

KNR Construction Limited

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

Appointment Date of HAM projects to drive Revenue Growth

RATING	ACCUMULATE
CMP	289
Price Target	309
Potential Upside	7%

Rating Change	↑
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	303/163
Mkt Capital (Rs Cr)	4062
Free float (%)	45%
Avg. Vol 1M (,000)	116
No. of Shares (Cr)	14
Promoters Pledged %	0%

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4QFY19 Result Update

- Revenue was up by 15% YoY to Rs 716 Cr supported by the string execution momentum of ongoing projects.
- Total Toll collection during the quarter rose by 34% YoY to Rs 37 Cr. Average daily toll collection on Walayar BoT is Rs 18 lakh/day and Rs 24 lakh/day on Muzaffarpur Barauni project.
- EBITDA grew by 19% YoY to Rs 144 Cr and EBITDA margin were at 20.1% compared to 19.3% in 4QFY18 due to higher revenue from irrigation and reduction of subcontracting.
- Company has received an appointment date for Chittor to Mallavaram as 4th Jan 2019 and for Ramsanpalle to Mangalore project as 2nd May 2019.
- Order book stood at Rs 4016 Cr with roads segment contributing 96% and remaining from irrigation. Order book of Rs 1885 Cr compressing 3 HAM projects not included in the order book as the projects are under development.
- Working capital days has improved from 40 days in March 18 to 36 days in March 19 though it has gone up by 10 days on a sequential basis.

View and Valuation

Despite the weak executable order book KNRCON is continuously posting strong quarterly numbers with sustained margin. 2 out of 5 HAM projects have received an appointment date and another 1 is expected to receive in 10-15 days. Remaining 2 projects are expected to receive an appointment date in H2FY20. All the 5 HAM projects are likely to start contributing to revenue from Q4FY20. Though the revenue growth in FY20 will be only 12-13% the growth prospectus of FY21 is strong and we have estimated 25-30% revenue growth. The EBITDA margin is likely to remain in the range of 17-18% going ahead. **We have rolled forward our estimates to FY21E. We value the EPC business at 13x FY21E and Investment into BoT/HAM at Rs 67 per share and upgrade our rating from NEUTRAL to ACCUMULATE.**

Key Risks to our rating and target

- Delay in appointment Date of HAM projects

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1541	1932	2137	2414	3088
EBITDA	230	386	427	440	529
EBIT	166	252	259	261	350
PAT	158	271	263	212	261
EPS (Rs)	11	19	19	15	19
EPS growth (%)	-80%	72%	-3%	-20%	23%
ROE (%)	16%	18%	16%	14%	16%
ROCE (%)	18%	24%	19%	13%	14%
BV per Share	63.7	82.3	100.6	115.1	133.1
P/B (X)	15.9	12.9	13.2	18.9	15.3
P/E (x)	2.8	3.0	2.5	2.3	2.0
EV/EBITDA (x)	11	11	10	10	8

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4QFY19 Results**Strong Performance Despite Weak Order Book**

<i>Financials</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY18</i>	<i>FY19</i>	<i>YoY %</i>
Sales	624	556	416	448	716	15%	60%	1,932	2,137	10.6%
Other Income	18	18	9	22	15	-17%	-30%	39	63	61.2%
Total Sales	643	574	425	470	731	14%	55%	1,971	2,200	11.6%
COGS	660	580	361	413	779	18%	89%	2,065	2,133	3.3%
Employee Exp	20	20	25	24	25	24%	5%	72	93	28.8%
Other Expenses	72	68	45	55	61	-15%	11%	188	229	21.9%
Total	504	446	333	359	572	13%	59%	1,546	1,710	10.6%
EBITDA	121	110	83	90	144	19%	61%	386	427	10.5%
Depreciation	49	36	39	45	48	-3%	6%	134	168	25.3%
EBIT	72	74	44	45	96	34%	115%	252	259	2.6%
Intreset	9	7	7	7	7	-15%	3%	23	29	26.8%
PBT	81	84	45	59	104	28%	76%	268	293	9.1%
Tax	1	10	0	7	9	574%	24%	(4)	27	-792%
PAT	80	74	45	52	92	16%	78%	272	263	-3.5%

Strong Revenue growth with Sustained Margins:

Revenue was up by 15% YoY to Rs 716 Cr backed by the strong execution of ongoing road and Irrigation projects. The toll collection rose 34% YoY to Rs 37 Cr. The Toll collection at Muzzafarpur Barauni project is around Rs 24 lakhs per day while the KNR Walayar project has a collection of Rs 18 lakh per day. EBITDA grew by 19% YoY to Rs 144 Cr and EBITDA margin was at 20.1% compared to 19.3% in 4QFY18 due to higher revenue from irrigation and reduction in subcontracting. Irrigation projects contribution to revenue during the FY19 is 30% compared to 15% last year. PAT was up by 16% in line with revenue and EBITDA with PAT margin being 12.9%. Order book stood at Rs 4016 Cr with roads segment contributing 96% and remaining from irrigation.

Appointment date of HAM projects likely to boost the Revenue:

Company has received appointment date of Chittor to Mallavaram as 4th Jan 2019 and for Ramsanpalle to Mangalore project as 2nd May 2019 and has commenced the construction activity. Land on Trichy to Kallagam has acquired to the tune of 80% plus and likely to receive appointment date in next 10-15 days. The two remaining projects namely Meensurutti to Chidambaram and Magadi to Somwarpeth is likely to receive appointment date in H2FY20. By the Q4FY19 end, all the projects (except Oddanchatram – Madathukulam i.e under development) are likely to start contribution in revenue. Though the FY20 revenue will go up by only 12-13% but the FY21 looks strong and we estimated 28-30% revenue growth.

Concall Highlights

- Management expects 10-15% revenue growth in FY20.
- Appointment date of Ramsanpalle Mangalore has received during the Q4FY19 and construction activity started in 1QFY20.
- Appointment date for Oddanchatram Madathukulam project is expected to be received by the end of June Delay in appointment date of Meensurutti Chidambaram was due to land clearance issues which are expatiated by NHAI and will receive appointment date by the July end.
- Land acquired for Karnataka projects is 55% 3H and company will be submitting financial closure in 2 weeks.
- Company is negotiating for 2 irrigation projects of Rs 1200 Cr and Rs 800 Cr in Telangana from private players. Basically, it will be on a subcontracting basis, hence EBITDA margin will be lower.
- Management expects Rs 2500 Cr of order inflow of which Rs 700 Cr of EPC project in Tamil Nadu has been received in 1QFY20.
- 100% owned BOT Toll project of Walayar Vadakkancherry has witnessed improved average toll collection of Rs 18 lakhs/day. Company is in the process of monetizing this project soon.
- Capex for FY20 will be Rs 200 Cr.
- MAT credit of Rs 75 Cr is in books as on 31st March 2019. In coming 2-3 years the company will be utilizing this credit. The tax rate is expected to be 15% in FY20.
- If irrigation projects materialize then depreciation for FY20 will be in the same range and if not then will come to Rs 35-40 Cr range.

Order Book Break Up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
Road	2,729	2,423	1,656	1,545	1,353	1,219	3,842	132%	-100%
Irrigation	856	907	669	434	461	320	172	-74%	-100%
Others	3	2	2	2	17	2	1	-18%	-110%
Total	3,588	3,333	2,327	1,980	1,832	1,541	4,016	73%	-100%

O/s Order Book of Key Projects

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Hubli – Hospet	667	667	654	630	555	521	464	464	344
Madurai Ramanathpuram	483	382	279	196	121	67	90	51	30
Thiru. Bypass	422	377	448	414	305	271	232	174	102
Dindigul-Bangalore	396	353	305	281	213	169	124	108	55
Arcot Villupuram	224	140	135	108	68	57	35	20	-
Salam Flyover	247	236	215	205	162	140	125	101	69
Chittagong City ORR	210	210	233	233	-	-	-	-	-
Others Road Projects	562	480	456	359	233	323	300	302	237
Irrigation	557	491	860	907	669	434	461	320	172

Exhibit: Order Book – By Client

4QFY19

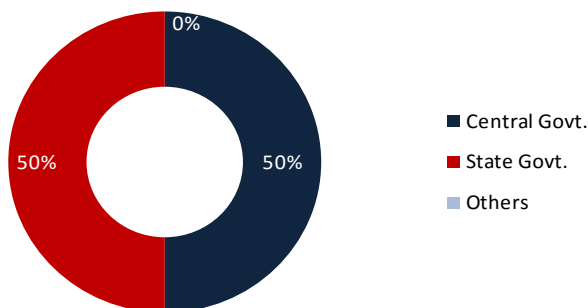


Exhibit: Order Book – By Geography

4QFY19

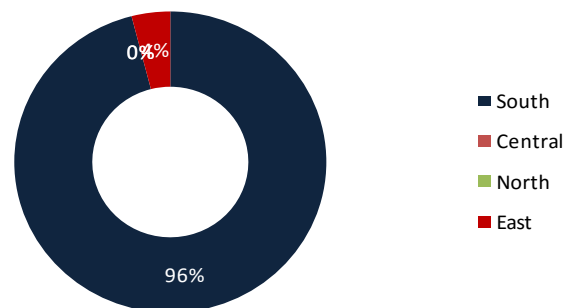


Exhibit: Book to Bill Trend

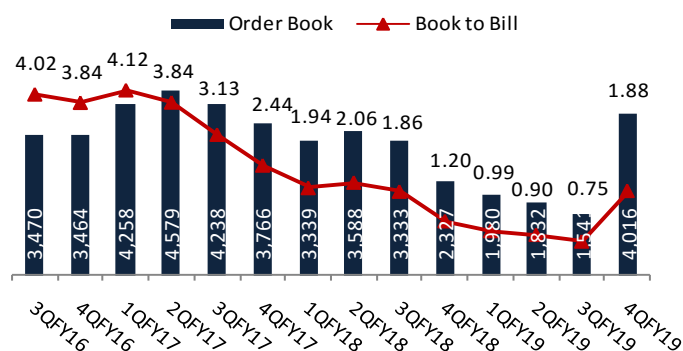


Exhibit: Stable Working Capital

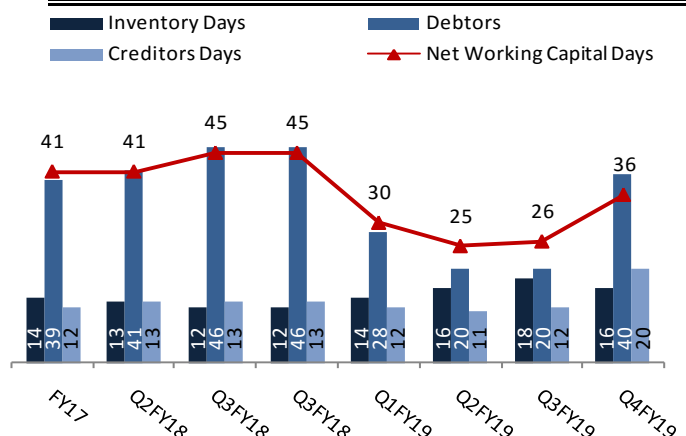


Exhibit: Balance sheet remain strong

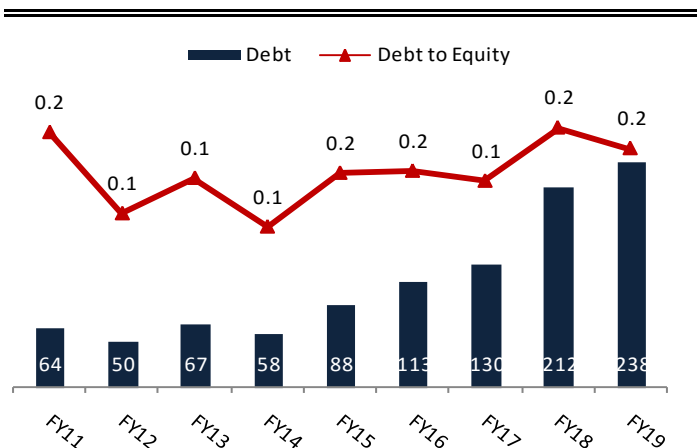


Exhibit: Interest cost and Interest cost as % of Sales

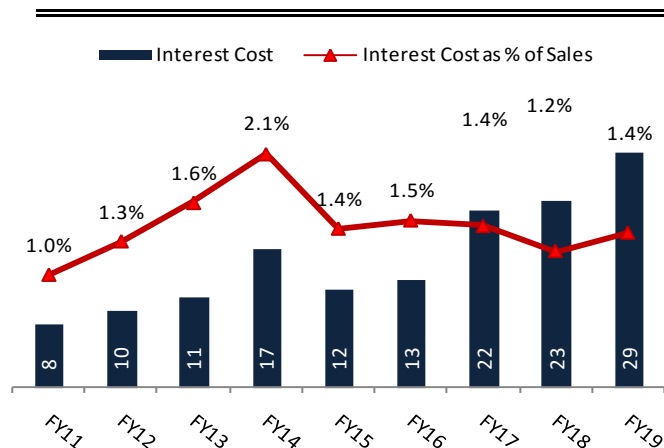


Exhibit: EBITDA and EBITDA Margin Trend

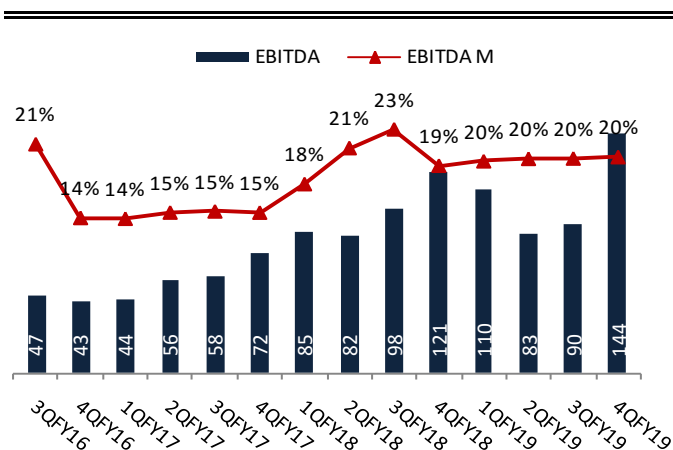


Exhibit: PAT and PAT Margin Trend

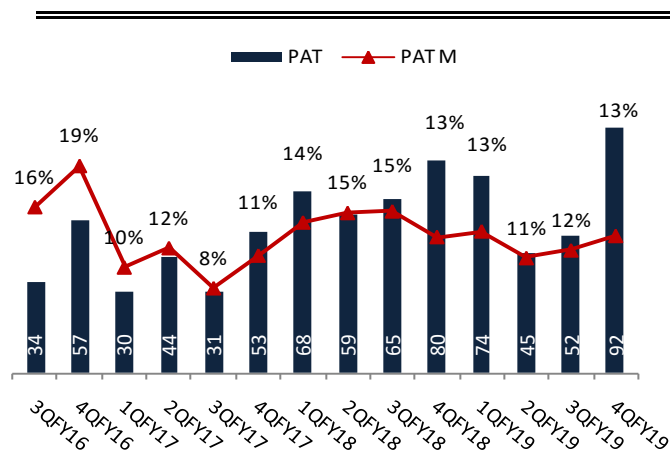


Exhibit: Strong In House Execution Team

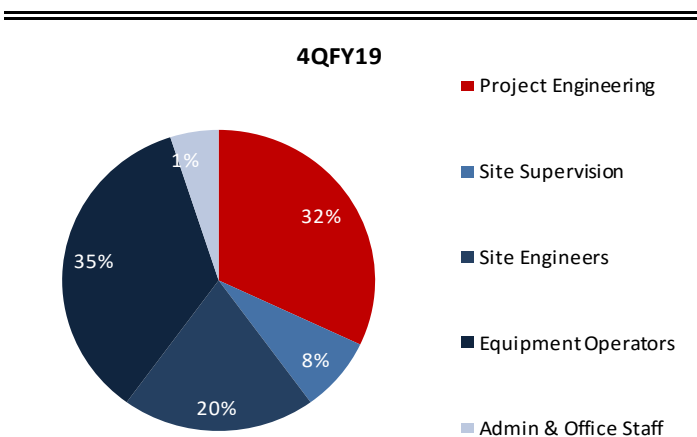
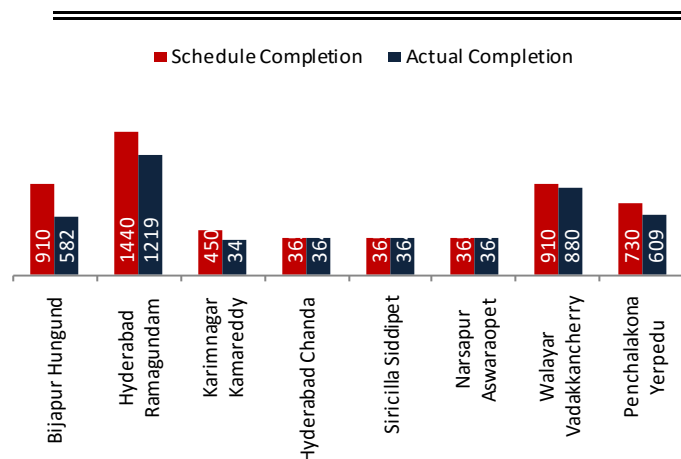


Exhibit: Projects completion Time line



Financial Details

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	835	876	903	1,541	1,932	2,137	2,414	3,088
Change (%)	21%	5%	3%	71%	25%	11%	13%	28%
EBITDA	126	126	153	230	386	427	440	529
Change (%)	8%	0%	21%	50%	68%	11%	3%	20%
Margin (%)	15%	14%	17%	15%	20%	20%	18%	17%
Depr & Amor.	57	54	42	64	134	168	178	179
EBIT	69	72	111	166	252	259	261	350
Int. & other fin. Cost	17	12	13	22	23	29	38	42
Other Income	16	12	32	30	39	63	25	26
EBT	67	72	129	174	268	293	249	335
Exp Item	-	-	-	(11)	-	(3)	-	-
Tax	15	6	(1)	(32)	6	(4)	27	37
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	61	73	161	157	272	263	212	261
Adjusted PAT	61	73	161	170	272	266	212	261
Change (%)	17%	20%	121%	6%	60%	-2%	-20%	23%
Margin(%)	7%	8%	18%	11%	14%	12%	9%	8%

Balance sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	28	28	28	28	28	28	28	28
Reserves	485	556	710	867	1,130	1,386	1,591	1,843
Networth	513	584	738	895	1,158	1,414	1,619	1,871
Debt	58	88	113	130	212	238	239	280
Other Non Cur Liab	100	14	14	31	28	18	18	18
Total Capital Employed	571	672	850	1,026	1,370	1,652	1,859	2,151
Net Fixed Assets (incl CWIP)	264	227	247	324	394	434	436	437
Non Cur Investments	25	4	4	17	18	119	119	119
Other Non Cur Asst	248	239	434	547	587	638	798	965
Non Curr Assets	548	503	722	970	1,139	1,365	1,527	1,695
Inventory	34	36	35	57	71	95	107	137
Debtors	117	177	129	164	232	234	298	381
Cash & Bank	11	16	16	25	44	13	36	108
Other Curr Assets	244	273	356	402	480	563	610	698
Curr Assets	406	501	536	648	827	905	1,052	1,324
Creditors	79	62	104	134	210	224	253	323
Provisions	43	11	11	13	14	12	13	17
Other Curr Liab	162	176	99	235	224	194	266	340
Curr Liabilities	283	311	376	561	568	600	702	850
Net Curr Assets	123	190	161	87	260	305	350	473
Total Assets	955	1,004	1,259	1,618	1,966	2,270	2,579	3,019

Financial Details

Cash Flow

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	67	72	129	163	268	293	249	335
(inc)/Dec in Working Capital	16	(52)	83	73	(233)	(60)	(19)	(77)
Non Cash Op Exp	57	54	42	64	134	168	178	179
Int Paid (+)	17	13	13	22	23	29	38	42
Tax Paid	24	25	6	7	24	27	37	74
others	(1)	5	(6)	(5)	(11)	-	-	-
CF from Op. Activities	133	67	253	317	157	398	408	405
(inc)/Dec in FA & CWIP	(28)	(31)	(64)	(147)	(225)	(209)	(180)	(180)
Free Cashflow	105	36	189	170	(68)	189	228	225
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	(52)	6	(191)	(163)	38	(79)	-	-
CF from Inv. Activities	(80)	(25)	(255)	(309)	(185)	(425)	(342)	(322)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(32)	(25)	53	54	76	26	1	40
Int. Paid	(17)	(13)	(13)	(22)	(19)	(29)	(38)	(42)
Div Paid (inc tax)	(3)	(3)	(7)	-	(8)	-	(7)	(9)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(52)	(41)	1	5	49	(3)	(43)	(11)
Inc(Dec) in Cash	1	1	(1)	12	21	(30)	23	73
Add: Opening Balance	3	4	5	4	16	44	13	36
Closing Balance	4	5	4	16	37	13	36	109

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	12%	13%	22%	18%	24%	19%	13%	14%
ROCE	12%	11%	13%	16%	18%	16%	14%	16%
Asset Turnover	0.87	0.87	0.72	0.95	0.98	0.94	0.94	1.02
Debtor Days	51	74	52	39	44	40	45	45
Inv Days	15	15	14	14	13	16	16	16
Payable Days	34	26	42	32	40	38	38	38
Int Coverage	4	6	8	8	11	9	7	8
P/E	4	11	9	16	13	13	19	15
Price / Book Value	0	1	2	3	3	2	2	2
EV/EBITDA	2	10	10	11	11	10	10	8
FCF per Share	57	35	113	33	27	43	42	42
Div Yield	1.1%	0.2%	0.4%	0.0%	0.2%	0.0%	0.1%	0.2%

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