

Order book robust; second wave to impact execution

KNR Constructions reported a healthy performance in Q4FY21 wherein standalone revenue improved 38.5% YoY to ₹ 935.8 crore aided by a) its strong order book position, b) receipt of appointed date in most of its projects and c) normalisation in labour availabilities and smoothening of raw material supply chain. Also, its operating profit margin was at an elevated 19.5%, down 227 bps YoY, on account of better project mix led by higher contribution by HAM and irrigation projects. Strong operating performance coupled with lower interest expense translated into healthy 72.8% YoY growth (to ₹ 148.5 crore) in PBT. However, PAT improved 14.5% YoY to ₹ 77 crore mainly impacted by higher tax to utilise MAT credit.

Healthy order book position...

At the end of Q4, KNR's order book was at ₹ 7,117.9 crore, mainly contributed by irrigation (43.7%), roads - HAM (25.5%) and roads - EPC (30.8%) segments. Including the recently won two HAM and one EPC projects (worth ₹ 4322.9 crore), its order book position was robust at ₹ 11,441 crore (4.2x book to FY21 revenues). With a handful of orders, the company is aiming to bag ₹ 3,000-4,000 crore of orders in FY22. Going ahead, KNR expects its execution pace to get impacted in the near term with decline in execution efficiency currently at ~65% (from 95% in Q4) owing to unavailability of desired labours. With these, while it is internally aiming at ₹ 3000 crore of topline in FY22, it has guided for flattish topline. Additionally, its operating margin may get impacted by less efficiency and higher volatility in raw material prices.

SPV receivables stretch working capital

KNR's net working capital at the end of FY21 increased to 54 days (vs. 43 days in end-FY20) as the company has not drawn new debt at HAM levels, resulting in a sharp rise in receivables. The debt is likely to be drawn by its three HAM SPVs before its completion (over the next couple of months). The Telangana dues were at ₹ 300 crore as of Q4 while the company has ₹ 500 crore (including unbilled revenues) of total exposure towards Telangana projects, as on date. Going forward, KNR expects its dues to decline with clearance of pending bills with the normalisation of current situation. Also, KNR has achieved gross debt free status at the standalone level at the end of FY21 and has cash & cash equivalent at ~₹ 117 crore, which strengthens its balance sheet position.

Valuation & Outlook

KNR is a proxy play on increased focus on roads and overall infrastructure push. While H1FY22 could be muted, we expect a sharp pickup from H2. Considering a) strong execution, b) healthy margins, c) monetisation of BOT/HAM assets, d) healthy balance sheet and e) strong return ratios, we maintain **BUY** rating on the stock with an unchanged target price of ₹ 270.

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	2,137.3	2,244.2	2,702.6	2,869.5	3,706.1	17.1%
EBITDA	427.0	487.1	535.8	459.1	685.6	13.1%
EBITDA Margin (%)	20.0	21.7	19.8	16.0	18.5	
PAT	263.3	225.2	244.2	259.1	412.8	30.0%
EPS (₹)	18.7	16.0	8.7	9.2	14.7	
P/E (x)	12.2	14.2	26.2	24.7	15.5	
EV/EBITDA (x)	15.5	13.5	11.7	13.8	9.1	
RoNW (%)	18.6	13.9	13.1	12.2	16.4	
RoCE (%)	19.0	19.0	23.4	16.9	22.2	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,405.1
Total Debt (FY21)	0.7
Cash (FY21)	117.3
EV	6,288.5
52 week H/L (₹)	242/ 94
Equity capital	56.2
Face value	2.0

Key Highlights

- Total backlog at ₹ 11,441 crore (including new orders), provides strong revenue visibility of 3 years
- Maintain BUY with target price of ₹ 270/share

Key Risks to our Call

- Extended period of lockdown leading to weaker execution
- Delay in Telangana's remaining receivables collection

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Exhibit 1: Variance analysis

Particulars	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	935.8	756.7	675.6	38.5	686.3	36.4	Strong execution led to topline beat
Other Income	9.4	16.8	7.3	28.8	26.6	-64.7	
Consumption of raw materials	332.1	227.0	220.0	50.9	214.1	55.1	
Employee benefit expenses	34.8	43.6	31.5	10.6	40.2	-13.4	
Other Expenses	111.0	115.8	89.1	24.6	91.0	22.0	
EBITDA	182.2	151.7	146.9	24.0	135.3	34.7	
EBITDA Margin(%)	19.5	20.0	21.7	-227 bps	19.7	-24 bps	Margin remained at an elevated level with better project mix
Depreciation	38.8	37.3	53.8	-27.9	37.3	3.9	
Interest	4.3	18.4	14.5	-70.1	18.4	-76.5	
PBT	148.5	112.8	85.9	72.8	106.1	39.9	
Taxes	71.5	30.4	18.7	281.6	28.5	150.6	
PAT	77.0	82.3	67.2	14.5	77.6	-0.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	2,244.2	2,702.6	2,962.8	2,869.5	-3.1	3,535.8	3,706.1	4.8	Lower FY22 estimates to incorporate low efficiency
EBITDA	487.1	535.8	563.5	459.1	-18.5	690.2	685.6	-0.7	
EBITDA Margin (%)	21.7	19.8	19.0	16.0	-302 bps	19.5	18.5	-102 bps	
PAT	225.2	244.2	303.6	259.1	-14.6	390.6	412.8	5.7	
Diluted EPS (₹)	8.0	4.3	10.8	9.2	-14.6	13.9	14.7	5.7	

Source: Company, ICICI Direct Research

Conference call highlights

- Ordering & construction activity:** Despite the initial period of FY21 being impacted by nationwide and state wise lockdown owing to Covid-19 pandemic, MoRTH managed to construct 13,327 km of national highways in FY21 (vs. 10,237 km in FY20) mainly aided by improved labour availability and smoothening of supply chain during the later stages of the year. Similarly, the road project awarding has witnessed significant improvement with the figure reaching 10,965 km in FY21 (vs. 8,948 km in FY20). Also, NHAI (excluding MoRTH) has awarded 141 projects aggregating to 4,788km (EPC: 46%; HAM: ~51%; BOT: 3%) in FY21 having jobs worth ~₹ 171,200 crore. Going forward, NHAI is planning to award projects worth ₹ 225,000 crore in FY22. Additionally, MoRTH (including NHAI) is targeting daily average road construction of 40 km per day in FY22
- Order book and inflows:** KNR's order book at the end of March 2021 was robust at ₹ 7,117.9 crore, majorly contributed by irrigation (43.7%), roads - HAM (25.5%) and roads - EPC (30.8%) segments. The order book excludes recently won projects namely a) Valanchery bypass to Kappirikkad section HAM project having EPC value of ₹ 1,595 crore, b) Ramanattukara junction to start of Valanchery bypass Section HAM project having EPC value of ₹ 1,745 crore, and c) Bangalore-Mangalore section EPC project worth ₹ 983 crore. Including these projects, the order book was robust at ₹ 11,441 crore (4.2x order book to FY21 revenues). Having its hands full of orders, the company is targeting order inflows worth ₹ 3,000-4,000 crore in FY22 (vs. ~₹ 8,400 crore of inflows secured in FY21) mainly from roads segment
- Guidance:** Project execution had gathered pace during Q4FY21 with labour strength reaching pre-Covid levels and the company operating at ~95% efficiency. However, the efficiency has now declined to ~60-65% mainly impacted by surge in Covid-19 cases in some of its project sites/states due to second-wave of Covid-19 pandemic. On a normalised operational situation, KNR is internally targeting ₹ 3,000 crore of revenue in FY22. However, as per the management, guidance will be flattish in FY22. Additionally, the management has guided for lower operating margin of 14-15% (vs. 17-18% earlier) to be impacted by lesser efficiency and higher volatility in raw material prices
- HAM projects:** As on March 31, 2021, the physical progress on KNR's five HAM projects was at: a) Trichy-Kallagam: 65.9%, b) Chittor-Mallavaram: 81.8%, c) Ramsanpalle-Mangloor: 80.2% d) Magadi-Somwarpeth: 28.9% and e) Oddanchatram-Madathukulam: 26.5%. The management is expecting PCoD in a) Chittor-Mallavaram and Trichy-Kallagam project by June 2021, and b) Ramsanpalle-Mangloor over the next couple of months. With these, the company expects receipt of funds from Cube Highways and Infrastructure (signed share purchase agreement for sale of first three HAM project) by Q3FY22 largely depending on progressive discussions on valuations and expected completion of projects during Q1FY22
- Equity requirement:** Out of the total equity requirement of ₹ 624.3 crore for under-construction HAM projects, KNR has already infused ₹ 365 crore equity till March 2021. The management has guided for ₹ 200 crore, ₹ 165 crore equity infusion towards under-construction HAM projects during FY22E, FY23E, respectively. Additionally, KNR has secured two HAM projects during Q4FY21 for which the total equity requirement would be ₹ 430 crore (to be invested over 2.5 years post receipt of appointed dates in those projects)

- **Irrigation project:** The status of KNR's four major projects in the irrigation segments are: a) Mallana Sagar (Megha Engineering): 93% completed, b) Venkatadri Reservoir bund (Navayuga Engineering) project: 35% completed and c) Kaleshwaram Project: No significant progress on execution. Together, irrigation projects contributed ₹ 3,109 crore to the total order book. Currently, the company is facing delays in collection of dues from Telangana project with infra funds being diverted to other essential sectors. The company has ₹ 500 crore (including unbilled revenues) of total exposure as on date towards Telangana government
- **Debt:** KNR has achieved gross debt free status on standalone level at the end of FY21. Additionally, cash and cash equivalent was at ₹ 117 crore. Its consolidated debt at the end of FY21 was at ₹ 729 crore
- **Capex:** KNR has incurred capex of ~₹100 crore during FY21. However, the company has guided for ~₹ 200-250 crore of capex in FY22 with the higher requirements of machinery for newer projects
- **Working capital:** Working capital days were at 54 days at the end of FY21 (vis-à-vis 45 days in end-FY21) as the company has not drawn new debt at HAM levels, thereby stretching the receivables from HAM SPVs. Out of the total receivables of ₹ 863 crore (at the FY21-end), receivables from a) HAM SPVs was at ₹ 525 crore, b) irrigation project: ₹ 300 crore, and c) other projects: ₹ 38 crore
- **Tax rate:** KNR has opted for old tax regime mainly to utilise MAT credit (₹ 35 crore) in the balance sheet, due to which its tax rate remained at higher level (~35%). However, the management has guided for lower ~25% of tax rate with the adoption of new tax regime, going forward

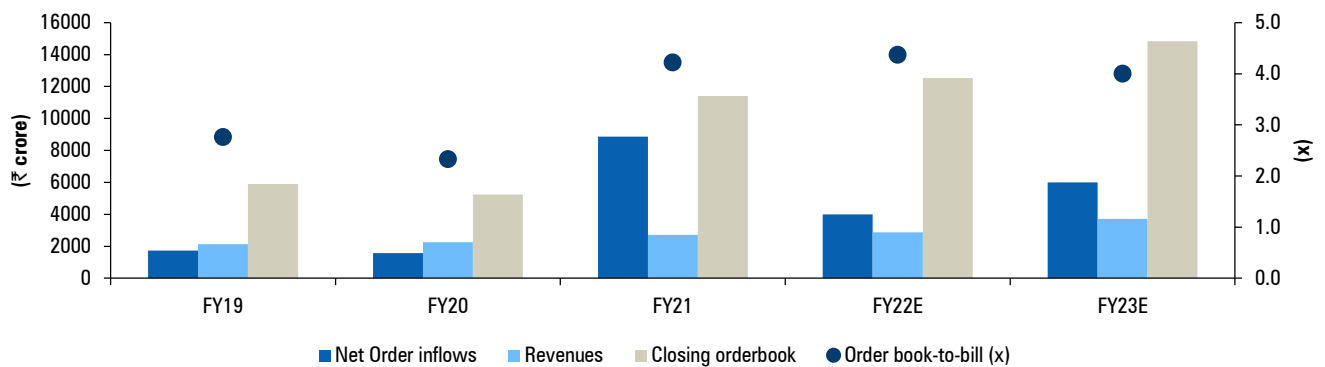
Company Analysis

Exhibit 3: Order book update

Key Projects	(₹ crore)
Elevated Highway along Avinashi Road in Coimbatore City (EPC)	990
Magadi to Somwarpeth Project (KSHIP HAM)	634
Cheyur-Panayur Road (EPC)	539
Oddanchatram to Madathukulam Project (HAM)	469
Trichy to Kallagam Project (HAM)	263
Top six projects	2894.9
Other Road projects	1113.9
Irrigation projects	3109.1
Total	7117.9

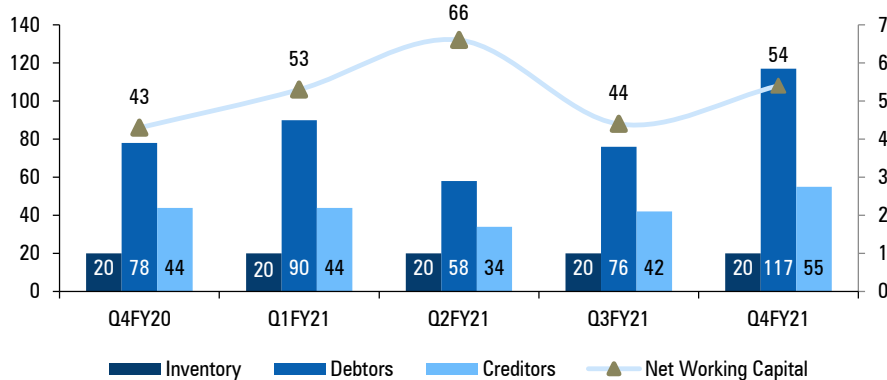
Source: Company, ICICI Direct Research

Exhibit 4: Strong order book position



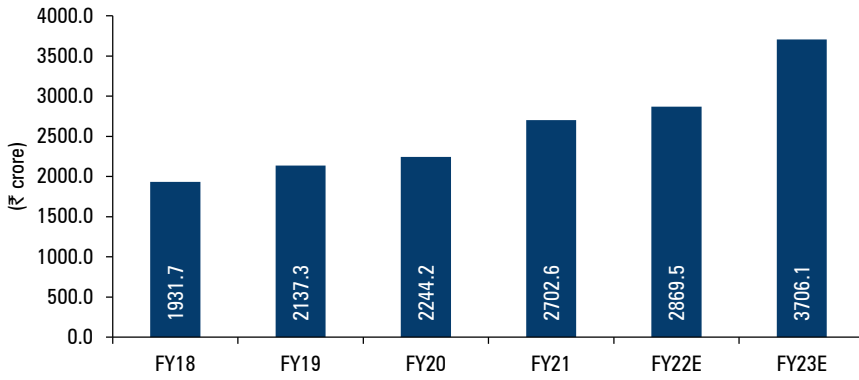
Source: Company, ICICI Direct Research; FY21 order book includes won 2 HAM and 1 EPC project worth ₹4,323 crore

Exhibit 5: Net working capital days trend



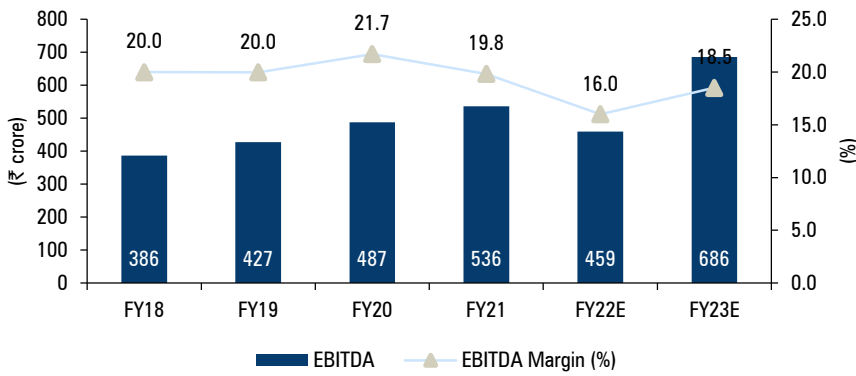
Source: Company, ICICI Direct Research

Exhibit 6: Revenue recovery better than anticipated



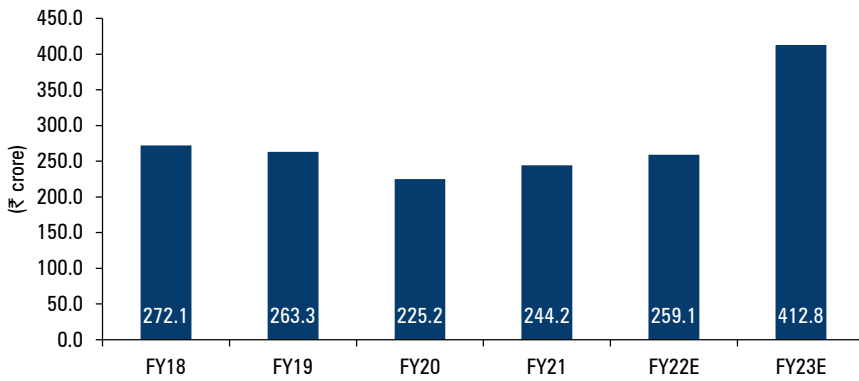
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA & EBITDA margin trend



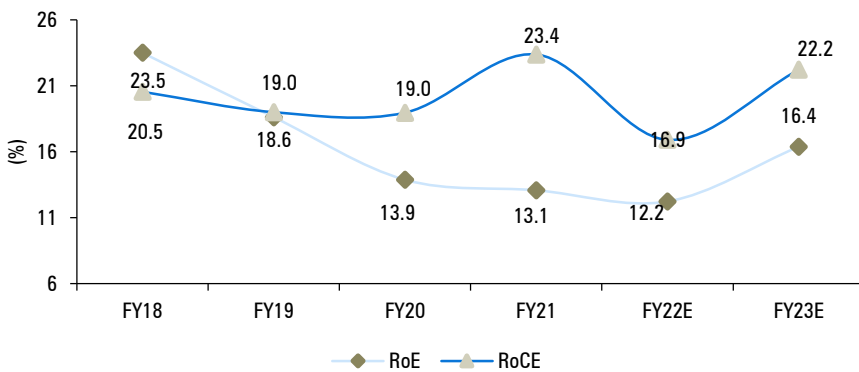
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

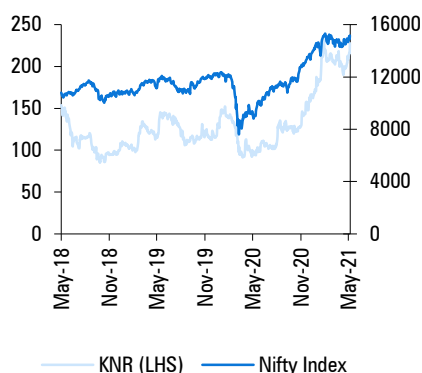
The company is a focused road based EPC player that enjoys a strong execution track record with the reputation of completing projects on time/ahead of the schedule. KNR also enjoys very healthy balance sheet and strong return ratio. With net debt free position at standalone levels, equity commitment is likely to be supported by internal cash generation and irrigation dues recovery and should not entail new debt at standalone levels. Hence, we maintain our **BUY** recommendation on the stock with an SoTP based unchanged target price of ₹ 270/share. We value its core EPC business at ₹ 250/share (10x FY23E EV/EBITDA).

Exhibit 10: SoTP valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business (A)	6884	245	10x FY23E EV/EBITDA
BOT toll Investment (B = C+D)	90	3	
Muzaffarpur tollway (D)	90	3	1x P/BV
HAM Projects Investment (E)	365	13	1x P/BV - investment till date
Total Equity Investment (F=B+E)	455	16	
Less: Net Debt (G)	-133	-5	FY23E Net Debt
SoTP Value (A+F-G)	7472	266	
Rounded-off target price		270	

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	2,244.2	2,702.6	2,869.5	3,706.1
Other operating income	-	-	-	-
Total Revenues	2,244.2	2,702.6	2,869.5	3,706.1
Raw Material Expense	753.3	926.5	1,061.7	1,297.1
Other Construction Exp.	601.7	810.0	860.8	1,111.8
Employee benefit expenses	125.2	132.1	140.6	181.6
Other Expenses	277.0	298.3	347.2	429.9
Total Operating Exp	1,757.2	2,166.8	2,410.4	3,020.5
EBITDA	487.1	535.8	459.1	685.6
Other Income	56.6	49.6	69.0	78.2
Interest	47.4	48.7	15.3	13.3
Depreciation	191.8	144.4	166.5	198.6
PBT	304.4	392.4	346.4	551.9
Total Tax	68.5	137.0	87.3	139.1
Reported PAT	235.9	255.4	259.1	412.8
Adjusted PAT	235.9	255.4	259.1	412.8
EPS (Diluted)	8.0	4.3	9.2	14.7

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
₹ crore	FY20	FY21E	FY22E	FY23E
Profit before Tax	293.7	381.1	346.4	551.9
Depreciation	192.3	144.4	166.5	198.6
Interest Paid	47.4	48.7	15.3	13.3
Others	(24.0)	2.8	(69.0)	(78.2)
Cash Flow before WC changes	509.4	577.1	459.1	685.6
Net Increase in Current Assets	(309.8)	(361.5)	125.6	(468.6)
Net Increase in Current Liabilities	278.9	161.1	36.3	314.8
Taxes paid	(84.4)	(78.7)	(87.3)	(139.1)
Net CF from Operating Activities	394.1	298.0	533.7	392.8
(Purchase)/Sale of Fixed Assets	(203.6)	(93.9)	(200.0)	(150.0)
Loans and Inv in JV/SPV	(108.7)	138.8	(399.7)	(259.4)
Others	28.1	16.3	69.0	78.2
Net CF from Investing Activities	(284.3)	61.2	(530.7)	(331.2)
Debt Proceeds/Repayment	(34.4)	(229.0)	-	-
Interest Paid	(40.1)	(45.9)	(15.3)	(13.3)
Others	(15.3)	-	(7.8)	(12.4)
Net CF from Financing Activities	(89.8)	(274.9)	(23.0)	(25.6)
Net Cash flow	20.1	84.3	(20.0)	35.9
Opening Cash/ Cash Equivalent	13.0	33.1	117.3	97.3
Closing Cash/ Cash Equivalent	33.1	117.3	97.3	133.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Share Capital	28.1	56.2	56.2	56.2
Reserves & Surplus	1,595.8	1,811.6	2,062.9	2,463.4
Networth	1,623.9	1,867.8	2,119.2	2,519.6
Secured Loan	33.7	0.7	0.7	0.7
Unsecured Loan	180.5	-	-	-
Total Debt	214.1	0.7	0.7	0.7
Deferred Tax Liability	-	-	-	-
Total Liabilities	1,856	1,888	2,140	2,544
Assets				
Gross Block	1,201.1	1,305.3	1,505.3	1,655.3
Net Block	377.8	337.7	371.2	322.5
Capital WIP	10.2	2.4	2.4	2.4
Non-current Investments	780.7	555.7	955.4	1,214.8
Current Assets				
Inventories	123.2	148.0	157.2	203.1
Sundry Debtors	476.1	863.2	597.5	771.7
Loans and Advances	6.9	33.8	34.3	36.6
Other Current Assets	635.2	633.1	672.2	868.2
Cash	33.1	117.3	97.3	133.2
Total Current Assets	1,241.4	1,678.1	1,461.2	1,879.5
Creditors	251.1	239.7	254.5	328.7
Provisions	17.3	25.7	27.3	35.3
Other Current Liabilities	593.7	766.9	786.2	1,015.4
Other Long Term Liabilities	11.6	11.0	11.6	15.0
Total Current Liabilities	862.2	1,032.4	1,068.0	1,379.4
Net Current Assets	408.2	736.8	464.3	607.2
Total Assets	1,856	1,888	2,140	2,544

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS (Fully Diluted)	16.0	8.7	9.2	14.7
Cash EPS	29.7	13.8	15.1	21.7
BV	115.5	66.4	75.4	89.6
Operating Ratios				
EBITDA / Net Sales	21.7	19.8	16.0	18.5
PAT / Net Sales	10.0	9.0	9.0	11.1
Inventory Days	20	20	20	20
Debtor Days	77	117	76	76
Creditor Days	41	32	32	32
Return Ratios				
RoE	13.9	13.1	12.2	16.4
RoCE	19.0	23.4	16.9	22.2
RoIC	28.6	32.3	27.0	40.8
Valuation Ratios				
EV / EBITDA	13.5	11.7	13.7	9.1
P/E	14.2	26.2	24.7	15.5
EV / Net Sales	2.9	2.3	2.2	1.7
Market Cap / Sales	2.9	2.4	2.2	1.7
Price to Book Value	2.0	3.4	3.0	2.5
Turnover Ratios				
Asset turnover	1.2	1.4	1.3	1.5
Gross Block Turnover	1.9	2.1	1.9	2.2
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.4	1.6	1.4	1.4
Debt / EBITDA	0.4	0.0	0.0	0.0
Quick Ratio	1.3	1.5	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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