

KNR Construction Limited

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

Inline quarterly numbers, Deal with cube highways will keep asset light model

RATING	BUY
CMP	201
Price Target	243
Potential Upside	21%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	340/163.30
Mkt Capital (Rs Cr)	2831
Free float (%)	45%
Avg. Vol 1M (,000)	95.3
No. of Shares (Cr)	14
Promoters Pledged %	0%

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Q3FY19 Result Update

- ❑ The Revenue during the quarter was up by 3.5% YoY to Rs 448 Cr compared to our expectations of Rs 424 Cr. The toll collection rose 40% YoY to Rs 35 Cr.
- ❑ The EBITDA during the quarter was down by 8.8% YoY to Rs 90 Cr while EBITDA margin was at 20% compared to 22% in Q3FY19
- ❑ The PAT during the quarter was down by 21% on account of higher depreciation and interest levels which in turn affected the PAT margins which were down by 32 bps.
- ❑ The Order book at the end of the quarter stood at Rs 1541 Cr with roads segment contributing 79% and remaining from irrigation. Order book of HAM projects is Rs.4000 Cr
- ❑ Company has received appointment date for Chittoor to Mallavaram and signed the concession agreement for the KSHIP HAM, financial closure is under progress
- ❑ Company has entered into Share Purchase agreement with Cube Highways and Infrastructure III Pte. Ltd for the following SPVs:- KNR Srirangam Infra Private Limited, KNR Chidambaram Infra Private Limited, KNR Tirumala Infra Private Limit

View and Valuation

KNRCON has strike the deal with Cube highway to sell its 4 under development HAM projects. With this these deal company's equity requirement has come down from Rs.388 Cr to Rs.194 Cr. The deal is not only help to keep balance sheet light but also allow company to focus more on EPC business. During the quarter company has received appointment date of 1 HAM project and expected to receive for 3 more projects in Q4FY19. Company has signed concession agreement for Karnataka HAM project in January and which will due for appointment date in July 2019. Though the revenue is expected to remain flat in FY19E on account of delay in appointment date but we expect strong bounce back in FY20.

We largely maintained our estimates for FY19/20E. We continue to maintain our BUY rating on the stock with target price of Rs.243 per share. We value EPC business at 13x FY20E EPS and Rs.53 per share for Bot/HAM business.

Key Risks to our rating and target

- ❑ Delay in appointment Date of HAM projects
- ❑ Slow Ordering activity by NHAH

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	903	1541	1932	1900	2250
EBITDA	153	230	386	371	386
EBIT	111	166	252	208	243
PAT	161	158	271	209	205
EPS (Rs)	57	11	19	15	15
EPS growth (%)	120%	-80%	72%	-23%	-2%
ROE (%)	22%	18%	24%	15%	13%
ROCE (%)	13%	16%	18%	13%	13%
BV	262.4	63.7	82.3	96.8	110.9
P/B (X)	1.9	2.8	3.0	1.9	1.7
P/E (x)	8.8	15.9	12.9	13.5	13.8

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3QFY19 Results

<i>Financials</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>9MFY18</i>	<i>9MFY19</i>	<i>YoY %</i>
Sales	433	624	556	416	448	4%	8%	1,308	1,421	8.7%
Other Income	6	18	18	9	22	256%	146%	21	48	129.4%
Total Sales	439	643	574	425	470	7%	11%	1,329	1,469	10.6%
COGS	278	412	359	263	280	1%	7%	873	902	3.3%
Employee Exp	18	20	20	25	24	30%	-5%	52	68	30.6%
Other Expenses	39	72	68	45	55	42%	21%	116	168	44.8%
Total	335	504	446	333	359	7%	8%	1,042	1,138	9.3%
EBITDA	98	121	110	83	90	-9%	8%	266	283	6.4%
Depreciation	37	49	36	39	45	21%	15%	85	120	41.4%
EBIT	61	72	74	44	45	-27%	2%	181	162	-10.1%
Intreset	5	9	7	7	7	48%	-2%	14	22	52.4%
PBT	62	81	84	45	59	-5%	31%	187	189	0.8%
Tax	(3)	1	10	0	7	-327%	2709%	(5)	18	-441%
PAT	65	80	74	45	52	-21%	15%	193	171	-11.4%

Modest Revenue growth, Margins remained Stable:

KNRCON Q3FY19 was a moderate quarter for the company, revenue was up by 3.5% YoY to Rs 448 Cr on account of delay in appointment date of HAM projects. The toll collection rose 40% YoY to Rs 35 Cr. The toll collection at Muzaffarpur Barauni project is around 15 lakhs per day while the KNR Walayar project has started 100% toll collection, collection is at 16 lakh per day. The EBITDA during the quarter was down by 9% YoY to Rs 90Cr due to higher raw material and employee expense as the company has less subcontracting during the quarter and has recruited more employees for the 4 HAM projects. The EBITDA margin was 20% compared to 22%. The PAT during the quarter was down by 21% on account of higher depreciation and interest levels. Order book at the end of the quarter stood at Rs 1541 Cr with roads EPC contributing 79% and remaining 21% from irrigation. Order book of HAM projects is Rs.4000 Cr which is yet to start contributing in revenue.

Appointment Date for HAM projects expected soon

The Revenues during FY19 are expected to be subdued, the management has guided for 5 % de growth YoY. The revenue shortfall is mainly on account of delay in appointment date. Company has achieved the financial closure for the 4 HAM projects that is Chittor to Mallavaram, Meensurutti to Chidambaram , Trichy to Kallagam and Ramsanpalle to Mangalore . KSHIP HAM projects financial closure is under process. The land availability in Chittor project is 80% at 3H level and received appointment date. In regards to the two Tamil Nadu projects company expects to get 80% 3H land in 10-15 days and appointment date is expect soon after. Ramsanpalle to Mangloor may take 1 month time due to problem of land clearance. Company expects to receive appointment date for the all the HAM projects before the end of Q1FY20.Going forward HAM projects are expected to contribute heavily to the revenue growth target of Rs 2300-2400 Cr thus the appointment date for the HAM project would be key trackable.

Strike the Deal with Cube highways to sell Under Construction HAM projects

Company has entered into the share purchase agreement with the Cube Highways and Infrastructure III Pte for the following under construction HAM projects Trichy to Kallagam, Meensurutti to Chidambaram, Chittor to Mallavaram and agreement for Ramsanpalle to Mangloor is expected soon. As per the share purchase agreement, transaction will completed into two stages, with the first stage is schedule to be completed after achievement of CoD and the second stage scheduled to be completed after expiry of mandatory lock-in period as per the concession agreement. Cube Highways will invest 49% of the required equity during the construction phase which is Rs.140 Cr and will buy out KNR's 51% equity stake at Rs. 262 Cr (amount may undergo some changes at the time of COD)post the expiry of mandatory lock-in period. The transaction will help KNR to keep balance sheet assets light and focus on core EPC business. Additionally, as per the deal KNR will get 1.8x return on its equity investment.

DETAILS OF DEAL WITH CUBE HIGHWAYS

Particulars	Total Equity Investment (Rs. mn)	Equity Investment – Cube’s Share (49%) (Rs. mn)	Equity Investment – KNR’s Share (51%) (Rs. mn)	Consideration for KNR’s 51% stake (Rs. mn)*
KNR Srirangam Infra Pvt Ltd (SPA Signed: 28 th Jan’19)	962.3	471.5	490.8	736.1 1.5 times
KNR Chidambaram Infra Pvt Ltd (SPA Signed: 11 th Feb’19)	455.0	223.0	232.1	364.6 1.57 times
KNR Tirumala Infra Pvt Ltd (SPA Signed: 11 th Feb’19)	1,432.5	701.9	730.6	1,520.6 2.08 times

* The amount may undergo some changes at the time of COD

Concall Highlights

- On the industry front the awarding activity during the 9MFY19 remain subdued, many of the HAM projects awarded last year are yet to receive the appointment date and land acquisition problems in various states has been reason for low awarding. The delay in receiving financial closure from bank due to higher due diligence has been a major hurdle for the industry
- The Q4FY19 witnessed pick up in awarding activity with various HAM projects lined up for awarding. The tender of the projects worth Rs 90000- 100000 Cr will be floated.
- The Ministry of Roads transport and highway has constructed 5759 KM of national highway for 9MFY19 as against full year target of 10000 KM.
- Under the phase 2 of Bharatmala government has proposed to build nearly 3000 Km of expressways including Varanasi, Ranchi, Kolkata, Indore to Bombay, Banglore to Pune, and Chennai to Trichy. The target date for rolling out these would be in year 2024.
- NHAI is considering tightening the norms for developers to bid for road projects under EPC mode.
- The quarter saw a change in scope worth Rs 150 Cr.
- The EBITDA margins are higher than the normal range as the irrigation projects are providing better margins and reduction of subcontracting expense
- The KNR Walayar project has started 100% toll collection and per day collection 16 lakh. The current toll collection is sufficient for principal repayment ,interest payment and O&M payment
- The profit before tax is down on account of higher depreciation levels and increase in equipment bank further interest cost has also increased on account of increase in unsecured loans from promoters.
- The company has incurred Capex of Rs 160 Cr in 9MFY19 and expects it go up to 190 Cr in FY19. The Capex guidance for FY20 is Rs 100-130 Cr.
- The total consideration to be received Cube highways for Share purchase agreement could vary on account of inflation and completion cost.
- The FY19 revenue guidance stands at -5% from the last year and for FY20 Revenue guidance target is Rs 2300-2400 Cr. The EBITDA Guidance for FY20 is 14-15%.
- The total consolidated debt stands At Rs 718 Cr while the stand alone cost stands at Rs 250Cr including Rs 218 Cr of promoters debt.
- The equity infusion would from the Trichy to Kallagam, Meensurutti to Chidambaram and Chittor to Mallavaram would be done in Q4FY19 while the Ramsanpalle to Mangloor would be delayed on account of forest clearance.
- The tax rate guidance for FY19 stands 11-12% and 15% for FY20.
- Company expects depreciation levels of 35-40 Cr once current backlog of irrigation projects end.

Order Book Break Up

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Road	2,845	2,729	2,423	1,656	1,545	1,353	1,219	-50%	-100%
Irrigation	491	856	907	669	434	461	320	-65%	-100%
Others	3	3	2	2	2	17	2	-29%	-117%
Total	3,339	3,588	3,333	2,327	1,980	1,832	1,541	-54%	-100%

O/s Order Book of Key Projects

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Hubli – Hospet	667	667	667	654	630	555	521	464	464
Madurai Ramanathpuram	569	483	382	279	196	121	67	90	51
Thiru. Bypass	486	422	377	448	414	305	271	232	174
Dindigul-Bangalore	415	396	353	305	281	213	169	124	108
Arcot Villupuram	233	224	140	135	135	68	57	35	20
Salam Flyover	273	247	236	215	205	162	140	125	101
Chittagong City ORR	210	210	210	233	233	-	-	-	-
Others Road Projects	755	562	480	456	332	233	323	300	302
Irrigation	632	557	491	860	907	669	434	461	320

Exhibit: Order Book – By Client

Q3FY19

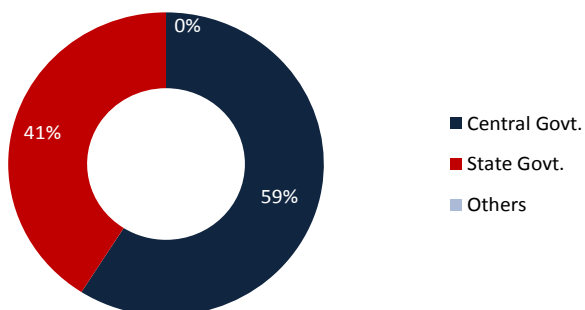


Exhibit: Order Book – By Geography

Q3FY19

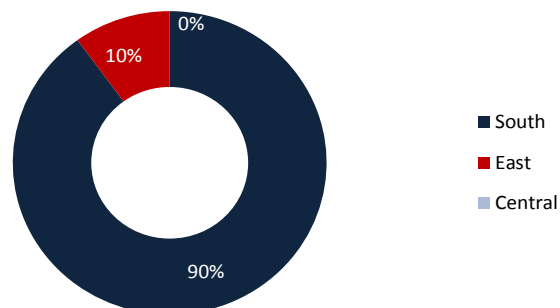


Exhibit: Book to Bill Trend

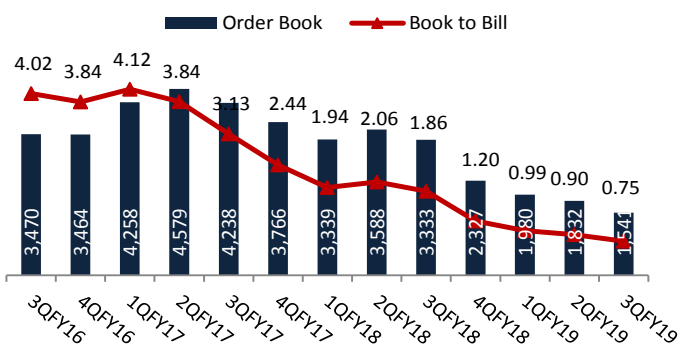


Exhibit: Stable Working Capital

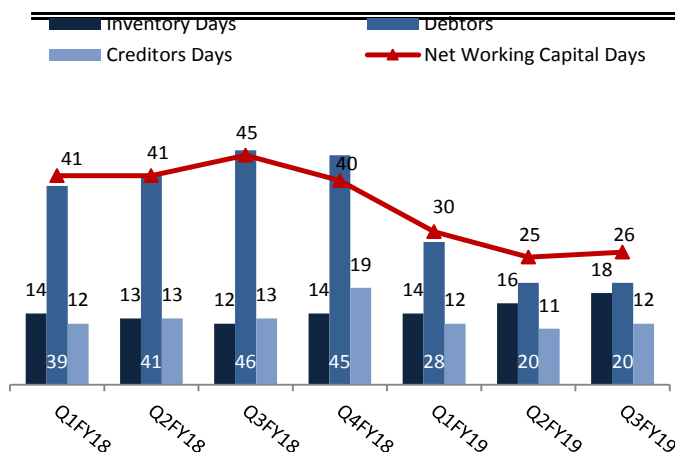


Exhibit: Balance sheet remain strong

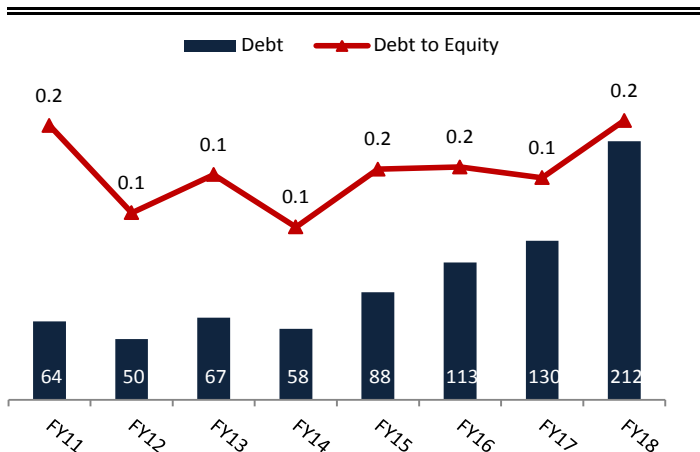


Exhibit: Interest cost and Interest cost as % of Sales

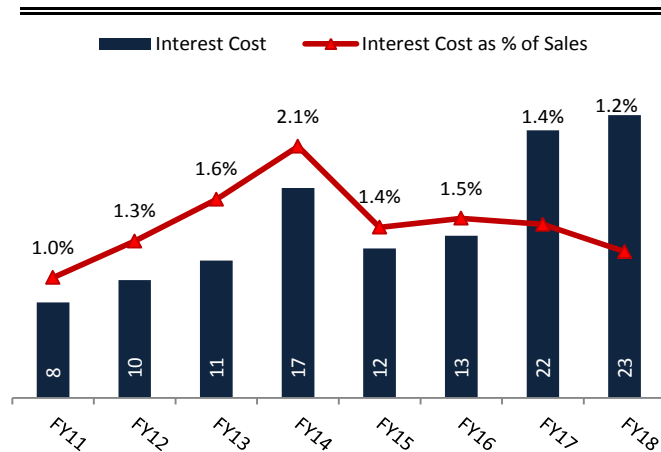


Exhibit: EBITDA and EBITDA Margin Trend

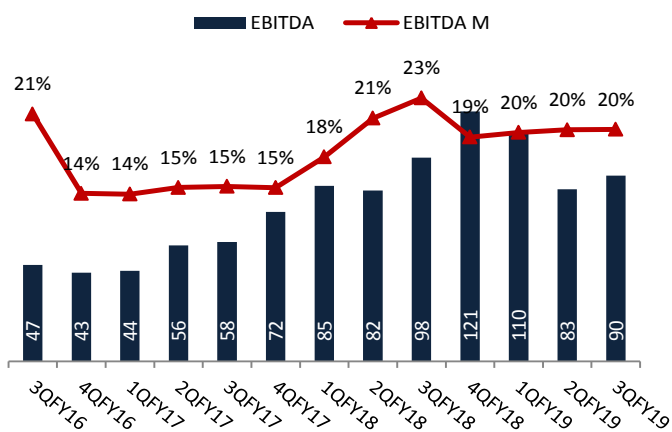


Exhibit: PAT and PAT Margin Trend

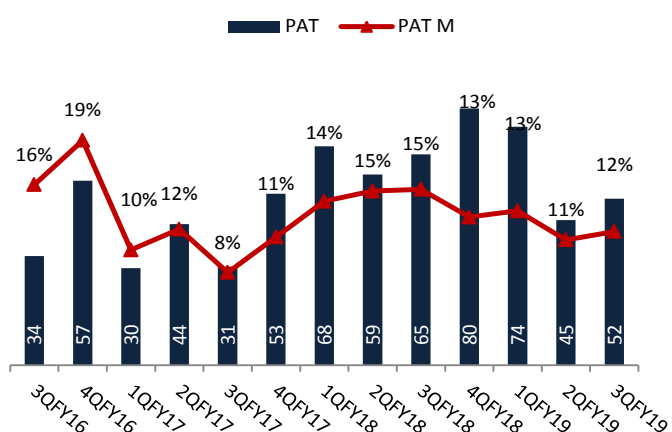


Exhibit: Strong In House Execution Team

Q3FY19

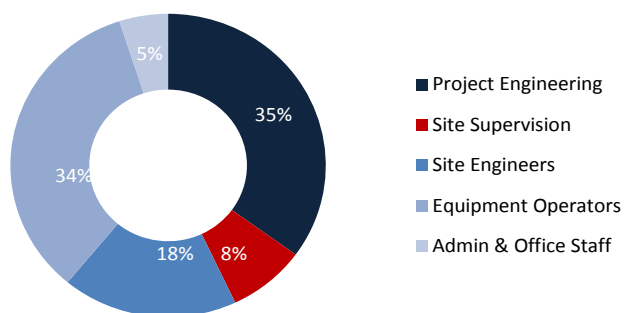
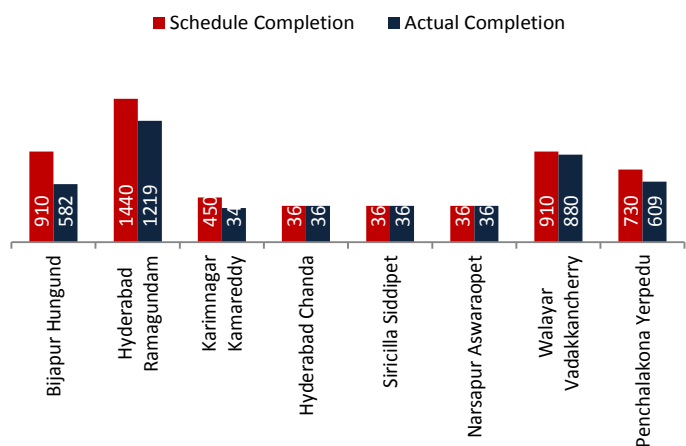


Exhibit: Projects completion Time line



Financial Details
Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	692	835	876	903	1,541	1,932	1,900	2,250
Change (%)	-8%	21%	5%	3%	71%	25%	-2%	18%
EBITDA	116	126	126	153	230	386	371	386
Change (%)	-13%	8%	0%	21%	50%	68%	-4%	4%
Margin (%)	17%	15%	14%	17%	15%	20%	20%	17%
Depr & Amor.	56	57	54	42	64	134	162	143
EBIT	61	69	72	111	166	252	208	243
Int. & other fin. Cost	11	17	12	13	22	23	30	38
Other Income	17	16	12	32	30	39	57	39
EBT	67	67	72	129	163	268	236	245
Exp Item	-	-	-	-	11	-	-	-
Tax	26	15	6	(1)	(32)	6	(4)	27
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	52	61	73	161	157	272	209	205
Adjusted PAT	52	61	73	161	144	272	209	205
Change (%)		17%	20%	121%	-10%	88%	-23%	-2%
Margin(%)	8%	7%	8%	18%	9%	14%	11%	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	1,332	1,531
<i>Networth</i>	456	513	584	738	895	1,158	1,361	1,559
<i>Debt</i>	67	58	88	113	130	212	281	306
<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	1,642	1,865
<i>Net Fixed Assets (incl CWIP)</i>	294	264	227	247	324	394	411	398
<i>Non Cur Investments</i>	30	25	4	4	17	18	163	251
<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	1,301	1,376
<i>Inventory</i>	30	34	36	35	57	71	70	83
<i>Debtors</i>	121	117	177	129	164	232	156	277
<i>Cash & Bank</i>	7	11	16	15	16	37	80	111
<i>Other Curr Assets</i>	346	244	273	356	402	480	579	610
<i>Curr Assets</i>	504	406	501	536	648	827	905	1,116
<i>Creditors</i>	106	79	62	104	134	210	182	216
<i>Provisions</i>	108	43	11	11	13	14	14	17
<i>Other Curr Liab</i>	79	162	176	99	235	224	221	247
<i>Curr Liabilities</i>	293	283	311	376	561	568	536	599
<i>Net Curr Assets</i>	211	123	190	161	87	260	369	517
<i>Total Assets</i>	954	955	1,004	1,259	1,618	1,966	2,206	2,493

Financial Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	67	67	72	129	163	268	236	245
(inc)/Dec in Working Capital	(106)	16	(52)	83	73	(156)	50	(124)
Non Cash Op Exp	56	57	54	42	64	134	162	143
Int Paid (+)	11	17	13	13	22	23	30	38
Tax Paid	27	24	25	6	7	4	27	39
others	(1)	(1)	5	(6)	(5)	-	-	-
CF from Op. Activities	1	133	67	253	317	157	451	262
(inc)/Dec in FA & CWIP	(39)	(28)	(31)	(64)	(147)	(204)	(180)	(130)
Free Cashflow	(38)	105	36	189	170	(47)	271	132
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	(19)	(52)	6	(191)	(163)	(53)	-	-
CF from Inv. Activities	(58)	(80)	(25)	(255)	(309)	(269)	(428)	(197)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	71	(32)	(25)	53	54	157	69	25
Int. Paid	(11)	(17)	(13)	(13)	(22)	(23)	(30)	(38)
Div Paid (inc tax)	(3)	(3)	(3)	(7)	-	(8)	(7)	(6)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	57	(52)	(41)	1	5	125	33	(19)
Inc(Dec) in Cash	(0)	1	1	(1)	12	21	56	46
Add: Opening Balance	4	3	4	5	4	16	44	100
Closing Balance	3	4	5	4	16	37	100	146

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%	13%
Asset Turnover	0.73	0.87	0.87	0.72	0.95	0.98	0.86	0.90
Debtor Days	64	51	74	52	39	44	30	45
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	7	6
P/E	6	4	11	9	16	13	14	14
Price / Book Value	1	0	1	2	3	3	2	2
EV/EBITDA	2	2	10	10	11	11	8	8
FCF per Share	14	57	35	113	33	27	45	28
Div Yield	1.1%	1.1%	0.2%	0.4%	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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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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