

KNR Construction

Estimate change



TP change



Rating change


CMP: INR309
TP: INR360 (+17%)
Buy
Result marginally below our estimate
Execution to pick up

- KNR Construction (KNRC) delivered 12% YoY revenue growth (10% below our estimate) with EBITDA margin at 20.7% (v/s our estimate of 20%). The order book (OB) stood at INR100b (excluding recently won projects), with OB/revenue at 3.1x.
 - KNRC received the appointed dates in two HAM projects in Jan'22, which should support execution in FY23E and FY24E. The company is debt-free at the standalone level. It has pending receivables of INR5.9b from irrigation projects and the management expects to recover INR1.5b by end-FY22.
 - We cut our FY24E revenue/EBITDA/earnings by 10%/10%/13%, respectively, to factor in weaker-than-expected execution and subdued outlook on order inflows. With an order book of INR100b, we expect KNRC to clock 20% revenue growth over FY21-24, with EBITDA margin in the 18-20% range.
- Maintain BUY with an SoTP-based TP of INR360, implying 17% upside.**

Execution below our estimates

- **3QFY22 snapshot:** Revenue grew 12% YoY (flat QoQ) to ~INR7.7b in 3QFY22 and was 10% below our estimate.
- The EBITDA margin was robust at 20.7% in 3QFY22 (+103 bps YoY). EBITDA/PAT grew 18%/2% YoY to INR1.6b/INR0.8b (v/s our estimate of INR1.7b/INR0.95b), respectively.
- KNRC has won orders worth INR40b during FY22 YTD. The current OB stands at ~INR100b (excl. recently won projects), with OB/revenue ratio at 3.1x.

Key takeaways from the management commentary

- In 3QFY22, KNRC transferred its 49% stake in two wholly owned subsidiaries – KNR Tirumala and KNR Shankarampet – to Cube Highways. In relation to this transaction, KNRC has recognized a profit of INR214m, shown as an exceptional item in 3QFY22. The balance 51% stake sale for the above two projects will be completed by Jun'22.
- The 3QFY22 revenue split stood as follows: 34% for HAM, 36% for Irrigation, 20% for EPC, and 10% for others.
- The company has won INR40b of projects in YTD FY22 and expects another INR20b of projects by end-FY22.
- KNRC anticipates to clock a revenue of INR31b in FY22.

Valuation and view

- With receipt of appointed dates in two projects in Jan'22, execution is likely to pick up from the start of FY23. We expect some pressure on margins with decreasing share of Irrigation projects in the OB.
 - We cut our FY24E revenue/EBITDA/earnings by 10%/10%/13%, respectively, to factor in weaker-than-expected execution and subdued outlook on order inflows. With an order book of INR100b, we expect KNRC to clock 20% revenue growth over FY21-24, with EBITDA margin in the 18-20% range.
- Maintain BUY with an SoTP-based TP of INR360, implying 17% upside.**

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	86.8 / 1.2
52-Week Range (INR)	344 / 189
1, 6, 12 Rel. Per (%)	3/3/30
12M Avg Val (INR M)	239

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	27.0	32.0	39.0
EBITDA	5.4	6.5	7.6
PAT	2.5	3.5	4.7
EBITDA (%)	19.8	20.3	19.5
EPS (INR)	9.0	12.4	16.8
EPS Gr. (%)	24.1	38.1	35.5
BV/Sh. (INR)	66.4	79.1	95.4

Ratios

Net D/E	-0.1	0.0	-0.1
RoE (%)	14.5	17.1	19.3
RoCE (%)	15.1	18.4	20.1
Payout (%)	0.0	3.8	3.0

Valuations

P/E (x)	34.3	24.9	18.4
P/BV (x)	4.7	3.9	3.2
EV/EBITDA (x)	16.0	13.3	11.2
Div Yield (%)	0.0	0.1	0.1
FCF Yield (%)	2.3	1.0	3.3

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	51.5	51.5	55.0
DII	34.1	33.9	34.3
FII	4.6	4.3	1.5
Others	9.9	10.4	9.2

FII Includes depository receipts

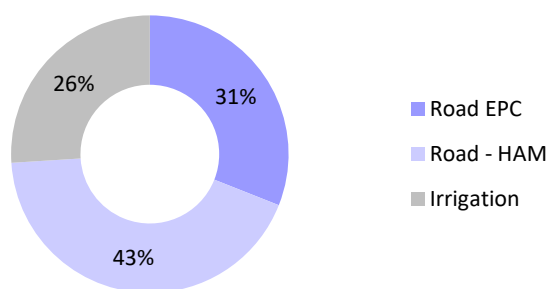
Quarterly performance – Standalone

(INR m)

Y/E March	FY21				FY22E				FY21	FY22E	MOFSL 3QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	4,794	6,012	6,863	9,358	7,400	7,556	7,663	9,412	27,026	32,031	8,500	-10
YoY Change (%)	3.2	14.9	23.0	38.5	54.4	25.7	11.7	0.6	21.7	18.5	23.9	
Total Expenditure	3,850	4,772	5,510	7,536	5,967	5,880	6,074	7,607	21,668	25,528	6,800	
EBITDA	943	1,240	1,353	1,822	1,433	1,675	1,589	1,805	5,358	6,502	1,700	-7
Margin (%)	19.7	20.6	19.7	19.5	19.4	22.2	20.7	19.2	19.8	20.3	20.0	
Depreciation	331	352	373	388	269	320	358	368	1,444	1,315	330	
Interest	102	158	184	43	79	72	64	75	487	290	75	
Other Income	61	76	266	94	48	105	78	89	496	320	125	
Extra-Ord expense	0	-90	0	0	0	0	214	0	-90	214	0	
PBT	571	807	1,061	1,485	1,133	1,389	1,246	1,450	3,924	5,218	1,420	-12
Tax	173	218	285	715	403	437	452	431	1,392	1,722	469	
Rate (%)	30.3	27.1	26.9	48.2	35.5	31.4	36.3	29.7	35.5	33.0	33.0	
Reported PAT	398	498	776	770	730	952	1,008	1,019	2,442	3,710	951	6
Adj PAT	398	588	776	770	730	952	794	1,019	2,532	3,496	951	-17
YoY Change (%)	-16.6	39.7	65.3	14.5	83.5	61.9	2.3	32.4	24.1	38.1	22.6	
Margin (%)	8.3	9.8	11.3	8.2	9.9	12.6	10.4	10.8	9.4	10.9	11.2	

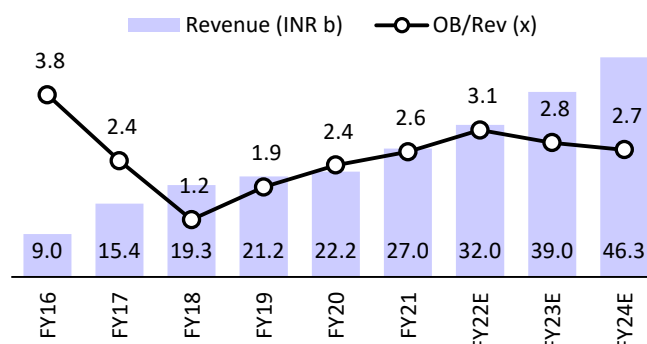
E: MOFSL Estimates

Exhibit 1: OB breakup (3QFY22: INR100b)



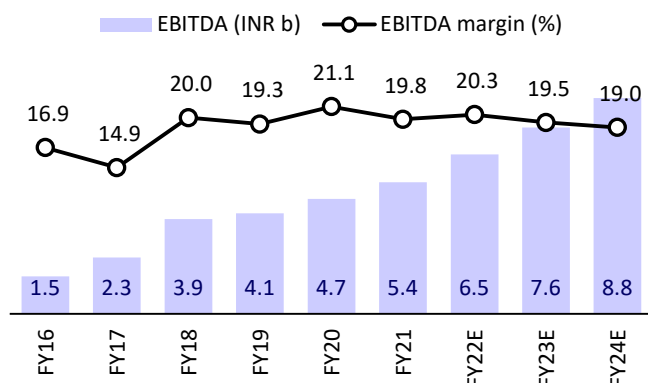
Source: MOFSL, Company

Exhibit 2: Current OB provides strong revenue visibility, with ~20% CAGR expected over FY21–24



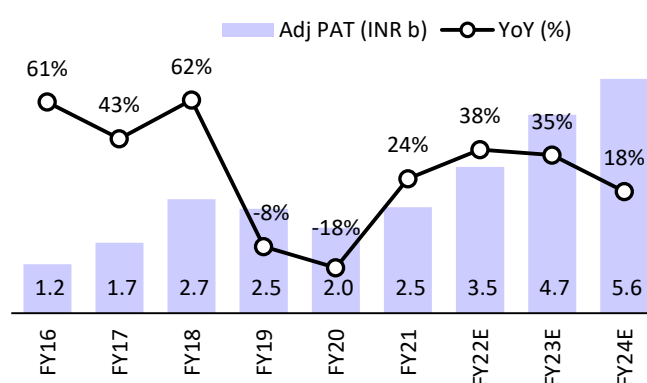
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: Adjusted PAT to grow at 30% CAGR over FY21–24E



Source: MOFSL, Company

Highlights from the management commentary

Business update

- The 3QFY22 revenue split stood as follows: 34% for HAM, 36% for Irrigation, 20% for EPC, and 10% for others.
- KNRC has transferred its 49% stake in KNR Tirumala and KNR Shankarampet HAM projects to Cube Highways and Infrastructure III Pte. Ltd. The balance 51% stake sale for the above two projects will be completed on or before 30th Jun'22
- The consolidated debt as on Dec'21 stood at INR13.7b (Mar'21:INR7.2b).
- There have been no claims from NHA received in 3QFY22. KNR is expecting one claim in 4QFY22.

Order book

- The INR100b OB (excluding new projects) split was as follows: 74% – EPC & HAM and 26% – Irrigation.
- The company has submitted four bids for various road projects to NHA (three HAM projects of ticket sizes of INR10-12b and one EPC of ticket size of INR14b); with this the order inflow in 4QFY22 is expected to be at INR20-30b taking the FY22 order inflow to INR60b.
- There is no slow-moving project in the order book.

Execution

- Achieved financial closure and received appointed date for KNR Ramanattukara Infra Pvt and KNR Guruvayur Infra Pvt.
- Expects to receive appointed date of the Chittor Thatchur project by late Apr'22.

Equity requirement

- Total equity requirement for eight HAM projects is at INR11b, out of which KNR has already invested INR4.8b and the incremental equity requirement stands at INR 6.1b in the coming years (INR1.3b/INR2.6b/INR1.3b/INR0.9b for FY22/FY23/FY24/FY25, respectively).
- Total equity invested in KNR Tirumala/KNR Shankarampet/KNR Srirangam stood at INR1.6b/INR1.3b/INR0.9b and the total consideration to be received stands at INR1.9b/INR1.5b/INR1.1b, respectively.

Kerala projects

- As three packages are been executed in Kerala which require approx. 45mT of quarry materials, the company had bought two quarry lands of approx. 90 acres in Kerala for capital consumption for INR960-970m. One of the quarry lands is yet to get green tribunal approval.
- Quarry material requirement of ~30mT would be from the owned land. Rest ~15mT has to be procured from market and the market costs of the quarry have increased significantly.

Guidance

- Capex guidance for FY22 stands at INR1.8b (INR1.3b already incurred in 9MFY22) and INR1.5 for FY23.
- Revenue guidance for the FY22 stands at INR31b.

- Depreciation is expected to be INR1.2-1.25b for FY22. From next year there may be reduction in depreciation on percentage basis because of the fall in irrigation projects in the order book.

Receivables / Working capital

- Total pending receivables from irrigation stood at INR5.9b. The management expects to recover INR1.5b by end of FY22; follow-ups are being done to collect the rest.
- Revenue from irrigation projects stood at INR7b in 9MFY22.
- Retention money receivable stood at INR1.57b, mobilization advance at INR1.2b and unbilled revenue at INR2.57b.

Exhibit 5: Earnings change summary

Earnings Change	Old			New			Change		
INR m	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	34,166	42,805	51,394	32,031	38,965	46,277	-6.3%	-9.0%	-10.0%
EBITDA	6,833	8,347	9,765	6,502	7,598	8,793	-4.8%	-9.0%	-10.0%
EBITDA margin	20.0%	19.5%	19.0%	20.3%	19.5%	19.0%	0.3%	0.0%	0.0%
Adj. PAT	3,789	5,364	6,394	3,496	4,735	5,590	-7.7%	-11.7%	-12.6%

Source: Company, MOFSL

Valuation and view

- **Strong balance sheet:** KNRC has already monetized three of its HAM projects. We expect the balance sheet to strengthen further, with a net cash position of INR0.3b/INR1.6b/INR3.6b by FY22E/FY23E/FY24E (FY21: INR1.2b), respectively. The company has the best balance sheet position among the mid-cap road EPC companies. This should support premium valuations for KNRC.
- **Maintain BUY:** We cut our FY24E revenue/EBITDA/earnings by 10%/10%/13%, respectively, to factor in weaker-than-expected execution and subdued outlook on order inflows. With an order book of INR100b, we expect KNRC to clock 20% revenue growth over FY21-24, with EBITDA margin in the 18-20% range.
Maintain BUY with an SoTP-based TP of INR360, implying 17% upside.

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	21,204	22,212	27,026	32,031	38,965	46,277
Change (%)	9.8	4.8	21.7	18.5	21.7	18.8
EBITDA	4,101	4,691	5,358	6,502	7,598	8,793
Margin (%)	19.3	21.1	19.8	20.3	19.5	19.0
Depreciation	1,681	1,918	1,444	1,315	1,464	1,599
EBIT	2,420	2,772	3,915	5,187	6,135	7,194
Int. and Finance Charges	291	474	487	290	274	279
Other Income	634	346	496	320	468	555
PBT bef. EO Exp.	2,763	2,644	3,924	5,218	6,328	7,470
EO Items	138	213	-90	214	0	0
PBT after EO Exp.	2,901	2,857	3,834	5,432	6,328	7,470
Total Tax	268	605	1,392	1,722	1,593	1,880
Tax Rate (%)	9.2	21.2	36.3	31.7	25.2	25.2
Reported PAT	2,633	2,252	2,442	3,710	4,735	5,590
Adjusted PAT	2,495	2,039	2,532	3,496	4,735	5,590
Change (%)	-8.2	-18.3	24.1	38.1	35.5	18.1
Margin (%)	11.8	9.2	9.4	10.9	12.2	12.1

Standalone Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	281	281	562	562	562	562
Total Reserves	13,862	15,958	18,116	21,685	26,280	31,729
Net Worth	14,143	16,239	18,678	22,248	26,842	32,291
Total Loans	2,641	2,300	7	7	7	7
Deferred Tax Liabilities	-1,739	-1,610	-1,486	-1,486	-1,486	-1,486
Capital Employed	15,045	16,929	17,199	20,769	25,363	30,813
Gross Block	10,752	12,671	13,713	15,513	17,013	18,513
Less: Accum. Deprn.	6,412	8,233	9,677	10,992	12,455	14,054
Net Fixed Assets	4,340	4,438	4,036	4,521	4,558	4,459
Capital WIP	0	102	24	24	24	24
Total Investments	6,448	7,149	4,898	6,190	7,319	8,619
Current Assets	10,176	13,880	18,764	22,525	28,659	35,759
Inventory	951	1,232	1,480	1,922	2,338	2,777
Account Receivables	2,344	4,761	8,632	11,211	13,638	16,197
Cash and Bank Balance	130	330	1,173	299	1,621	3,647
Other current assets	6,751	7,557	7,478	9,093	11,062	13,138
Current Liability	5,919	8,639	10,522	12,492	15,196	18,048
Payables and other current liability	5,754	8,407	10,178	12,172	14,807	17,585
Provisions	164	232	345	320	390	463
Net Current Assets	4,258	5,241	8,241	10,033	13,463	17,711
Appl. of Funds	15,045	16,929	17,199	20,769	25,363	30,813

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)						
EPS	8.9	7.3	9.0	12.4	16.8	19.9
Cash EPS	14.8	14.1	14.1	17.1	22.0	25.6
BV/Share	50.3	57.7	66.4	79.1	95.4	114.8
DPS	0.2	0.5	0.0	0.4	0.4	0.4
Payout (%)	2.6	6.8	0.0	3.8	3.0	2.5
Valuation (x)						
P/E	34.8	42.6	34.3	24.9	18.4	15.5
P/BV	6.1	5.4	4.7	3.9	3.2	2.7
EV/EBITDA	21.8	18.9	16.0	13.3	11.2	9.5
Dividend Yield (%)	0.1	0.1	0.0	0.1	0.1	0.1
FCF per share	1.6	6.8	7.3	3.0	10.2	13.3
Return Ratios (%)						
RoE	19.4	13.4	14.5	17.1	19.3	18.9
RoCE	18.2	13.9	15.1	18.4	20.1	19.6
RoIC	29.4	24.5	24.4	27.9	30.0	30.8
Working Capital Ratios						
Fixed Asset Turnover (x)	2.0	1.8	2.0	2.1	2.3	2.5
Asset Turnover (x)	1.4	1.3	1.6	1.5	1.5	1.5
Inventory (Days)	16	20	20	22	22	22
Debtor (Days)	40	78	117	128	128	128
Leverage Ratio (x)						
Current Ratio	1.7	1.6	1.8	1.8	1.9	2.0
Interest Coverage Ratio	8.3	5.8	8.0	17.9	22.4	25.8
Net Debt/Equity	0.2	0.1	-0.1	0.0	-0.1	-0.1

Standalone Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	2,906	2,937	3,811	5,218	6,328	7,470
Depreciation	1,681	1,923	1,444	1,315	1,464	1,599
Interest and Finance Charges	291	473	427	290	274	279
Direct Taxes Paid	-550	-844	-787	-1,722	-1,593	-1,880
(Inc.)/Dec. in WC	-1,506	-310	-2,004	-2,666	-2,107	-2,222
CF from Operations	2,822	4,180	2,891	2,434	4,366	5,246
Others	-347	-239	89	214	0	0
CF from Operating incl. EO	2,474	3,941	2,980	2,648	4,366	5,246
(Inc.)/Dec. in FA	-2,034	-2,036	-939	-1,800	-1,500	-1,500
Free Cash Flow	441	1,905	2,041	848	2,866	3,746
(Pur.)/Sale of Investments	-1,083	-1,098	1,424	-1,292	-1,129	-1,300
Others	262	291	127	0	0	0
CF from Investments	-2,855	-2,843	612	-3,092	-2,629	-2,800
Inc./(Dec.) in Debt	268	-511	-2,290	0	0	0
Interest Paid	-298	-401	-459	-290	-274	-279
Dividend Paid	-68	-153	0	-141	-141	-141
Others	170	168	0	0	0	0
CF from Fin. Activity	73	-897	-2,749	-430	-415	-420
Inc./Dec. in Cash	-308	200	843	-874	1,322	2,026
Opening Balance	438	130	331	1,173	299	1,621
Closing Balance	130	331	1,173	299	1,621	3,647

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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