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Eng. & Cons.
KNRC IN
532942

Delay in Appointment Date Impacted the Revenue Performance

RATING	BUY
CMP	234
Price Target	279
Potential Upside	19%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	303/163
Mkt Capital (Rs Cr)	3292
Free float (%)	45%
Avg. Vol 1M (,000)	85
No. of Shares (Cr)	14
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	2137	2581	3344
EBITDA	427	502	578
EBIT	259	324	390
PAT	263	283	297
EPS (Rs)	19	20	21
EPS gr %	-3%	7%	5%
ROE (%)	16%	16%	16%
ROCE (%)	19%	17%	15%
BVPS	101	120	140
P/B (X)	15	12	11
P/E (X)	3	2	2
EV/EBITDA(X)	9.8467	6.8259	5.8735

1QFY20 Result Update

- Revenue was down by 16% YoY to Rs 465 Cr on account of delayed appointment date and slow execution of on-going projects.
- Despite the revenue de growth operating margin continue to remain strong at 19.4%.
- Tax rate for the quarter is 19% compared to 12% in Q1FY19.
- As result of the higher tax rate PAT was down by 35% YoY to Rs 48 Cr. PAT M is at 10.3%.
- During the quarter company has received one irrigation project of worth Rs 847 Cr from Navyuga Engineering.
- Company has signed sales purchase agreement with Cube highways for selling its stake in 4th HAM project (Ramsanpalle to Mangloor).
- The Appointment date of Meensurutti to Chidambaram is continue to delay on account of issue in land acquisition and it will further delay.
- KNRCON is yet not signed concession agreement for the Oddanchatram – Madathukulam project.
- 63% land is available on Magadi to Somwarpeth and appointment date is likely to receive by September end.
- Order book stand at Rs 4634 Cr with order Rs 1885 Cr is not consider in the order book as the projects are awaited for the appointment date.

Operating margin remained strong despite lower Revenue

KNRCON has reported revenue of Rs 465 Cr, 16% de growth YoY. The revenue was mainly impacted on account of delay in appointment date. The Trichy to Kallagam, a HAM project in Tamil Nadu has received appointment date in June. The work executed on the project is not fully billed during the quarter. Additionally, execution of the project near completion (road and Irrigation) was also slow. Despite the de growth in revenue operating margin is continuous to remain strong at 19.4% supported by the higher margin on projects near completion and higher margin irrigation projects. The completion of 80 IA benefited projects led to higher tax outgo and which has impacted the bottom-line further. Effective tax rate for the quarter was 19% v/s 12%.

Slow progress on land acquisition hindering the growth

The company has achieved financial closure of Meensurutti to Chidambaram in January 2019 and still waiting for the appointment date (AD). AD is delayed more than 6 months due to land acquisition issue. The project's total length is 24 km and out of it 6 km are facing delay. The land owner is demanding higher compensation and NHA is working on it. Currently 63% land is available on the project but management will take up the AD only after the 80% land availability. Additionally, the strategic investor (Cube highway) will infuse its part of equity only after 90% land is available. Another project in Tamil Nadu is not yet signed the concession agreement.

View and Valuation

The performance in Q1FY20 was down due to delay in land acquisition and slow progress on the on-going projects. The slow progress on land acquisition is hindering the growth prospectus of the company. Still, one project is waiting for the appointment date despite the achieved financial closure 6 months ago. Though, the project size is small. Another project is yet signed the concession agreement despite received LoA in March 2019. Though, the other projects of the portfolio are progressing well along with the higher-margin Irrigation projects. We expect revenue growth is likely to bounce back going ahead with a strong operating margin. Considering the delay in appointment date we have reduced our FY21 EPS estimates by 7%. We have also cut down the valuation multiple and now we value the stock at Rs 276 (EPC business at 10x FY21E EPS and Rs 67/share for investment in BoT/HAM). Maintain BUY rating on the stock.

RESEARCH ANALYST

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1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Sales	556	416	448	716	465	-16%	-35%	1,932	2,137	10.6%
Other Income	18	9	22	15	17	-6%	11%	39	63	61.2%
Total Sales	574	425	470	731	481	-16%	-34%	1,971	2,200	11.6%
COGS	580	361	413	779	425	-27%	-46%	2,065	2,133	3.3%
Employee Exp	20	25	24	25	27	39%	10%	72	93	28.8%
Other Expenses	68	45	55	61	42	-38%	-31%	188	229	21.9%
Total Expenditure	446	333	359	572	375	-16%	-34%	1,546	1,710	10.6%
EBITDA	110	83	90	144	90	-18%	-38%	386	427	10.5%
Depreciation	36	39	45	48	39	8%	-19%	134	168	25.3%
EBIT	74	44	45	96	51	-31%	-47%	252	259	2.6%
Intreset	7	7	7	7	9	26%	21%	23	29	26.8%
PBT	84	45	59	104	59	-30%	-43%	268	293	9.1%
Tax	10	0	7	9	11	7%	21%	(4)	27	-792%
PAT	74	45	52	92	48	-36%	-48%	272	263	-3.5%

Concall Highlights

- Management expects revenue of Rs 2400 Cr in FY20. Irrigation projects are likely to contribute around Rs 500-600 Cr in revenue in FY20.
- Execution on 3 HAM projects has picked up in July.
- All EPC projects except Hubli will be completed in FY20.
- Normal EBITDAM will be 16-17%, it may be higher in Q2FY20 as the company has received Rs 53 Cr of arbitration award and around Rs 30 Cr will be contributed in bottom line. 15-18% EBITDA margin on Irrigation projects.
- Expect another Irrigation order of worth Rs 800 Cr from Telangana.
- Management targets Rs 1500 Cr of order inflow in reaming period of FY19, including Rs 800 Cr of Irrigation project. Company may take up the HAM project worth Rs 1000 Cr if the project offers desire level of margin.
- Meensurutti to Chidambaram is facing land acquisition issue. The total length of the project is 21 km and out of it 6 km is facing issue. Management is not taking up the project until the issue is resolved. The meeting with the NHAI is due by the month end.
- K-Ship project has submitted financial closure documents to authority and expect appointment date by next month end. 63% land is available on K-Ship project and 80% will be available in next 2 months.
- Company is yet to sign concession agreement for the Oddanchatram – Madathukulam.
- Management is evaluating opportunity to monetize Walayar BoT project in this financial year.
- Cube will invest their part of equity only after 90% land is available. Currently land on the 2 out of 3 under construction HAM is under 90%. Currently company has invested its part of the equity.
- 9% of the current order book is given on subcontracting basis and it will remain below 10% at least for next 1-2 years.
- Company has signed SPA for the selling of 4th HAM project(Ramsanpalle to Mangloor) to Cube highways. Company will receive Rs 95 Cr at time of sales as against invested equity of Rs 52 Cr.
- The debtors days has gone up in Q1FY20 and will be normalize by the year end.
- Capex requirement in FY20 is Rs 180-200 Cr and already invested around Rs 90 Cr in Q1FY20.
- Total equity requirement is Rs 611 Cr and out of it KNRCON has invested Rs 183 Cr in 3 HAM projects.
- Total arbitration claim of Rs 500 Cr is at various stages and management expects to receive another Rs 25-30 Cr in FY20.
- The total change in scope during the quarter is Rs 100 Cr.
- Tax rate will be 15-20% in FY20.

Order Book Break Up

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Road	2,423	1,656	1,545	1,353	1,219	3,842	3,660	137%	-5%
Irrigation	907	669	434	461	320	172	973	124%	465%
Others	2	2	2	17	2	1	0	-92%	-90%
Total	3,333	2,327	1,980	1,832	1,541	4,016	4,633	134%	15%

O/s Order Book of Key Projects

Fig in Rs Cr

	1QFY18	2QFY18	3QFY19	4QFY19	1QFY19	2QFY19	3QFY20	4QFY19	1QFY20
Hubli – Hospet	667	654	630	555	521	464	464	344	342
Madurai Ramanathpuram	382	279	196	121	67	90	51	30	10
Thiru. Bypass	377	448	414	305	271	232	174	102	103
Dindigul-Bangalore	353	305	281	213	169	124	108	55	55
Arcot Villupuram	140	135	108	68	57	35	20	-	-
Salam Flyover	236	215	205	162	140	125	101	69	53
Chittagong City ORR	210	233	233	-	-	-	-	-	-
Others Road Projects	480	456	359	233	323	300	302	237	256
Irrigation	491	860	907	669	434	461	320	172	973

Exhibit: Order Book – By Client

1QFY20

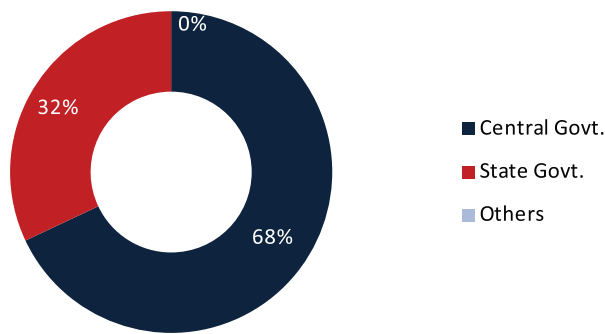


Exhibit: Order Book – By Geography

1QFY20

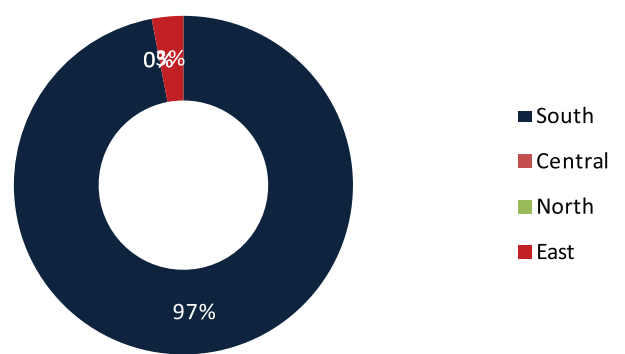


Exhibit: Book to Bill Trend

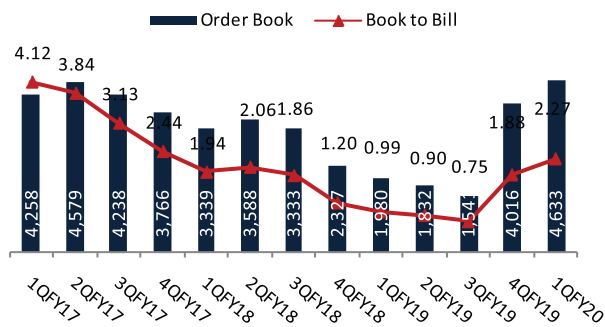


Exhibit: Stable Working Capital

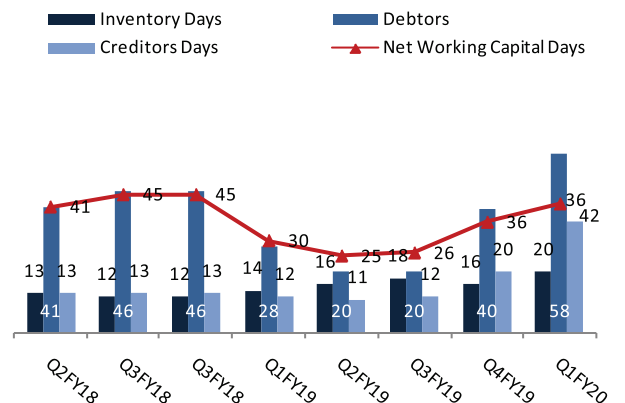


Exhibit: Balance sheet remain strong

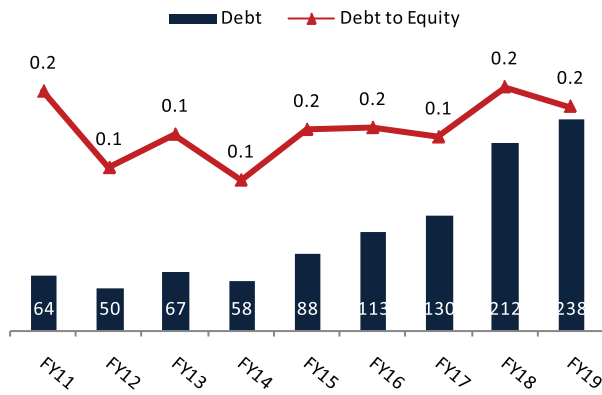


Exhibit: Interest cost and Interest cost as % of Sales

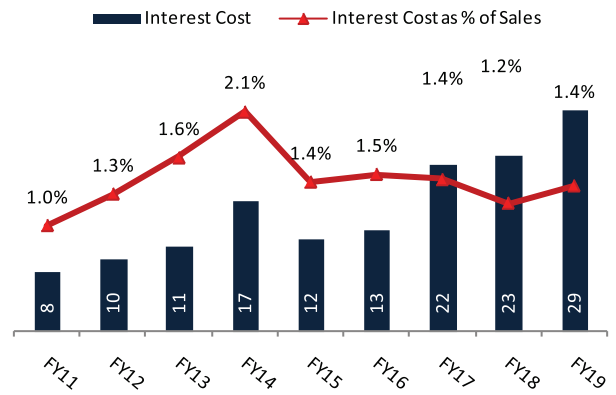


Exhibit: EBITDA and EBITDA Margin Trend

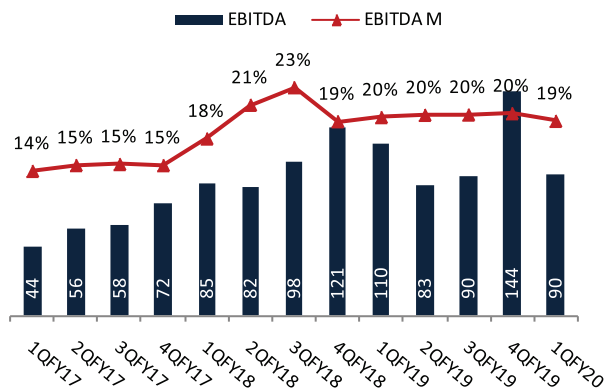


Exhibit: PAT and PAT Margin Trend

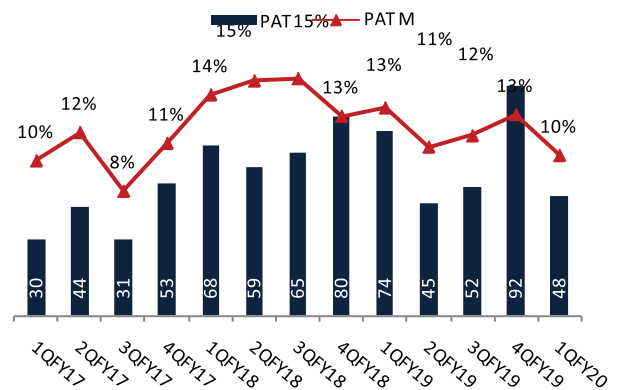


Exhibit: Strong In House Execution Team

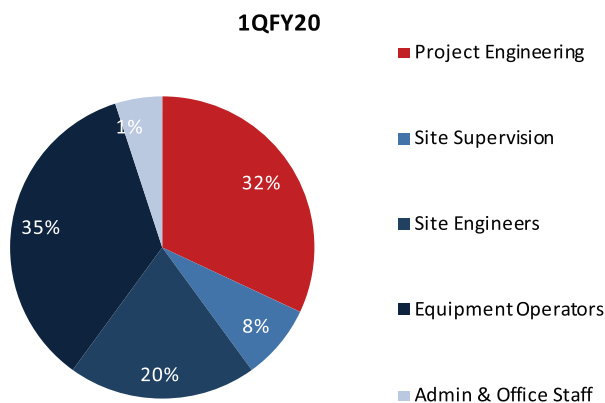
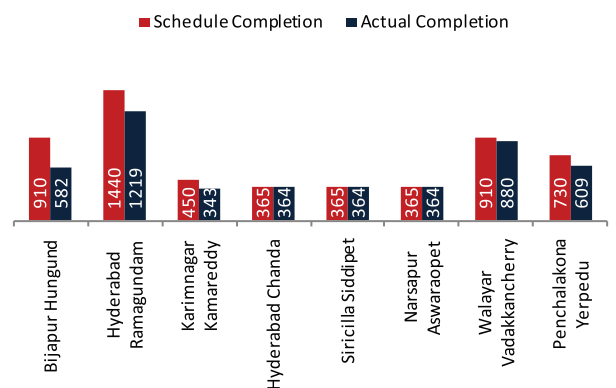


Exhibit: Projects completion Time line



Financial Details

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	835	876	903	1,541	1,932	2,137	2,581	3,344
Change (%)	21%	5%	3%	71%	25%	11%	21%	30%
EBITDA	126	126	153	230	386	427	502	578
Change (%)	8%	0%	21%	50%	68%	11%	18%	15%
Margin (%)	15%	14%	17%	15%	20%	20%	19%	17%
Depr & Amor.	57	54	42	64	134	168	178	189
EBIT	69	72	111	166	252	259	324	390
Int. & other fin. Cost	17	12	13	22	23	29	38	44
Other Income	16	12	32	30	39	63	66	30
EBT	67	72	129	174	268	293	352	376
Exp Item	-	-	-	(11)	-	(3)	-	-
Tax	15	6	(1)	(32)	6	(4)	27	70
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	61	73	161	157	272	263	283	293
Adjusted PAT	61	73	161	170	272	266	283	293
Change (%)	17%	20%	121%	6%	60%	-2%	6%	4%
Margin(%)	7%	8%	18%	11%	14%	12%	11%	9%

Balance Sheet

Fig in Rs Cr

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	1,660	1,947
Networth	513	584	738	895	1,158	1,414	1,688	1,975
Debt	58	88	113	130	212	238	341	397
Other Non Cur Liab	100	14	14	31	28	18	18	18
Total Capital Employed	571	672	850	1,026	1,370	1,652	2,029	2,372
Net Fixed Assets (incl CWIP)	264	227	247	324	394	434	456	447
Non Cur Investments	25	4	4	17	18	119	119	119
Other Non Cur Asst	248	239	434	547	587	638	767	966
Non Curr Assets	548	503	722	970	1,139	1,365	1,516	1,707
Inventory	34	36	35	57	71	95	115	149
Debtors	117	177	129	164	232	234	318	412
Cash & Bank	11	16	16	25	44	13	199	264
Other Curr Assets	244	273	356	402	480	563	638	765
Curr Assets	406	501	536	648	827	905	1,270	1,590
Creditors	79	62	104	134	210	224	270	350
Provisons	43	11	11	13	14	12	14	18
Other Curr Liab	162	176	99	235	224	194	284	368
Curr Liabilities	283	311	376	561	568	600	739	907
Net Curr Assets	123	190	161	87	260	305	532	683
Total Assets	955	1,004	1,259	1,618	1,966	2,270	2,786	3,297

Financial Details

Cash Flow

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	67	72	129	163	268	293	352	381
(inc)/Dec in Working Capital	16	(52)	83	73	(233)	(60)	(38)	(87)
Non Cash Op Exp	57	54	42	64	134	168	178	189
Int Paid (+)	17	13	13	22	23	29	38	44
Tax Paid	24	25	6	7	24	27	70	84
others	(1)	5	(6)	(5)	(11)	-	-	-
CF from Op. Activities	133	67	253	317	157	398	460	443
(inc)/Dec in FA & CWIP	(28)	(31)	(64)	(147)	(225)	(209)	(200)	(180)
Free Cashflow	105	36	189	170	(68)	189	260	263
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	(52)	6	(191)	(163)	38	(79)	-	-
CF from Inv. Activities	(80)	(25)	(255)	(309)	(185)	(425)	(330)	(380)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(32)	(25)	53	54	76	26	102	57
Int. Paid	(17)	(13)	(13)	(22)	(19)	(29)	(38)	(44)
Div Paid (inc tax)	(3)	(3)	(7)	-	(8)	-	(9)	(11)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(52)	(41)	1	5	49	(3)	56	2
Inc(Dec) in Cash	1	1	(1)	12	21	(30)	186	65
Add: Opening Balance	3	4	5	4	16	44	13	199
Closing Balance	4	5	4	16	37	13	199	264

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	12%	13%	22%	18%	23%	19%	17%	15%
ROCE	12%	11%	13%	16%	18%	16%	16%	16%
Asset Turnover	0.87	0.87	0.72	0.95	0.98	0.94	0.93	1.01
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	9	9
P/E	4	16	9	16	15	15	12	11
Price / Book Value	0	2	2	3	3	3	2	2
EV/EBITDA	2	10	10	11	11	10	7	6
FCF per Share	57	35	113	33	27	43	47	44
Div Yield	1.1%	0.2%	0.4%	0.0%	0.2%	0.0%	0.2%	0.3%

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