

# KNR Construction

India Research

**COMPANY UPDATE**

 Bloomberg: KNRC IN  
 Reuters: KNRL.BO

**BUY**

## Fundamentals Remain Intact; Upgrade to BUY

We believe that long term fundamentals of KNR are still in place with robust revenue growth (led by a ramp-up in project execution and strong order inflow) and healthy EBITDA margin, which will drive its profitability during FY16-17E. The recent stock price correction (24% in last 15 days) without any change in the fundamentals would enhance investor interest. We upgrade the stock to BUY from HOLD and maintain our SOTP target price of Rs502.

### Strong inflow to drive revenue

Recently, KNR bagged Rs2.5 bn (49% share) from Chittagong Development Authority, Bangladesh. Further, KNR is L1 in road EPC projects worth ~Rs15-16 bn which will be awarded in couple of months. These projects would boost its existing order book of Rs12.1 bn (1.4x TTM revenue). Moreover, KNR is targeting total Rs20 bn order inflow (excluding Rs15 bn L1) by FY16. Being a well-experienced EPC player, we expect it to benefit from the pick-up in tendering activity. We expect order inflow of Rs15.0 bn/Rs15.8 bn/Rs16.5 bn in FY15E/FY16E/FY17E, respectively, which will drive accelerated revenue growth of 24.8% and 21.1% in FY16E and FY17E, respectively.

**Strong track record of executing projects ahead of schedule:** KNR has an excellent track record of early project completion, due to its expertise in handling various projects. The company completed the Bijapur-Hungund project in a record 18 months (11 months ahead of schedule). KNR is also expected to finish the Kerala BoT project seven months ahead of schedule.

### Outlook and Valuation

We believe KNR's faster revenue growth of 24.8%/21.1% in FY16E/FY17E, superior EBITDA margin of 14.0%/13.6% in FY16E/FY17E, better return ratios (RoCE of 13.7%/15.2% in FY16E/FY17E), comfortable working capital, lowest D:E of 0.2x in the industry and early completion of the Kerala Road BoT toll project make the stock attractive. Post correction, the stock provides 27% upside from CMP in this quality stock. We upgrade KNR to "BUY" from "HOLD" and maintained our SOTP target price of Rs502.

### Key Financials

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	6,921	8,348	8,555	10,677	12,931
EBITDA	1,164	1,258	1,255	1,498	1,754
EBITDA margin (%)	16.8	15.1	14.7	14.0	13.6
Net profit	521	610	666	723	913
EPS (Rs)	18.5	21.7	23.7	25.7	32.5
RoE (%)	12.1	12.6	12.2	11.8	13.2
RoCE (%)	15.8	14.9	13.1	13.7	15.2
P/E (x)	21.3	18.2	16.7	15.3	12.1
P/BV (x)	2.4	2.2	1.9	1.7	1.5
EV/EBITDA (x)	10.0	9.4	9.6	8.0	6.8

Source: Company, Karvy Stock Broking

### Recommendation

CMP:	Rs394
Target Price:	Rs502
Previous Target Price:	Rs502
Upside (%)	27%

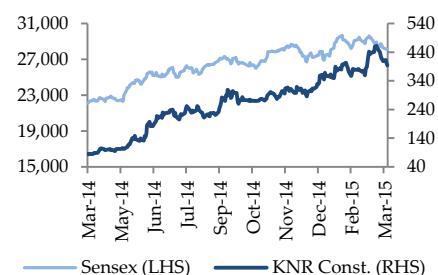
### Stock Information

Market Cap. (Rs bn / US\$ mn)	11/178
52-week High/Low (Rs)	490/79
3m ADV (Rs mn /US\$ mn)	13/0.2
Beta	0.9
Sensex/ Nifty	28,112/8,531
Share outstanding (mn)	28

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	7.3	25.8	351.5	20.1
Rel. to Sensex	10.8	21.8	254.2	17.5

### Performance



Source: Bloomberg

### Analysts Contact

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**KNR Construction**
**Exhibit 1: SOTP valuation summary**

Component	Valuation Method	Rs per share	%
Standalone construction business	12.5x FY17E EPS	405.8	80.9
BoT Annuity project - Islam Nagar-Kadtal	NPV at CoE of 14%	25.5	5.1
BoT Toll project - Walayar-Vadakkancherry	NPV at CoE of 15%	70.4	14.0
<b>Total</b>		<b>501.6</b>	<b>100.0</b>
CMP		394.4	
Potential Up/ (Down) side (%)		27.2	

Source: Company, Karvy Stock Broking

**Exhibit 2: Profit and Loss Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>Net Sales</b>	<b>6,921</b>	<b>8,348</b>	<b>8,555</b>	<b>10,677</b>	<b>12,931</b>
% growth	(7.8)	20.6	2.5	24.8	21.1
Operating expenditure	5,757	7,090	7,300	9,179	11,177
<b>EBITDA</b>	<b>1,164</b>	<b>1,258</b>	<b>1,255</b>	<b>1,498</b>	<b>1,754</b>
% growth	(13.0)	8.0	(0.2)	19.3	17.1
Depreciation	557	572	558	629	688
Other income	175	155	160	160	180
EBIT	783	841	857	1,029	1,246
Interest	113	172	125	100	80
Exceptional items	-	-	-	-	-
PBT	670	669	732	929	1,166
Tax	149	59	66	206	253
<b>Adjusted PAT</b>	<b>521</b>	<b>610</b>	<b>666</b>	<b>723</b>	<b>913</b>
% growth	(1.2)	17.0	9.1	8.7	26.2

Source: Company, Karvy Stock Broking

**Exhibit 3: Balance Sheet**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Cash & cash equivalents	72	112	287	663	339
Trade receivables	1,213	1,171	1,882	2,349	2,715
Inventories	297	341	292	551	559
Loans & advances	2,979	3,078	3,285	3,626	4,135
Other assets	1,520	1,686	2,016	2,404	2,894
Investments	483	400	550	700	1,375
Fixed Assets	2,940	2,640	2,409	2,360	2,253
Deferred tax assets (liabilities)	36	118	81	61	41
<b>Total assets</b>	<b>9,541</b>	<b>9,546</b>	<b>10,802</b>	<b>12,714</b>	<b>14,312</b>
Current liabilities & provisions	2,172	1,223	1,116	1,752	2,131
Other liabilities	2,102	2,282	2,600	3,055	3,675
Debt	710	908	1,320	1,450	1,170
<b>Total liabilities</b>	<b>4,984</b>	<b>4,412</b>	<b>5,037</b>	<b>6,257</b>	<b>6,976</b>
Shareholders' equity	281	281	281	281	281
Reserves & surpluses	4,275	4,852	5,485	6,175	7,055
<b>Shareholders' funds</b>	<b>4,557</b>	<b>5,133</b>	<b>5,766</b>	<b>6,456</b>	<b>7,336</b>
<b>Total Equity and Liabilities</b>	<b>9,541</b>	<b>9,546</b>	<b>10,802</b>	<b>12,714</b>	<b>14,312</b>

Source: Company, Karvy Stock Broking

**KNR Construction**
**Exhibit 4: Cash Flow Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	670	669	732	929	1,166
Depreciation	557	572	558	629	688
Interest/Financial Charges	112	175	125	100	80
Other income	(4)	(4)	(160)	(160)	(180)
Other non-cash adjustments	(2)	(9)	-	-	-
Tax paid	(266)	(235)	(29)	(186)	(233)
Change in working capital	(1,058)	165	(1,629)	(484)	(486)
<b>Cash flow from operating activities</b>	<b>10</b>	<b>1,332</b>	<b>(404)</b>	<b>828</b>	<b>1,035</b>
(Incr) / decr in capital expenditure	(387)	(277)	(327)	(580)	(580)
(Incr) / decr in investments	63	83	(150)	(150)	(675)
Others	(257)	(605)	175	(19)	(11)
<b>Cash flow from investing activities</b>	<b>(581)</b>	<b>(799)</b>	<b>(302)</b>	<b>(749)</b>	<b>(1,266)</b>
Incr / (decr) in borrowings	155	197	1,039	430	20
Issuance of equity	-	-	-	-	-
Dividend paid	(33)	(33)	(33)	(33)	(33)
Interest paid	(112)	(172)	(125)	(100)	(80)
Others	548	(486)	-	-	-
<b>Cash flow from financing activities</b>	<b>558</b>	<b>(493)</b>	<b>881</b>	<b>297</b>	<b>(93)</b>
Net change in cash	(12)	40	175	376	(324)
Opening Cash	85	72	112	287	663
Closing Cash	72	112	287	663	339

Source: Company, Karvy Stock Broking

**Exhibit 5: Key Ratios**

Y/E Mar (%)	FY13	FY14	FY15E	FY16E	FY17E
EBITDA margin	16.8	15.1	14.7	14.0	13.6
EBIT margin	12.2	10.1	10.0	9.6	9.6
Net profit margin	7.3	7.2	7.6	6.7	7.0
Dividend payout ratio	6.3	5.4	4.9	4.5	3.6
Net debt: equity	0.1	0.2	0.2	0.1	0.1
RoCE	15.8	14.9	13.1	13.7	15.2
RoE	12.1	12.6	12.2	11.8	13.2

Source: Company, Karvy Stock Broking

**Exhibit 6: Valuation Parameters**

Y/E Mar	FY13	FY14	FY15E	FY16E	FY17E
EPS (Rs)	18.5	21.7	23.7	25.7	32.5
DPS (Rs)	1.0	1.0	1.0	1.0	1.0
Book value per share (Rs)	162.0	182.5	205.0	229.6	260.9
P/E (x)	21.3	18.2	16.7	15.3	12.1
P/BV (x)	2.4	2.2	1.9	1.7	1.5
EV/EBITDA (x)	10.0	9.4	9.6	8.0	6.8
EV/Sales (x)	1.7	1.4	1.4	1.1	0.9

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns	
Buy	:	> 15%	
Hold	:	5-15%	
Sell	:	< 5%	

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