

KNR Construction Limited

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

Delayed Appointment date and land acquisition related issue may impact growth

RATING **NEUTRAL**

CMP **243**
Price Target **229**
Potential Upside **-6%**

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L 303/181
Mkt Capital (Rs Cr) 3430
Free float (%) 45%
Avg. Vol 1M (,000) 112
No. of Shares (Cr) 14
Promoters Pledged % 0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	2137	2426	3178
EBITDA	427	491	592
EBIT	259	313	404
PAT	263	264	295
EPS (Rs)	19	19	21
EPS gr %	-3%	0%	12%
ROE (%)	16%	16%	17%
ROCE (%)	19%	16%	15%
BVPS	101	119	139
P/B (X)	15	12	11
P/E (X)	3	2	2
EV/EBITDA(X)	9.8	6.9	5.7

Research Analyst

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2QFY20 Result Update

- ❑ The company reported robust revenue growth of 31% YoY to Rs 546 Cr on account of robust execution of on-going projects. Revenue includes arbitration claim of Rs 23 Cr.
- ❑ EBITDA grew by 51% to Rs 126 Cr and margin improved by 300 bps to 23% on account of the arbitration claim.
- ❑ PAT grew by 56% YoY to Rs 70 Cr on account of higher other income. PAT M is at 12.8%.
- ❑ During the quarter company has received 2 irrigation project of worth Rs 1700 Cr from Megha and Navyuga Engineering. Execution on both the projects has started.
- ❑ Order book stands at Rs 5147 Cr with order Rs 2064.5 Cr is not considered in the order book as the projects are awaited for the appointment date.

Better than expected Revenue performance

The Company reported robust revenue growth of 31% YoY to Rs 546 Cr on account of robust execution of on-going projects as against our estimate of Rs 418 Cr. Revenue from road projects was up by 44% YoY on account of execution picked up on new HAM projects. Irrigation segment has reported revenue de growth of 20% YoY on account of lower order book. Revenue also includes the one time arbitration claim of Rs 23 Cr, related to project executed during 2008-09. As result of arbitration claim operating margin was improved by 300 bps to 23%. The completion of 80 IA benefited projects led to higher tax outgo. Effective tax rate for the quarter was 21% v/s 0.6%. PAT grew by 56% YoY to Rs 70 Cr on account of higher other income. Other Income includes Rs 23 Cr of interest on arbitration claim.

Delayed Appointment date and land acquisition related issue may impact growth

KSHIP HAM project has submitted financial closure documents to authority and waiting for the appointment date. Appointment date is expected to receive by the end of the December 2019 and start revenue contribution only by next year. Land availability on Oddanchatram HAM project in Tamil Nadu is 65% and concession agreement is yet to sign. NAHI will sign concession agreement only after 80% land. Of late projects in Tamil Nadu had faced serious land issue and NHAI had terminated projects. So considering it we are not considering the project for the execution. Recently won Irrigation project Palamuru Rangareddy Lift Irrigation Scheme is also progressing slow on account of land related issue, though the issue is expected to sort out in couple of months.

View and Valuation

KNRCON has reported better than expected revenue performance on account of execution picks up on new HAM projects. But a couple of projects are facing delay in appointment date due to land acquisition issue. One project out that 2 HAM project is yet to sign an agreement. Of late projects in Tamil Nadu got terminated due to land-related issues. Additionally recently won Irrigation project is also progressing slowly on account of the land-related issue. Considering the delay in appointment date we have reduced EPS estimates for FY20/21 by 7/3%. We value the stock at Rs229 (EPC business at 9x FY21E EPS and Rs 40/share for investment in BoT/HAM). Maintain NEUTRAL rating on the stock.

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2QFY20 Results

Financials	Fig in Rs Cr									
	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	H1FY19	H1FY20	YoY %
Sales	416	448	716	465	546	31%	18%	973	1,011	3.9%
Other Income	9	22	15	17	26	190%	52%	27	42	59.3%
Total Sales	425	470	731	481	572	34%	19%	999	1,053	5.4%
COGS	361	413	779	425	459	27%	8%	941	884	-6.0%
Employee Exp	25	24	25	27	36	46%	34%	45	63	42.5%
Other Expenses	45	55	61	42	68	51%	62%	114	111	-2.7%
Total	333	359	572	375	420	26%	12%	780	795	2.0%
EBITDA	83	90	144	90	126	51%	40%	193	216	11.8%
Depreciation	39	45	48	39	48	21%	22%	75	86	14.8%
EBIT	44	45	96	51	78	78%	53%	118	129	9.9%
Intreset	7	7	7	9	10	31%	8%	15	19	28.6%
PBT	45	59	104	59	94	108%	60%	130	153	17.9%
Tax	0	7	9	11	20	7454%	79%	11	31	191%
PAT	45	52	92	48	70	56%	47%	119	118	-1.0%

Concall Highlights

- Management expects revenue of Rs 2300-2400 Cr in FY20 and Rs 2600-2700 Cr in FY21
- EBITDA margin is expected to be 17-18%
- Company received arbitrage claims of Rs 57 Cr which includes Rs 22 Cr of interest.
- K-Ship project has submitted financial closure documents to authority and expect appointment date by end of 3QFY20. 60% of land is under 3H.
- NHAI has announced Muzzafarpur project under Bharatmala and may go under the up gradation from 2 to 4 lanes. That's way management is not exploring the project for the monetization.
- Walayar project generates Rs 18.6 lakhs per day. Company is looking for monetizing this asset.
- Order inflow of Rs 1000-1500 Cr is expected in H2FY20 and Rs 3000 Cr in FY21.
- Company has Rs 66 Cr of MAT credit hence will follow old corporate tax regime. From FY22 tax rate will be 25.17% i.e. new tax regime.
- CapEx done in H1FY20 is Rs 140 Cr. 93 Cr capex was done for Irrigation and balance Road. Total Capex of Rs 200 Cr will be done in FY20. In FY21 it will be Rs 100-120 Cr.
- Oddanchatram project has 65% of land is under 3H and expect to sign concession agreement in 2 months.
- Land under 3H for the Chittor project is 95% and for Mangalore project is 84%.
- Tax rate will be 25-30% in FY20.

Order Book Break Up

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Road	1,656	1,545	1,353	1,219	3,842	3,660	3,296	144%	-10%
Irrigation	669	434	461	320	172	973	1,850	301%	90%
Others	2	2	17	2	1	0	1	-95%	471%
Total	2,327	1,980	1,832	1,541	4,016	4,633	5,147	181%	11%

O/s Order Book of Key Projects

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Hubli – Hospet	654	630	555	521	464	464	344	342	307
Madurai Ramanathpuram	279	196	121	67	90	51	30	10	-
Thiru. Bypass	448	414	305	271	232	174	102	103	70
Dindigul-Bangalore	305	281	213	169	124	108	55	55	80
Arcot Villupuram	135	108	68	57	35	20	-	-	-
Salam Flyover	215	205	162	140	125	101	69	53	53
Chittagong City ORR	233	233	-	-	-	-	-	-	-
Others Road Projects	456	359	233	323	300	302	237	256	245
Irrigation	860	907	669	434	461	320	172	123	115

Exhibit: Order Book – By Client

2QFY20

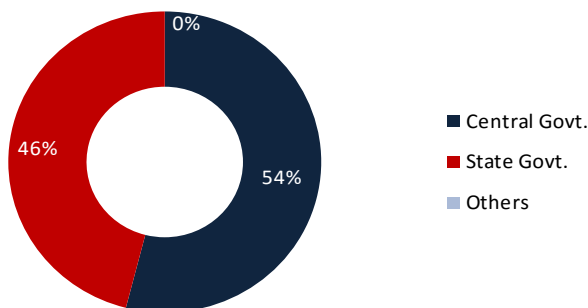


Exhibit: Order Book – By Geography

2QFY20

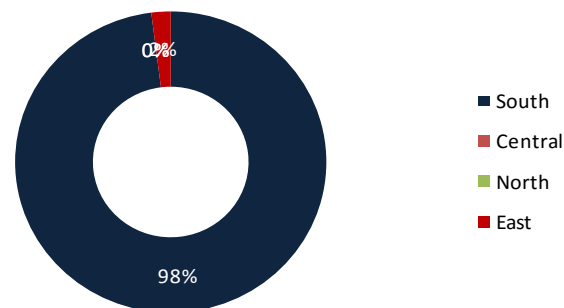


Exhibit: Book to Bill Trend

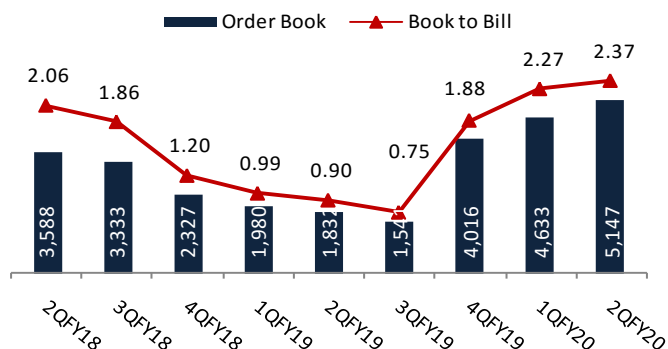


Exhibit: Stable Working Capital

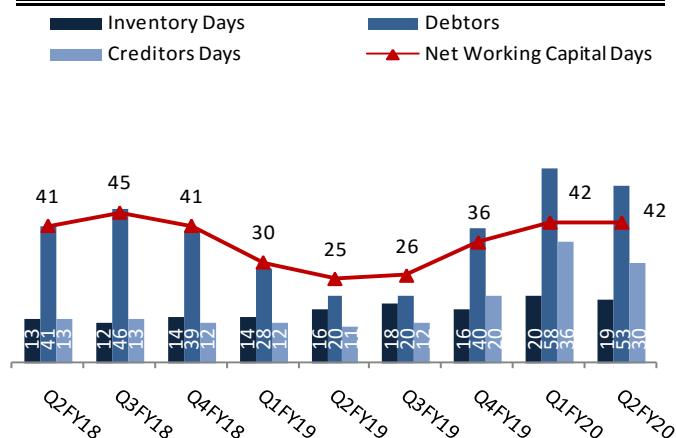


Exhibit: Balance sheet remain strong

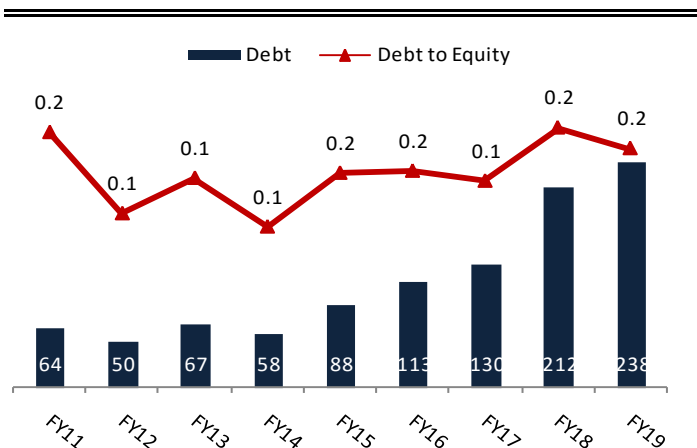


Exhibit: Interest cost and Interest cost as % of Sales

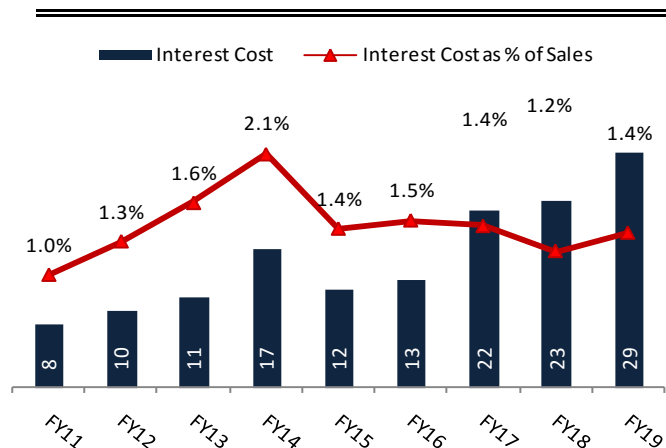


Exhibit: EBITDA and EBITDA Margin Trend

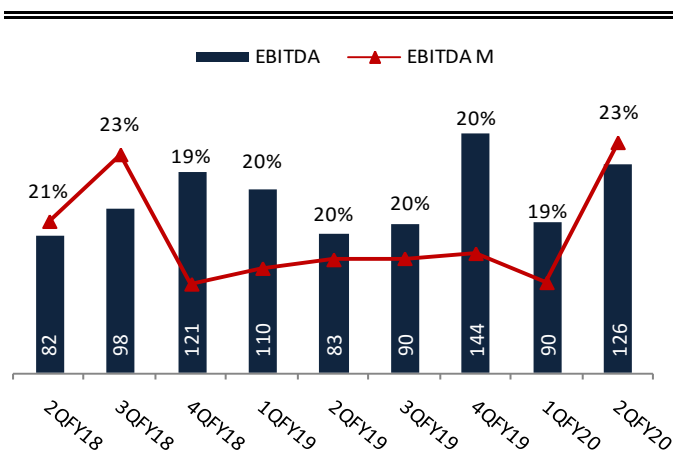


Exhibit: PAT and PAT Margin Trend

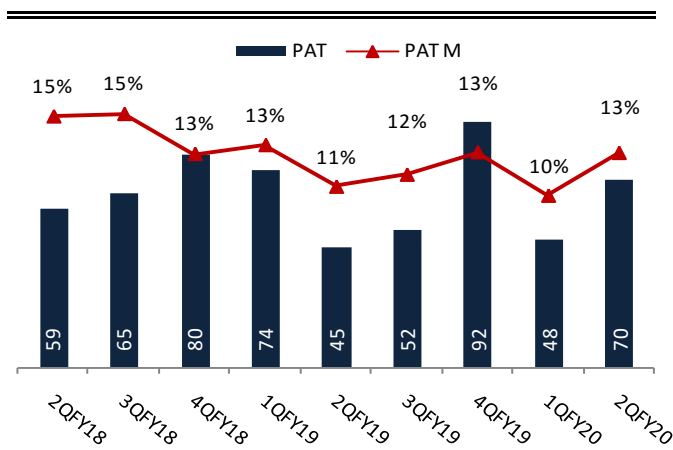
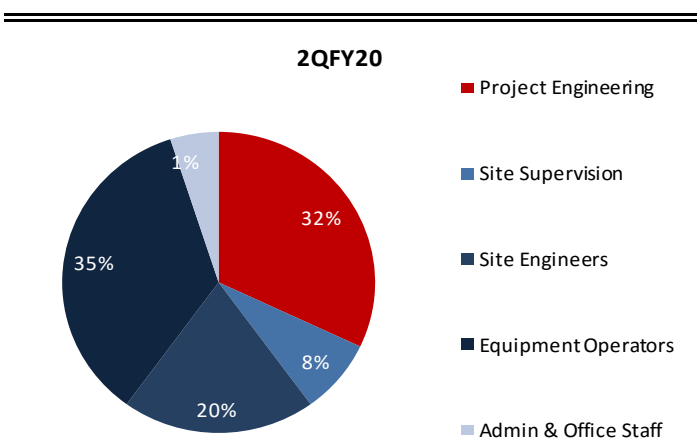


Exhibit: Strong In House Execution Team



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	2,426	3,178
Change (%)	21%	5%	3%	71%	25%	11%	13%	31%
EBITDA	126	126	153	230	386	427	491	592
Change (%)	8%	0%	21%	50%	68%	11%	15%	21%
Margin (%)	15%	14%	17%	15%	20%	20%	20%	19%
Depr & Amor.	57	54	42	64	134	168	178	189
EBIT	69	72	111	166	252	259	313	404
Int. & other fin. Cost	17	12	13	22	23	29	37	44
Other Income	16	12	32	30	39	63	55	38
EBT	67	72	129	174	268	293	330	398
Exp Item	-	-	-	(11)	-	(3)	-	-
Tax	15	6	(1)	(32)	6	(4)	27	66
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	61	73	161	157	272	263	264	295
Adjusted PAT	61	73	161	170	272	266	264	295
Change (%)	17%	20%	121%	6%	60%	-2%	-1%	12%
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
<i>Share Capital</i>	28	28	28	28	28	28	28	28
<i>Reserves</i>	485	556	710	867	1,130	1,386	1,643	1,927
<i>Networth</i>	513	584	738	895	1,158	1,414	1,671	1,955
<i>Debt</i>	58	88	113	130	212	238	344	394
<i>Other Non Cur Liab</i>	100	14	14	31	28	18	18	18
<i>Total Capital Employed</i>	571	672	850	1,026	1,370	1,652	2,016	2,349
<i>Net Fixed Assets (incl CWIP)</i>	264	227	247	324	394	434	456	387
<i>Non Cur Investments</i>	25	4	4	17	18	119	119	119
<i>Other Non Cur Asst</i>	248	239	434	547	587	638	766	966
<i>Non Curr Assets</i>	548	503	722	970	1,139	1,365	1,515	1,646
<i>Inventory</i>	34	36	35	57	71	95	108	141
<i>Debtors</i>	117	177	129	164	232	234	299	392
<i>Cash & Bank</i>	11	16	16	25	44	13	204	258
<i>Other Curr Assets</i>	244	273	356	402	480	563	612	800
<i>Curr Assets</i>	406	501	536	648	827	905	1,223	1,592
<i>Creditors</i>	79	62	104	134	210	224	254	332
<i>Provisions</i>	43	11	11	13	14	12	13	17
<i>Other Curr Liab</i>	162	176	99	235	224	194	267	350
<i>Curr Liabilities</i>	283	311	376	561	568	600	704	870
<i>Net Curr Assets</i>	123	190	161	87	260	305	519	722
<i>Total Assets</i>	955	1,004	1,259	1,618	1,966	2,270	2,738	3,238

Financial Details

Cash Flow

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	67	72	129	163	268	291	330	398
(inc)/Dec in Working Capital	16	(52)	83	73	(233)	(151)	(21)	(86)
Non Cash Op Exp	57	54	42	64	134	168	178	189
Int Paid (+)	17	13	13	22	23	29	37	44
Tax Paid	24	25	6	7	24	55	66	104
others	(1)	5	(6)	(5)	(11)	(16)	-	-
CF from Op. Activities	133	67	253	317	157	248	459	442
(inc)/Dec in FA & CWIP	(28)	(31)	(64)	(147)	(225)	(216)	(200)	(120)
Free Cashflow	105	36	189	170	(68)	32	259	322
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	(52)	6	(191)	(163)	38	(73)	-	-
CF from Inv. Activities	(80)	(25)	(255)	(309)	(185)	(286)	(329)	(383)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(32)	(25)	53	54	76	27	106	49
Int. Paid	(17)	(13)	(13)	(22)	(19)	(30)	(37)	(44)
Div Paid (inc tax)	(3)	(3)	(7)	-	(8)	(7)	(7)	(11)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(52)	(41)	1	5	49	7	62	(5)
Inc(Dec) in Cash	1	1	(1)	12	21	(31)	191	53
Add: Opening Balance	3	4	5	4	16	37	13	204
Closing Balance	4	5	4	16	37	6	204	257

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	12%	13%	22%	18%	23%	19%	16%	15%
ROCE	12%	11%	13%	16%	18%	16%	16%	17%
Asset Turnover	0.87	0.87	0.72	0.95	0.98	0.94	0.89	0.98
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	8	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	33	47	40
Div Yield	1.1%	0.2%	0.4%	0.0%	0.2%	0.1%	0.2%	0.3%

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