KNR Construction

15 June 2020

Reuters: KNRL.NS; Bloomberg: KNRC:IN

4QFY20 Result Update

Better off to be with leader in turbulent times

KNR Construction (KNR) reported good set of numbers for 4QFY20, revenue at Rs6.8bn declined by 5.6% YoY and was in line with consensus estimate. However, EBITDA increased by 1.9% YoY to Rs1.5bn as EBITDA margin was higher than expected at 21.7% (+160bps YoY). Adj. PAT declined by 27.1% YoY to Rs672mn primarily due to lower other income and higher finance and tax expenses. Revenue, EBITDA and PAT were 1.2%, 21.6% and 29% ahead of consensus estimates, respectively. For FY20, KNR reported revenue of Rs22.4bn, up 5.0% and EBITDA of Rs4.9bn, up 14.1%. EBITDA margin at 21.7% was up by 173bps YoY and ahead of management guidance of 17-18%. PAT at Rs2.4bn declined by 11.2% YoY owing to higher interest and tax expenses. Debt to Equity reduced from 0.19 in FY19 to 0.13 in FY20 as the company repaid Rs0.5bn worth of borrowings. However, the net working capital days deteriorated from 43 days in 3QFY20 to 53 days in 4QFY20. We have maintained our FY21 and FY22 estimates for the time being. We maintain BUY and target price (TP) of Rs343 based on SOTP method. We like the company's low leverage, low working capital days, higher book to bill ratio and diversified orderbook and based on our investment matric, it remains one of our preferred picks in the sector.

Impact of COVID-19: KNR in its conference call mentioned that it is currently working at 50-65% efficiency because of disruption in raw material availability and labour migration (20-30% of total force is available currently). It expects 1QFY21 and 2QFY21 to be lower than last year and expects things to normalize from 3QFY21 onwards. Margins for 1QFY21 and 2QFY21 are expected to fall by 200-300bps primarily due to higher fixed costs (Rs150mn per month), lower revenue due to COVID-19 and onset on monsoon. However, for the full year FY21, revenue is expected to report positive growth in our opinion.

Deleveraging and working capital: In FY20, the gross debt reduced to Rs2.1bn as the company repaid Rs0.5bn whereas net debt stood at Rs1.8bn. Debt: EBITDA and Net Debt: EBITDA ratio stood at 0.44x and 0.37x, respectively. Working capital days increased from 36 in FY19 to 53 in FY20 primarily due to delay in payments by the Telangana govt which is expected to be paid soon. In fact, the receivables have increased further in the current quarter due to delay in payments from the Telangana government. But, this is expected to normalize in the coming months.

Cube Deal Update: The company has received lender's approval as well as in-principle approval from the NHAI. It expects to receive payments from cube in 1HFY21 or 45 days after the final NHAI approval, whichever is earlier.

Order inflow could be lower this year as well: KNR reported closing orderbook of Rs52.3bn as on March 2020. During the first few months of the current fiscal, the company has won new orders worth Rs26.6bn (Rs6.4bn in road and rest in irrigation sector) and has set a target of adding new orders worth Rs30bn focusing on the road sector only. The current order book provides good visibility for the next 2.5 to 3 years and hence the company will not look for new orders aggressively.

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	**7,157**	**5,579**	**6,756**	***(5.6)***	***21.1***
Operating Expenses	5,716	4,335	5,287	*(7.5)*	*22.0*
EBITDA	**1,441**	**1,244**	**1,469**	***1.9***	***18.1***
EBITDA Margin (%)	***20.1%***	***22.3%***	***21.7%***	***161bps***	***(56)bps***
Other Income	151	70	73	*(51.9)*	*4.4*
Interest Costs	75	142	145	*93.1*	*2.1*
Depreciation	478	517	538	*12.4*	*4.0*
PBT	1,039	655	859	*(17.3)*	*31.2*
Tax	92	186	187	*103.2*	*0.8*
Reported PAT	**947**	**469**	**672**	***(29.0)***	***43.2***
Exceptional Items	(25)	(67)	-	*NA*	*NA*
Adjusted PAT	**922**	**402**	**672**	***(27.1)***	***67.1***
NPM (%)	***12.9%***	***7.2%***	***9.9%***	***(293)bps***	***274bps***
EPS (Rs.)	**6.6**	**2.9**	**4.8**	***(27.1)***	***67.1***

Source: Company, Nirmal Bang Institutional Equities Research

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BUY

Sector: Construction

CMP: Rs196

Target Price: Rs343

Upside: 75%

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Key Data

Current Shares O/S (mn)	140.6
Mkt Cap (Rsbn/US$mn)	28.4/374.4
52 Wk H / L (Rs)	312/171
Daily Vol. (3M NSE Avg.)	299,278

Price Performance (%)

	1 M	6 M	1 Yr
KNR Construction	9.4	(16.1)	(30.0)
Nifty Index	7.7	(17.3)	(16.8)

Source: Bloomberg

Exhibit 1: Detailed financials (Standalone)

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	**7,157**	**5,579**	**6,756**	***(5.6)***	***21.1***	**21,373**	**22,442**	***5.0***
Expenditure								
Cost of Materials Consumed	1,930	1,752	2,200	*14.0*	*25.6*	6,432	7,533	*17.1*
Sub Contract Expense	510	126	107	*(78.9)*	*(15.0)*	1,755	770	*(56.1)*
Spreading & Assortment Expense	2,423	1,381	1,773	*(26.8)*	*28.4*	5,694	5,247	*(7.8)*
Employee Cost	248	303	315	*27.1*	*4.0*	929	1,252	*34.9*
Other Expense	606	773	891	*47.1*	*15.4*	2,293	2,770	*20.8*
Total Operating Expenses	5,716	4,335	5,287	*(7.5)*	*22.0*	17,103	17,572	*2.7*
EBITDA	**1,441**	**1,244**	**1,469**	***1.9***	***18.1***	**4,270**	**4,871**	***14.1***
EBITDA Margin (%)	***20.1%***	***22.3%***	***21.7%***	***161bps***	***(56)bps***	***20.0%***	***21.7%***	***173bps***
Other Income	151	70	73	*(51.9)*	*4.4*	634	566	*(10.7)*
Interest Costs	75	142	145	*93.1*	*2.1*	291	474	*62.9*
Depreciation	478	517	538	*12.4*	*4.0*	1,681	1,918	*14.1*
PBT	1,039	655	859	*(17.3)*	*31.2*	2,931	3,044	*3.8*
Tax	92	186	187	*103.2*	*0.8*	273	685	*150.5*
Reported PAT	**947**	**469**	**672**	***(29.0)***	***43.2***	**2,658**	**2,359**	***(11.2)***
Exceptional Items	(25)	(67)	-	-	-	(25)	(107)	-
Adjusted PAT	**922**	**402**	**672**	***(27.1)***	***67.1***	**2,633**	**2,252**	***(14.5)***
NPM (%)	***12.9%***	***7.2%***	***9.9%***	***(293)bps***	***274bps***	***12.3%***	***10.0%***	***(228)bps***
EPS (Rs.)	***6.6***	***2.9***	***4.8***	***(27.1)***	***67.1***	***18.7***	***16.5***	***(12.0)***

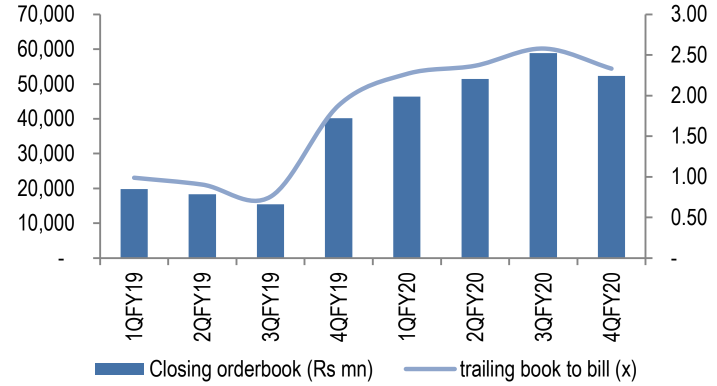
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Financial Summary (Standalone)

Y/E March (Rsmm)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	19,317	21,373	22,442	26,147	31,899
EBITDA	3,861	4,270	4,871	4,626	5,646
EBITDA Margin (%)	*20.0*	*20.0*	*21.7*	*17.7*	*17.7*
Adj.PAT	2,721	2,633	2,359	2,013	2,946
EPS (Rs)	19	19	17	14	21
EPS Growth (%)	*82.7*	*(3.2)*	*(10.4)*	*(14.7)*	*46.3*
PE(x)	16.0	14.0	11.7	13.7	9.4
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	11.7	9.1	6.1	6.7	5.1
RoE (%)	*26.5*	*20.5*	*15.4*	*11.6*	*14.8*
RoCE (%)	*24.0*	*19.0*	*15.0*	*11.2*	*13.8*

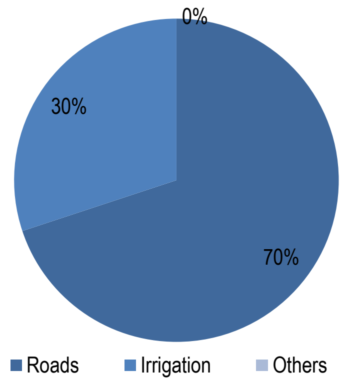
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Orderbook without considering L1 orders



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Sectoral Breakup of Orderbook



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Equity Requirement for HAM Projects

Particulars	Requirement	FY19-20 Actual	FY20-21 Projected	FY21-22 Projected
Investment for HAM Projects	5,780	2,000	1,500	2,280

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Valuation summary

Particulars	(Rs)
FY22E PAT	2,946
Target Multiple (x)	12
Total Equity value	35,352
No of shares (mn)	141
EPC value per share (Rs)	251
Value of BOT & HAM projects (Rs)	91
Target price (Rs)	**343**
CMP (Rs)	196
Potential Upside / (downside) %	75%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 7: Income statement

Y/E (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	**19,317**	**21,373**	**22,442**	**26,147**	**31,899**
growth (%)	*25.3*	*10.6*	*5.0*	*16.5*	*22.0*
Operating expenses	15,455	17,103	17,572	21,520	26,253
EBITDA	**3,861**	**4,270**	**4,871**	**4,626**	**5,646**
growth (%)	*76.5*	*10.6*	*14.1*	*-5.0*	*22.0*
Depreciation	1,342	1,681	1,918	1,987	1,850
EBIT	**2,520**	**2,589**	**2,952**	**2,640**	**3,796**
Interest paid	231	291	474	469	415
Other income	393	634	566	550	600
Pre-tax profit	**2,682**	**2,931**	**3,044**	**2,721**	**3,981**
Tax	(39)	273	685	707	1,035
Effective tax rate (%)	(1.5)	9.3	22.5	26.0	26.0
Minority Interest	-	-	-	-	-
Net profit	**2,721**	**2,658**	**2,359**	**2,013**	**2,946**
Exceptional items	-	(25)	-	-	-
Adjusted net profit	**2,721**	**2,633**	**2,359**	**2,013**	**2,946**
growth (%)	*82.7*	*(3.2)*	*(10.4)*	*(14.7)*	*46.3*
EPS	**19.4**	**18.7**	**16.8**	**14.3**	**21.0**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance Sheet

Y/E (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Equity Capital	281	281	281	281	281
Reserves and Surplus	11,297	13,862	16,165	18,122	21,012
Networth	**11,578**	**14,143**	**16,446**	**18,403**	**21,293**
Total Debt	2,204	2,382	2,962	3,962	2,962
Deferred tax liability	-	-	-	-	-
Other noncurrent liabilities	202	181	181	181	181
Trade Payables	2,184	2,236	2,407	2,948	3,596
Other Current Liabilities	2,262	1,978	2,767	3,224	3,933
Total Current Liabilities	5,674	5,998	7,231	8,545	10,266
Total liabilities	**19,658**	**22,703**	**26,821**	**31,091**	**34,703**
NB	3,936	4,340	3,722	3,535	2,435
CWIP	0	0	-	-	-
Investment	5,356	6,448	8,698	11,698	12,698
Other non-current assets	900	1,321	1,453	1,599	1,758
Inventories	712	951	1,059	1,415	1,726
Sundry Debtors	2,320	2,344	3,074	3,582	4,370
Cash and Bank	371	58	1,111	595	1,551
Other current assets	2,655	3,514	3,689	4,298	5,244
Total Current Assets	8,017	8,804	11,158	12,469	16,021
Total Assets	**19,658**	**22,703**	**26,821**	**31,091**	**34,703**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

YE March	FY18	FY19	FY20E	FY21E	FY22E
Adj EPS (Rs)	19.4	18.7	16.8	14.3	21.0
Adj EPS growth (%)	*82.7*	*(3.2)*	*(10.4)*	*(14.7)*	*46.3*
EBITDA margin (%)	*20.0*	*20.0*	*21.7*	*17.7*	*17.7*
Pre-tax margin (%)	*13.9*	*13.7*	*13.6*	*10.4*	*12.5*
ROE (%)	*26.5*	*20.5*	*15.4*	*11.6*	*14.8*
ROCE (%)	*24.0*	*19.0*	*15.0*	*11.2*	*13.8*
Turnover & Leverage ratios					
Asset turnover (x)	1.1	1.0	0.9	0.9	1.0
Leverage factor (x)	1.7	1.6	1.6	1.7	1.6
Net margin (%)	14.1	12.3	10.5	7.7	9.2
Net Debt/Equity (x)	0.2	0.2	0.1	0.2	0.1
Working Capital Ratio					
Inventory days	13	16	17	20	20
Receivable days	44	40	50	50	50
Payable days	41	38	39	41	41
Valuation (x)					
PER (x)	16.0	14.0	11.7	13.7	9.4
Price/Book value (x)	3.8	2.6	1.7	1.5	1.3
PCE (x)	10.7	8.5	6.5	6.9	5.7
EV/Net sales (x)	2.3	1.8	1.3	1.2	0.9
EV/EBITDA (x)	11.7	9.1	6.1	6.7	5.1
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1.0: Cash flow statement

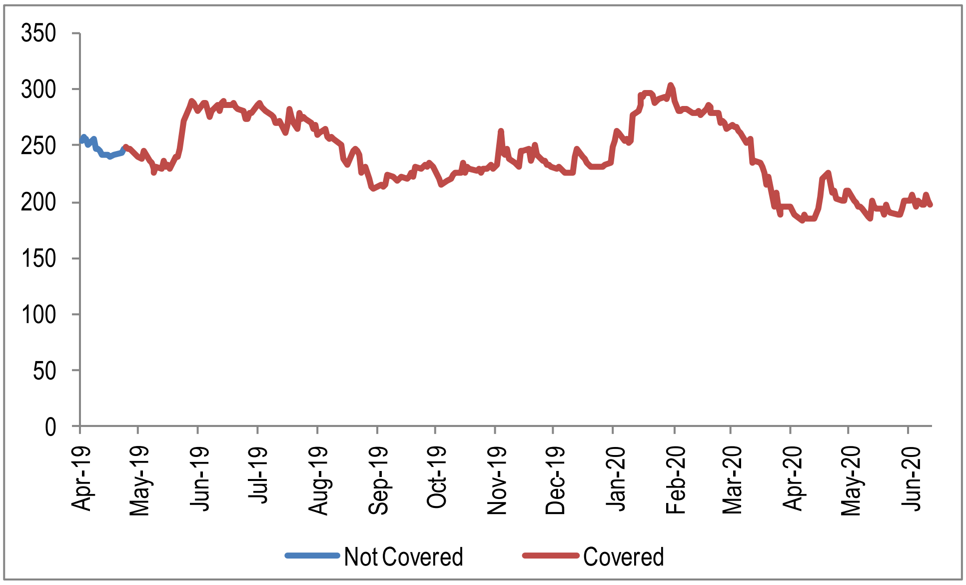
YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
EBIT	2,913	3,223	3,518	3,190	4,396
Add: Depreciation & Impairment	1,342	1,681	1,918	1,987	1,850
Cash flow from operations b4 WC	4,254	4,904	5,437	5,176	6,246
Net change in Working capital	(1,803)	(767)	(68)	(514)	(874)
Tax paid	39	(273)	(685)	(707)	(1,035)
Net cash from operations	**2,491**	**3,863**	**4,684**	**3,955**	**4,337**
Capital expenditure	(2,040)	(2,086)	(1,300)	(1,800)	(750)
Sale of investments	137	(1,105)	(2,250)	(3,000)	(1,000)
Net cash from investing	**(2,122)**	**(3,612)**	**(3,682)**	**(4,945)**	**(1,910)**
Issue of shares	-	-	-	-	-
Increase in debt	758	152	581	1,000	(1,000)
Dividends paid incl. tax	(56)	(56)	(56)	(56)	(56)
Net cash from financing	**(163)**	**(538)**	**50**	**475**	**(1,471)**
Net Cash	206	(287)	1,053	(516)	956
Opening Cash	164	371	58	1,111	595
Closing Cash	**371**	**84**	**1,111**	**595**	**1,551**

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 April 2020	BUY	208	338
27 May 2020	BUY	189	338
15 June 2020	BUY	196	343

Rating track graph



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