

KNRCON

BUY

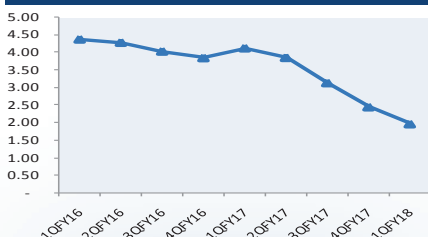
18-Sep-17

INDUSTRY - Eng. & Cons.
BSE Code - 532942
NSE Code - KNRCON
NIFTY - 10085

Company Data

CMP	203
Target Price	230
Previous Target Price	NA
Upside	13%
52wk Range H/L	229/125
Mkt Capital (Rs Cr)	2,844
Av. Volume (,000)	77

Book to Bill

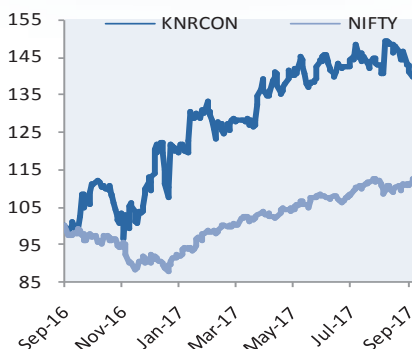


Shareholding patterns %

	1QFY18	4QFY17	3QFY17
Promoters	57.4	58.0	58.1
Public	42.6	42.1	41.9
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(8.2)	(3.3)	43.1
Rel.to Nifty	(10.1)	(8.2)	30.5



Key Highlights of the Report:-

- ✓ Bids of many projects to open in month of September and October as per NHA website and we believe prominent player like KNRCON will get good chunk out of that.
- ✓ Management's strategy to enter into new verticals in order to keep balance sheet light and boost growth will pave the way for the future
- ✓ Management expects to complete couple of on- going road projects ahead of schedule time. This will ensure healthy revenue growth in FY18.
- ✓ Stock has corrected nearly 13% post the Q1FY18 result and we don't see any substantial downside from here on. Currently stock is trading at 2.9x book value of FY18E. Considering the improvement in order inflow outlook we are positive on the stock and we change our rating from "NEUTRAL" to "BUY" with target price Rs.230.

Financials/Valu	FY14	FY15	FY16	FY17	FY18E
Net Sales	835	876	903	1,541	1,907
EBITDA	126	126	153	230	284
EBIT	69	72	111	166	191
PAT	61	73	161	158	175
EPS (Rs)	4	5	11	10	12
EPS growth (%)	17%	20%	121%	-2%	11%
ROE (%)	12%	13%	22%	18%	16%
ROCE (%)	12%	11%	13%	16%	16%
BV	34	38	48	60	71
P/B (X)	0.4	1.4	2.2	2.4	2.9
EV/EBITDA (X)	3.4	11.0	9.9	13.5	17.4

Recent Development

- ✓ KNRCON has received appointment date for the Hubali hospet project in Karnataka on 15th march and work has started on it and progressing as per expectation.
- ✓ KNR has signed stake sell agreement with Essel group and presently waiting for NHA approval for the deal. Management of the company expects approval in month time.
- ✓ Earlier Management is reluctant to take HAM projects but considering the current market scenario, management is open to take HAM and expects Rs. 1000 Cr of orders in FY18 via HAM mode.
- ✓ Management expects to complete Thiruvananthapuram Bypass and Madurai -Ramanathapuram Section of NH-49 by January 2018 and April 2018 respectively.

SANDIP JABUANI

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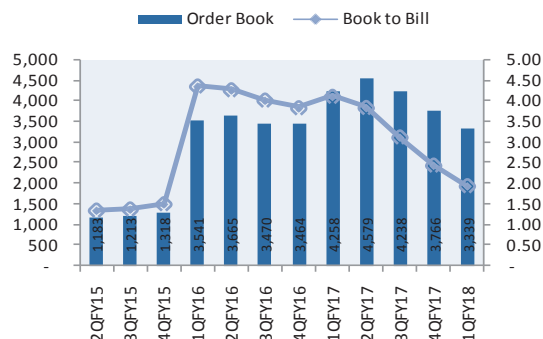
Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	303	373	382	482	481	59%	0%	903	1,541	71%
Other Income	6	13	10	1	12	109%	1152%	32	30	-5%
COGS	217	271	277	349	344	58%	-1%	606	1,115	84%
Employee Expenses	13	13	15	15	15	15%	2%	43	55	28%
Other Expenses	29	33	32	47	37	27%	-20%	100	142	41%
Total Expenditure	259	318	325	410	396	53%	-3%	750	1,311	75%
EBITDA	44	56	58	72	85	93%	17%	153	230	50%
EBITDA M%	14%	15%	15%	15%	18%			17%	15%	
Depreciation	13	15	17	19	24	85%	25%	42	64	51%
EBIT	31	41	41	53	60	97%	14%	111	166	50%
Intreset	4	6	7	5	5	21%	-4%	13	22	65%
Exceptional Item	-	-	11	-	-			-	11	
PBT	32	49	45	48	67	109%	39%	129	163	26%
Tax	2	5	3	(4)	(0)	-120%	-91%	(32)	6	-119%
PAT	30	44	31	53	68	125%	27%	161	158	-2%
PAT %	10%	12%	8%	11%	14%			18%	10%	

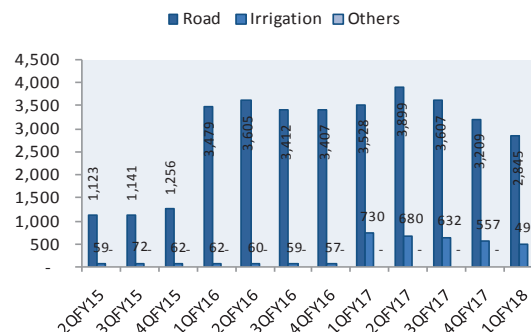
Strong Execution capabilities led to robust revenue growth

- ✓ KNR posted yet another quarter with robust revenue growth led by the strong execution. Revenue was up by 58.6% YoY to Rs. 481 Cr compared to Rs. 303 Cr in last year.
- ✓ Company has booked claim of Rs. 16.81 Cr from two JV (Patel –KNR and KNR-Patel) in the revenue. This directly contributes in operating margin.
- ✓ EBITDA during the quarter grew by 93% YoY to Rs. 85 Cr as against Rs. 56 Cr in same period last year.
- ✓ During the quarter KNRCON did not received new orders. Slow progress in land acquisition and GST impacted awarding activity.
- ✓ Current order book stands at Rs.3339 Cr, revenue visibilities down to 1.96x from 4.1x of TTM revenue compared to same period last year.
- ✓ In next 4-5 months, around 80 projects will go under bidding on HAM basis ranging from 800-1300 Cr each. KNR expect to win 1500 Cr of HAM projects.

Order Book and Book to Bill



Order Book Break Up



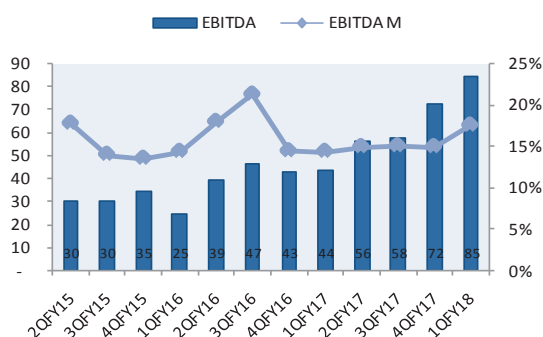
Margin Matrix

Margin %	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	73.8	79.2	78.9	79.8	78.9	5.1	(0.8)	69.1	78.3	9.2
EBITDA Margin	14.4	15.0	15.1	15.0	17.6	3.2	2.6	16.9	14.9	(2.0)
PAT Margin	9.9	11.7	8.0	11.0	14.1	4.2	3.0	17.8	10.2	(7.6)

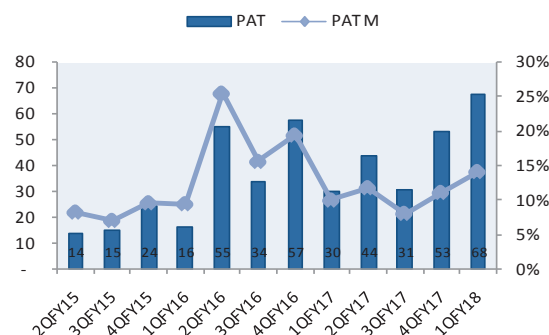
Higher margin on account of Claim received in JV

- ✓ EBITDA margin was improved by 320 bps to 17.6% compared to 14.4% same period last year. Claim of Rs.16.81 Cr has helped to post better margin.
- ✓ If we adjusted claim than EBITDA margin is 14.1% which is in line with our estimate.
- ✓ PAT margin was up 420 bps to 14.1% as the claim is net of tax.

EBITDA (cr) and EBITDA margin trend



PAT (cr) and PAT margin trend



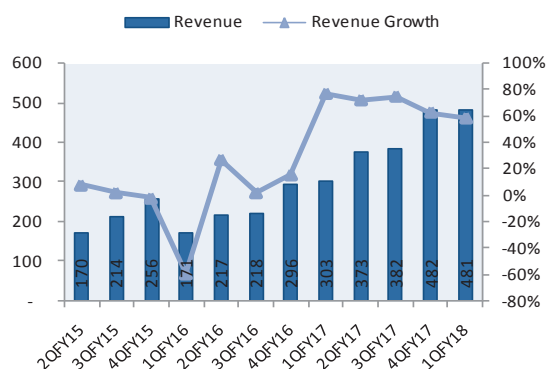
Concall Highlights :-

- ✓ Slow down in land acquisition and GST has impacted new orders during the quarter.
- ✓ Management expects to receive Rs.2000-2500 Cr in next 9 months time period.
- ✓ Debt on standalone book is 141 Cr.
- ✓ Other income includes interest on IT refund of Rs.7 Cr
- ✓ KNRCON has submitted 3 bids in irrigation projects in Telangana. Management expects to win at least one bid amounting around 500 Cr.
- ✓ Company is evaluating new opportunity in elevated metro and Railway.
- ✓ Tax rate will be 8% in FY18 and 15% in FY19.
- ✓ 80 new HAM projects will come under bidding in next 4-5 months and KNR expect to win Rs.1500 Cr worth of projects.
- ✓ Traffic should be go up on Muzaffarpur Barauni BOT project once company receive 100% CoD. Management expects 100% CoD in months time period.
- ✓ EBITDA margin will remain in range of 14-15%
- ✓ Depreciation was higher as the change in estimated life of machinery used for the irrigation projects and it will remain higher until irrigation projects complete.

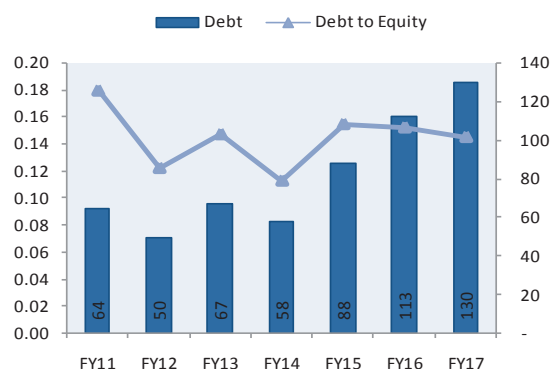
Investment Argument :-

- ✓ **Order Inflow to pick up:** - Revenue visibility has come down to 1.96x of TTM revenue from 4.1x. Slow pace of land acquisition and GST implementation lead to sluggishness in award of road projects till September. But now bids of many projects to open in September and October as per NHAI website and we believe prominent player like KNRCON will get good chunk out of that. Management also planning to enter into new verticals likes elevated metros and Railways. We believe that the entry into elevated metros and railways will open new gate for the future growth as the huge projects in metros and railways is coming up across the country.
- ✓ **Strong Execution capabilities:-** Execution is key characteristic in infra companies. Superior execution capabilities have given extensive headroom for the growth. For the last 5 quarters KNRCON revenue has grown at an average of 70%. Currently management expect to complete couple of projects ahead of schedule time. Based on the superior execution capability we expect 24% revenue growth in FY18 based on the current order book.
- ✓ **Healthy Debt to Equity:-** Strong execution capabilities and limited exposure to captive projects have kept KNRCON balance sheet light. Current debt to equity stands at 0.15 on standalone basis and 0.82 on consolidated basis. To grow higher in the competitive scenario management is eyeing on HAM model considering the government's extreme focus. Strong debt to equity position will allow company to leverage it and taking more projects to grow higher.

Robust Revenue Growth



Strong Debt to Equity



Outlook and Valuation:-

KNRCON is one of the fastest growing companies in Engineering and Procurement segment. Company undertakes EPC projects in Roads and Highways, Irrigation and Urban Water Infrastructure. Slow pace of land acquisition and implementation of GST has slow down order inflow which resulted into NIL order intake till date this year. But now bids of many projects to open in month of September and October and we believe prominent player like KNRCON will get good chunk out of that. We believe management's strategy to enter into new verticals in order to keep balance sheet light and boost growth will pave the way for the future growth. Stock has corrected nearly 13% post the Q1FY18 result and we don't see any substantial downside from here on. **Considering the improvement in order inflow outlook we are positive on the stock and we change our rating from "NEUTRAL" to "BUY" with target price Rs.230.**

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY15	FY16	FY17	FY18E
Revenue from Operation	876	903	1,541	1,907
Change (%)	5%	3%	71%	24%
EBITDA	126	153	230	284
Change (%)	0%	21%	50%	24%
Margin (%)	14%	17%	15%	15%
Dep & Amortization	54	42	64	93
EBIT	72	111	166	191
Interest & other finance cost	12	13	22	32
Other Income	12	32	30	25
EBT	72	129	163	185
Exceptional Item	-	-	11	-
Tax	6	(1)	(32)	6
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	73	161	157	175
Adjusted PAT	73	161	144	175
Change (%)	20%	121%	-10%	21%
Margin(%)	8%	18%	9%	9%

Key Ratios				
Y/E March	FY15	FY16	FY17	FY18E
ROE	13%	22%	18%	16%
ROCE	11%	13%	16%	16%
Asset Turnover	0.9	0.7	1.0	1.1
Debtor Days	74	52	39	39
Inventory Days	15	14	14	14
Payable Days	29	42	32	32
Interest Coverage	5.89	8.34	7.57	6.02
P/E	11	10	14	20
Price / Book Value	1.4	2.2	2.4	3.2
EV/EBITDA	6	11	10	13
FCF per Share	7	21	32	20
Dividend Yield	0.3%	0.2%	0.1%	0.1%

Balance Sheet				
Rs in Crores				
Y/E March	FY15	FY16	FY17	FY18E
Share Capital	28	28	28	28
Reserves	541	710	867	1,039
Networth	569	738	895	1,067
Debt	88	113	130	150
Other Non Current Liab	69	32	31	32
Total Capital Employed	657	850	1,026	1,217
Net Fixed Assets (incl CWIP)	227	247	324	346
Non Current Investments	23	4	4	4
Other Non Current Assets	252	434	586	627
Non Current Assets	525	722	957	1,021
Inventory	36	35	57	71
Debtors	177	129	164	203
Cash & Bank	16	15	25	26
Other Current Assets	250	356	415	480
Current Assets	478	536	661	780
Creditors	71	104	134	166
Provisions	29	11	13	16
Other Current Liabilities	177	99	235	191
Curr Liabilities	277	376	561	551
Net Current Assets	201	161	101	228
Total Assets	1,003	1,259	1,618	1,800

Cash Flow Statement				
Rs in Crores				
Y/E March	FY15	FY16	FY17E	FY18E
PBT	72	130	163	185
(inc)/Dec in Working Capital	(52)	71	98	(111)
Non Cash Op Exp	54	43	64	93
Interest Paid (+)	13	13	22	32
Tax Paid	25	2	6	10
others	5	(2)	-	-
CF from Op. Activities	67	257	339	188
(inc)/Dec in FA & CWIP	(31)	(64)	(141)	(115)
Free Cashflow	36	192	198	73
(Pur)/Sale of Investment	-	-	-	-
others	6	(195)	2	(28)
CF from Inv. Activities	(25)	(259)	(313)	(171)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	(25)	20	18	20
Interest Paid	(13)	(12)	(22)	(32)
Dividend Paid (inc tax)	(3)	(7)	(4)	(4)
others	-	-	-	-
CF from Fin. Activities	(41)	1	(8)	(15)
Inc(Dec) in Cash	1	(1)	18	1
Add: Opening Balance	4	5	4	25
Closing Balance	5	4	22	26