

### KNR Construction

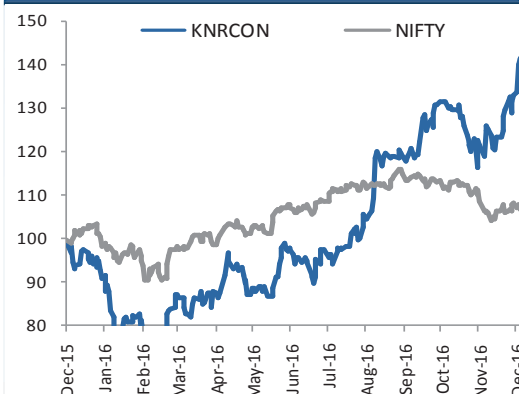
Result Update	
CMP	172
Target Price	163
Previous Target Price	128
Upside	
Change from Previous	27%

Market Data	
BSE Code	532942
NSE Symbol	KNRCON
52wk Range H/L	187/81
Mkt Capital (Rs Cr)	2417
Av. Volume	6190
Nifty	8139

Stock Performance			
	1Month	1Year	YTD
Absolute	16.3	22.8	52.7
Rel.to Nifty	15.5	30.4	47.7

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoters	58%	61%	61%
Public	42%	39%	39%

### Company Vs NIFTY



**Sandip Jabuani**  
sandip.jabuani@narnolia.com

### Strong Execution drove Revenue and Profitability

KNR reported robust revenue growth of 72% YoY to Rs.373 Cr as compare to Rs. 178 Cr. Revenue growth has mainly driven by the execution of the orders received last year, is now contributing to the top line. Currently KNR order book is Rs. 4579 Cr (5x of FY16 revenue) which provide strong revenue visibilities and management expecting another Rs.1000-1500 Cr of new orders in next 4-5 months. This will boost the earning and profitability of FY17E/FY18E. Management maintains 1200 Cr plus revenue guidance for KNR and it's JV partner (Patel Engineering) has signed a share purchase agreement with Essel group to sell their entire equity share in Patel KNR infrastructure Ltd. and Patel KNR heavy infrastructure Ltd., BOT project for enterprise value of Rs. 850 Cr put to together. KNR holds minority stake of 40% in both project. Current debt on both the project together is Rs.780 Cr. Hence company likely to get Rs. 40 Cr and this amount utilize as growth capital.

### Q2FY17 Result Update :-

- ◆ KNR reported robust revenue growth of 72% YoY to Rs.373 cr as against Rs.217Cr. Growth driven by execution of the orders received in last year is now contributing to the top line.
- ◆ EBITDA of the company clocked 43.2% of growth to Rs.56 cr as against Rs.39Cr in corresponding period last year led by higher revenue growth. However EBITDA M decline by 300 bps YoY to 15% on account of high base.
- ◆ Adjusted Profit after tax grew by the 29% YoY to Rs. 39 (after adjusting MAT credit) Cr compare to Rs. 30 Cr (after adjusting prior period item).
- ◆ KNR infuse 90 cr & 130 Cr as equity in walayar BOT project respectively in Q2FY17 and H1FY17. Out of this promoters put 40 cr and balance part is funded by the parent company.

### Outlook and Valuation

Work commencement on Dindigul Bangalore project and on - going projects will drive the revenue growth. Going forward we expect top line of Rs. 1433 Cr with 15.5% of EBITDA margin and RoE of 9% in FY17. Currently, the stock is trading at 11 times of FY17 Expected EV/EBITDA which is company's historic highs and also one of the highest in the industry. On the operations front, we still hold positive view on this stock but on the valuation front we are not very comfortable. We had initiated BUY on KNR Construction at the adjusted CMP of Rs. 111 on 22th April 2016. Hence, we recommend to Book Profit on this stock, up by 54% from initiating price.

Financials	FY13	FY14	FY15	FY16E	FY17E
Sales	765	895	931	995	1521
EBITDA	117	131	127	174	234
Net Profit	49	60	70	126	24
EBIDTA%	15.2%	14.7%	13.6%	17.5%	15.4%
P/E	5.1	4.0	17.1	9.5	

## Investment Argument :-

- ◆ The ministry and NHA has set a target of 25000 Km of road for FY17 on awarding site and in terms of construction, NHA is targeting to construction 8000 Km while the Ministry is targeting 7000 Km
- ◆ Company has taken strategic decision to exit from BOT asset to focus on EPC projects, which will help company to keep balance sheet assets light. Post the recent deal KNR debt on consolidated book will come down by 300 Cr.

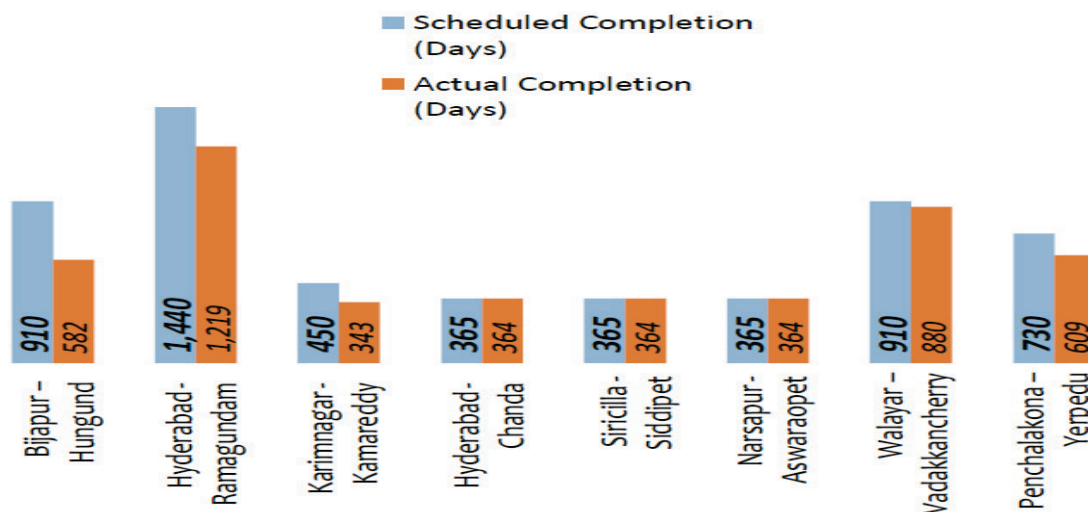
## Concall/ Management Intreivwe Update :-

- ◆ NHA set to award 25000 km road project in FY17 as compare to 10000 km in FY16
- ◆ KNR aims to take 1000-1500 cr of new road project in next 4-5 months
- ◆ Marginal impact of demonization of currency on company's operation
- ◆ Debt will be come down by Rs. 300 Cr on consolidated books post deal with Essel.
- ◆ KNR infuse Rs.90 cr and Rs. 130 Cr in walayar project respectively in Q2FY17 and H1FY17. Out of this promoter put Rs. 40 Cr and balance part was funded by parent
- ◆ Management maintains revenue guidance of Rs. 1200 Cr plus with 13.5-14.5% of EBITDA
- ◆ Tax rate for the FY17 will be 8-10%
- ◆ Company continues to have 80IA benefit on project received in FY17.Hence, FY18 tax rate will be in range of 10-30% depending on composition of execution.

## About the Company:-

KNR constructions Limited ( from know written as "KNRCL" ) is an ISO 9001:2000 Certified company and listed in Bombay StockExchange Limited (BSE) and National Stock Exchange of India Limited (NSE). KNRCL is a multidomain infrastructure project development company providing (EPC) engineering, procurement and construction services across various fast growing sectors namely roads & highways, irrigation and urban water infrastructure management. Our project execution strength primarily is in road transportation engineering projects namely construction and maintenance of roads, highways, flyovers and bridges wherever integral to the projects undertaken.

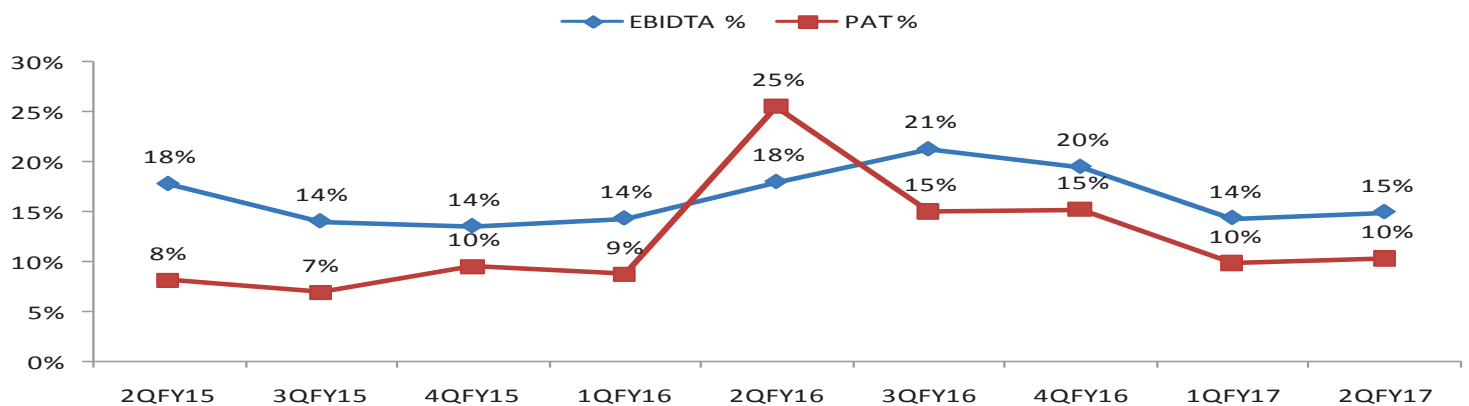
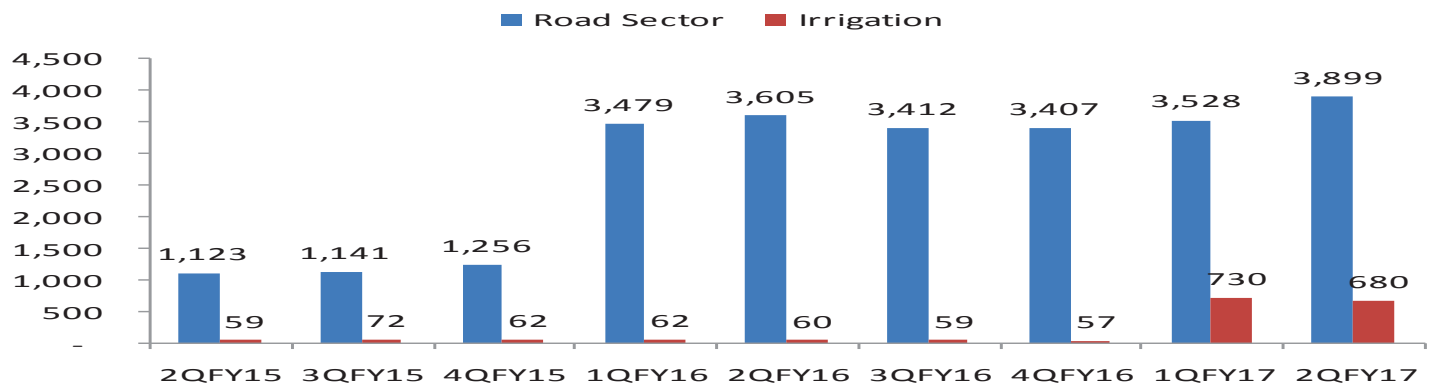
## Significant experience and Strong track record in timely execution of Projects:-



Timely completion capabilities will help KNR construction to grow higher in competitive scenario, comapny earn bonus of 6Cr on early completion of Penchalakona Yerpedu project.

## Strong order book gives good Revenue visibility

(In Rs. Cr)



### Walayar BOT project

- ◆ Provisional Completion Certificate for 100% of Project length has been issued for the project on 31st
- ◆ Caters to commercial traffic towards Kochi Port and Kochi International Container Transshipment Terminal. The project road serves as an arterial link to most of the important southern cities such as Salem, Erode, Coimbatore, Trissur, Palakkad, Kochi, Alappuzha, Kollam, Thiruvananthapuram and Nagercoil
- ◆ Current Debt is Rs.309 Cr and Toll collection in Q1FY17 is Rs.9.57 Cr

KNR infuse Rs.90 cr and Rs. 130 Cr in walayar project respectively in Q2FY17 and H1FY17. Out of this promoter put Rs. 40 Cr and balance part was funded by parent company

### Muzaffarpur - Barauni BOT project

- ◆ Provisional Completion Certificate for 75% of Project length has been issued for the project on 3rd June
- ◆ Muzaffarpur is an important place for wholesale cloth trade and the largest city of northern Bihar while Barauni city is situated on holy river Ganga and also an important industrial city of Bihar having major industrial units such as IOC refinery, Barauni Thermal Power Plant, Hindustan Fertilizers Corporation and Barauni Dairy

Current Toll collection is 6lakh/day. KNR will receive 100% COD in next 3-4 months and daily collection likely to go upto 10lakh/day

### Financials Snap Shot

	INCOME STATEMENT					RATIOS		
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16
Net Revenue	895	931	995	1433	EPS	21	25	45
Other Income	17	13	42	33	Book Value	217	280	248
Total Revenue	912	944	1038	1466	DPS	1.2	1.2	1.2
COGS	707	723	748	1074	Payout (incl. Div. Tax.)	5%	5%	3%
GPM	21%	22%	25%	25%	<b>Valuation(x)</b>			
Other Expenses	21	43	27	39	P/E	0.8	3.4	2.3
EBITDA	131	127	174	222	Price / Book Value	0.1	0.3	0.4
EBITDA Margin (%)	15%	14%	18%	15%	Dividend Yield (%)	6.88%	1.38%	1.16%
Depreciation	59	55	48	98	<b>Profitability Ratios</b>			
EBIT	73	72	126	124	RoE	10%	9%	18%
Interest	18	13	56	79	RoCE	7%	5%	9%
PBT	72	71	112	79	<b>Turnover Ratios</b>			
Tax	7	0	-21	9	Asset Turnover (x)	0.6	0.5	0.5
Tax Rate (%)	9%	0%	-19%	11%	Debtors (No. of Days)	31	43	49
Reported PAT	60	70	126	70	Inventory (No. of Days)	27	28	30
Dividend Paid	3	3	3	2	Creditors (No. of Days)	32	30	44
No. of Shares (In Cr)	3	3	3	3	Net Debt/Equity (x)	0.85	0.91	0.66

	BALANCE SHEET			
	FY14	FY15	FY16	FY17E
Share Capital	28	28	28	28
Reserves	583	760	669	737
Net Worth	611	788	697	765
Long term Debt	343	672	631	502
Short term Debt	50	88	106	173
Deferred Tax	0	0	0	0
Total Capital Employed	954	1460	1328	1268
Net Fixed Assets	858	1343	1263	1333
Capital WIP	2	4	7	0
Debtors	75	110	135	194
Cash & Bank Balances	57	44	45	102
Trade payables	78	75	119	173
Total Provisions	57	42	71	87
Net Current Assets	117	174	260	306
Total Assets	1454	2012	2051	2367

	CASH FLOW		
	FY14	FY15	FY16
OP/(Loss) before Tax	72	71	112
Depreciation	59	55	48
Direct Taxes Paid	24	33	5
Op. before WC Change	147	145	214
CF from Op. Activity	239	66	256
Non Current Investment	0	0	0
Capex	512	548	258
CF from Inv. Activity	(485)	(549)	(254)
Repayment of LTB	278	342	12
Interest Paid	18	14	57
Divd Paid (incl Tax)	3	3	3
CF from Fin. Activity	276	462	2
Inc/(Dec) in Cash	31	(21)	3
Add: Opening Balance	19	50	29
Closing Balance	50	29	33