

KNR Constructions

BUY

CMP Rs222

Target Rs256

Upside 15%

Well placed - BUY

Our View

With better labor availability and with Monsoon largely behind, execution momentum is likely to continue through Q4 FY21. Operating margin is expected to remain healthy at ~17-18% levels driven by the high margin irrigation projects. The order book is in a comfortable position with ~3.5x FY21E revenues. The robust bid pipeline, continued focus on asset monetization and comfortable balance sheet position provide comfort. We increase our estimates to factor in the robust Q3 performance and improved outlook and maintain our BUY rating for revised target of Rs256 (based on SOTP valuation).

Conference Call takeaways

- ✓ The Government is focused on Infra spending which would help support the Order inflows for the industry and the Company. The budget allocation has been sufficiently high and would allow for more project awarding.
- ✓ In terms of Q3 FY21 Revenue mix, while 49% came from HAM projects, around 25% was from Irrigation and balance from Road EPC segment.
- ✓ While the revenues have been very strong from Q3 FY21, the Company has retained its topline guidance of Rs.25 bn for FY21.
- ✓ Margins are expected to stay at 17-18% on sustainable basis.
- ✓ The orderbook for the company stands at Rs.76 bn of which irrigation forms 45%, HAM Road projects at 30% and balance being EPC. The Order book excludes the recently won Road EPC project.
- ✓ The Company has bid for ~15 projects is targeting new order inflows of ~Rs.30-40 bn in FY21. The incremental projects are expected from NHAI. Additionally the Company is also looking to bid for urban infra projects.
- ✓ Toll Collections have improved with pickup in Economic activity and passenger vehicle movement. The Company expects ~15% growth in toll collections during FY22.
- ✓ Utilizations for Company have moved to Pre-COVID levels.
- ✓ The Company is in discussions with Cube Highways for selling more HAM projects.
- ✓ Capex for 9M FY21 is Rs.600 mn and for FY21 is Rs.1 bn. The capex for FY22 is pegged at Rs.1.5 bn
- ✓ Overall, working capital days stood at 54 days. Standalone debt stood at Rs.160 mn and Cash at Rs.430 mn.
- ✓ On Consolidated basis, Debt stood at Rs.7.5 bn and Cash at Rs.750 mn

KNR Construction Q3 FY21 results summary

- ✓ KNR Constructions reported topline growth of 23% yoy (at Rs.6.9 bn), ahead of our estimate of Rs.6.1 bn topline.
- ✓ Operating margin remained at an elevated levels of ~19.7% (-258bps yoy/ -92bps qoq). This was in-line with our estimates of 20% OPM.
- ✓ Adjusted PAT grew 65% yoy to Rs.776 mn during the quarter. Higher other income and lower depreciation supported profitability at the net level
- ✓ Order book at the end of Q3 FY21 stood at ~Rs.85 bn (Calculated as per orders announced by the Company adjusted for Q3 execution).

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Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue	6,863	5,579	23.0	6,012	14.1
Operating Profit	1,353	1,244	8.8	1,240	9.1
OPM(%)	19.7	22.3	-258 bps	20.6	-92 bps
Other Income	266	70	281.1	76	250.0
Depreciation	(373)	(517)	(27.8)	(352)	6.1
Interest	(184)	(142)	30.0	(158)	16.5
Exceptional item	-	(67)	NA	(112)	NA
PBT	1,061	588	80.5	694	52.9
Tax	(285)	(186)	53.4	(196)	45.7
Reported PAT	776	402	93.0	498	55.7
Adjusted PAT	776	469	65.4	611	27.1

Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	22,442	25,631	32,178	38,041
yoy growth (%)	5.0	14.2	25.5	18.2
Operating profit	4,871	5,340	6,578	8,081
OPM (%)	21.7	20.8	20.4	21.2
Adjusted PAT	2,360	2,566	3,586	4,641
yoy growth (%)	(11.2)	8.7	39.8	29.4
EPS (Rs)	8.0	9.1	12.8	16.5
P/E (x)	27.7	24.3	17.4	13.5
EV/EBITDA (x)	13.3	12.0	8.7	6.7
Debt/Equity (x)	0.1	0.1	0.1	0.0
RoE (%)	14.9	14.8	17.7	19.1

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