

Strong performance; healthy outlook...

About the stock: KNR Constructions is one of the leading companies in the roads and highways sector having executed 6,000+ lane km of projects across 12 states in India. The company also has an established presence in irrigation and urban water infrastructure management.

- Reported 24.5% revenue CAGR over FY16-21 and has consistently delivered industry-leading operating margin of ~20% throughout past three years
- Prudent management, net debt free, robust return ratios (RoCE: >23%)

Q1FY22 Results: KNR reported a healthy performance during Q1FY22.

- Standalone revenue improved 54.4% YoY to ₹ 740 crore, albeit on the washout base of Q1FY21. On a QoQ basis, topline declined 20.9%
- KNR delivered industry leading EBITDA margin at 19.4% (down 31 bps YoY) – better than I-direct estimated EBITDA margin of 18%
- PAT improved 83.5% YoY to ₹ 73 crore

What should investors do? KNR's share price has grown at 33% CAGR over the past five years (from ~₹ 70 in August 2016 to ~₹ 284 levels in August 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value KNR at ₹ 340/share.

Key triggers for future price performance:

- KNR is likely to be one of the prime beneficiaries of thriving roads and irrigation segments (*Jal Jeevan Mission*)
- Strong order book position, receipt of appointed date in most of its projects and execution pick-up to translate into 18.8% topline CAGR in FY21-23E
- Price escalation clause in roads agreement and higher margins at irrigation projects likely to keep operating margin elevated
- Asset-light strategy via monetisation to bring-in incremental cash flows

Alternate Stock Idea: Besides KNR, we like PNC Infratech in the EPC space.

- Strong execution and lean balance sheet
- BUY with a target price of ₹ 360/share



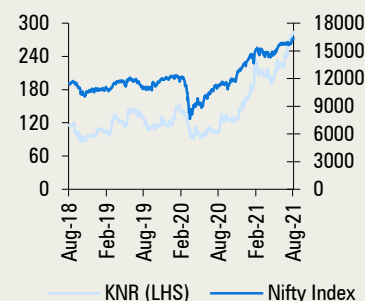
Particulars

Particular	Amount (₹ crore)
Market Capitalization	7,987.1
Total Debt (FY21)	0.7
Cash (FY21)	117.3
EV	7,870.5
52 week H/L (₹)	294/ 105
Equity capital	56.2
Face value (₹)	2

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	55.0	55.0	55.0	53.3
DII	34.0	34.1	32.4	34.4
FII	1.5	1.5	2.1	2.3
Other	9.4	9.4	10.5	10.1

Price Chart



Key Risks

Key Risk: (i) Delay in HAM projects execution; (ii) Any working capital stress in water/irrigation projects

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Key Financial Summary

₹ crore	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2,137.3	2,244.2	2,702.6	24.5%	3,177.8	3,817.3	18.8%
EBITDA	427.0	487.1	535.8	28.5%	572.0	706.2	14.8%
EBITDA Margin (%)	20.0	21.7	19.8		18.0	18.5	
PAT	263.3	225.2	244.2	15.8%	315.0	441.5	34.5%
EPS (₹)	18.7	16.0	8.7		11.2	15.7	
P/E (x)	15.2	17.7	32.7		25.4	18.1	
EV/EBITDA (x)	19.2	16.8	14.7		13.6	10.9	
RoNW (%)	18.6	13.9	13.1		14.5	17.0	
RoCE (%)	19.0	19.0	23.4		22.6	23.5	

Key business highlight and outlook

Healthy order book position to drive growth

KNR's order book at the end of Q1FY22 was at ₹ 6,596 crore, mainly contributed by irrigation (46%), roads - HAM (22%) and roads - EPC (32%) segments. Including the recently won three HAM and one EPC project (worth ₹ 5,083 crore), its order book position is robust at ₹ 11,678.9 crore (3.9x book to TTM revenues). With plentiful orders, the company is aiming to bag ₹ 2,000-3,000 crore of orders in the rest of FY22. On the execution front, KNR's efficiency was slightly impacted by the second wave in Q1FY22 and was at ~95%. However, the labour strength has reached desired levels now and projects are running at optimum level. With a strong order book position and desired labour availability, KNR expects ₹ 3,400+ crore, if there are no delays in new projects. Operating margin is likely to remain at 17-18%.

Working capital improves, to normalise further ahead

KNR's net working capital at the end of Q1FY22 was at 66 days (vs. 82 days in end-FY21) with a reduction in receivables on a QoQ basis. Additionally, the Telangana dues at the end of Q1 were at ₹ 650 crore (including unbilled revenues). Going forward, the company expects its dues to decline with clearance of pending bills with the normalisation of the current situation. Also, KNR has a net cash surplus of ₹ 47 crore at the standalone level, which strengthens its overall balance sheet position.

Key conference call takeaways

- Industry outlook and ordering pipeline:** Despite April and May 2021 being impacted by the second wave of the Covid-19 pandemic, MoRTH has managed to construct 2,284 km of highways during Q1FY22 (vs 1,823 km in Q1FY21). Also, the road project awarding was healthy at 1,681 km in Q1FY22 (vs. 1,658 km in Q1FY21). Going forward, NHAI is planning to award projects worth ₹ 225,000 crore in FY22. Also, MoRTH (including NHAI) is targeting daily average road construction of 40 km per day
- Bid pipeline:** Currently, KNR has submitted bids for two HAM road projects aggregating to ₹ 2,000-2,500 crore. Additionally, the company has shortlisted six to seven projects in the ticket size of ₹ 1,000-1,200 crore for which bids are yet to be submitted. Overall, the management is aiming to secure two to three HAM projects in FY22 and aiming to win ₹ 2,000-3,000 crore of orders in the rest of FY22.
- HAM projects:** As on June 30, 2021, the physical progress on KNR's five under-construction HAM projects was at: a) Trichy-Kallagam: 72.7%, b) Chittoor-Mallavaram: 91.8%, c) Ramsanpalle-Mangloor: 89.1% d) Magadi-Somwarpath: 39.1% and e) Oddanchatram-Madathukulam: 28.6%. Additionally, among the recently secured HAM projects, execution in a) two projects in Kerala (EPC value: ₹ 3,340 crore) would commence by Q4FY22-end; delays are likely due to land issues, and b) Chittoor – Thatchur section (Package 3): to begin in FY23.
- Irrigation projects:** Among key projects, physical progress on a) Mallana Sagar: 95% completed, and b) Venkatadri Reservoir bund: 58% completed. Together, irrigation projects contributed ₹ 3,021 crore to the total order book. Going forward, the management has indicted towards opportunities arising in Maharashtra, Bihar, Chhattisgarh and Karnataka
- Equity requirement** Out of the total equity requirement of ₹ 624.3 crore for under-construction five HAM projects, KNR has already infused ₹ 425 crore equity till June 2021. The management has guided for ₹ 135 crore, ₹ 65 crore equity infusion towards these five HAM projects during FY22E, FY23E, respectively. Additionally, total equity requirement for two Kerala HAM projects would be ₹ 430 crore (₹ 200 crore equity infusion expected in FY22). Additionally, equity requirement for Chittoor – Thatchur section (Package 3) HAM project would be ₹ 100 crore (mostly in FY23)
- Bonus and arbitration claims:** The Chittoor-Mallavaram project has achieved PCOD on May 10, 2021, 142 days ahead of schedule. The management expects ₹ 9 crore early completion bonus for the same. Additionally, inflows of ₹ 70

crore are expected over the next three to six months towards arbitration award for the Odisha road project. These are likely to boost profitability in FY22

- **Telangana dues:** KNR is facing delays in collection of dues from the Telangana project with infra funds being diverted to welfare segments owing to Covid-19 pandemic. The company has ₹ 650 crore (including unbilled revenues) of total exposure as on date towards the Telangana government. The management expects clearance of pending bills with the normalisation of current situation
- **Debt and working capital:** At the end of Q1, KNR has net cash surplus of ₹ 47 crore at the standalone level. Its consolidated debt at the end of FY21 was at ₹ 982 crore (net D/E: 0.4x). Additionally, working capital days at the end of Q1FY22 were at 66 days, backed by a reduction in receivables
- **Monetisation:** As per the management, the monetisation deal of three HAM projects with Cube Highways is currently on track. Additionally, the company is in initial stages of discussion to monetise the Oddanchatram to Madathukulam project with the potential investor
- **Capex:** KNR has incurred capex of ₹ 42 crore during Q1FY22. The management has guided for ₹ 150 crore of overall capex in FY22 with higher requirements of machinery for newer projects
- **Tax rate:** While the company has adopted a new regime for taxation (~25%), the management expects the overall tax rate to be in the range of 30-35% for FY22 (adjusted for deferred tax)

KNR is a proxy play on increased focus on roads and overall infrastructure push. 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 on the stock with a revised target price of ₹ 340.

Exhibit 1: Variance analysis

Particulars	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	740.0	602.6	479.4	54.4	935.8	-20.9	Strong execution led to topline beat
Other Income	4.8	8.0	6.1	-21.3	9.4	-48.8	
Consumption of raw materials	329.2	189.9	189.9	73.4	332.1	-0.8	
Employee benefit expenses	33.5	35.0	27.8	20.7	34.8	-3.8	
Other Expenses	62.7	64.0	42.3	48.4	111.0	-43.5	
EBITDA	143.3	108.7	94.3	51.9	182.2	-21.3	
EBITDA Margin(%)	19.4	18.0	19.7	-31 bps	19.5	-10 bps	Margin remained at an elevated level with better project mix
Depreciation	26.9	38.0	33.1	-18.6	38.8	-30.5	
Interest	7.9	4.0	10.2	-22.7	4.3	82.9	
PBT	113.3	74.7	57.1	98.3	148.5	-23.7	
Taxes	40.3	18.8	17.3	132.2	71.5	-43.7	
PAT	73.0	55.9	39.8	83.5	77.0	-5.2	

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	2,869.5	3,177.8	10.7	3,706.1	3,817.3	3.0	Raise topline for FY22 on strong execution
EBITDA	487.1	535.8	459.1	572.0	24.6	685.6	706.2	3.0	
EBITDA Margin (%)	21.7	19.8	16.0	18.0	200 bps	18.5	18.5	0 bps	Better project mix to aid margin
PAT	225.2	244.2	259.1	315.0	21.6	412.8	441.5	7.0	
Diluted EPS (₹)	8.0	4.3	9.2	11.2	21.6	14.7	15.7	7.0	

Source: Company, ICICI Direct Research

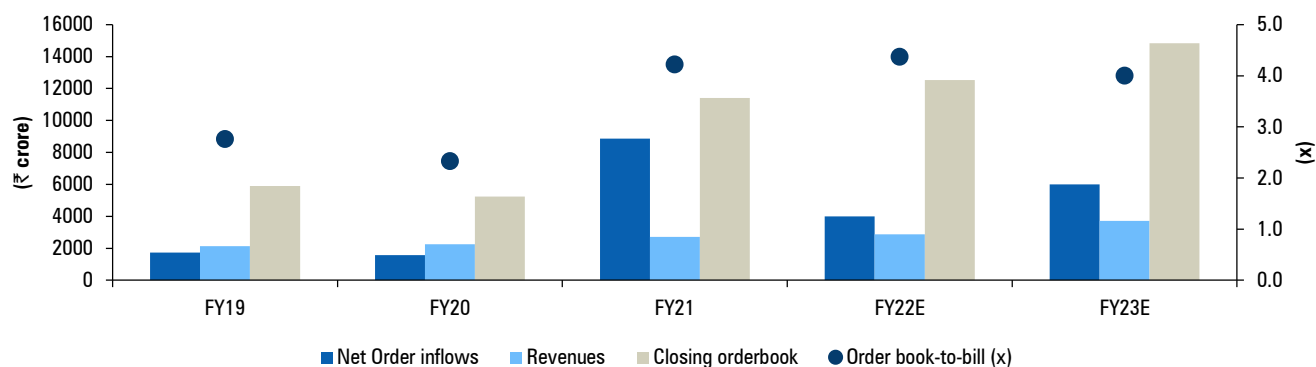
Company Analysis

Exhibit 3: Order book update

Key Projects	(₹ crore)
Elevated Highway along Avinashi Road in Coimbatore City (EPC)	976
Magadi to Somwarpeth Project (KSHIP HAM)	542
Cheyur-Panayur Road (EPC)	539
Oddanchatram to Madathukulam Project (HAM)	455
Trichy to Kallagam Project (HAM)	212
Top six projects	2724.0
Other Road projects	851.1
Irrigation projects	3020.9
Total	6596.0

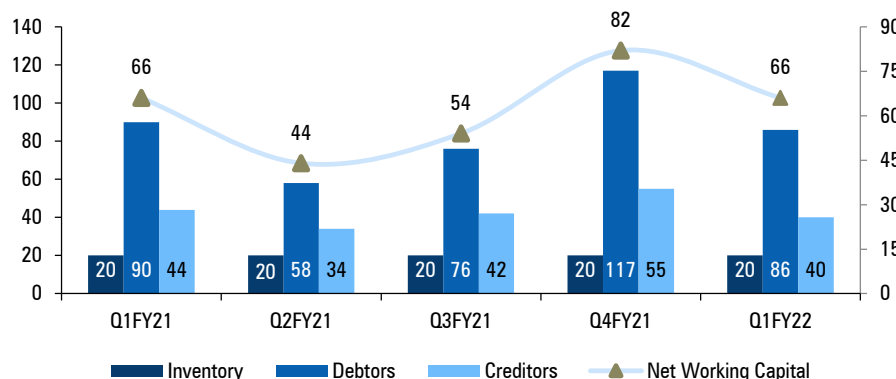
Source: Company, ICICI Direct Research

Exhibit 4: Strong order book position



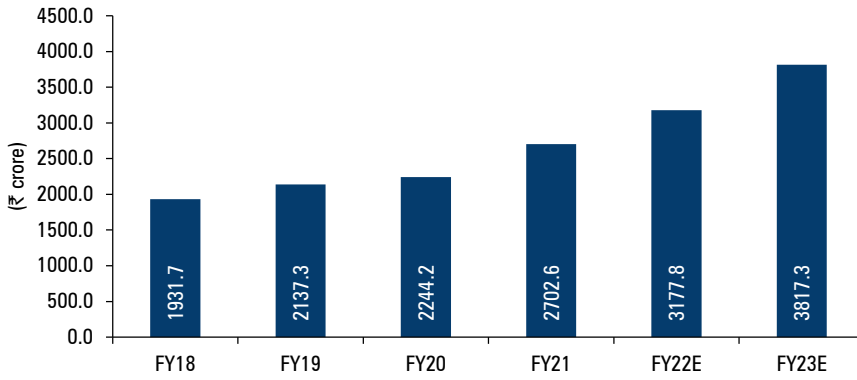
Source: Company, ICICI Direct Research; FY21 order book includes won 2 HAM and 1 EPC project worth ₹4,323 crore

Exhibit 5: Net working capital days trend



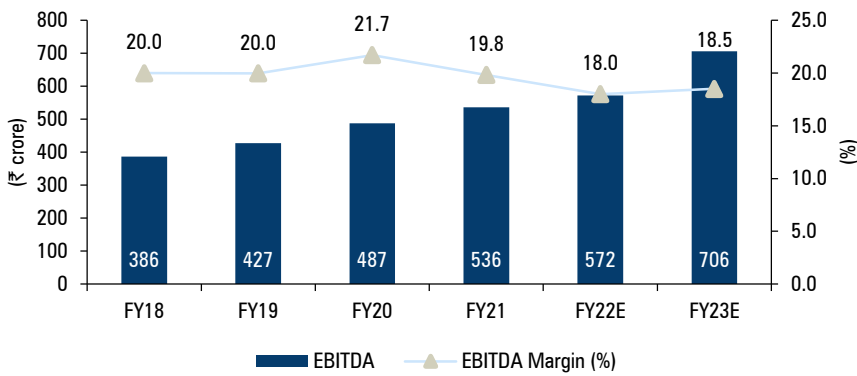
Source: Company, ICICI Direct Research

Exhibit 6: Revenue recovery better than anticipated



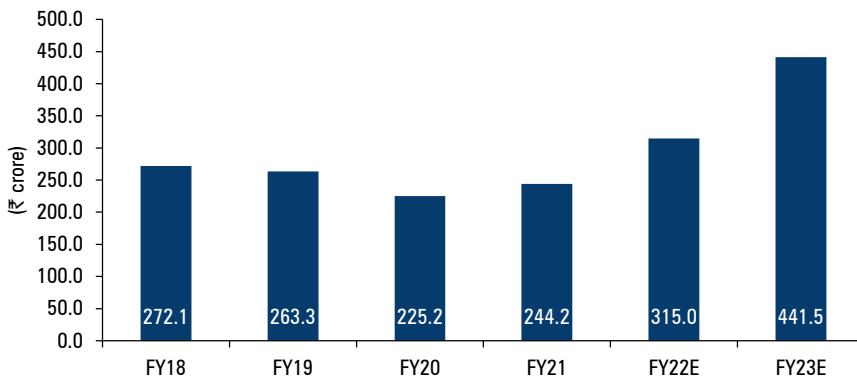
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA & EBITDA margin trend



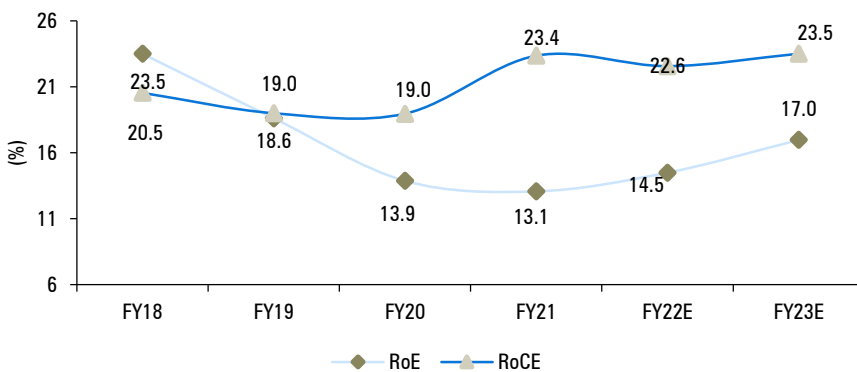
Source: Company, ICICI Direct Research

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 schedule. KNR also enjoys a very healthy balance sheet and strong return ratios. With net debt free position at the standalone level, equity commitment is likely to be supported by internal cash generation while irrigation due recovery should not entail new debt at the standalone level.

Hence, we maintain our **BUY** recommendation on the stock with an SoTP based revised target price of ₹ 340/share. We value its core EPC business at ₹ 318/share (12x FY23E EV/EBITDA).

Exhibit 10: SoTP valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business (A)	8651	308	12x FY23E EV/EBITDA
BOT toll Investment (B = C+D)	90	3	
Muzaffarpur tollway (D)	90	3	1x P/BV
HAM Projects Investment (E)	425	15	1x P/BV - investment till date
Total Equity Investment (F=B+E)	515	18	
Less: Net Debt (G)	-273	-10	FY23E Net Debt
SoTP Value (A+F-G)	9439	336	
Rounded-off target price		340	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	2,244.2	2,702.6	3,177.8	3,817.3
Other operating income	-	-	-	-
Total Revenues	2,244.2	2,702.6	3,177.8	3,817.3
Raw Material Expense	753.3	926.5	1,128.1	1,336.1
Other Construction Exp.	601.7	810.0	953.3	1,145.2
Employee benefit expenses	125.2	132.1	155.7	187.0
Other Expenses	277.0	298.3	368.6	442.8
Total Operating Exp	1,757.2	2,166.8	2,605.8	3,111.1
EBITDA	487.1	535.8	572.0	706.2
Other Income	56.6	49.6	69.0	79.9
Interest	47.4	48.7	32.3	27.3
Depreciation	191.8	144.4	145.5	168.6
PBT	304.4	392.4	463.3	590.3
Total Tax	68.5	137.0	148.2	148.8
Reported PAT	235.9	255.4	315.0	441.5
Adjusted PAT	235.9	255.4	315.0	441.5
EPS (Diluted)	8.0	4.3	11.2	15.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
₹ crore				
₹ crore	FY20	FY21	FY22E	FY23E
Profit before Tax	293.7	381.1	463.3	590.3
Depreciation	192.3	144.4	145.5	168.6
Interest Paid	47.4	48.7	32.3	27.3
Others	(24.0)	2.8	(69.0)	(79.9)
Cash Flow before WC changes	509.4	577.1	572.0	706.2
Net Increase in Current Assets	(309.8)	(361.5)	16.5	(345.4)
Net Increase in Current Liabilities	278.9	161.1	152.3	240.6
Taxes paid	(84.4)	(78.7)	(148.2)	(148.8)
Net CF from Operating Activities	394.1	298.0	592.5	452.7
(Purchase)/Sale of Fixed Assets	(203.6)	(93.9)	(150.0)	(150.0)
Loans and Inv in JV/SPV	(108.7)	138.8	(400.0)	(255.4)
Others	28.1	16.3	69.0	79.9
Net CF from Investing Activities	(284.3)	61.2	(480.9)	(325.5)
Debt Proceeds/Repayment	(34.4)	(229.0)	-	-
Interest Paid	(40.1)	(45.9)	(32.3)	(27.3)
Others	(15.3)	-	(9.5)	(13.2)
Net CF from Financing Activities	(89.8)	(274.9)	(41.7)	(40.5)
Net Cash flow	20.1	84.3	69.9	86.7
Opening Cash/ Cash Equivalent	13.0	33.1	117.3	187.2
Closing Cash/ Cash Equivalent	33.1	117.3	187.2	273.9

Source: Company, ICICI Direct Research

Exhibit 13: 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	2,117.1	2,545.4
Networth	1,623.9	1,867.8	2,173.4	2,601.7
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	2,196	2,627
Assets				
Gross Block	1,201.1	1,305.3	1,455.3	1,605.3
Net Block	377.8	337.7	342.1	323.6
Capital WIP	10.2	2.4	2.4	2.4
Non-current Investments	780.7	555.7	955.7	1,211.1
Current Assets				
Inventories	123.2	148.0	174.1	209.2
Sundry Debtors	476.1	863.2	661.7	794.8
Loans and Advances	6.9	33.8	35.1	36.9
Other Current Assets	635.2	633.1	744.4	894.2
Cash	33.1	117.3	187.2	273.9
Total Current Assets	1,241.4	1,678.1	1,615.3	1,935.2
Creditors	251.1	239.7	281.8	338.6
Provisions	17.3	25.7	30.3	36.3
Other Current Liabilities	593.7	766.9	870.6	1,045.8
Other Long Term Liabilities	11.6	11.0	12.9	15.5
Total Current Liabilities	862.2	1,032.4	1,182.7	1,420.8
Net Current Assets	408.2	736.8	593.6	762.0
Total Assets	1,856	1,888	2,196	2,627

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS (Fully Diluted)	16.0	8.7	11.2	15.7
Cash EPS	29.7	13.8	16.4	21.7
BV	115.5	66.4	77.3	92.5
Operating Ratios				
EBITDA / Net Sales	21.7	19.8	18.0	18.5
PAT / Net Sales	10.0	9.0	9.9	11.6
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	14.5	17.0
RoCE	19.0	23.4	22.6	23.5
RoIC	28.6	32.3	40.6	47.2
Valuation Ratios				
EV / EBITDA	16.8	14.7	13.6	10.9
P/E	17.7	32.7	25.4	18.1
EV / Net Sales	3.6	2.9	2.5	2.0
Market Cap / Sales	3.6	3.0	2.5	2.1
Price to Book Value	2.5	4.3	3.7	3.1
Turnover Ratios				
Asset turnover	1.2	1.4	1.4	1.5
Gross Block Turnover	1.9	2.1	2.2	2.4
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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