

Industry Eng. & Cons.
Bloomberg KNRC IN
BSE CODE 532942

Financial Closure is Expected Soon...

RATING	BUY
CMP	189
Price Target	252
Potential Upside	33%

Rating Change	↔
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	348/163.30
Mkt Capital (Rs Cr)	2664
Free float (%)	45%
Avg. Vol 1M (,000)	165.76
No. of Shares	14
Promoters Pledged %	0%

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Key Highlights -

- ❑ Company has received the sanction letter for 4 HAM Projects from Banks and submitted documents to NHAI one and half months before but it was halted from NHAI end. Management is expected to sign concession agreement with state government by November end for K-SHIP project.
- ❑ The appointment date for Trichy to Kallingam & Chittoor to Mallavaram is expected in December 2018, Meensurutti to Chidambaram & Ramsanpalle to Mangloor is expected in January 2019.
- ❑ Land availability on Trichy to Kallingam, Chittoor to Mallavaram, Meensurutti to Chidambaram, Ramsanpalle to Mangloor is to the tune of 60-65% and 45% on Magadi to Somwarpeth.
- ❑ The Company has future plans of gearing into the urban infrastructure development; the management is also looking into the Railway space and mining operations.

2Q FY19 Results-

Q2FY19 was a decent quarter for the company; it witnessed a meagre 5.8% revenue growth YoY although the numbers exceeded our expectation. The revenue contribution was mainly lead by the irrigation projects which contributed Rs 119 Cr to the revenue. While EBITDA margin was contracted by 100 bps to 20% which is above the normal range of 14-15%. As a result of the contraction in a margin, EBITDA is up by just 0.8% to Rs. 83 Cr. The PAT for the quarter stood at Rs 45 Cr down by 23% YoY. The order book for the quarter stood at Rs 1886 Cr excluding 5 HAM projects.

View and Valuation

KNRCON has posted better numbers than our expectation on back of strong execution of Irrigation projects and it is expected to remain strong. The company has submitted a financial closure document with NHAI and waiting for NHAI announcement regarding financial closure. Land availability on 4 out of 5 HAM projects is in range of 60-65% and management is confident to take appointment date by Q4FY19. However, revenue expected to remain flat in FY19 but strongly come back in FY20. We have incorporated better than expected margin in our estimates and increased our PAT estimates for FY20 by 7%. **We value the stock at Rs.252 and maintain our Buy rating on the stock. (We maintain our valuation multiple and value EPC business at 13x FY20 EPS and Rs.59 per share for BoT/HAM business).**

Key Risks to our rating and target

- ❑ Delay in appointment date of HAM projects may hamper revenue growth .
- ❑ Slow tendering from NHAI

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	903	1541	1932	1909	2354
EBITDA	153	230	386	362	361
EBIT	111	166	252	207	254
PAT	161	158	271	197	209
EPS (Rs)	11	11	19	14	15
EPS growth (%)	120%	-2%	72%	-27%	6%
ROE (%)	22%	18%	24%	15%	13%
ROCE (%)	13%	16%	18%	13%	14%
BV	52.5	63.7	82.3	95.9	110.3
P/B (X)	1.5	2.5	3.3	2.0	1.7
P/E (x)	6.7	14.1	13.9	13.6	12.7

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2Q FY 19 Results Better than Expectation

Improved performance

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	H1FY18	H1FY19	YoY %
Sales	393	433	624	556	416	6%	-25%	874	973	11.2%
Other Income	3	6	18	18	9	227%	-50%	15	27	77.8%
Total Sales	396	439	643	574	425	7%	-26%	889	999	12.4%
COGS	251	278	412	359	263	5%	-27%	595	622	4.4%
Employee Exp	19	18	20	20	25	29%	27%	34	45	30.7%
Other Expenses	40	39	72	68	45	12%	-34%	78	114	46.0%
Total	311	335	504	446	333	7%	-25%	707	780	10.3%
EBITDA	82	98	121	110	83	1%	-24%	167	193	15.4%
Depreciation	24	37	49	36	39	67%	9%	48	75	57.1%
EBIT	59	61	72	74	44	-26%	-41%	119	118	-1.4%
Intreset	4	5	9	7	7	74%	3%	9	15	54.7%
Exceptional	-	-	-	-	-	-	-	-	-	
PBT	57	62	81	84	45	-21%	-46%	125	130	3.9%
Tax	(2)	(3)	1	10	0	-116%	-97%	(2)	11	-622%
PAT	59	65	80	74	45	-24%	-39%	127	119	-6.4%

Better than expectation performance

KNRCON has reported better than expected numbers for Q2FY19. Revenue was up by 6% YoY to Rs.416 Cr compared our estimate of Rs.344 Cr. Revenue was mainly driven by strong execution of Irrigation projects. While EBITDA margin was contracted by 100 bps to 20% which is above normal range of 14-15%. As result of contraction in margin EBITDA is up by just 0.8% to Rs. 83 Cr. The trend for the higher depreciation levels continued which in turn impacted the PAT levels which were down by 24% YoY to Rs 45 Cr. PAT margin was also contracted by 420 bps YoY to 10.8%. Company did not witness any order inflow during the quarter and order book stand at Rs. 1886 Cr, excluding 5 HAM projects.

Financial closure expected soon

The company has submitted the documents for the financial closure of 4 HAM projects but it's halted from NHAI end. The management expects the financial closure of the all 4 HAM projects in Q4FY19. Currently, land availability on these 4 HAM projects is to the tune of 60-65% and management is confident to take appointment date on Trichy to Kallingam & Chittor to Mallavaram by December 2018 and Meensurutti to Chidambaram & Ramsanpalle to Mangloor by January 2019. Land availability on Magadi to Somwarpeth is 45% and facing delay due to utility shifting and Management is expecting appointment date on this project by June 2019.

Concall Highlights

- ❑ The awarding of road projects by the NHAI has been slow during the first half as many companies are struggling for financial closure.
- ❑ The awarding activity is expected to pick up from December first week.
- ❑ Company has future plans of gearing into the urban infrastructure development; the management is also looking into the Railway space and mining operations.
- ❑ Oder inflow guidance for the company is Rs 2000 Cr, Management does not see any big tenders in the pipeline for irrigation projects.
- ❑ Company has submitted the documents for the financial closure of HAM projects but it's halted from NHAI front.
- ❑ Equity requirement for the HAM projects is Rs 440 Cr out of which Rs 50 Cr is required in Magadi to Somwarpeth projects, the balance in remaining 4 HAM project, The four HAM projects will be requiring Rs 200 Cr of equity in FY19
- ❑ The cost of funding for the HAM project is 9.2%
- ❑ There was change in scope in many projects like KP SAGAR is Rs 110 Cr, Madurai Rs 35 Cr, and other Irrigation Projects Rs 37 Cr.
- ❑ The KSHIP Concession agreement is expected to be signed this month
- ❑ The appointment date for Trichy to kallingam and Chittor to Mallavaram expected in December, for Meensurutti to Chidambaram and Ramsanpalle to Mangloor expected in January 2019
- ❑ The EBITDA was higher on account of Higher Revenue contribution from the irrigation projects and Lower subcontracting expense.
- ❑ Revenue guidance for FY19 is around Rs 1800 Cr and for FY20 is Rs 2200-2300 Cr.
- ❑ Management expects revenues in range of Rs 900 Cr in H2FY19, out of which HAM projects is expected to contribute Rs 200 Cr.

Order Book Break Up

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Road	3,209	2,845	2,729	2,423	1,656	1,545	1,353	-50%	-100%
Irrigation	557	491	856	907	669	434	461	-46%	-100%
Others	-	3	3	2	2	2	17	530%	152%
Total	3,766	3,339	3,588	3,333	2,327	1,980	1,832	-49%	-100%

O/s Order Book of Key Projects

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Hubli – Hospet	667	667	667	667	654	630	555	521	464
Madurai Ramanathpuram	653	569	483	382	279	196	121	67	19
Thiru. Bypass	498	486	422	377	448	414	305	271	232
Dindigul-Bangalore	415	415	396	353	305	281	213	169	124
Arcot Villupuram	279	233	224	140	135	135	68	57	35
Salam Flyover	287	273	247	236	215	205	162	140	125
Chittagong City ORR	210	210	210	210	233	233	-	-	-
Others Road Projects	890	755	562	480	456	332	233	323	250
Irrigation	680	632	557	491	860	907	669	434	461

Exhibit: Order Book – By Client

Q2FY19

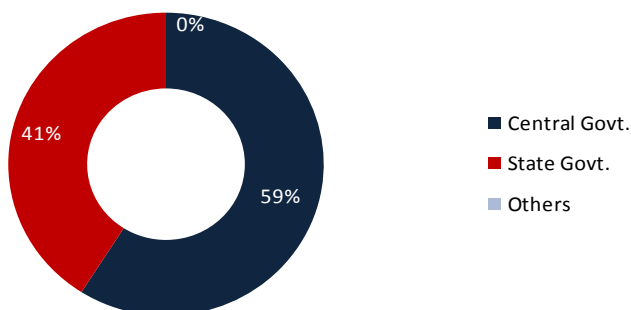


Exhibit: Order Book – By Geography

Q2FY19

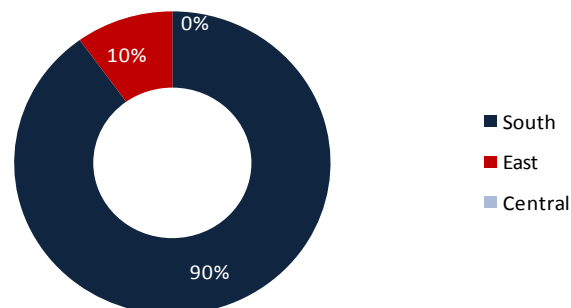


Exhibit: Book to Bill Trend

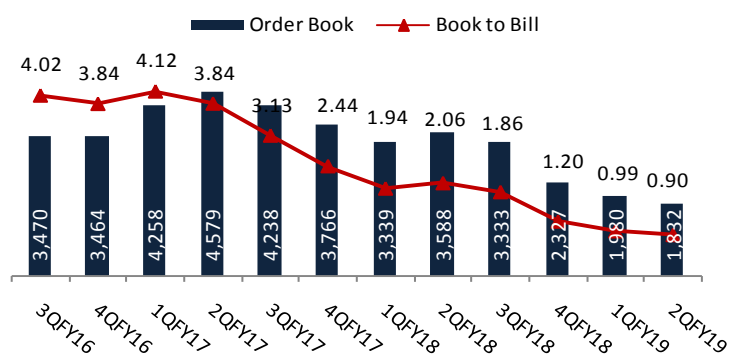


Exhibit: Stable Working Capital

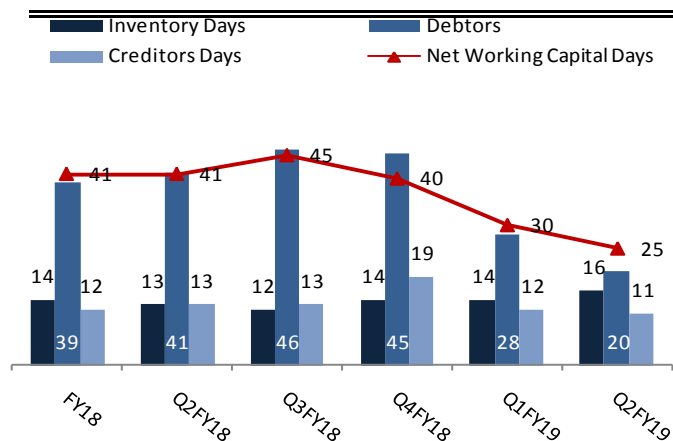


Exhibit: Balance sheet remain strong

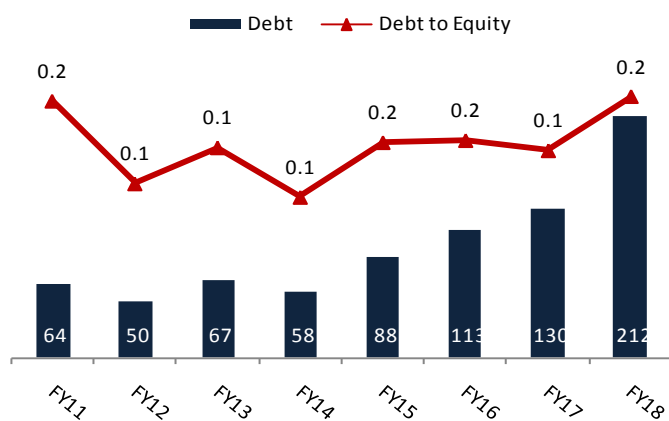


Exhibit: Interest cost and Interest cost as % of Sales

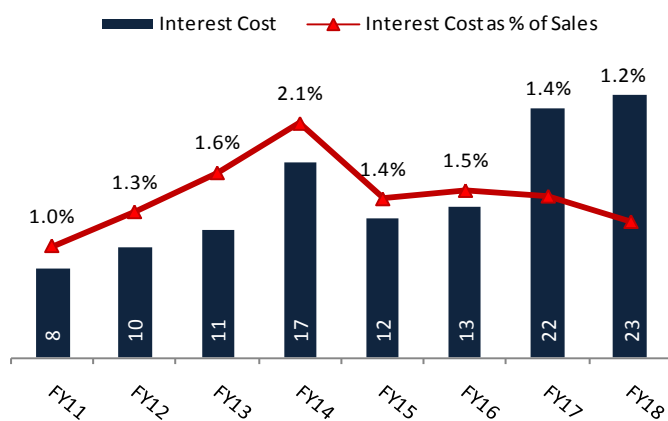


Exhibit: EBITDA and EBITDA Margin Trend

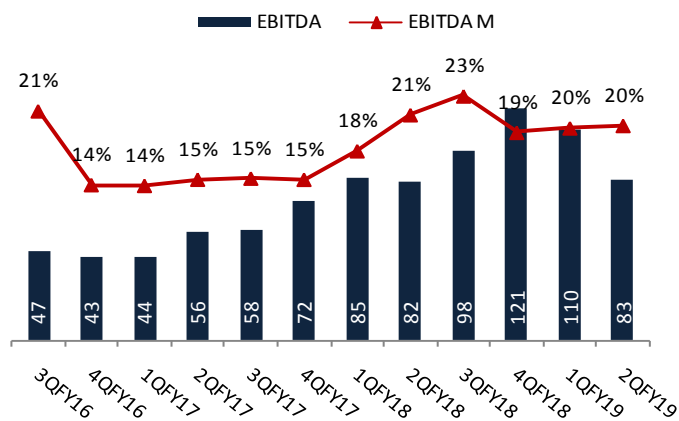


Exhibit: PAT and PAT Margin Trend

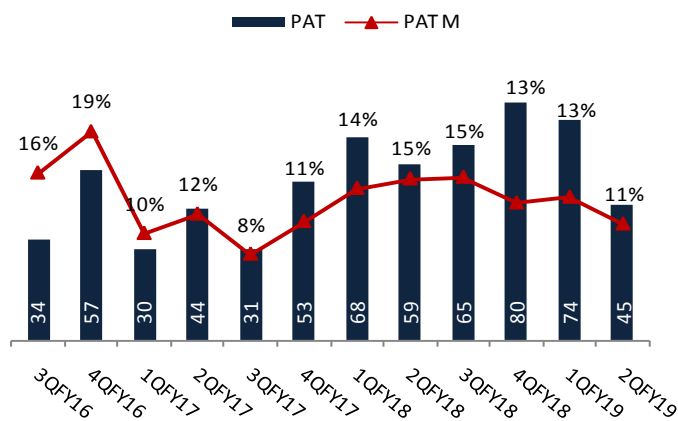


Exhibit: Strong In House Execution Team

Q2FY19

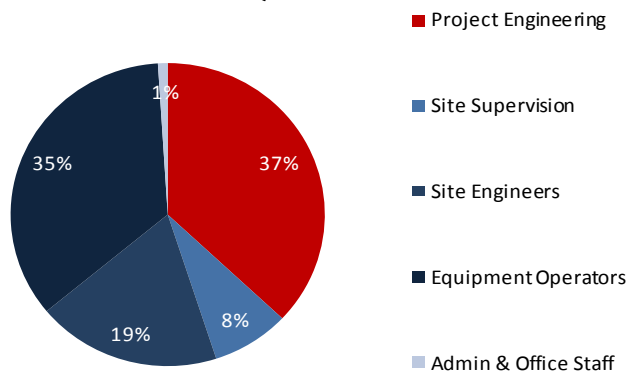
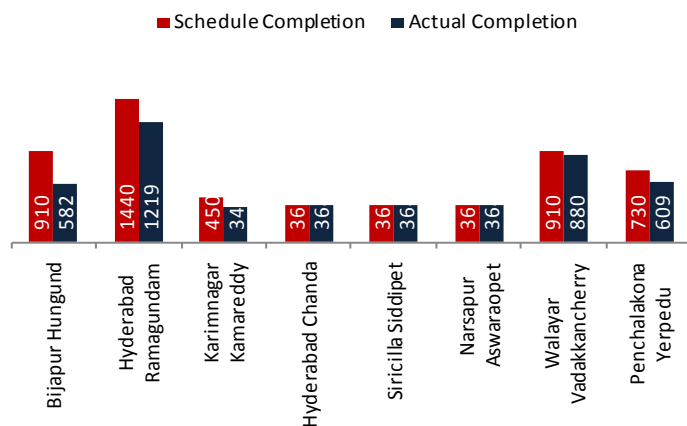


Exhibit: Projects completion Time line



Financial Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue from Operation	692	835	876	903	1,541	1,932	1,909	2,354
Change (%)	-8%	21%	5%	3%	71%	25%	-1%	23%
EBITDA	116	126	126	153	230	386	362	361
Change (%)	-13%	8%	0%	21%	50%	68%	-6%	0%
Margin (%)	17%	15%	14%	17%	15%	20%	19%	15%
Depr & Amor.	56	57	54	42	64	134	156	107
EBIT	61	69	72	111	166	252	207	254
Int. & other fin. Cost	11	17	12	13	22	23	24	26
Other Income	17	16	12	32	30	39	39	39
EBT	67	67	72	129	163	268	221	267
Exp Item	-	-	-	-	11	-	-	-
Tax	26	15	6	(1)	(32)	6	(4)	24
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	52	61	73	161	157	272	197	209
Adjusted PAT	52	61	73	161	144	272	197	209
Change (%)		17%	20%	121%	-10%	88%	-28%	6%
Margin(%)	8%	7%	8%	18%	9%	14%	10%	9%

Balance sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Share Capital</i>	28	28	28	28	28	28	28	28
<i>Reserves</i>	428	485	556	710	867	1,130	1,320	1,522
<i>Networth</i>	456	513	584	738	895	1,158	1,349	1,551
<i>Debt</i>	67	58	88	113	130	212	268	279
<i>Other Non Cur Liab</i>	138	100	14	14	31	28	28	28
<i>Total Capital Employed</i>	523	571	672	850	1,026	1,370	1,616	1,829
<i>Net Fixed Assets (incl CWIP)</i>	294	264	227	247	324	394	368	411
<i>Non Cur Investments</i>	30	25	4	4	17	18	211	335
<i>Other Non Cur Asst</i>	122	248	239	434	547	587	587	587
<i>Non Curr Assets</i>	450	548	503	722	970	1,139	1,306	1,473
<i>Inventory</i>	30	34	36	35	57	71	70	87
<i>Debtors</i>	121	117	177	129	164	232	131	193
<i>Cash & Bank</i>	7	11	16	15	16	37	67	69
<i>Other Curr Assets</i>	346	244	273	356	402	480	601	647
<i>Curr Assets</i>	504	406	501	536	648	827	876	1,006
<i>Creditors</i>	106	79	62	104	134	210	183	226
<i>Provisions</i>	108	43	11	11	13	14	14	17
<i>Other Curr Liab</i>	79	162	176	99	235	224	222	259
<i>Curr Liabilities</i>	293	283	311	376	561	568	538	621
<i>Net Curr Assets</i>	211	123	190	161	87	260	339	385
<i>Total Assets</i>	954	955	1,004	1,259	1,618	1,966	2,183	2,479

Financial Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
(inc)/Dec in Working Capital	(106)	16	(52)	83	73	(156)	76	(63)
Non Cash Op Exp	56	57	54	42	64	134	156	107
Int Paid (+)	11	17	13	13	22	23	24	26
Tax Paid	27	24	25	6	7	4	24	59
others	(1)	(1)	5	(6)	(5)	-	-	-
CF from Op. Activities	1	133	67	253	317	157	452	278
(inc)/Dec in FA & CWIP	(39)	(28)	(31)	(64)	(147)	(204)	(130)	(150)
Free Cashflow	(38)	105	36	189	170	(47)	323	128
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	(19)	(52)	6	(191)	(163)	(53)	-	-
CF from Inv. Activities	(58)	(80)	(25)	(255)	(309)	(269)	(448)	(252)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	71	(32)	(25)	53	54	157	49	3
Int. Paid	(11)	(17)	(13)	(13)	(22)	(23)	(24)	(26)
Div Paid (inc tax)	(3)	(3)	(3)	(7)	-	(8)	(6)	(6)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	57	(52)	(41)	1	5	125	19	(29)
Inc(Dec) in Cash	(0)	1	1	(1)	12	21	23	(3)
Add: Opening Balance	4	3	4	5	4	16	44	74
Closing Balance	3	4	5	4	16	37	67	71

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	11%	12%	13%	22%	18%	24%	15%	13%
ROCE	12%	12%	11%	13%	16%	18%	13%	14%
Asset Turnover	0.73	0.87	0.87	0.72	0.95	0.98	0.87	0.95
Debtor Days	64	51	74	52	39	44	25	30
Inv Days	16	15	15	14	14	13	13	13
Payable Days	56	34	26	42	32	40	35	35
Int Coverage	5	4	6	8	8	11	8	10
P/E	5	4	14	7	14	14	14	13
Price / Book Value	1	0	2	1	2	3	2	2
EV/EBITDA	2	2	8	8	10	10	8	8
FCF per Share	3	11	7	23	33	27	41	30
Div Yield	1.2%	1.2%	0.3%	0.5%	0.0%	0.2%	0.2%	0.2%

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Analyst's ownership of the stocks mentioned in the Report	NIL
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