

KNR Construction

Result Update

CMP	720
Target Price	815
Previous Target Price	640
Upside	13%
Change from Previous	27%

Market Data

BSE Code	532942
NSE Symbol	KNRCON
52wk Range H/L	819/408
Mkt Capital (Rs Cr)	2025
Av. Volume	6937
Nifty	8126

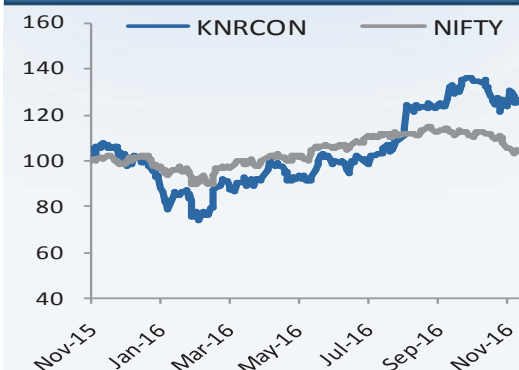
Stock Performance

	1Month	1Year	YTD
Absolute	-10.3	2.6	13.9
Rel.to Nifty	-2.7	10.3	12.4

Share Holding Pattern-%

	2QFY17	1QFY17	4QFY16
Promoters	58%	61%	61%
Public	42%	39%	39%

Company Vs NIFTY



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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 FY17E.

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. Post the deal around Rs.300 cr of debt likely to come down on consolidated books. Sales of BOT project is part of the strategy to focus on EPC project.

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

Going forward, we expect KNR to perform better based on strong execution of orders received in the last year and huge opportunities in terms of new order intake. Considering a) company's strategic decision to exit from BOT assets and focus on EPC project to keep balance sheet assets light, b) strong bid pipeline of 20 projects and robust order inflow during the H1FY17 will help KNR to register strong growth. Considering the current uncertain macroeconomics we recommend "HOLD" on the stock with unchanged target price of Rs. 815/share.

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	

(Source: Company/Eastwind)

Investment Argument :-

- ◆ The ministry and NHAI has set a target of 25000 Km of road for FY17 on awarding site and in terms of construction, NHAI 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.

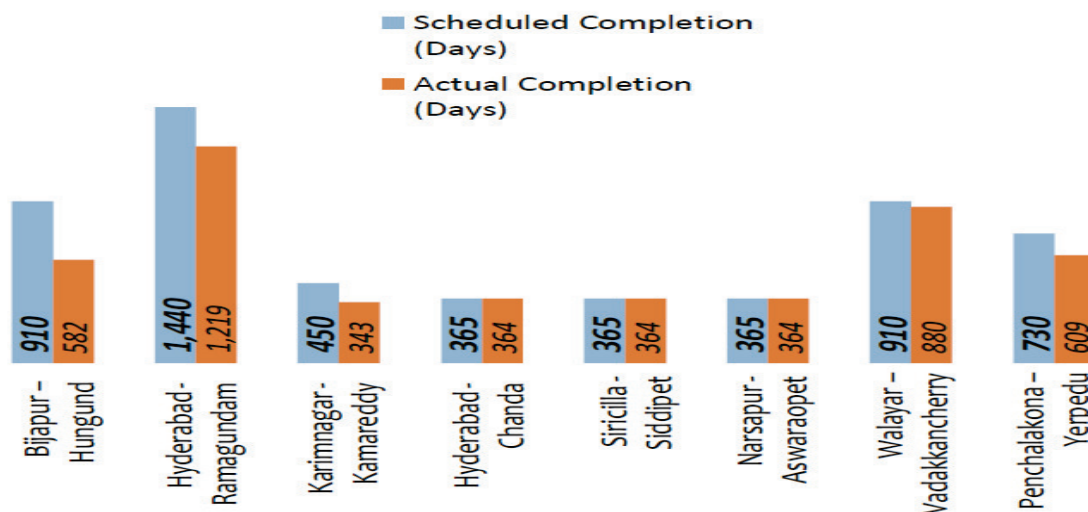
Concall/ Management Intreivwe Update :-

- ◆ NHAI 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.

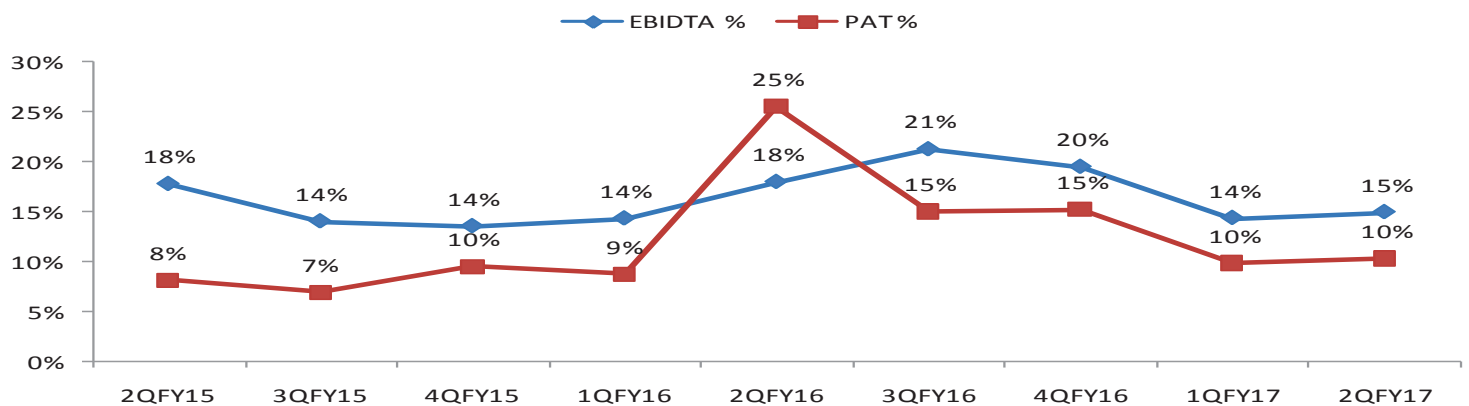
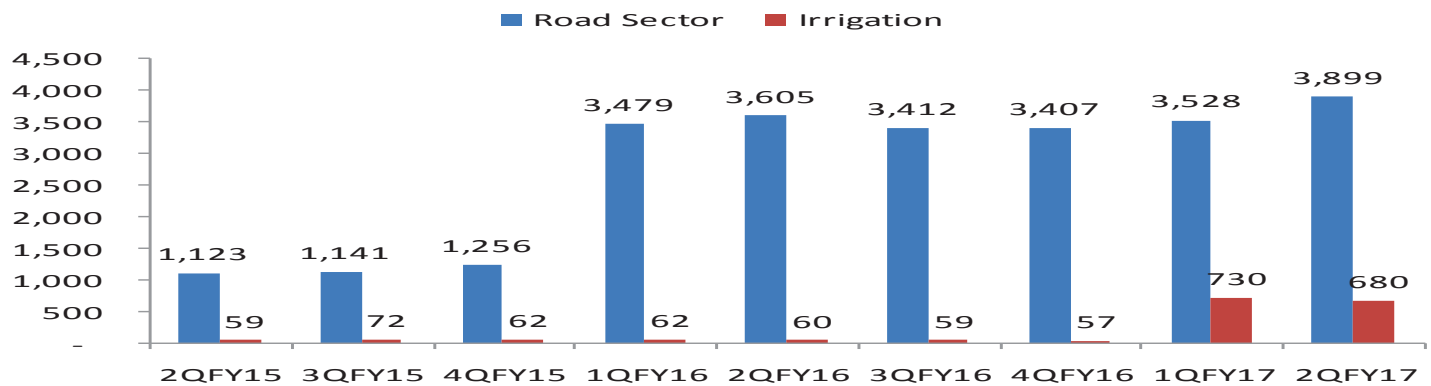
Significant experience and Strong track record in timely execution of Projects:-



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			
	FY13	FY14	FY14	FY16
Revenue (Net of Excise D	765	895	931	995
Other Income	18	17	13	42
Total Revenue	783	912	944	1038
COGS	601	707	723	663
GPM	1	1	1	1
Other Expenses	18	21	43	111
EBITDA	117	131	127	174
EBITDA Margin (%)	15%	15%	14%	18%
Depreciation	56	59	55	48
EBIT	61	73	72	126
Interest	12	18	13	56
PBT	67	72	71	112
Tax	16	7	0	-21
Tax Rate (%)	23%	9%	0%	-19%
Reported PAT	49	60	70	126
Dividend Paid	3	3	3	3
No. of Shares	3	3	3	3

Source: Eastwind/Company

	FY13	FY14	FY14	FY16
Share Capital	28	28	28	28
Reserves	436	583	760	669
Net Worth	464	611	788	697
Long term Debt	80	343	672	631
Short term Debt	64	50	88	106
Deferred Tax	0	0	0	0
Total Capital Employed	544	954	1460	1328
Net Fixed Assets	406	858	1343	1263
Capital WIP	5	2	4	0
Debtors	116	75	110	135
Cash & Bank Balances	23	57	44	45
Trade payables	112	78	75	119
Total Provisions	115	57	42	71
Net Current Assets	220	117	174	260
Total Assets	1125	1454	2012	2051

Source: Eastwind/Company

	RATIOS			
	FY13	FY14	FY14	FY16
EPS	17.4	21.5	24.8	44.9
Book Value	164.9	217.2	280.4	247.8
DPS	1.2	1.2	1.2	1.2
Payout (incl. Div. Tax.)	7%	5%	5%	3%
Valuation(x)				
P/E	5.1	4.0	17.1	11.3
Price / Book Value	0.5	0.4	1.5	2.0
Dividend Yield (%)	1.31%	1.38%	0.28%	0.23%
Profitability Ratios				
RoE	11%	10%	9%	18%
RoCE	10%	7%	5%	9%
Turnover Ratios				
Asset Turnover (x)	0.7	0.6	0.5	0.5
Debtors (No. of Days)	55.3	30.8	43.2	49.4
Inventory (No. of Days)	28.7	27.4	28.1	34.0
Creditors (No. of Days)	53.3	31.8	29.6	43.6
Net Debt/Equity (x)	0.56	0.85	0.91	0.82

Source: Eastwind/Company

	FY13	FY14	FY14	FY16
OP/(Loss) before Tax	67	72	71	112
Depreciation	56	59	55	48
Direct Taxes Paid	31	24	33	21
Operating profit before working capital changes				
CF from Op. Activity	3	239	66	285
Capital expenditure on fix	149	512	548	32
CF from Inv. Activity	(100)	(485)	(549)	32
Repayment of Long Term	89	278	342	(41)
Interest Paid	12	18	14	56
Divd Paid (incl Tax)	3	3	3	3
CF from Fin. Activity	109	276	462	(83)
Inc/(Dec) in Cash	13	31	(21)	234
Add: Opening Balance	7	19	50	44
Closing Balance	19	50	29	278

Source: Eastwind/Company