

KNR CONSTRUCTION LTD

Industry
Bloomberg
BSE Code
NSE Code

Eng. & Cons.
KNRC IN
532942
KNRCON

Thursday, August 30, 2018

Delayed Land Acquisition may lead to plunge in revenue

RATING	HOLD
CMP	234
Price Target	253
Previous Target	341
Potential Upside	8%

Stock Info

52wk Range H/L	348/198.95
Mkt Capital (Rs Cr)	3293
Free float (%)	45%
Avg. Vol 1M (,000)	133
No. of Shares (Crore)	14
Promoters Pledged %	0%

Key Highlights

- Initially KNRCON was engaged into Irrigation projects after it has shifted its focus on Roads & Highway projects. Company's order book amount to Rs 1980 Cr of which roads and highways projects contribute to 78% while irrigation projects are 21% and balance with other projects.
- KNR has won 5 HAM orders costing Rs 5611 Cr out of which 3 of the HAM projects have received sanction letters from banks for funding, but land acquisition being major obstacle.
- Revenue may see dip of 10-15% in FY19 as the HAM projects will get delayed due to land acquisition issue.

1Q FY19 Result:

KNRCON had posted decent figures for the quarter ended Q1FY19. It witnessed revenue growth of 15.7% YoY to Rs 556 Cr on back of robust execution. The EBITDA margin rose by 212 bps YoY. The major factor for the rise in the EBITDA margin was the lower subcontracting charges and robust execution. The EBITDA rose 29.6% YoY from Rs 85 Cr in Q1FY18 to Rs 110 Cr in Q1FY19. The depreciation continue to remain elevated (up by 48% YoY) and resulting in just 9% growth in PAT. The order inflow for the quarter was Rs 1145 Cr. The order book stood at Rs 1980 Cr, which does not include the estimated cost of 5 HAM projects worth Rs 3975 Cr, taking the total order book to Rs 5955 Cr. The toll collection for the Q1FY19 stood at Rs. 40 Cr, rising 73% YoY from Rs 23 Cr in 1QFY18.

View and Valuation

Revenue is expected to be below par in the FY19 due to delay in appointment date on account of land acquisition not up to 80% in various projects. However, for the FY20 we expect sharp uptick in revenue as the land in various projects is expected to acquire by Q4FY19 and execution will be in full swing from thereafter. KNRCON has tied up funds for 3 HAM projects out of 5 projects and remaining 2 projects will achieve financial closure shortly. We have factored in delay in appointment date and reduce our revenue estimates by 13% in FY19.

We continue to remain positive on the stock in long run but considering current headwind we change our rating to HOLD from BUY with target price of Rs.253. We value KNRCON EPC business at 15x FY20 EPS and Rs.50 per share for investment in Bot/HAM projects.

Key Risk to our rating and target

- Delay in appointment date of HAM projects may hamper revenue growth
- Slow tendering from NHAI

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	876	903	1541	1932	1851	2602
EBITDA	126	153	230	386	314	364
EBIT	72	111	166	252	168	248
PAT	73	161	158	271	140	189
EPS (Rs)	5	11	11	19	10	13
EPS growth (%)	20%	120%	-2%	72%	-48%	35%
ROE (%)	13%	22%	18%	24%	11%	13%
ROCE (%)	11%	13%	16%	18%	10%	14%
BV	40	52	64	82	92	105
P/B (X)	1.8	1.5	2.5	3.3	2.2	1.9
P/E (x)	14.1	6.7	14.1	13.9	19.9	14.7

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1QFY19 Result

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Sales	481	393	433	624	556	16%	-11%	1,541	1,932	25%
Other Income	12	3	6	18	18	45%	-3%	30	39	30%
Total Sales	493	396	439	643	574	16%	-11%	1,571	1,971	25%
COGS	344	251	278	412	359	4%	-13%	1,115	1,285	15%
Employee Exp.	15	19	18	20	20	32%	-2%	55	72	31%
Other Exp.	37	40	39	72	68	83%	-5%	142	188	33%
Total Exp.	396	311	335	504	446	13%	-11%	1,311	1,546	18%
EBITDA	85	82	98	121	110	30%	-9%	230	386	68%
EBITDA M%	18%	21%	23%	19%	20%	212bps%	41bps	15%	20%	509bps
Depreciation	24	24	37	49	36	48%	-27%	64	134	110%
EBIT	60	59	61	72	74	22%	3%	166	252	52%
Interest	5	4	5	9	7	38%	-18%	22	23	6%
Exceptional Item	-	-	-	-	-	NA	NA	11	-	NA
PBT	67	57	62	81	84	25%	4%	163	268	64%
Tax	(0)	(2)	(3)	1	10	-2872%	662%	6	(4)	-166%
PAT	68	59	65	80	74	9%	-7%	158	271	72%
PAT %	14%	15%	15%	13%	13%	(83)bps	(53)bps	10%	14%	378bps

Healthy execution leads to revenue growth

The revenue during the Q1FY19 rose by 15.7% YoY, backed by the strong execution during the quarter especially in irrigation projects. EBITDA rose by 29.6% YoY to Rs.110 Cr in Q1FY19 compared to Rs.85 Cr in Q1FY18. EBITDA margin grew by 212bps on account of the strong execution and lower subcontracting charges which fell drastically from Rs 161 Cr in Q1FY18 to Rs 40 Cr in Q1FY19. PAT during the quarter grew by just 9.1% on account of escalating depreciation charges which rose by 48% from 24 Cr in Q1FY18 to 36 Cr in Q1FY19. The escalation in depreciation was due to higher utilization of machinery for Irrigation projects. The management has guided depreciation in range of Rs 35-36 Cr quarterly till Q3FY19 where after it will come down to Rs 24 Cr to Rs 25 Cr. Toll collection during the quarter increased 73% YoY from Rs 23 Cr in Q1FY18 To 40 Cr in Q1FY19, as both the projects that is Walayar and Muzaffarpur saw increase in toll collection.

Revenue to Dip due to Land acquisition Issue

The revenue in FY19 is expected to witness a dip, the reason being land acquisition issues. KNRCON has tied up with banks for 3 HAM projects out of 5 HAM projects but the appointment date will be issued only after 80% land will be acquired. The Land acquisition status for various projects:- Trichhy to Kalligam 50-60%, Meensurutti to Chidambaram about 40-45%, Chittor to Mallavaram about 60-70% land is available and is on schedule and will be acquired within one month, Ramsanpalle to Mangalore about 90% land is under forest department and facing issue. Thus delay in appointment date is expected and so will affect revenue, considering the given land acquisition issue we have reduce our estimates and expect 1% fall in revenue in FY19. However it will jump sharply in FY20.

Concall Highlights :

- ✓ Revenue may see dip of 10-15% in FY19 as the HAM projects appointment date will get delayed due to land acquisition issue.
- ✓ Expected Capex in FY19 Rs 100 Cr - Rs 120 Cr
- ✓ Management is expecting Rs.2000-2500 Cr of new order inflow in FY19.
- ✓ KNRCON has tied up the Funds with bank for 3 HAM projects for which appointment date is pending and bankers insist on appointment date to release fund.
- ✓ Debt at the end of Q1FY19 was Rs. 247 Cr and expects to go up by Rs.50-70 Cr by the year end.
- ✓ Expected Tax rate for FY19 and FY20, 15-18% and 20-25% respectively
- ✓ Depreciation will remain at Rs 35 - 36 Cr till Q3FY19 and then it will come down in range of Rs 24 - 25 Cr per quarter.
- ✓ Delay in land acquisition, forest clearance, utility shifting, environment clearance identified as major reason for delay in highway projects in the Industry
- ✓ Projects worth Rs.500 Cr out of Rs.1980 Cr do not have 80 IA benefit.
- ✓ Bid pipeline of irrigation is also strong and expects project of Rs 700-800 Cr.

Order Book Break Up

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ %
Road	3,607	3,209	2,845	2,729	2,423	1,656	1,545	-46%	-7%
Irrigation	632	557	491	856	907	669	434	-12%	-35%
Others	-	-	3	3	2	2	2	-	0%
Total	4,238	3,766	3,339	3,588	3,333	2,327	1,980	-41%	-15%

O/s Order Book of Key Projects

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Hubli – Hospet	-	667	667	667	667	654	630	555	521
Madurai Ramanathapuram	745	653	569	483	382	279	196	121	67
Thiru. Bypass	571	498	486	422	377	448	414	305	271
Dindigul-Bangalore	415	415	415	396	353	305	281	213	169
Arcot Villupuram	306	279	233	224	140	135	135	68	57
Salam Flyover	287	287	273	247	236	215	205	162	140
Chittagong City ORR	210	210	210	210	210	233	233	-	-
Others Road Projects	994	890	755	562	480	456	332	233	271
Irrigation	730	680	632	557	491	860	907	669	434

Exhibit: Order Book – By Client

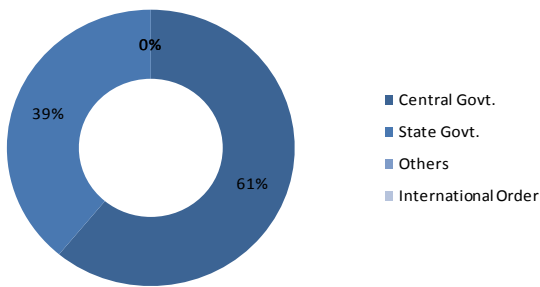


Exhibit: Order Book – By Geography

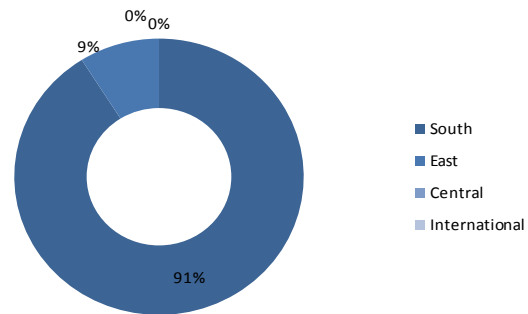


Exhibit: Book to Bill Trend

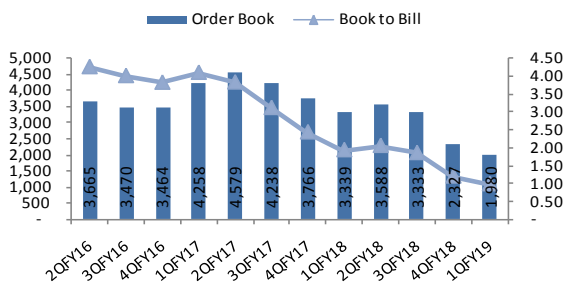


Exhibit: Stable Working Capital

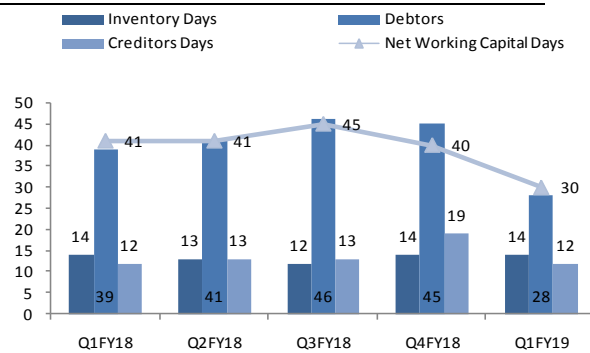


Exhibit: Balance sheet remain strong

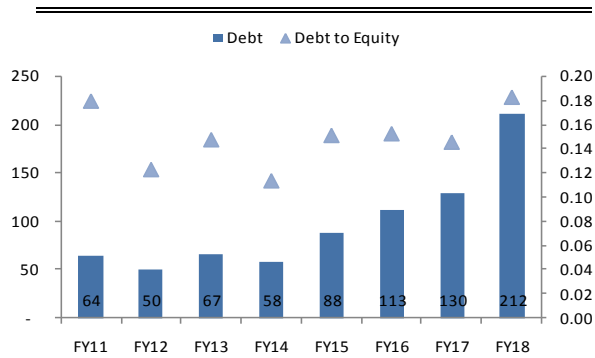


Exhibit: Interest cost and Interest cost as % of Sales

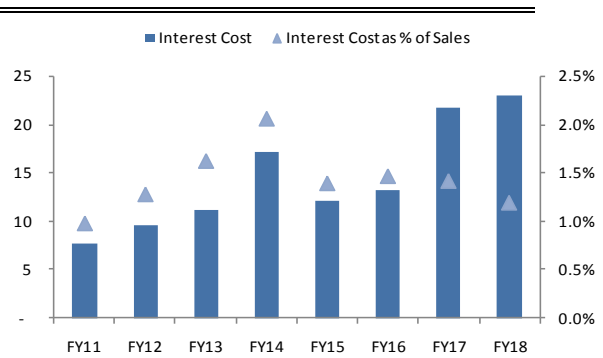


Exhibit: EBITDA and EBITDA Margin Trend

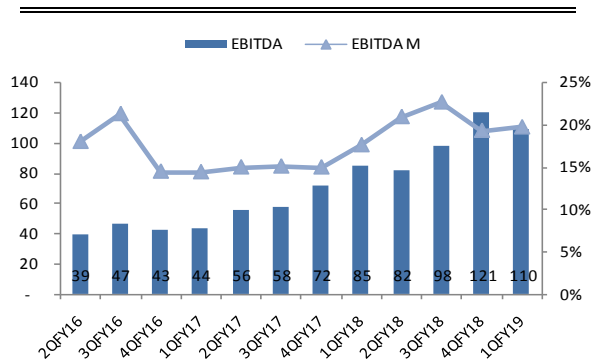


Exhibit: PAT and PAT Margin Trend

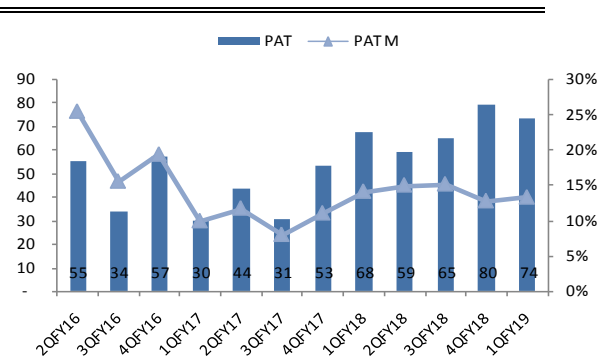


Exhibit: Strong In House Execution Team

In house execution capabilities ensure timely completion of projects

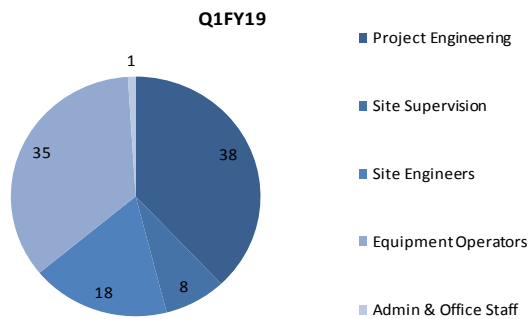
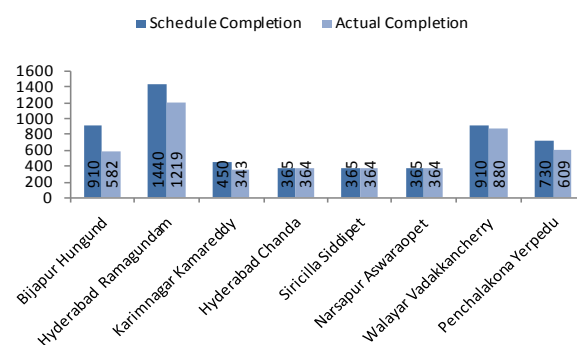


Exhibit: Projects completion Time line



Financials Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	692	835	876	903	1,541	1,932	1,851	2,602
Change (%)	-8%	21%	5%	3%	71%	25%	-4%	41%
EBITDA	116	126	126	153	230	386	314	364
Change (%)	-13%	8%	0%	21%	50%	68%	-19%	16%
Margin (%)	17%	15%	14%	17%	15%	20%	17%	14%
Depr & Amor.	56	57	54	42	64	134	146	116
EBIT	61	69	72	111	166	252	168	248
Int. & other fin. Cost	11	17	12	13	22	23	29	30
Other Income	17	16	12	32	30	39	25	25
EBT	67	67	72	129	163	268	164	243
Exp Item	-	-	-	-	11	-	-	-
Tax	26	15	6	(1)	(32)	6	(4)	24
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	52	61	73	161	157	272	140	189
Adjusted PAT	52	61	73	161	144	272	140	189
Change (%)		17%	20%	121%	-10%	88%	-49%	35%
Margin(%)	8%	7%	8%	18%	9%	14%	8%	7%

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	28	28	28	28	28	28	28	28
Reserves	428	485	556	710	867	1,130	1,265	1,447
Networth	456	513	584	738	895	1,158	1,293	1,475
Debt	67	58	88	113	130	212	312	327
Other Non Cur Liab	138	100	31	32	31	28	28	28
Total Capital Employed	523	571	672	850	1,026	1,370	1,604	1,802
<i>Net Fixed Assets (incl CWIP)</i>	<i>294</i>	<i>264</i>	<i>227</i>	<i>247</i>	<i>324</i>	<i>394</i>	<i>394</i>	<i>428</i>
<i>Non Cur Investments</i>	<i>30</i>	<i>25</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>18</i>	<i>18</i>	<i>18</i>
<i>Other Non Cur Asst</i>	<i>122</i>	<i>248</i>	<i>239</i>	<i>434</i>	<i>586</i>	<i>587</i>	<i>589</i>	<i>795</i>
Non Curr Assets	450	548	503	722	957	1,139	1,142	1,382
Inventory	30	34	36	35	57	71	68	96
Debtors	121	117	177	129	164	232	222	312
Cash & Bank	7	11	16	15	25	37	215	142
Other Curr Assets	346	244	273	356	415	480	468	560
<i>Curr Assets</i>	<i>504</i>	<i>406</i>	<i>501</i>	<i>536</i>	<i>661</i>	<i>827</i>	<i>981</i>	<i>1,117</i>
Creditors	106	79	62	104	134	210	201	283
<i>Provisions</i>	<i>108</i>	<i>43</i>	<i>11</i>	<i>11</i>	<i>13</i>	<i>14</i>	<i>14</i>	<i>19</i>
Other Curr Liab	79	162	176	99	235	224	215	286
Curr Liabilities	293	283	311	376	561	568	549	707
Net Curr Assets	211	123	190	161	101	260	432	410
Total Assets	954	955	1,004	1,259	1,618	1,966	2,122	2,499

Financials Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E	FY20E
PBT	67	67	72	129	163	268	164	243
(inc)/Dec in Working Capital	(106)	16	(52)	83	73	(156)	6	(73)
Non Cash Op Exp	56	57	54	42	64	134	146	116
Int Paid (+)	11	17	13	13	22	23	29	30
Tax Paid	27	24	25	6	7	4	24	53
others	(1)	(1)	5	(6)	(5)	-	-	-
CF from Op. Activities	1	133	67	253	317	158	321	263
(inc)/Dec in FA & CWIP	(39)	(28)	(31)	(64)	(147)	(204)	(147)	(150)
Free Cashflow	(38)	105	36	189	170	(46)	174	113
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	(19)	(52)	6	(191)	(163)	(40)	-	-
CF from Inv. Activities	(58)	(80)	(25)	(255)	(309)	(269)	(149)	(334)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	71	(32)	(25)	53	54	157	93	7
Int. Paid	(11)	(17)	(13)	(13)	(22)	(23)	(29)	(30)
Div Paid (inc tax)	(3)	(3)	(3)	(7)	-	(10)	(5)	(7)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	57	(52)	(41)	1	5	124	59	(30)
Inc(Dec) in Cash	(0)	1	1	(1)	12	13	231	(101)
Add: Opening Balance	4	3	4	5	4	25	44	222
Closing Balance	3	4	5	4	16	37	275	121

* FY18 numbers are expected

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	11%	12%	13%	22%	18%	24%	11%	13%
ROCE	12%	12%	11%	13%	16%	18%	10%	14%
Asset Turnover	0.73	0.87	0.87	0.72	0.95	0.98	0.87	1.04
Debtor Days	64	51	74	52	39	44	44	44
Inv Days	16	15	15	14	14	13	13	13
Payable Days	56	34	26	42	32	40	40	40
Int Coverage	5	4	6	8	8	11	6	8
P/E	5	4	14	7	14	14	20	15
Price / Book Value	1	0	2	1	2	3	2	2
EV/EBITDA	2	2	8	8	10	10	9	8
FCF per Share	3	11	7	23	33	26	33	29
Div Yield	1.2%	1.2%	0.3%	0.5%	0.0%	0.2%	0.2%	0.2%

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