

Retail Equity Research (South India Focus)

KNR Constructions Ltd

Construction & Engineering

BSE CODE : 532942 NSE CODE: KNRCON
BLOOMBERG CODE: KNRC:IN SENSEX : 50,652

BUY

12 Months Investment Period Rating as per Small Cap

CMP Rs. 234 TARGET Rs. 281 RETURN 20% ↑
(Closing: 24-05-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Stellar performance...

KNR Constructions Ltd (KNR) is a leading EPC player largely focusing on national and state highway projects. KNR has successfully executed ~6,000 lane km road projects across 12 states in India.

- Q4FY21 revenue grew by 39% YoY driven by strong execution in HAM projects and normalisation of workforce to pre-Covid level.
- Order book grew by 36% YoY aided by Rs8,400cr of inflows in FY21, provides revenue visibility for the coming years.
- EBITDA margin declined by 227bps YoY to 19.5% due to higher material cost and sub-contracting expenses.
- Q1FY22 execution is likely to impact due to the second wave of Covid and reduction in workforce efficiency to 60%-70%.
- Govt's strong thrust on infra and NHAI's strong order pipeline to support growth prospects in the long term.
- We value core business at a P/E of 16x on FY23E EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price of Rs281 and maintain Buy rating.

Strong execution...

Q4FY21 revenue grew by 39% YoY to Rs936cr supported by strong execution in HAM projects and normalization in workforce to pre-Covid level. The management would be targeting a revenue of over Rs3,000cr for FY22 and remain cautious due to second wave of Covid & drop in work efficiency to 60%-70%. The work efficiency in Tamil Nadu declined to 45% (TN constitute 33% of order book) and expects situation to get normalized from June 2021. The revenue growth also depends on availability of land and commencement of execution of newly bagged project from Q4FY22. We expect top-line to grow at a CAGR of 24% over FY21-FY23E on account of pick up in execution.

Order book provides visibility...

The order book is strong at Rs11,441cr (including L1 orders of Rs.4 323cr) which is 4.2x TTM revenue supported by Rs8,400cr of order inflows in FY21. KNR is targeting an order inflow of Rs4,000cr in FY22 despite strong NHAI's order pipeline of Rs. 2.25lakh cr. We expects Govt's strong thrust on infra and NHAI's strong order pipeline supports growth prospects in the long term. Proceeds from sale of Kerala (Walayar) BOT project have reduced the debt to almost zero which further strengthened KNR's balance sheet. The deal with Cube for monetizing 3 HAM projects remains a minor concern due to interest rate differential on account of current low interest rates. The company expects to conclude the deal in three to four months.

High material price impacted margin...

EBITDA margin declined by 227bps YoY to 19.7% due to higher sub-contracting expenses (710% YoY), RM cost (51% YoY) and other expenses (13% YoY). Margin pressure is likely to continue in the near term due to higher commodity prices and cost overrun on account of pandemic situation. Benefiting from lower interest cost (-70% YoY) and higher other income (29% YoY) PAT grew by 15% YoY to Rs77cr, partially offset by higher tax rate of 48.2% (vs 21.8% in Q4FY20).

Valuations

Debt free status and strong revenue visibility over the next three to four years on account of healthy order book will support valuation. We value standalone business at a P/E of 15x FY23E EPS and BOT/HAM projects at 1xP/B to arrive at SOTP target price Rs281 and maintain Buy rating.

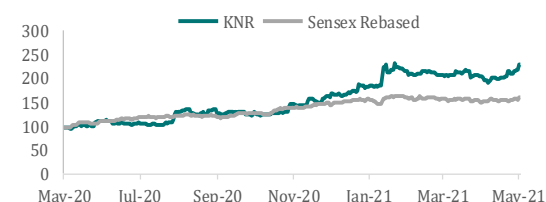
Company Data

Market Cap (cr)	₹ 6,401
Enterprise Value (cr)	₹ 6,498
Outstanding Shares (cr)	28
Free Float	44.97%
Dividend Yield	0.11
52 week high	₹ 242
52 week low	₹ 93
6m average volume (cr)	0.25
Beta	1.05
Face value	₹ 2

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	55.03	55.03	55.03
FII's	1.54	1.53	2.07
MFs/Insti	34.34	34.27	32.36
Public	9.1	9.16	10.54
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	7%	55%	137%
Absolute Sensex	-1%	15%	63%
Relative Return*	7%	40%	74%

over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	2,703	3,284	4,173
Growth (%)	20.4	21.5	27.1
EBITDA	536	640	822
EBITDA Margin(%)	19.8	19.5	19.7
PAT Adj.	255	362	469
Growth (%)	8.3	41.6	29.6
Adj.EPS	9	13	17
Growth (%)	8.3	41.6	29.6
P/E	25.1	17.7	14.0
P/B	1.7	1.4	1.2
EV/EBITDA	11.2	10.0	8.0
ROE (%)	14.5	17.7	19.1
D/E	0.0	0.0	0.0

SOTP Valuation

Particulars	Invested Equity (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		265	P/E16x FY23E EPS
BOT Projects	90	3	1x P/BV
HAM	365	13	1x P/BV
Total Value per share		281	

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	% YoY Growth	Q3FY21	% QoQ Growth	FY21	FY20	% YoY Growth
Sales	936	676	38.5	686	36.4	2,703	2,244	20.4
EBITDA	182	147	24.0	135	34.7	536	487	10.0
EBITDA margins %	19.5	21.7	-227bps	19.7	-24bps	19.8	21.7	-188bps
Depreciation	3,877	5,376	-27.9	3,733	4	14,437	19,185	-24.7
EBIT	143	93	54	98	46	391	295	33
Interest	4	14	-70.1	18	-76.5	49	47	3
Other Income	9	7	28.8	27	-64.7	50	57	-12.3
Exceptional Items	-	-	-	-	-	11	11	-
PBT	148	86	73	106	40	381	294	30
Tax	72	19	281.6	29	151	137	68	100
Reported PAT	77	67	-	78	-	244	225	-
Adjustments	19	-	-	-	-	31	7	0.0
Adj PAT	96	67	14.5	78	-0.8	275	232	8
No. of Shares	28	28	-	28	-	28	28	-
EPS (Rs)	7	5	43.3	6	24	20	16	18

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	3,229	4,131	3,284	4,173	1.7	1.0
EBITDA	646	814	640	822	-0.8	1.0
Margins (%)	20.0	19.7	19.5	19.7	-50bps	0bps
Adj. PAT	306	427	362	465	18.0	8.9
EPS	10.9	15.2	12.9	16.5	18.0	8.9

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	2,137	2,244	2,703	3,284	4,173
% change	10.6	5.0	20.4	21.5	27.1
EBITDA	427	487	536	640	822
% change	11	14	10	20	28
Depreciation	168	192	144	180	235
EBIT	259	295	391	460	587
Interest	29	47	49	20	10
Other Income	63	57	50	55	60
PBT	291	294	381	495	637
% change	8.4	1.1	29.8	30.0	28.6
Tax	27	68	137	134	172
Tax Rate (%)	9.4	23.3	35.9	27.0	27.0
Reported PAT	263	225	244	362	465
Adj*	10	11	11	0	0
Adj PAT	273	236	255	362	465
% change	-11.2	-13.7	8.3	41.6	28.6
No. of shares (cr)	14	28	28	28	28
Adj EPS (Rs.)	9.7	8.4	9.1	12.9	16.5
% change	-1	0	0	0	0
DPS (Rs.)	0.3	0.3	0.3	0.3	0.3

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Deprn.	459	486	526	675	872
Non-cash adj.	-22	-14	-81	-119	-167
Changes in W.C	-95	-112	-266	-209	-347
C.F. Operation	309	372	191	322	329
Capital exp.	-200	-190	-92	-101	-200
Change in inv.	0	0	0	0	0
Other invest.CF	24	-7	-7	5	5
C.F - Investment	-348	-270	126	-206	-295
Issue of equity	0	0	0	0	0
Issue/repay debt	-10	5	-181	-93	0
Dividends paid	-4	-8	-8	-10	-10
Other finance.CF	-29	-50	-49	-21	-10
C.F - Finance	9	-82	-232	-81	-20
Chg. in cash	-31	20	84	35	14
Closing cash	13	33	117	153	167

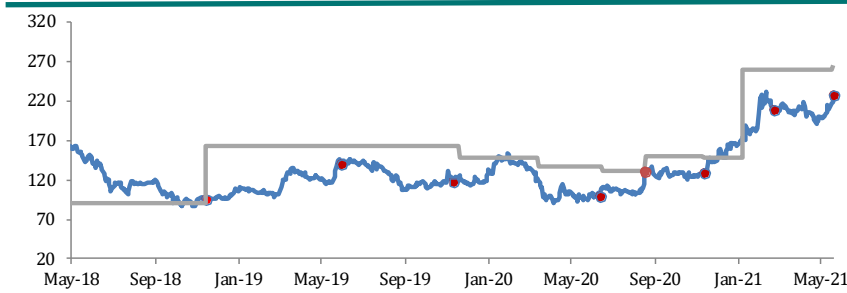
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	13	33	117	153	167
Accounts Receivable	234	476	863	1,080	1,372
Inventories	95	123	148	198	249
Other Cur. Assets	557	664	690	810	1,063
Investments	708	781	556	667	767
Gross Fixed Assets	1,086	1,266	1,366	1,466	1,666
Net Fixed Assets	371	380	339	217	182
CWIP	0	10	2	3	3
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	174	161	149	173	202
Other Assets	118	89	56	150	150
Total Assets	2,270	2,718	2,921	3,451	4,155
Current Liabilities	588	846	1,007	1,187	1,434
Provisions	16	23	34	31	34
Debt Funds	238	214	1	2	2
Other Liabilities	13	11	11	10	10
Equity Capital	28	56	56	56	56
Reserves & Surplus	1,386	1,596	1,812	2,164	2,619
Shareholder's Fund	1,414	1,652	1,868	2,220	2,675
Total Liabilities	2,270	2,718	2,921	3,451	4,155
BVPS (Rs.)	101	117	133	158	190

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	20.0	21.7	19.8	19.5	19.7
EBIT margin (%)	12.1	13.2	14.5	14.0	14.1
Net profit mgn.(%)	12.8	10.5	9.5	11.0	11.1
ROE (%)	21.3	15.4	14.5	17.7	19.0
ROCE (%)	19.6	15.2	15.2	18.2	19.3
W.C & Liquidity					
Receivables (days)	39.8	57.8	90.4	108.0	107.2
Inventory (days)	37.1	48.0	44.4	46.3	46.7
Payables (days)	98.5	104.3	80.3	65.6	52.3
Current ratio (x)	1.5	1.5	1.7	1.8	1.9
Quick ratio (x)	0.4	0.6	1.0	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	2.2	1.9	2.1	2.3	2.7
Total asset T.O (x)	1.0	0.9	1.0	1.0	1.1
Int. coverage ratio (x)	8.8	6.2	8.0	23.0	58.7
Adj. debt/equity (x)	0.2	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.6	3.0	2.4	2.0	1.6
EV/EBITDA (x)	8.1	13.7	11.9	10.2	8.0
P/E (x)	24.0	27.8	25.7	18.1	14.1
P/BV (x)	2.3	2.0	1.8	1.5	1.2

Recommendation Summary (Last 3 years)



Dates	Rating	Target
26-February-18	Accumulate	329
21-November-18	Reduce	180
6-June-19	Accumulate	162
21-November-19	Buy	148
16-March-20	Buy	136
16-June-20	Buy	130
20-August-20	Buy	150
17-November-20	Buy	147
25-February-21	Buy	259
24-May-21	Buy	281

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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