

## Accumulate

### View: Fair Valuation; Downgrade to Accumulate

- KNR posted revenue below estimates however, EBITDA margins and APAT above estimates.
- KNR posted 23.0%/ 8.7%/ 77.1% YoY growth in revenue/ EBITDA/ Adj. PAT to Rs6.9 bn/ Rs1.4 bn/ Rs776 mn in Q3FY21.
- We broadly maintain our FY21E/ FY22E estimates factoring 9MFY21 results. We however upgrade revenue estimates by 8.2% for FY23E as we have upgraded our FY21E order inflow estimates from Rs59.7 bn to Rs75.1 bn and expect it to execute in FY23E. Accordingly we increase our APAT estimates by 17.9% for FY23E. KNR is currently working at pre covid levels.
- We expect a 22.0%/ 25.7% revenue/ APAT CAGR over FY20-23E, with EBITDA margins of 19.9%/ 18.4%/ 18.4% for FY21E/ FY22E/ FY23E. Although we factor healthy return ratios, a well-managed balance sheet, comfortable working capital, low D:E, quality management and pick up in pace of execution; the stock has increased 95% since our Q2FY21 report dated 13 Nov'20 thus we downgrade to Accumulate with a SOTP-based TP to Rs240 (15x FY23E EPS and 1.2x PB for HAM investment).

### Orderbook of Rs82 bn provides revenue visibility of 3.4x TTM revenue

KNR won orders worth Rs21 bn/ Rs45.1 bn during FY20/ YTD FY21, taking the order book to Rs82.0 bn (Q3FY21) providing revenue visibility for 3.4x TTM revenue. We expect order inflow of Rs75.1 bn (Rs45.1 bn already received) / Rs40 bn/ Rs40 bn in FY21E/ FY22E/ FY23E.

### HAM equity investment

KNR invested Rs2 bn/ Rs3.5 bn till FY20/ 9MFY21 in five HAM projects. We factor equity investment of Rs4.4 bn in FY21E and reduction of Rs775 mn in FY22E (100% stake sale in 3 HAM to Cube Highways on COD) and addition of Rs2.5 bn in FY23E.

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	6,863	5,579	23.0	6,012	14.2
Total Expense	5,510	4,335	27.1	4,772	15.5
EBITDA	1,353	1,244	8.7	1,240	9.0
Depreciation	373	517	(27.8)	352	6.1
EBIT	979	727	34.7	889	10.2
Other Income	266	70	281.1	76	250.1
Interest	184	142	30.0	158	16.6
EBT	1,061	588	80.4	694	52.9
Tax	285	186	53.4	196	45.7
RPAT	776	402	92.9	498	55.7
APAT	776	438	77.1	611	27.0
			(bps)		(bps)
Gross Margin (%)	38.8	41.6	(274)	34.5	436
EBITDA Margin (%)	19.7	22.3	(259)	20.6	(92)
NPM (%)	11.3	7.9	345	10.2	114
Tax Rate (%)	26.9	31.6	(473)	28.2	(132)
EBIT Margin (%)	14.3	13.0	124	14.8	(51)

CMP	Rs 222
Target / Upside	Rs 240 / 8%
NIFTY	15,163

### Scrip Details

Equity / FV	Rs 562mn / Rs 2
Market Cap	Rs 62bn
	USD 860mn
52-week High/Low	Rs 481/ 171
Avg. Volume (no)	7,30,302
Bloom Code	KNRC IN

Price Performance	1M	3M	12M
Absolute (%)	(36)	(14)	(20)
Rel to NIFTY (%)	(40)	(33)	(44)

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	55.0	55.0	55.0
MF/Banks/FIs	34.0	34.3	34.3
FII	1.6	1.5	1.5
Public / Others	9.3	9.1	9.2

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	24.3	21.5	15.6
EV/EBITDA	11.8	10.0	7.9
ROE (%)	14.8	14.5	17.2
RoACE (%)	18.2	17.1	19.5

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	26,023	31,961	40,730
EBITDA	5,180	5,877	7,479
PAT	2,572	2,906	4,012
EPS (Rs.)	9.1	10.3	14.3

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

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	6,863	7,464	(8.1)	Due to slower execution
EBITDA (Rs mn)	1,353	1,414	(4.3)	-
EBITDA%	19.7	18.9	76	Broadly in line
PAT (Rs mn)	776	666	16.5	Led by better operating performance

Source: Company, DART

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

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% change	New	Old	% change	New	Old	%change
Net revenues	26,023	27,140	(4.1)	31,961	31,909	0.2	40,730	37,644	8.2
EBIDTA	5,180	5,321	(2.6)	5,877	5,742	2.4	7,479	6,776	10.4
EBIDTA margin (%)	19.9	19.6	30	18.4	18.0	39	18.4	18.0	36
Adj. Net Profit	2,572	2,470	4.1	2,906	2,748	5.7	4,012	3,403	17.9
EPS (Rs)	9.1	8.8	4.1	10.3	9.8	5.7	14.3	12.1	17.9

Source: DART, Company

### Key earnings takeaways

- Industry: NHA awarding momentum continues and targets to award 4800-5200 kms vs. earlier target of 4500 kms in FY21. Bid pipeline in roads stands at Rs720 bn (55% HAM and 38% EPC and 2 BOT projects). Expect strong awarding in Irrigation and Water segment in UP/ AP/ Telangana.
- KNR maintains its revenue guidance of Rs25 bn for FY21E and 15-20% for FY22E (exact guidance by H2FY22). KNR expects revenue to double in 4 years. KNR working at pre covid levels now. Expect 17-18% EBITDA margins but Irrigation has better margins vs. Road so likely to continue current margins. HAM has fixed margins and EPC has 50-60% pass through so increase in commodities will slightly impact margins.
- KNR has bided for 15 HAM and 1 EPC project worth Rs210 bn and expect additional order inflow of Rs30-40 bn (2-3 projects) spread across HAM and EPC in Q4FY21E.
- Physical progress – Chittor – 72.1%, Ramsanpalle – 64.2%, Trichy – 58.9%. KSHIP – 13.94%. KNR expects Chittor/ Ramsanpalle/ Trichy to complete by Jun'21.
- Expect Kaleshwaram project to start full fledged by Q1FY22 and expect Hubli project to complete by Jun'21E.
- Irrigation order of Rs16 bn won't be completed before schedule and might have to extend the contract of 24 months. 2<sup>nd</sup> irrigation order of Rs7 bn doesn't have any land but management expects to get the land in 3-4 months. Expect Rs3-4 bn/ Rs1 bn revenue in FY22E.
- KNR is in discussion with CUBE highways to sign a deal with new 3 HAM projects.
- KNR received Rs125 mn from authority which was recorded in Other income and the same was paid to sub-contractor which was recorded in finance cost.
- Expect Q4FY21 depreciation run rate same as Q3FY21. Also expect slightly higher depreciation in FY22E as irrigation orders to start by Q1FY22E and will have to buy machinery for the same.

- KNR received Rs5.4 bn receivables for irrigation segment from Nov'20 to as on date and expect balance Rs1.4 bn by Mar'21E. Additional outstanding is Rs2.9 bn (incl. unbilled revenue).
- Equity invested as on date is Rs3.46 bn for 5 HAM projects and expect Rs900 mn/ Rs1.4 bn/ Rs500 mn in Q4FY21E/ FY22E/ FY23E.
- Gross debt/ Cash stands at Rs160 mn/ Rs430 mn. Capex for 9MFY21 was Rs600 mn and expect Rs400 mn/ Rs1-1.2 bn for Q4FY21E/ FY22E. Mobilization advance stood at Rs570 mn. WC days of 55.
- Sanction limits are sufficient for KNR and they won't increase the limits.

### 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 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/ 9MFY21 stood at Rs453mn/ Rs728 mn/ Rs692 mn/ Rs336.8 mn. Toll collection per day stood at Rs1.24 mn in Q3FY21.

**Exhibit 3: Q3FY21 Performance (Standalone)**

Particulars (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Revenue</b>	<b>6,863</b>	<b>5,579</b>	<b>23.0</b>	<b>6,012</b>	<b>14.2</b>	<b>17,668</b>	<b>15,687</b>	<b>12.6</b>
Material consumed	2,141	1,752	22.2	1,905	12.4	5,944	5,333	11.5
Sub-contractors work bills	295	126	133.5	313	(5.7)	1,018	663	53.7
Spreading & Assortment	1,761	1,381	27.5	1,722	2.3	4,325	3,474	24.5
Employees cost	402	303	32.8	293	37.5	973	937	3.8
Other expenditure	910	773	17.8	539	68.7	1,872	1,878	(0.3)
<b>Total expenditure</b>	<b>5,510</b>	<b>4,335</b>	<b>27.1</b>	<b>4,772</b>	<b>15.5</b>	<b>14,132</b>	<b>12,285</b>	<b>15.0</b>
<b>EBITDA</b>	<b>1,353</b>	<b>1,244</b>	<b>8.7</b>	<b>1,240</b>	<b>9.0</b>	<b>3,536</b>	<b>3,402</b>	<b>4.0</b>
Depreciation	373	517	(27.8)	352	6.1	1,056	1,381	(23.5)
<b>Operating profit</b>	<b>979</b>	<b>727</b>	<b>34.7</b>	<b>889</b>	<b>10.2</b>	<b>2,480</b>	<b>2,021</b>	<b>22.7</b>
Other income	266	70	281.1	76	250.1	403	493	(18.3)
<b>EBIT</b>	<b>1,245</b>	<b>797</b>	<b>56.3</b>	<b>965</b>	<b>29.1</b>	<b>2,883</b>	<b>2,514</b>	<b>14.7</b>
Interest	184	142	30.0	158	16.6	444	330	34.8
Exceptional item	-	(67)	-	(112)	-	112	107	4.9
<b>EBT</b>	<b>1,061</b>	<b>588</b>	<b>80.4</b>	<b>694</b>	<b>52.9</b>	<b>2,327</b>	<b>2,077</b>	<b>12.0</b>
Provision for taxation	285	186	53.4	196	45.7	655	497	31.6
<b>Net income</b>	<b>776</b>	<b>402</b>	<b>92.9</b>	<b>498</b>	<b>55.7</b>	<b>1,672</b>	<b>1,580</b>	<b>5.8</b>
Adjustments	-	36	(100.0)	112	(100.0)	112	(234)	-
<b>Adjusted net income</b>	<b>776</b>	<b>438</b>	<b>77.1</b>	<b>611</b>	<b>27.0</b>	<b>1,784</b>	<b>1,346</b>	<b>32.6</b>
<b>EPS (Rs)</b>	<b>5.5</b>	<b>3.1</b>	<b>77.1</b>	<b>4.3</b>	<b>27.0</b>	<b>12.7</b>	<b>9.6</b>	<b>32.6</b>
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	19.7	22.3	(259)	20.6	(92)	20.0	21.7	(167)
EBIDTA Margin (Incl. O.I.)	23.6	23.5	4	21.9	169	22.3	24.8	(253)
NPM (%)	10.9	7.8	313	10.0	85	9.9	8.3	156
Tax/PBT (%)	26.9	31.6	(473)	28.2	(132)	28.1	23.9	420
Construction/Revenue (%)	61.2	58.4	274	65.5	(436)	63.9	60.4	352

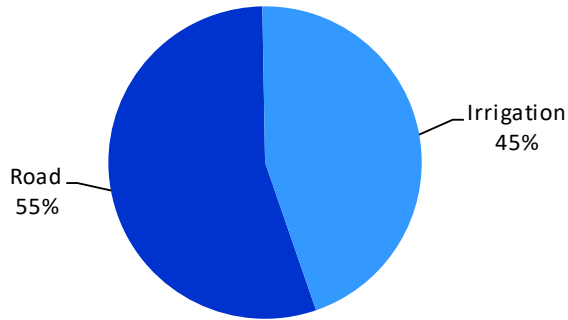
Source: Company, DART

**Exhibit 4: SOTP Valuation**

Component	Valuation Method	Rs/sh	%
Standalone cons business	15x FY23E EPS	214.0	89.3
HAM equity investments (FY22E)	1.2xBV	25.7	10.7
<b>Total</b>		<b>239.7</b>	<b>100.0</b>
<b>CMP</b>		<b>221.9</b>	
Potential upside (%)		8.0	

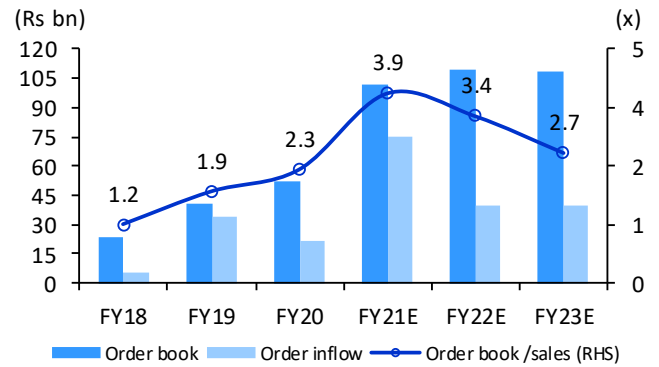
Source: DART, Company

**Exhibit 5: Rs76.6 bn order book break up**



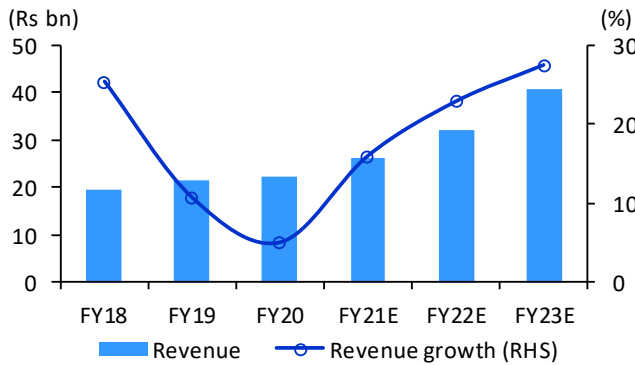
Source: Company, DART

**Exhibit 6: Order book trend**



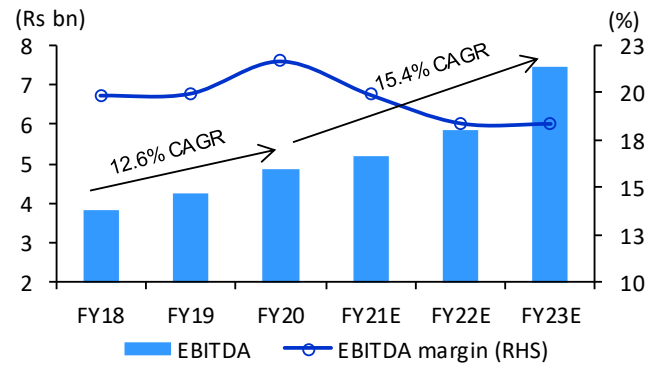
Source: Company, DART

**Exhibit 7: 22.0% Revenue CAGR over FY20-23E**



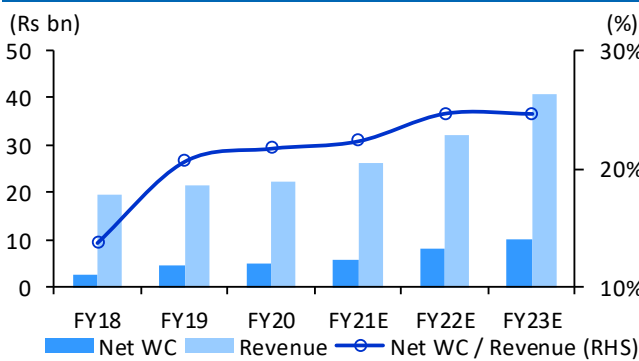
Source: Company, DART

**Exhibit 8: 15.4% EBITDA CAGR over FY20-23E**



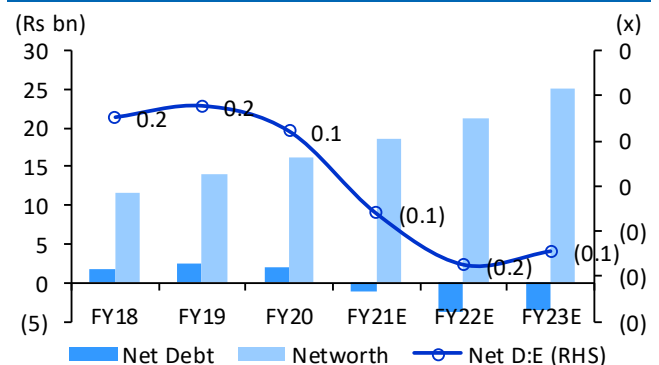
Source: Company, DART

**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>26,023</b>	<b>31,961</b>	<b>40,730</b>
<b>Total Expense</b>	<b>17,572</b>	<b>20,842</b>	<b>26,084</b>	<b>33,251</b>
COGS	13,550	16,602	20,915	26,869
Employees Cost	1,252	1,377	1,653	1,901
Other expenses	2,770	2,862	3,516	4,480
<b>EBIDTA</b>	<b>4,871</b>	<b>5,180</b>	<b>5,877</b>	<b>7,479</b>
Depreciation	1,918	1,495	2,093	2,249
<b>EBIT</b>	<b>2,952</b>	<b>3,686</b>	<b>3,784</b>	<b>5,230</b>
Interest	474	526	285	285
Other Income	566	466	407	448
Exc. / E.O. items	(107)	(112)	0	0
<b>EBT</b>	<b>2,937</b>	<b>3,513</b>	<b>3,906</b>	<b>5,393</b>
Tax	685	1,053	1,000	1,381
RPAT	2,252	2,459	2,906	4,012
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>2,572</b>	<b>2,906</b>	<b>4,012</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	281	562	562	562
Minority Interest	0	0	0	0
Reserves & Surplus	15,958	17,995	20,761	24,632
<b>Net Worth</b>	<b>16,239</b>	<b>18,558</b>	<b>21,323</b>	<b>25,194</b>
Total Debt	2,297	300	500	500
Net Deferred Tax Liability	(1,610)	(1,677)	(1,708)	(1,751)
<b>Total Capital Employed</b>	<b>16,926</b>	<b>17,181</b>	<b>20,115</b>	<b>23,944</b>

**Applications of Funds**

Net Block	<b>4,464</b>	<b>4,245</b>	<b>4,152</b>	<b>3,403</b>
CWIP	102	0	0	0
Investments	7,149	5,695	3,870	6,370
<b>Current Assets, Loans &amp; Advances</b>	<b>13,854</b>	<b>15,895</b>	<b>22,576</b>	<b>27,528</b>
Inventories	1,232	1,459	1,826	2,328
Receivables	4,761	4,684	5,753	7,331
Cash and Bank Balances	330	1,418	4,191	4,110
Loans and Advances	57	83	104	133
Other Current Assets	7,474	8,251	10,702	13,626
<b>Less: Current Liabilities &amp; Provisions</b>	<b>8,642</b>	<b>8,655</b>	<b>10,483</b>	<b>13,357</b>
Payables	2,511	2,814	3,391	4,323
Other Current Liabilities	6,131	5,841	7,093	9,035
<i>sub total</i>				
Net Current Assets	5,212	7,241	12,093	14,171
<b>Total Assets</b>	<b>16,926</b>	<b>17,181</b>	<b>20,115</b>	<b>23,944</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	39.6	36.2	34.6	34.0
EBIDTA Margin	21.7	19.9	18.4	18.4
EBIT Margin	13.2	14.2	11.8	12.8
Tax rate	23.3	30.0	25.6	25.6
Net Profit Margin	9.0	9.9	9.1	9.9
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	60.4	63.8	65.4	66.0
Employee	5.6	5.3	5.2	4.7
Other	12.3	11.0	11.0	11.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	6.2	7.0	13.3	18.4
Inventory days	20	20	21	21
Debtors days	77	66	66	66
Average Cost of Debt	19.2	40.5	71.3	57.0
Payable days	41	39	39	39
Working Capital days	85	102	138	127
FA T/O	5.0	6.1	7.7	12.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	7.2	9.1	10.3	14.3
CEPS (Rs)	14.0	14.5	17.8	22.3
DPS (Rs)	0.5	0.5	0.5	0.5
Dividend Payout (%)	7.6	5.5	4.8	3.5
BVPS (Rs)	57.7	66.0	75.8	89.6
RoANW (%)	13.4	14.8	14.5	17.2
RoACE (%)	17.8	18.2	17.1	19.5
RoAIC (%)	18.1	19.2	20.1	24.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	222	222	222	222
P/E	30.9	24.3	21.5	15.6
Mcap (Rs Mn)	62,392	62,392	62,392	62,392
Mcap/ Sales	2.8	2.4	2.0	1.5
EV	64,358	61,274	58,701	58,782
EV/Sales	2.9	2.4	1.8	1.4
EV/EBITDA	13.2	11.8	10.0	7.9
P/BV	3.8	3.4	2.9	2.5
Dividend Yield (%)	0.2	0.2	0.2	0.2
<b>(F) Growth Rate (%)</b>				
Revenue	5.0	16.0	22.8	27.4
EBITDA	14.1	6.4	13.5	27.3
EBIT	14.0	24.8	2.7	38.2
PBT	1.1	19.6	11.2	38.1
APAT	(24.1)	27.4	13.0	38.1
EPS	(24.1)	27.4	13.0	38.1

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,941	3,171	3,123	4,384
CFI	(2,843)	424	(124)	(4,039)
CFE	(898)	(2,508)	(226)	(426)
FCFF	1,905	1,971	1,123	2,884
Opening Cash	130	330	1,418	4,191
Closing Cash	330	1,418	4,191	4,110

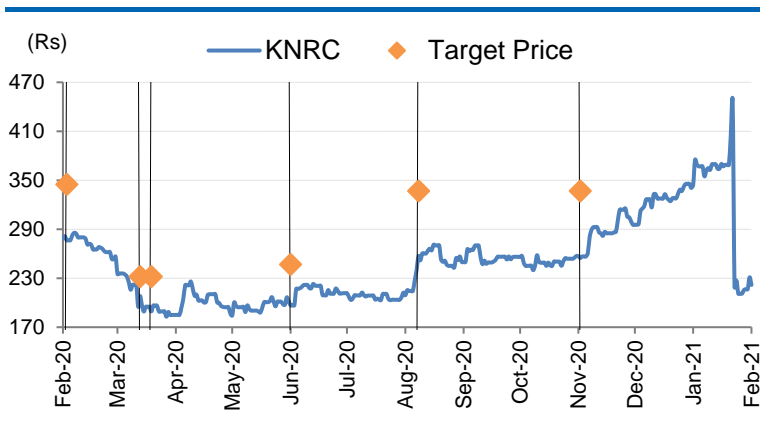
E – Estimates

### 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.)
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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