

KNR CONSTRUCTION LTD.

NEUTRAL

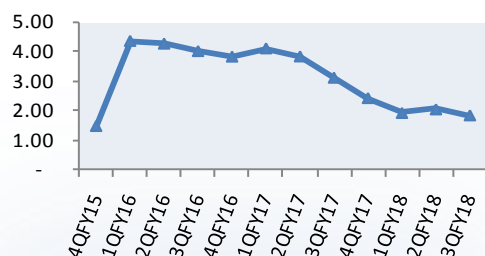
19-Feb-18

INDUSTRY - Eng. & Cons.
Bloomberg Code - KNRC IN
BSE Code - 532942
NSE Code - KNRCON
NIFTY - 10452

Company Data

CMP	319
Target Price	317
Previous Target Price	286
Upside	-1%
52wk Range H/L	348/177
Mkt Capital (Rs Cr)	4,418
Av. Volume (,000)	181

Reducing Book to Bill

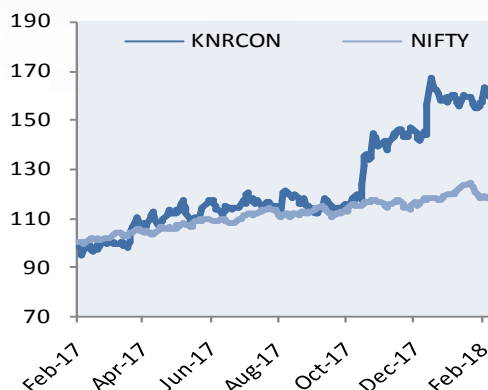


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	55.4	57.4	57.4
FII	3.9	3.3	3.9
DII	28.6	28.5	28.4
Public	12.1	10.8	10.3
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	2.4	16.6	72.6
Rel.to Nifty	5.8	15.1	53.7



Key Highlights of the Report:-

- ✓ KNR has posted Q3FY18 numbers ahead of our estimates. Revenue was up by 13.3% YoY to Rs.433 Cr v/s our estimate of Rs.375 Cr. Higher revenue growth backed by strong execution.
- ✓ EBITDA margin was up by 7.7% YoY to 22.71% on account of lower subcontracting on projects near completion.
- ✓ Revenue visibility has drag down to 1.86x of TTM revenue as no order intake during the quarter.
- ✓ We have factored in higher depreciation in our estimates and cut down our EPS estimate for FY19/FY20 by 21/23% respectively. Though, it will not affect the cash flow from operation.
- ✓ Considering the delay in order inflow, we are reducing our rating from "HOLD" to 'NEUTRAL' with unchanged target price of Rs. 317.

Financials/Val.	FY16	FY17E	FY18E	FY19E	FY20E
Net Sales	903	1,541	1,784	2,081	2,264
EBITDA	153	230	374	302	328
EBIT	111	166	251	162	193
PAT	161	158	251	140	152
EPS (Rs)	11	11	18	10	11
EPS growth (%)	120%	-2%	59%	-44%	9%
ROE (%)	22%	18%	22%	11%	11%
ROCE (%)	13%	16%	18%	11%	11%
BV per Share	52	64	81	90	101
P/B (X)	1.9	3.0	3.9	3.5	3.2
P/E (x)	9	17	18	32	29

Recent Development

- ✓ KNR stands L1 in couple of HAM projects in state of Karnataka but will receive only one project as per tender rule. Worth of the project is Rs.1150 Cr
- ✓ Strong NHAI bid pipeline of 56 EPC projects worth Rs.35000 Cr and 89 HAM projects worth of Rs.90000 Cr will come under tender in next 4-6 months and management expect to win at least 3000-3500 Cr of new work in next 10-12 months.
- ✓ 30% work on Bangladesh project has completed and scope of work will increase from Rs.525 Cr to 800 Cr. KNR share will increase from Rs.263 Cr to 400 Cr.
- ✓ One of the JV partner in recently won Irrigation project worth Rs.884 Cr exit from the contract and share of JV partner will carried out by the company. Share of JV partner is Rs.110 Cr.

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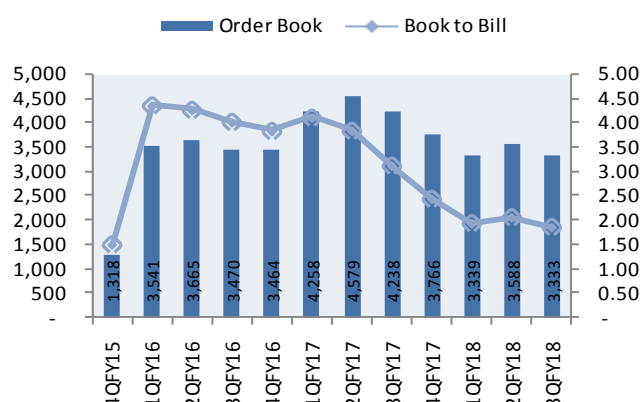
Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	382	482	481	393	433	13%	10%	903	1,541	71%
Other Income	10	1	12	3	6	-41%	126%	32	30	-5%
COGS	277	349	344	251	278	0%	11%	606	1,115	84%
Employee Expenses	15	15	15	19	18	22%	-6%	43	55	28%
Other Expenses	32	47	37	40	39	19%	-5%	100	142	41%
Total Expenditure	325	410	396	311	335	3%	8%	750	1,311	75%
EBITDA	58	72	85	82	98	71%	19%	153	230	50%
Depreciation	17	19	24	24	37	124%	58%	42	64	51%
EBIT	41	53	60	59	61	49%	4%	111	166	50%
Intreset	7	5	5	4	5	-26%	15%	13	22	65%
Exceptional Item	11	-	-	-	-			-	11	
PBT	45	48	67	57	62	40%	9%	129	163	26%
Tax	3	(4)	(0)	(2)	(3)	-204%	95%	(32)	6	-119%
PAT	31	53	68	59	65	114%	11%	161	158	-2%

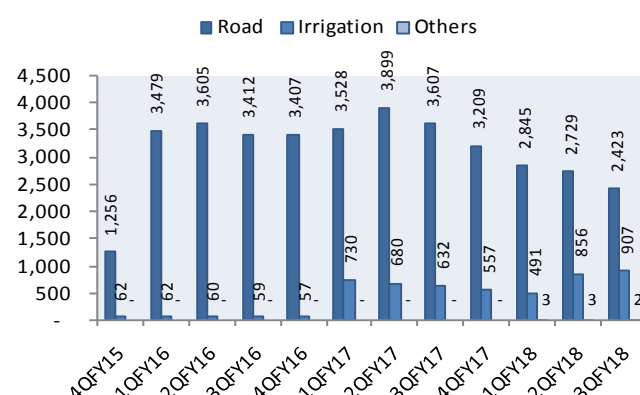
Beats our estimates, Spike in EBITDA margin on account of lower Subcontracting

- ✓ KNR has posted Q3FY18 numbers ahead of our estimates. Revenue was up by 13.3% YoY to Rs.433 Cr v/s our estimate of Rs.375 Cr. Higher revenue growth backed by strong execution.
- ✓ EBITDA margin was up by 7.7% YoY to 22.71% on account of lower subcontracting on projects near completion. Subcontracting expenses as % of sales was down to 20.3% in Q3FY18 compared to 39.3% in corresponding quarter last year.
- ✓ Improvement in EBITDA margin was not fully translated into bottom line as the depreciation cost was higher by 124% YoY to Rs.37 Cr. KNRCON working in three shifts in order to complete Irrigation projects in stipulated time frame. Hence, it provides higher depreciation on machinery which used in Irrigation projects.
- ✓ Depreciation will remain higher until Irrigation projects completes. We have factored higher depreciation in our estimate and cut down our EPS estimates by 21/23% respectively for FY19/FY20. Though, it will not change cash generation from operation.
- ✓ Revenue visibility has drag down to 1.86x of TTM revenue as no order intake during the quarter. Though, the company stands L1 in large HAM project worth Rs.1150 Cr and management expect to receive LOA by February end.
- ✓ Based on the strong NHAI bid pipeline management expects to win Rs.3000-3500 Cr of new orders in next 10-12 months.

Order Book and Book to Bill



Order Book Break Up



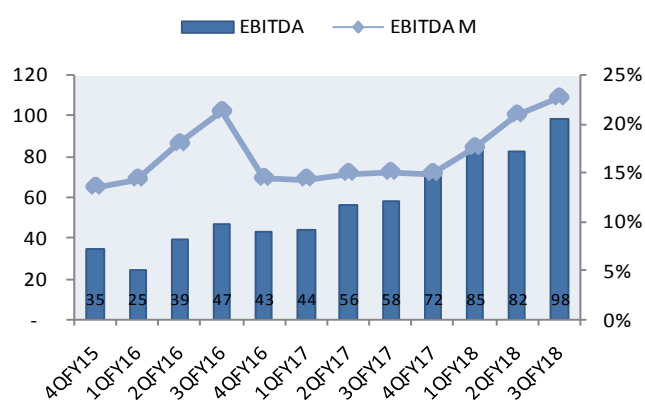
Margin Matrix

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	78.9	79.8	78.9	71.5	70.5	(839)	(95)	69.1	78.3	920.0
EBITDA Margin	15.1	15.0	17.6	21.0	22.7	762	174	16.9	14.9	(200.0)
PAT Margin	8.0	11.0	14.1	15.0	15.2	717	15	17.8	10.2	(760.0)

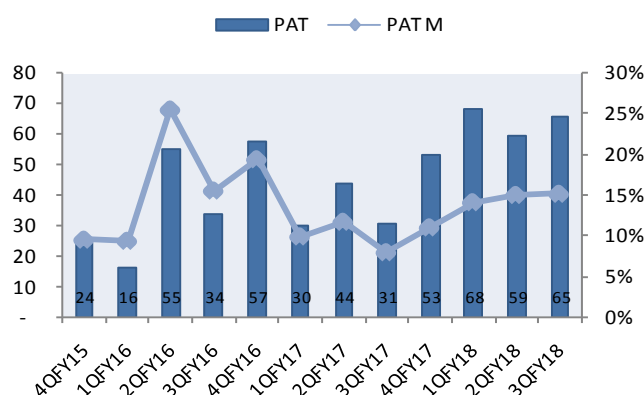
Lower Subcontracting and higher margin on projects nearing completion led to margin improvement

- ✓ Gross margin was down as result of change in mix of work through subcontracting and work carried out by KNR.
- ✓ EBITDA margin was up by 7.7% YoY to 22.71% on account of lower subcontracting on projects near completion. Subcontracting expenses as % of sales was down to 20.3% in Q3FY18 compared to 39.3% in corresponding quarter last year.
- ✓ PAT margin improved by 700 bps YoY to 15.2% on account of improved EBITDA margin and negative tax during the quarter.

EBITDA (cr) and EBITDA margin trend



PAT (cr) and PAT margin trend



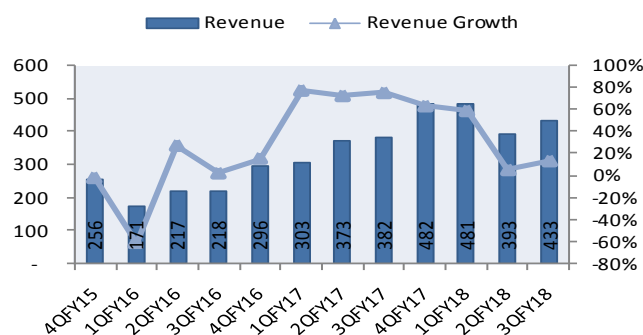
Concall Highlights :-

- ✓ KNRCON stands in L1 of couple of HAM projects in state of Karnataka but will receive only one project worth of Rs.1150 Cr as per tender rules.
- ✓ Strong NHAI bid pipeline worth of 1.20 lakh Cr, which will bid out in next 4-6 months. Submitted bid for Bangalore Mysore road projects and waiting for bid opening. Delay in opening of bid from NHAI end.
- ✓ Expect to receive 1-2 projects by this month end.
- ✓ Depreciation was higher during the quarter as KNR working in three shifts on Irrigation projects in order to complete it in stipulated time frame. Depreciation will remain high until an Irrigation project gets completed.
- ✓ Management guided to do Rs.1800 Cr plus revenue in FY18 and revenue growth for FY19 will be 15%.
- ✓ Capex for 9MFY18 was Rs.177 Cr and expect to do another 30-35 Cr in Q4FY18. For FY19 it will be Rs.130-140 Cr
- ✓ Debt as on 31st December 2017 was Rs.228 Cr
- ✓ Tax rate in will be 10%/15% in FY18/FY19.
- ✓ 30% work on Bangladesh project has completed and scope of work will increase from Rs.525 Cr to 800 Cr. KNR share will be 400 Cr.

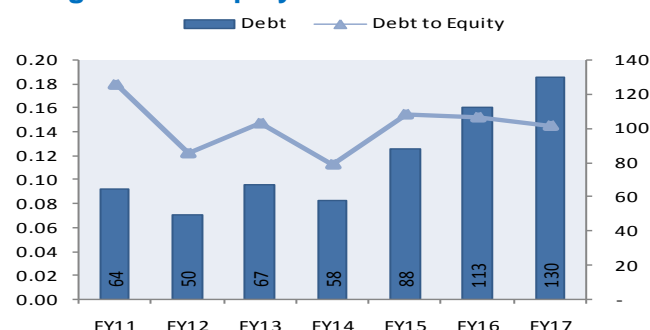
Investment Argument :-

- ✓ **Revenue visibilities drag down to 1.8x of TTM:-** Revenue visibility has drag down to 1.86x of TTM revenue as no order intake during the quarter. Order inflow was remained lackluster for KNR in first 9M of FY18 due to delay in land acquisition by NHAI in first half of the year and stiff completion in especially in EPC projects. Company is standing L1 position in couple of K-Ship HAM projects in state of Karnataka but as per the tenders rule KNR will receive only one project worth of Rs. 1150 Cr by this month end. Company has participated in another couple of big HAM projects but due to some reason from NHAI end bid process is delayed. Management is confident to win at least Rs.3000-3500 Cr worth of projects in next 10-12 months based on the strong NHAI bid pipeline. But delay in order inflow may hurt revenue growth going ahead.
- ✓ **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 KNRCON's strong execution capabilities we are confident that the revenue will grow by 15% CAGR over FY17 to FY20E with 8.7% CAGR earning growth in same period.
- ✓ **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 0.15x on standalone basis and 0.82x 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.

Revenue Growth trend



Strong Debt to Equity



Outlook and Valuation:-

KNRCON has posted better numbers for Q3FY18 than our estimates. Revenue was up by 13.3% YoY to Rs.433 Cr v/s our estimate of Rs.375 Cr. Healthy revenue growth backed by strong execution. EBITDA margin was higher by 7.7% YoY on account of lower portion of subcontracting work on projects near completion. However, the low order book on account of NIL orders intake during the quarter remained our concern.

Company is standing L1 position in couple of K-Ship HAM projects in state of Karnataka but as per the tenders rule KNR will receive only one project worth of Rs. 1150 Cr by this month end. Company has participated in another couple of big HAM projects and management is confident to win at least Rs.3000-3500 Cr worth of projects in next 10-12 months. Based on the strong NHAI bid pipeline of 56 EPC projects worth of Rs. 35000 Cr and 89 HAM projects worth of Rs.90000 Cr in next 4-6 months, we are confident about sizeable order inflow.

We have factored in higher depreciation in our estimates and cut down our EPS estimate for FY19/FY20 by 21/23% respectively. Though, it will not affect the cash flow from operation. Considering the delay in order inflow, we are reducing our rating from "HOLD" to "NEUTRAL" with unchanged target price of Rs. 317. We value EPC business at Rs.293 (27x FY20 EPS) and BOT/HAM assets at Rs.43 per share (1x FY 20 book value).

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY17	FY18E	FY19E	FY20E
Revenue from Operation	1,541	1,784	2,081	2,264
Change (%)	71%	16%	17%	9%
EBITDA	230	374	302	328
Change (%)	50%	63%	-19%	9%
Margin (%)	15%	21%	15%	15%
Dep & Amortization	64	123	139	136
EBIT	166	251	162	193
Interest & other finance cost	22	22	22	22
Other Income	30	25	25	25
EBT	163	254	165	195
Exceptional Item	11	-	-	-
Tax	(32)	6	3	25
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	157	251	140	152
Adjusted PAT	144	251	140	152
Change (%)	-10%	74%	-44%	9%
Margin(%)	9%	14%	7%	7%

Key Ratios				
Y/E March	FY17	FY18E	FY19E	FY20E
ROE	18%	22%	11%	11%
ROCE	16%	18%	11%	11%
Asset Turnover	1.0	0.9	0.9	1.0
Debtor Days	39	41	41	41
Inventory Days	14	14	14	14
Payable Days	32	32	32	32
Interest Coverage	7.57	11.25	7.27	8.63
P/E	17	18	32	29
Price / Book Value	3.0	3.9	3.5	3.2
EV/EBITDA	12	13	15	14
FCF per Share	33	33	39	27
Dividend Yield	0.0%	0.2%	0.1%	0.1%

Balance Sheet				
Rs in Crores				
Y/E March	FY17	FY18E	FY19E	FY20E
Share Capital	28	28	28	28
Reserves	867	1,109	1,244	1,391
Networth	895	1,137	1,272	1,419
Debt	130	260	260	260
Other Non Current Liab	31	31	31	31
Total Capital Employed	1,026	1,397	1,532	1,679
Net Fixed Assets (incl CWIP)	324	411	546	582
Non Current Investments	4	4	4	4
Other Non Current Assets	586	632	654	767
Non Current Assets	957	1,154	1,311	1,461
Inventory	57	66	77	84
Debtors	164	200	234	254
Cash & Bank	25	50	93	19
Other Current Assets	415	578	543	536
Current Assets	661	895	947	894
Creditors	134	156	181	197
Provisions	13	15	17	19
Other Current Liabilities	235	272	317	249
Curr Liabilities	561	621	695	644
Net Current Assets	101	274	253	250
Total Assets	1,618	2,049	2,258	2,354

Cash Flow Statement				
Rs in Crores				
Y/E March	FY17	FY18E	FY19E	FY20E
PBT	163	254	165	195
(inc)/Dec in Working Capital	73	(79)	(21)	(109)
Non Cash Op Exp	64	123	139	136
Interest Paid (+)	22	22	22	22
Tax Paid	7	3	25	43
others	(5)	-	-	-
CF from Op. Activities	317	253	281	201
(inc)/Dec in FA & CWIP	(147)	(210)	(274)	(172)
Free Cashflow	170	43	7	29
(Pur)/Sale of Investment	-	-	-	-
others	(163)	(42)	-	-
CF from Inv. Activities	(309)	(325)	(210)	(247)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	54	130	-	-
Interest Paid	(22)	(22)	(22)	(22)
Dividend Paid (inc tax)	-	(9)	(5)	(5)
others	-	-	-	-
CF from Fin. Activities	5	98	(27)	(28)
Inc(Dec) in Cash	12	26	43	(74)
Add: Opening Balance	4	25	50	93
Closing Balance	16	51	93	19



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