

KNR Constructions Ltd.

BUY

CMP Rs228

Target Rs261

Upside 15%

Result Highlights

- ✓ KNR Constructions reported topline growth of 39% yoy (at Rs.9.3 bn), much ahead of our estimate of Rs.7.6 bn topline driven by higher execution.
- ✓ Operating margin remained at elevated levels of ~19.5% (-228 bps yoy/ -24 bps qoq). This was in line with our estimates of 20% margins. The margins were strong due to execution of high margin irrigation projects.
- ✓ Higher tax outgo saw PAT grew by 15% yoy to Rs.770 mn.
- ✓ Order book at the end of Q4 FY21 stood at ~Rs.115 bn. During the year, Company won projects to the tune of Rs.84 bn
- ✓ The company has declared the dividend of Rs 0.25/sh

Our view: The Company has ended the year on strong note with Order book at ~4x FY21 revenues. We expect KNR to clock in topline growth of ~15% during FY22 driven the existing order book (excluding projects recently won as they would take time to start). We expect the margins to fall to ~17% (from usual levels of 19-20%) primarily due to sharp increase in input costs which the Company may not be able to entirely pass on. The receivables position which has been impacted due to delayed payments from state projects is expected to normalize in next few months. The focus on asset monetization is a key positive and would allow the Company to bag more projects. We have marginally revised our earnings estimates lower to factor in slower than expected execution due to COVID related restrictions in Q1 FY22 and increase in input costs. We maintain our BUY rating on the stock for target price of Rs.261 (based on SOTP valuation). We value the standalone business at 14x FY23 EPS and the investment in BOT asset at book value.

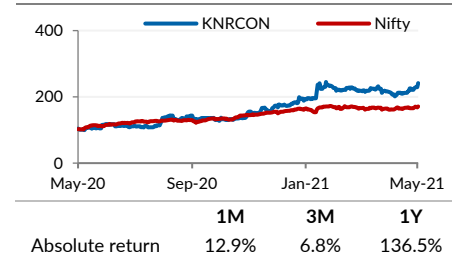
Exhibit 1: Result table (Standalone)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Total sales	9,358	6,756	38.5	6,863	36.4
EBITDA	1,822	1,469	24.0	1,353	34.7
EBITDAM (%)	19.5	21.7	-228 bps	19.7	-24 bps
Depreciation	388	538	(27.9)	373	3.9
Interest	43	145	(70.1)	184	(76.5)
Other income	94	73	28.8	266	(64.7)
PBT	1,485	860	72.7	1,061	39.9
Tax	715	187	281.7	285	150.6
Adjusted PAT	770	672	14.5	776	(0.8)
Exceptional item	-	-	-	-	-
Reported PAT	770	672	14.5	776	(0.8)
PATM (%)	8.2	10.0	-173 bps	11.3	-308 bps
EPS (Rs)	2.7	2.4	14.5	2.8	(0.8)

Stock data (as on May 21, 2021)

Nifty	15,175
52 Week h/l (Rs)	242 / 94
Market cap (Rs/USD mn)	64051 / 879
Outstanding Shares (mn)	281
6m Avg t/o (Rs mn):	179
Div yield (%):	0.1
Bloomberg code:	KNRC IN
NSE code:	KNRCON

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	55.03%
FII+DII	34.42%
Others	10.55%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	261	256

Financial Summary

	FY21	FY22e	FY23e
Revenue	27,026	30,924	38,980
YoY	20.4	14.4	26.1
EBIDTA	5,358	5,336	7,262
Margin (%)	19.8	17.3	18.6
PAT	2,554	3,049	4,375
YoY	8.2	19.4	43.5
ROE	14.0	15.1	18.5
EPS	9.1	10.8	15.6
P/E	25.1	21.0	14.7

Δ in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	9.1	10.8	15.6
EPS (Old)	9.1	12.8	16.5
% change	-	(15.3)	(5.7)

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CON-CALL HIGHLIGHTS

- ✓ **Industry:** (1) The Road segment witnessed the sharp recovery in H2 with more availability of the manpower. (2) 13327km of Highways were constructed in FY21 vs 10227km in FY20 (2) The ministry of Roads targets 40km/day road construction during FY22 (3) The budget allocation under NIP aims to improve the infrastructure under highways, railways, ports, airports, energy and irrigation. 7300 projects are in pipeline to be implemented by FY25. (4) NHAI has awarded length of 4788km in FY21 versus 3211km in FY20 and 2221km in FY19. (5) The toll collection likely to see a double-digit growth on the low base of 5-7% decline in FY21. Toll collection on highways may see improvement from July onwards with improvement in traffic (6) The Fastag saw the increase in collection from Rs700mn/day to 1040mn/day while 93% is collected digitally. The rise in collection will attract more bidders for BOT projects
- ✓ **Execution efficiency:** The execution level stood at 95% for Q4 and were at near pre Covid levels by end of FY21. However, due to second Covid wave, the efficiency dropped to 60-65% as Covid cases were found at most projects and many of the projects were under red zone. The irrigation projects witnessed 60-70% efficiency while Road projects saw 50-60% efficiency. Projects in Tamil Nadu saw sharp drop to 40-45% utilization level.
- ✓ **Physical progress of projects by Mar-21:** (1) Chittor to Mallavaram – 82% (92% in May with pending order of Rs540mn, expects COD soon) (2) Ramsanpalle to Mangloor -80% (3) Trichy to Kallagam – 66% (facing land issue for 6.5km, COD within 1 month) (4) Magadi to Somwarpeth – 29% and (5) Oddanchatram to Madathukulam – 27%. The execution in Q4 was primarily driven due to HAM projects.
- ✓ **Guidance:** (1) The company expects revenue to cross Rs30 bn for FY22 on the back of existing order book. (2) Expects margins to dip sharply to 14-15% driven by higher volatility in the raw material like cement, steel and fuel price. (3) Expects equity infusion of Rs4bn in FY22 including Rs2 bn of infusion towards Kerala HAM project.
- ✓ **Orderbook:** Of the total orderbook of Rs71bn, irrigation forms 44% and balance 56% as EPC and HAM. The third-party client orderbook stands at 74% of which 62% of the orderbook is from by state followed by 9% other projects and 3% from Central Government. The company has robust orderbook which provides the visibility of next 3 years. The company expects new order addition of ~Rs30-40bn in FY22. The order inflow for FY21 stood at Rs84bn.
- ✓ **Investment:** Rs3.65bn has been invested in all 5 HAM projects till date. Increment equity investment stands at Rs2bn in FY22 and Rs600mn in FY23. Additionally, Rs 4.15bn need to be invested in new HAM projects over next 2 years. The company has won two new HAM projects in Kerala and one EPC project in Karnataka.
- ✓ **Agreement signed with Cube Highways:** The agreement signed with Cube Highways for divestment of 3 HAM projects are on track. The three projects are near to the completion and expected to receive the PCOD soon. Two projects are expected to receive PCOD in coming month and third project (Telangana project) within couple of months. The company expects some renegotiation in this deal as the fall in bank rate has been much sharper than cost of borrowing leading to impact on IRR. There is a negative carry of around 200bps to 250bps in bank rate and cost of borrowing. The Company expects to close the deal at higher than book value.

Other Key Highlights

- ✓ The **toll collection** at Muzaffarpur Barauni Tollway stood at Rs90mn in Q4 and the company has invoked agreement with NHAI and is in renegotiation with the authority.
- ✓ **Walayar Tollways:** The company has received the cash for FY21 as milestone has been achieved and will receive the money as and when milestone will be achieved in FY23.

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- ✓ **Collection from Telangana government** stands at Rs5bn as funds has been diverted to other essential services. There are no major issues of receivables from Tamil Nadu government.
- ✓ **Debt:** The company has become debt free at standalone level.
- ✓ **Working capital days:** Overall receivables stood at Rs8.25bn of which 5.25 are under HAM projects from own SPVs and Rs3bn with irrigation segment. The company would take disbursement of receivables from SPV before COD of those projects. This is being done to improve the valuations of the SPV.
- ✓ **Capex:** The capex for FY22 will be in the range of Rs1-1.5bn. The capex for FY21 was Rs1.0-1.3bn.
- ✓ **Other data:** Mobilisation advance stands at Rs1.5bn pertaining to Avinashi project in Chennai, Retention deposit with government at Rs1.8bn, Due from customers at Rs2.15bn, Due from sub-contractors at Rs1bn.

FINANCIALS

Exhibit 1: Balance sheet (Standalone)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Share capital	281	562	562	562
Reserve & Surplus	15,958	18,116	21,024	25,258
Total shareholder's funds	16,239	18,678	21,587	25,821
Minority Interest	0	0	0	0
Debt	2,297	163	163	163
Deferred tax liabilities/(assets)	(1,492)	(1,375)	(1,359)	(1,326)
TOTAL	17,044	17,467	20,391	24,658
Net block	3,779	3,378	2,927	2,427
Capital WIP	102	24	24	24
Long term investments	7,149	4,898	9,656	11,705
Other long-term assets	1,795	1,467	1,525	1,922
Inventories	1,232	1,480	1,525	1,922
Debtors	4,761	8,632	8,472	9,612
Cash & cash equivalents	330	1,173	586	2,498
Loans & advances	6,421	6,669	7,631	9,619
Total current liabilities	8,524	10,254	11,956	15,070
Net current assets	4,220	7,700	6,259	8,580
TOTAL	17,044	17,467	20,391	24,658

Exhibit 2: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Revenue	22,442	27,026	30,924	38,980
Operating profit	4,871	5,358	5,336	7,262
Depreciation & Amortization	1,918	1,444	1,650	1,800
PBIT	2,952	3,915	3,686	5,462
Interest expense	474	487	131	161
Other income	566	496	521	547
Exceptional items	107	112	-	-
Profit before tax	3,044	3,924	4,076	5,849
Taxes	685	1,370	1,027	1,474
Minorities	0	0	0	0
Adj. Net profit	2,360	2,554	3,049	4,375

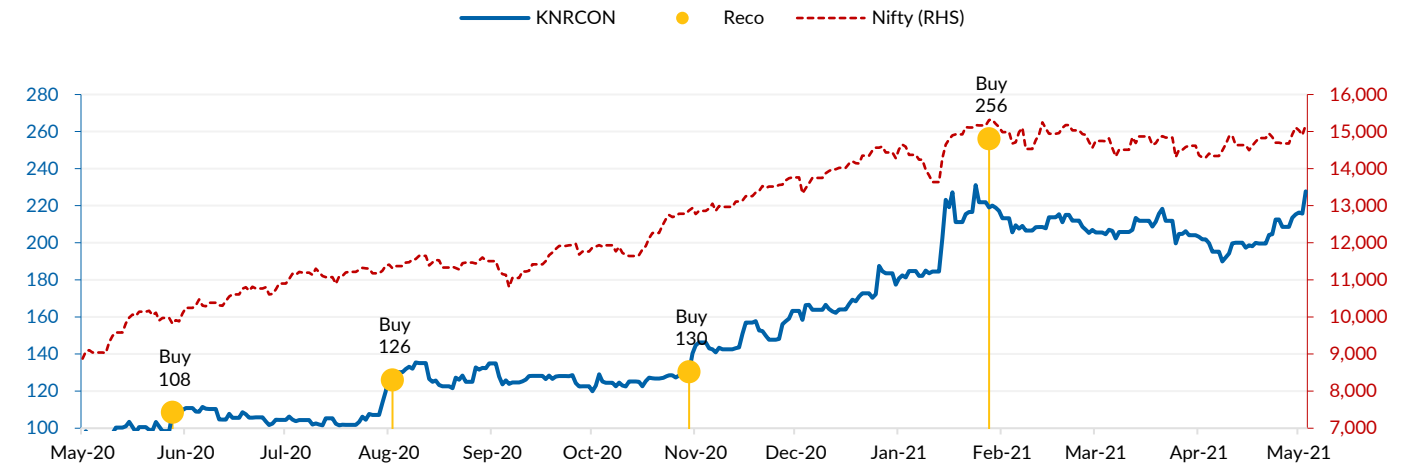
Exhibit 3: Cash flow statement (Standalone)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
PBT	3,044	3,924	4,076	5,849
Depreciation	1,918	1,444	1,650	1,800
Others	(92)	(9)	(391)	(387)
Tax Paid	(685)	(1,370)	(1,027)	(1,474)
Changes in Working Capital	(702)	(2,638)	854	(410)
Net Cash from Operations	3,484	1,351	5,163	5,379
Capex	(2,089)	(964)	(1,200)	(1,300)
Change in Investment	(948)	2,250	(4,758)	(2,049)
Others	722	0	463	150
Net Cash from Investing	(2,314)	2,110	(5,495)	(3,199)
Change in debt	(344)	(2,134)	0	0
Change in Equity	147	68	(0)	(0)
Others	(772)	(553)	(255)	(268)
Net Cash from Financing	(970)	(2,619)	(255)	(268)
Net Change in Cash	201	843	(587)	1,912

Exhibit 4: Ratio analysis (Standalone)

Y/e 31 Mar	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS				
EBITDA Margin (%)	21.7	19.8	17.3	18.6
Adjusted net margin (%)	10.0	9.0	9.9	11.2
Return on invested capital (%)	16.3	16.0	16.6	20.0
Return on equity (%)	14.8	14.0	15.1	18.5
EFFICIENCY RATIOS				
Asset Turnover	5.8	7.9	10.5	15.9
Debt to equity	0.1	0.0	0.0	0.0
Net debt to equity	0.1	(0.1)	(0.0)	(0.1)
Interest coverage	6.2	8.0	28.2	34.0
Debtor days	77.4	116.6	100.0	90.0
Inventory days	20.0	20.0	18.0	18.0
Payable days	40.8	32.4	35.0	35.0
PER SHARE DATA				
Diluted EPS (Rs)	8.4	9.1	10.8	15.6
Book value per share (Rs)	57.7	66.4	76.8	91.8
DPS (Rs)	0.9	0.3	0.5	0.5
VALUATION RATIOS				
P/E	27.2	25.1	21.0	14.7
P/BV	3.9	3.4	3.0	2.5
EV/EBITDA	13.6	11.8	11.9	8.5
Dividend Yield (%)	0.4	0.1	0.2	0.2

Recommendation Tracker



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