

14 June 2017

Initiating Coverage (BUY)

KNR CONSTRUCTIONS LTD

CMP

INR 210

Target Price

INR 242

Stock Details

Industry	Construction & Engineering
Bloomberg Code	KNRC:IN
BSE Code	532942
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	29,526.0
52wk. Low/High (Adjusted) ((Rs.))	103.60/216.50

Shareholding Pattern Mar '17

Promoter (%)	57.95
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	42.05
No. of Share Outstanding (mn)	140.6

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	03.55	04.67	20.84	22.00
EV/EBITDA (x)	06.41	16.47	15.45	14.51
P/BV (x)	0.31	4.24	3.60	3.47

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	9,312	9,951	11,643	13,622
EBITDA	1,387	2,157	2,302	2,652
Net Profit	698	1,437	1,546	1,783
EPS (Rs.)*	24.8	44.9	10.2	11.0

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	14.7	20.8	19.2	19.0
EBIT Margin (%)	9.0	16.2	13.9	14.4
Net Pro. Margin (%)	7.4	12.2	12.0	11.1
Debt/Equity (x)	0.85	0.91	0.76	0.64
RoNW (%)	10.0	17.0	18.8	17.1
RoCE (%)	5.2	7.9	9.9	11.50

One Year Price / Volume



We recommend 'BUY' on KNR CONSTRUCTIONS for a target of INR 242 - valuing the company at P/E 22x of FY18E Earning.

INVESTMENT RATIONALE:

- Company has good consistent profit growth.
- EPC main focus, cautious approach to BOTs bidding.
- Strong competitive positioning – leader in the EPC pack
- Strong execution elevated the revenue growth.
- Execution on an upswing.
- BOT portfolio nearing completion.
- KNR, a name to reckon with in India's road contracting space, boasts of a formidable reputation of quality and in-time execution.
- Significant experience and strong track record in, timely and successful execution of projects.
- Repeated orders received by us on continuous basis.
- Good clientele base.
- Qualified and experienced employees led by a proven management team.
- Expertise in sourcing and maintaining supply chain for raw material.

VALUATIONS AND VIEW:

KNR provides EPC services across sectors such as roads & highways, irrigation and urban water infrastructure management. Its project execution strength primarily is in road transportation engineering projects viz., construction and maintenance of roads, highways, flyovers and bridges. We value the business at 22x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 242 per share.

RISK & CONCERNS:

- **Execution risk:** While KNR has excellent execution skills, potential entry in new segments and geographies exposes it to execution risks. Also, with the average size and complexity of projects increasing, the company faces the challenge of completing large projects within the stipulated time and cost.
- **Profitability risks:** Historically, KNR's operating profitability has been higher than peers due to its backward integration model and concentration in the roads space in South India. In case it enters new geographies, it may not always have access to quarries. With expansion in operations, particularly to new geographies, KNR may face challenge of sustaining profitability.
- **Inherent risks associated with toll projects:** The Company's presence in the toll road segment exposes it to risks associated with unpredictability of traffic growth etc.

COMPANY BACKGROUND:

Incorporated in 1995, KNR provides EPC services across sectors such as roads & highways, irrigation and urban water infrastructure management. Its project execution strength primarily is in road transportation engineering projects viz., construction and maintenance of roads, highways, flyovers and bridges. Initially, the company executed many projects via joint ventures with companies like Patel Engineering, Backbone Projects, Sri Laxmi Engineering etc. Later, it started undertaking projects on standalone basis. In addition, it entered the asset development space in 2006 and now boasts of a portfolio of 3 BOT projects. While 2 of the annuity assets are operational, 1 toll asset is partially operational.

Segments-

- Express ways
- National Highways
- State Highways & Rural Roads
- Flyovers
- Bridges and Viaducts
- Irrigation Projects
- Urban Development- Civic amenities
- Commercial and Residential Projects

INDUSTRY OVERVIEW:

The construction industry is the second largest industry in India after agriculture. It accounts for about 11% of India as GDP. It makes significant contribution to the national economy and provides employment to large number of people. There are mainly three segments in the construction industry like real estate construction which includes residential and commercial construction; infrastructure building which includes roads, railways, power etc; and industrial construction that consists of oil and gas refineries, pipelines, textiles etc.

Construction starts were up about 15 percent in 2015 and are forecast to advance another 6 percent this year. Also, infrastructure spending has been neglected since the 2008 recession and some analysts believe that worldwide annual infrastructure spending will grow to more than US\$9 trillion per year by 2025, from a little over \$4 trillion now — that is, if the political will can be mustered to support much-needed improvements.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Larsen & Toubro	1,739	26.0	1,62,321.12	1.05	3,180.4	38.45	36,828.0	12.02	3.23
Voltas	166	20.3	16,264.6	0.53	200.5	37.95	2,035.1	9.69	5.24
NBCC	199	51.0	17,896.5	0.67	174.8	42.88	2,346.0	2.31	9.73
NCC	91	18.7	5,039.5	0.66	63.7	5.78	2,139.4	(12.75)	1.39
MBL Infracore	33	0.9	134.9	4.61	9.8	(27.23)	615.9	(1.95)	0.20
Mah. Seamless	358	16.5	2,400.3	0.70	39.2	4.46	452.7	39.08	0.99
KNR Construct.	210.0	20.8	2,952.6	0.09	52.4	(8.64)	482.1	62.96	4.24

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	2,958.40	3,031.71	3,734.99	3,822.84	4,820.99	62.96%	26.11%
Other Income	153.7	58.53	132.19	102.24	9.79		
Total Income	3,112.10	3,090.24	3,867.18	3,925.08	4,830.79	55.23%	23.07%
Expenditure	-2,507.08	-2,594.81	-3,175.22	-3,354.59	-4,152.97		
As a % of Sales	84.74%	85.59%	85.01%	87.75%	86.14%		
Interest	-40.39	-42.77	-55.62	-66.39	--	#VALUE!	#VALUE!
PBDT	564.63	452.66	636.35	504.09	482.96		
As a % of Sales	19.09%	14.93%	17.04%	13.19%	10.02%		
Depreciation	-109.86	-131.68	-146.34	-165.86	--		
PBT	454.77	320.98	490.01	338.23	482.96	6.20%	42.79%
As a % of Sales	15.37%	10.59%	13.12%	8.85%	10.02%		
Tax	124.73	-18.83	-50.72	-31.49	41.37	-66.83%	-231.38%
Net Profit	579.5	302.15	439.29	306.75	524.33	-9.52%	70.93%
As a % of Sales	19.59%	9.97%	11.76%	8.02%	10.88%		
Equity	281.24	281.24	281.24	281.24	281.24	0.00%	0.00%
EPS (Rs)	20.61	10.74	15.62	2.18	--	#VALUE!	#VALUE!
CEPS (Rs)	24.51	15.43	20.82	3.36	3.73		
OPM %	20.45	16.34	18.53	14.92	10.02		
NPM %	19.59	9.97	11.76	8.02	10.88		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	7,650	8,950	9,312	9,951	11,643	13,622	14,984
Other Operating Income	185	172	129	424	329	354	415
Expenditure	6,494	7,645	8,053	8,219	9,669	11,324	12,460
EBITDA	1,340	1,477	1,387	2,157	2,302	2,652	2,940
Depreciation	549	578	542	471	639	641	643
EBIT	792	900	845	1,685	1,663	2,011	2,297
Interest Expenses	121	179	130	563	407	617	602
PBT	671	721	715	1,122	1,256	1,394	1,695
Tax	157	65	(3)	(210)	(181)	(152)	(88)
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	513	655	718	1,332	1,437	1,546	1,783
Minority Int./Income from Assoc.	23	51	20	68	-	-	-
Adjusted PAT	491	605	698	1,264	1,437	1,546	1,783

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	281	281	281	281	281	281	281
Reserves & surplus	4,356	5,829	7,604	6,688	8,048	9,519	11,215
Share Warrants	-	-	-	-	-	-	-
Net worth	4,637	6,110	7,885	6,970	8,330	9,801	11,497
Minority Interest	534	559	560	807	-	1,086	1,051
Share Application Money	-	-	-	-	-	-	-
Loan Funds	804	3,430	6,719	6,314	6,316	6,314	6,312
Other Long-term Liabilities	1,311	697	843	1,997	2,337	2,734	3,008
Long-term Provisions	11	11	17	23	27	32	35
Total Liabilities	7,297	10,809	16,026	16,114	17,011	19,969	21,905
Net block	4,059	8,575	13,432	12,631	7,714	7,025	6,328
Investment, Loan & Adv.	1,685	1,567	1,732	1,932	1,732	2,116	2,277
Total Current Assets	5,523	4,402	4,952	5,951	7,085	9,307	11,679
Current Liabilities & Provisions	3,971	3,737	4,092	4,402	(479)	(1,519)	(1,618)
Net Current Assets	1,553	665	861	1,548	7,563	10,825	13,297
Total Assets	7,297	10,809	16,026	16,114	17,011	19,969	21,905

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	2,557	752	2,043	2,360
Cash Flow from Investments	(2,543)	(125)	(429)	(201)
Cash Flow from Financing	20	(260)	(479)	(535)
Net Changes in Cash	33	367	1,136	1,625
Opening Cash	295	328	695	1,831
Closing Cash Balance	328	695	1,831	3,456

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