICI Direct Research

Exhibit 4: Strong order book position



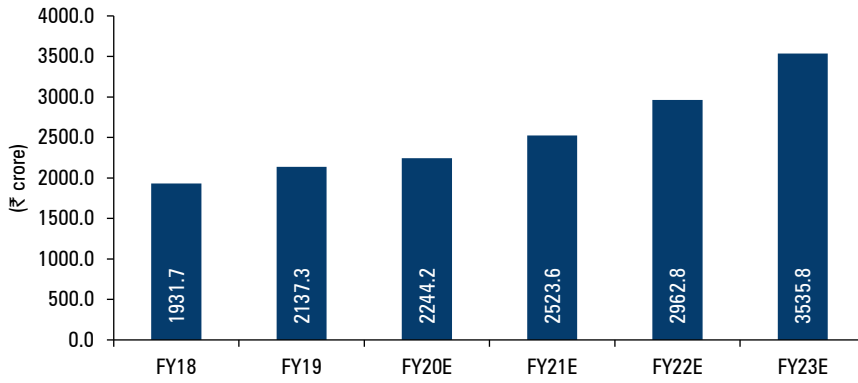
Source: Company, ICICI Direct Research

Exhibit 5: Net working capital days trend



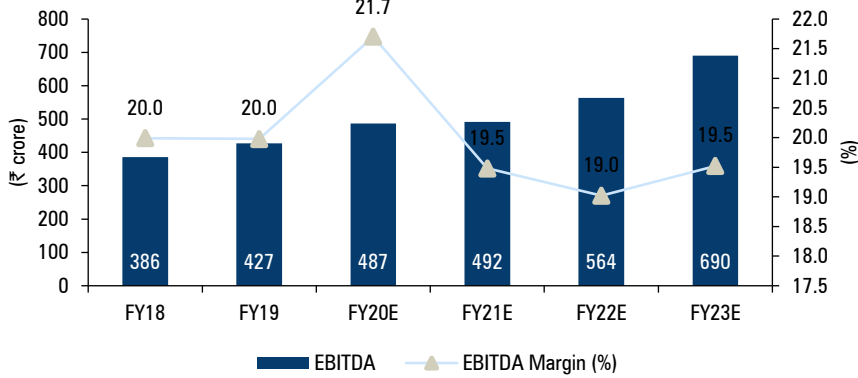
Source: Company, ICICI Direct Research

Exhibit 6: Revenue recovery better than anticipated



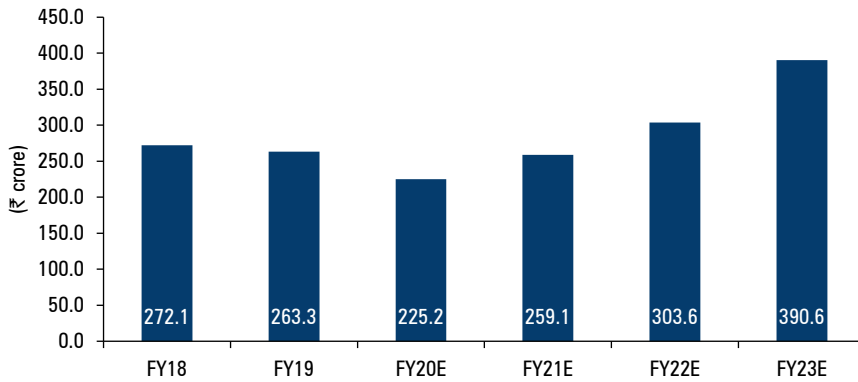
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA & EBITDA margin trend



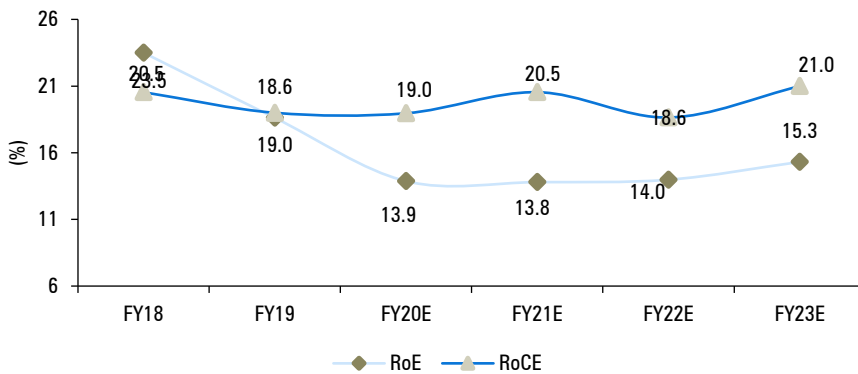
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

## Valuation & Outlook

The company is a focused road based EPC player that enjoys a strong execution track record with the reputation of completing projects on time/ahead of the schedule. KNR also enjoys best in class WC cycle with very healthy balance sheet and strong return ratio. With net debt free position at standalone levels, equity commitment is likely to be supported by internal cash generation and irrigation dues recovery and should not entail new debt at standalone levels

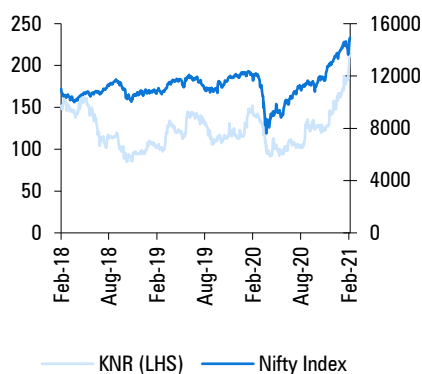
Hence, we maintain our **BUY** recommendation on the stock with an SoTP based revised target price of ₹ 270/share. We value its core EPC business at ₹ 255/share (10x FY23E EV/EBITDA).

Exhibit 10: SoTP valuation

	Value (₹ crore)	Per Share (₹ )	Comment
<b>EPC Business (A)</b>	<b>6902</b>	<b>245</b>	10x FY23E EV/EBITDA
<b>BOT toll Investment (B = C+D)</b>	<b>90</b>	<b>3</b>	
Muzaffarpur tollway (D)	90	3	1x P/BV
<b>HAM Projects Investment (E)</b>	<b>346</b>	<b>12</b>	1x P/BV
<b>Total Equity Investment (F=B+E)</b>	<b>436</b>	<b>16</b>	
Less: Net Debt (G)	-280	-10	FY23E Net Debt
<b>SoTP Value (A + F-G)</b>	<b>7618</b>	<b>271</b>	
<b>Rounded-off target price</b>		<b>270</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	2,244.2	2,523.6	2,962.8	3,535.8
Other operating income	-	-	-	-
<b>Total Revenues</b>	<b>2,244.2</b>	<b>2,523.6</b>	<b>2,962.8</b>	<b>3,535.8</b>
Raw Material Expense	753.3	807.5	948.1	1,131.4
Other Construction Exp.	601.7	772.2	918.5	1,096.1
Employee benefit expenses	125.2	140.8	165.3	197.3
Other Expenses	277.0	311.4	367.4	420.8
<b>Total Operating Exp</b>	<b>1,757.2</b>	<b>2,032.0</b>	<b>2,399.3</b>	<b>2,845.6</b>
EBITDA	<b>487.1</b>	<b>491.6</b>	<b>563.5</b>	<b>690.2</b>
Other Income	56.6	57.1	66.8	78.3
Interest	47.4	42.0	27.2	28.8
Depreciation	191.8	146.8	197.2	217.5
<b>PBT</b>	<b>304.4</b>	<b>359.8</b>	<b>405.9</b>	<b>522.2</b>
Total Tax	68.5	100.7	102.3	131.6
Reported PAT	235.9	259.1	303.6	390.6
<b>Adjusted PAT</b>	<b>235.9</b>	<b>259.1</b>	<b>303.6</b>	<b>390.6</b>
<b>EPS (Diluted)</b>	<b>8.0</b>	<b>9.2</b>	<b>10.8</b>	<b>13.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
₹ crore	FY20	FY21E	FY22E	FY23E
<b>Profit before Tax</b>	<b>304.4</b>	<b>359.8</b>	<b>405.9</b>	<b>522.2</b>
Depreciation	191.8	146.8	197.2	217.5
Interest Paid	47.4	42.0	27.2	28.8
<b>Cash Flow before WC changes</b>	<b>476.3</b>	<b>491.6</b>	<b>563.5</b>	<b>690.2</b>
Net Increase in Current Assets	(350.5)	(115.0)	(284.8)	(338.5)
Net Increase in Current Liabilities	286.7	118.7	172.7	225.3
<b>Net CF from Operating Activities</b>	<b>338.2</b>	<b>394.5</b>	<b>349.2</b>	<b>445.4</b>
(Purchase)/Sale of Fixed Assets	(198.7)	(100.0)	(150.0)	(150.0)
Purchase of Investment	(70.2)	(102.5)	(155.8)	(148.0)
Interest Income	(56.6)	(57.1)	(66.8)	(78.3)
<b>Net CF from Investing Activities</b>	<b>(212.3)</b>	<b>(145.4)</b>	<b>(239.0)</b>	<b>(219.7)</b>
Proceeds from share capital	-	-	-	-
Interest Paid	47.4	42.0	27.2	28.8
<b>Net CF from Financing Activities</b>	<b>(105.9)</b>	<b>(201.8)</b>	<b>33.7</b>	<b>(120.5)</b>
<b>Net Cash flow</b>	<b>20.1</b>	<b>47.4</b>	<b>143.9</b>	<b>105.2</b>
Opening Cash/ Cash Equivalent	13.0	33.1	80.4	224.3
<b>Closing Cash/ Cash Equivalent</b>	<b>33.1</b>	<b>80.4</b>	<b>224.3</b>	<b>329.4</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Share Capital	28.1	56.2	56.2	56.2
Reserves & Surplus	1,595.8	1,821.5	2,116.0	2,494.9
<b>Networth</b>	<b>1,623.9</b>	<b>1,877.8</b>	<b>2,172.2</b>	<b>2,551.1</b>
Secured Loan	33.7	59.5	129.5	49.5
Unsecured Loan	180.5	-	-	-
<b>Total Debt</b>	<b>214.1</b>	<b>59.5</b>	<b>129.5</b>	<b>49.5</b>
Deferred Tax Liability	-	-	-	-
<b>Total Liabilities</b>	<b>1,856</b>	<b>1,956</b>	<b>2,323</b>	<b>2,625</b>
<b>Assets</b>				
Gross Block	1,211.1	1,311.1	1,461.1	1,611.1
Net Block	377.9	331.1	283.9	216.4
Capital WIP	10.2	10.2	10.2	10.2
Non-current Investments	755.7	858.2	1,014.0	1,162.0
<b>Current Assets</b>				
Inventories	123.2	138.3	162.3	193.7
Sundry Debtors	476.1	484.0	568.2	678.1
Loans and Advances	6.9	7.3	7.9	8.6
Other Current Assets	635.2	714.2	838.5	1,000.7
Cash	33.1	80.4	224.3	329.4
<b>Total Current Assets</b>	<b>1,241.4</b>	<b>1,343.8</b>	<b>1,576.9</b>	<b>1,881.1</b>
Creditors	251.1	282.4	331.5	395.6
Provisions	17.3	19.5	22.9	27.3
Other Current Liabilities	593.7	677.6	795.5	949.3
Other Long Term Liabilities	11.6	13.0	15.3	18.3
<b>Total Current Liabilities</b>	<b>862.2</b>	<b>979.4</b>	<b>1,149.9</b>	<b>1,372.2</b>
Net Current Assets	433.2	465.7	672.3	859.2
<b>Total Assets</b>	<b>1,856</b>	<b>1,956</b>	<b>2,323</b>	<b>2,625</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per Share Data</b>				
EPS (Fully Diluted)	16.0	9.2	10.8	13.9
Cash EPS	29.7	14.4	17.8	21.6
BV	115.5	66.8	77.2	90.7
	49.5			
<b>Operating Ratios</b>				
EBITDA / Net Sales	21.7	19.5	19.0	19.5
PAT / Net Sales	10.0	10.3	10.2	11.0
Inventory Days	20	20	20	20
Debtor Days	77	70	70	70
Creditor Days	41	41	41	41
<b>Return Ratios</b>				
RoE	13.9	13.8	14.0	15.3
RoCE	19.0	20.5	18.6	21.0
RoIC	28.6	35.1	34.9	43.0
<b>Valuation Ratios</b>				
EV / EBITDA	13.1	12.6	10.9	8.6
P/E	13.8	24.1	20.5	16.0
EV / Net Sales	2.8	2.5	2.1	1.7
Market Cap / Sales	2.8	2.5	2.1	1.8
Price to Book Value	1.9	3.3	2.9	2.4
<b>Turnover Ratios</b>				
Asset turnover	1.2	1.3	1.3	1.3
Gross Block Turnover	1.9	1.9	2.0	2.2
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.0	0.1	0.0
Current Ratio	1.4	1.4	1.4	1.4
Debt / EBITDA	0.4	0.1	0.2	0.1
<b>Quick Ratio</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>

Source: Company, ICICI Direct Research



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Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

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