

June 12, 2020

Q4FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	305		305	
Sales (Rs. m)	22,814	34,221	22,815	34,226
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,878	5,818	3,764	5,647
% Chng.	3.0	3.0	-	-
EPS (Rs.)	10.1	20.8	9.8	20.8
% Chng.	2.7	(0.2)	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	21,373	22,442	22,814	34,221
EBITDA (Rs. m)	4,270	4,871	3,878	5,818
Margin (%)	20.0	21.7	17.0	17.0
PAT (Rs. m)	2,658	2,359	1,421	2,921
EPS (Rs.)	18.9	16.8	10.1	20.8
Gr. (%)	(2.3)	(11.2)	(39.8)	105.5
DPS (Rs.)	0.5	0.4	0.3	0.5
Yield (%)	0.2	0.2	0.1	0.3
RoE (%)	20.7	15.5	8.4	15.3
RoCE (%)	16.4	16.8	9.5	16.2
EV/Sales (x)	1.4	1.3	1.3	0.9
EV/EBITDA (x)	7.0	6.1	7.7	5.1
PE (x)	10.4	11.7	19.5	9.5
P/BV (x)	2.0	1.7	1.6	1.4

Key Data

KNRL.BO | KNRC IN

52-W High / Low	Rs.312 / Rs.171
Sensex / Nifty	33,781 / 9,973
Market Cap	Rs.28bn / \$ 365m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.122.23m

Shareholding Pattern (%)

Promoter's	55.17
Foreign	2.50
Domestic Institution	31.11
Public & Others	11.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.7	(18.2)	(31.7)
Relative	(0.9)	(1.7)	(19.6)

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Strong execution reiterates its capabilities

Quick Pointers:

- Despite nationwide lockdown and Covid-19 Pandemic, KNR reported strong revenues with high EBITDAM of 21.7% in 4QFY20.
- Operations for all major projects resumed with ~50-65% efficiency levels, however labour issues persist.
- Transaction of stake sale in KNR Walayar Tollways BOT project with Cube Highways is expected to be concluded by 1HFY21E.

KNRC reported strong revenues with healthy margins for 4QFY20, beating our estimates primarily due to strong execution in key projects and rising share of high margin irrigation projects in revenue mix. Post phased up lifting of lockdown in April end, construction activities resumed gradually at all major projects with an efficiency levels of 50-65%. The company observed delay in receiving payments (such as irrigation projects) primarily from State Authorities as funds are diverted towards welfare services. We believe labour availability at the project sites (which currently stand at ~40%) and raw material availability would be key monitorables in the short run.

KNRC has robust financials with (a) lean balance sheet (D:E of ~0.13x), (b) strong execution capabilities (c) healthy operating margins (average ~18% over FY15-20) and (d) industry best working capital cycle (~77 days). It fits perfectly in our thesis of comfortable order book (~Rs52.3bn as on 4QFY20) and lean balance sheet (lower risks of equity dilution). At CMP, the stock trades at a P/E of 19.5x/9.5x on FY21E/FY22E EPS and is trading at an EV of 7.7x/5.1x FY21E/FY22E EBITDA. We maintain BUY rating on the stock with an SOTP based TP of Rs305.

Robust revenues coupled with resilient margins: Revenues fell by 6% YoY to Rs6.8bn (beating our estimates of Rs5.5bn) for 4QFY20 led by strong execution in its key projects and lower than anticipated impact of nationwide lockdown. EBITDA grew 2% YoY to Rs1,469mn with EBITDAM surprising positively at 21.7% (vs PLe of 15.1%) primarily due to stronger execution and rising share of higher-margin irrigation segment in the revenue mix. Adj. PAT came at Rs672mn (PLe Rs309mn) on the back of higher operational efficiencies.

Strong diversified order book, comfortable working capital: KNRC's order book as at 4QFY20 stands at ~Rs52.3bn. This translates into an order-book-to-sales ratio of 2.3x TTM revenues. In May'20, KNRC along with its JV partners bagged two irrigation projects worth Rs23.1bn (KNRC's share Rs20.2bn) further strengthening the revenue visibility for next 2-3 years. Further, AD of Rs6.4bn HAM project is expected by 2QFY21. Management are targeting order inflows of ~Rs30bn in road segment from NHAI and will not add more irrigation projects in FY21. Major labour force is expected to return post monsoon and accordingly execution would ramp-up from 2HFY21.

Exhibit 1: Quarterly Financials (Standalone): Strong execution coupled with higher margins boost profitability

Y/e March (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	7,157	4,646	5,462	5,579	6,756	(5.6)	21.1	22,442	21,373	5.0
Total Revenues	7,157	4,646	5,462	5,579	6,756	(5.6)	21.1	22,442	21,373	5.0
Expenditure	5,716	3,746	4,204	4,335	5,287	(7.5)	22.0	17,572	17,103	2.7
as % of sales	79.9	80.6	77.0	77.7	78.3			78.3	80.0	
Consumption of RM	1,930	1,860	1,721	1,752	2,200	14.0	25.6	7,533	6,432	17.1
as % of sales	27.0	40.0	31.5	31.4	32.6			33.6	30.1	
Employee Cost	248	271	363	303	315	27.1	4.0	1,252	929	34.9
as % of sales	3.5	5.8	6.6	5.4	4.7			5.6	4.3	
Other expenditure	3,539	1,615	2,121	2,280	2,772	(21.7)	21.6	8,787	9,742	(9.8)
as % of sales	49.4	34.8	38.8	40.9	41.0			39.2	45.6	
EBITDA	1,441	900	1,258	1,244	1,469	1.9	18.1	4,871	4,270	14.1
Depreciation	478	389	475	517	538	12.4	4.0	1,918	1,681	14.1
EBIT	963	511	783	727	931	(3.3)	28.1	2,952	2,589	14.0
Other Income	151	168	256	70	73	(51.9)	4.4	566	634	(10.7)
Interest	75	90	98	142	145	93.1	2.1	474	291	62.9
PBT	1,039	589	941	655	859	(17.3)	31.2	3,044	2,931	3.8
Total Tax	92	112	200	186	187	103.2	0.8	685	273	150.5
Adjusted PAT	947	477	741	469	672	(29.0)	43.2	2,359	2,658	(11.2)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	947	477	741	469	672	(29.0)	43.2	2,359	2,658	(11.2)
Extra ordinary items	(25)	-	(40)	(67)	-	-	-	(107)	(25)	-
Reported PAT	922	477	701	402	672	(27.1)	67.1	2,252	2,633	(14.5)
Adjusted EPS	6.7	3.4	5.2	3.3	4.8	(29.0)	43.2	16.0	18.7	(14.5)
Margins (%)						bps	bps			bps
EBIDTA	20.1	19.4	23.0	22.3	21.7	161	(56)	21.7	20.0	173
EBIT	13.4	11.0	14.3	13.0	13.8	33	75	13.2	12.1	104
EBT	14.5	12.7	17.2	11.7	12.7	(180)	98	13.6	13.7	(15)
PAT	12.9	10.3	12.8	7.2	9.9	(293)	274	10.0	12.3	(228)
Effective Tax rate	8.9	19.0	21.2	28.4	21.8	1,293	(658)	22.5	9.3	1,317

Source: Company, PL

Exhibit 2: SOTP Valuation

Particulars	Segment	Driver	KNR's share	Multiple	Value (Rs mn)	Value / share (Rs)	Proportionate (%) of value / share	Basis
EPC Business	Construction	2,921	100	13	37,976	270	89%	13x on FY22 earnings
Walayar Vadakkancherry BOT Project	BOT	3,974	100	1	3,974	28	9%	Based on 1 P/B of equity
Muzaffarpur Baruani BOT	BOT	1,771	51	1	903	6	2%	Based on 1 P/B of equity
Land Cost					NA	-		
Total Rs mn						305		

Source: Company, PL

Exhibit 3: Key Assumptions

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E
Order inflow	18,400	4,853	38,301	34,583	39,771	45,737
Revenues	15,411	19,317	21,373	22,442	22,814	34,221
Order book	37,691	23,227	40,156	52,297	69,253	80,769
Execution cycle (%)	29%	45%	35%	30%	25%	30%
Ob to sales (x)	2.4	1.2	1.9	2.3	3.0	2.4

Source: Company, PL

Concall Highlights

- KNRC reported strong revenue & earnings performance for the quarter led by rising share of higher-margin irrigation segment in revenue mix and higher operational efficiencies.
- KNRC's order book stands at Rs52.3bn as on 4QFY20, translating into 2.3x TTM revenues.
 - Of the total order book, HAM road projects account for 47%, Road (Non Captive) for 23% and balance 30% comes from Irrigation segment.
 - Further in May20 KNRC with its JV partners received two irrigation projects worth Rs23.1bn (KNRCs share Rs20.2bn) from Govt. of Telangana. The projects are likely to commence operation in 2QFY21.
 - The company targets order inflows of ~Rs30bn from NHAI and would not be looking to add more irrigation projects in FY21.
- For Oddanchatram–Madathukulam HAM project, the company has submitted financial closure documents in May'20 and expects to receive AD by 2QFY21.
- The company expects the transaction of stake sale in KNR Walayar Tollways BOT project with Cube Highways to get concluded by 1HFY21.
- Gross debt continues to remain low at Rs2.3bn, of which Rs1.8bn is the promoter's loan. Further company has not availed moratorium on its loans till date and is evaluating NHAI & Govt's initiative- 'Covid-loans' at attractive interest rate to meet the liquidity requirements.
- Net working capital rose to 53 days (vs 43 days QoQ) led by rise in receivable days to 78 days (vs 63 days QoQ). As on 4QFY20, the company had ~Rs2bn of receivables pending from irrigation segment (total ~Rs5bn pending) for month of Mar'20, which are not received till date.
- Post relaxation in lockdown and resumption of construction activities towards end of April 2020, major projects restarted and are currently operating at 50-65% capacity. Labour availability at the project sites stands at ~40% levels due to their migration to hometowns and many not returning since Holi.
- Considering the uncertainty due to Covid-19 and overall slowdown in the economy, management has refrained from giving any guidance for FY21.
- The company has already invested Rs2bn in its HAM projects and would be required to further invest Rs3.8bn over a period of two years (~Rs1.5bn in FY21). We believe, the company would be meeting its equity requirement through internal accruals given its strong balance sheet.
- Toll revenue for Barauni-Muzzafpur BOT project has declined to Rs1.58mn/day in 4QFY20 (avg. run-rate Rs2.2mn/day) on account of major repair activities and halt in toll collection towards end of Mar'20.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	21,373	22,442	22,814	34,221
YoY gr. (%)	10.6	5.0	1.7	50.0
Cost of Goods Sold	6,432	7,533	7,072	10,609
Gross Profit	14,941	14,910	15,742	23,613
Margin (%)	69.9	66.4	69.0	69.0
Employee Cost	929	1,252	1,369	1,882
Other Expenses	7,987	8,017	8,555	12,662
EBITDA	4,270	4,871	3,878	5,818
YoY gr. (%)	10.6	14.1	(20.4)	50.0
Margin (%)	20.0	21.7	17.0	17.0
Depreciation and Amortization	1,681	1,918	2,045	2,270
EBIT	2,589	2,952	1,833	3,547
Margin (%)	12.1	13.2	8.0	10.4
Net Interest	291	474	504	567
Other Income	634	566	570	924
Profit Before Tax	2,931	3,044	1,900	3,904
Margin (%)	13.7	13.6	8.3	11.4
Total Tax	273	685	478	983
Effective tax rate (%)	9.3	22.5	25.2	25.2
Profit after tax	2,658	2,359	1,421	2,921
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,658	2,359	1,421	2,921
YoY gr. (%)	(2.3)	(11.2)	(39.8)	105.5
Margin (%)	12.4	10.5	6.2	8.5
Extra Ord. Income / (Exp)	(25)	(107)	-	-
Reported PAT	2,633	2,252	1,421	2,921
YoY gr. (%)	(3.2)	(14.5)	(36.9)	105.5
Margin (%)	12.3	10.0	6.2	8.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,633	2,252	1,421	2,921
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	18.9	16.8	10.1	20.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	10,122	12,136	13,636	15,136
Tangibles	10,122	12,136	13,636	15,136
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,412	8,331	10,376	12,646
Tangibles	6,412	8,331	10,376	12,646
Intangibles	-	-	-	-
Net fixed assets	3,710	3,805	3,260	2,489
Tangibles	3,710	3,805	3,260	2,489
Intangibles	-	-	-	-
Capital Work In Progress	0	102	102	102
Goodwill	-	-	-	-
Non-Current Investments	6,882	7,848	8,474	10,433
Net Deferred tax assets	1,739	1,610	1,610	1,610
Other Non-Current Assets	1,321	1,110	1,680	1,981
Current Assets				
Investments	247	-	-	-
Inventories	951	1,232	1,563	2,344
Trade receivables	2,344	4,761	5,000	5,625
Cash & Bank Balance	130	330	582	1,221
Other Current Assets	3,514	4,230	4,480	5,503
Total Assets	20,964	25,568	27,623	32,626
Equity				
Equity Share Capital	281	281	281	281
Other Equity	13,862	15,958	17,342	20,188
Total Network	14,143	16,239	17,624	20,469
Non-Current Liabilities				
Long Term borrowings	429	1,815	2,315	2,815
Provisions	-	-	-	-
Other non current liabilities	708	839	933	1,101
Current Liabilities				
ST Debt / Current of LT Debt	2,212	336	336	336
Trade payables	2,236	2,511	3,125	4,219
Other current liabilities	2,974	5,437	4,899	5,295
Total Equity & Liabilities	20,964	25,568	27,623	32,626

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	2,906	2,937	1,900	3,904
Add. Depreciation	1,681	1,918	2,045	2,270
Add. Interest	247	474	504	567
Less Financial Other Income	634	566	570	924
Add. Other	(303)	-	-	-
Op. profit before WC changes	4,531	5,329	4,449	6,742
Net Changes-WC	(1,505)	(609)	(1,587)	(1,532)
Direct tax	(550)	(685)	(478)	(983)
Net cash from Op. activities	2,475	4,036	2,384	4,227
Capital expenditures	(3,117)	(2,845)	(2,092)	(3,446)
Interest / Dividend Income	70	-	-	-
Others	188	-	-	-
Net Cash from Inv. activities	(2,860)	(2,845)	(2,092)	(3,446)
Issue of share cap. / premium	-	-	-	-
Debt changes	438	(490)	500	500
Dividend paid	(68)	(73)	(37)	(75)
Interest paid	(298)	(474)	(504)	(567)
Others	-	46	-	-
Net cash from Fin. activities	72	(991)	(41)	(143)
Net change in cash	(312)	200	251	639
Free Cash Flow	2,597	1,921	884	2,727

Source: Company Data, PL Research

Quarterly Financials (Rs m)

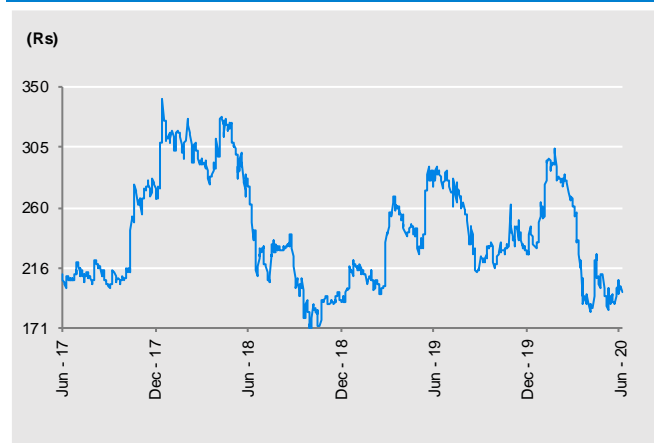
Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	4,646	5,462	5,579	6,756
YoY gr. (%)	(16.5)	31.2	24.3	(5.6)
Raw Material Expenses	-	-	-	-
Gross Profit	4,646	5,462	5,579	6,756
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	900	1,258	1,244	1,469
YoY gr. (%)	(18.1)	51.3	38.0	1.9
Margin (%)	19.4	23.0	22.3	21.7
Depreciation / Depletion	389	475	517	538
EBIT	511	783	727	931
Margin (%)	11.0	14.3	13.0	13.8
Net Interest	90	98	142	145
Other Income	168	256	70	73
Profit before Tax	589	901	588	859
Margin (%)	12.7	16.5	10.5	12.7
Total Tax	112	200	186	187
Effective tax rate (%)	19.0	22.2	31.6	21.8
Profit after Tax	477	701	402	672
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	477	741	469	672
YoY gr. (%)	(35.5)	64.7	(10.0)	(29.0)
Margin (%)	10.3	13.6	8.4	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	477	741	469	672
YoY gr. (%)	(35.5)	64.7	(10.0)	(29.0)
Margin (%)	10.3	13.6	8.4	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	477	741	469	672
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	3.4	5.3	3.3	4.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	18.9	16.8	10.1	20.8
CEPS	30.9	30.4	24.7	36.9
BVPS	100.6	115.5	125.3	145.6
FCF	18.5	13.7	6.3	19.4
DPS	0.5	0.4	0.3	0.5
Return Ratio(%)				
RoCE	16.4	16.8	9.5	16.2
ROIC	15.2	13.3	7.3	12.8
RoE	20.7	15.5	8.4	15.3
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.1
Net Working Capital (Days)	54	62	77	64
Valuation(x)				
PER	10.4	11.7	19.5	9.5
P/B	2.0	1.7	1.6	1.4
P/CEPS	6.4	6.5	8.0	5.3
EV/EBITDA	7.0	6.1	7.7	5.1
EV/Sales	1.4	1.3	1.3	0.9
Dividend Yield (%)	0.2	0.2	0.1	0.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-20	BUY	305	183
2	14-Feb-20	BUY	313	279
3	10-Jan-20	BUY	304	278
4	03-Jan-20	BUY	304	261
5	23-Dec-19	BUY	304	231

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	836
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	39
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	50	21
7	Capacite's Infraprojects	BUY	168	75
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	493	385
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	127	53
14	ITD Cementation India	BUY	67	33
15	J.Kumar Infraprojects	BUY	340	185
16	Kalpataru Power Transmission	BUY	261	193
17	KEC International	BUY	295	197
18	KNR Constructions	BUY	305	183
19	Larsen & Toubro	BUY	1,192	955
20	NCC	BUY	83	23
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	160
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,049
25	Thermax	Accumulate	855	705
26	Triveni Turbine	BUY	109	66
27	Voltamp Transformers	BUY	1,244	1,020

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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