

### Annual Report 2018: Four Decades of Engineering Excellence

The annual report theme encompasses four decades of engineering excellence in the field of infrastructure such as roads, irrigation and water management works. KNR maintains its market position by continuously focusing on engineering excellence, improving and sharpening competencies, adapting latest construction technologies, deployment of sophisticated construction equipment and timely delivery. KNR reported revenue growth of 25.3% YoY in FY18. EBITDA margins expanded 509bps YoY to 20% led by operational efficiencies in addition to lower sub-contracting cost. Reported PAT grew 73% YoY to ₹2.7bn, however, after adjusting exceptional gains of ₹ 236mn in FY18 vs. loss of ₹ 109mn (FY17), Adj. PAT grew 47.8%.

### 5 HAM Wins Lead to ₹ 59.6 bn Orderbook (3.0x TTM Revenue)

KNR received 4 NHAI HAM in Q4FY18 and 1 KSHIP HAM in Q1FY19. However, these are not included in the orderbook as financial closures are yet to complete. In the current scenario where, weak balance sheet-companies are facing difficulties for financial closure, KNR has proved its excellence by receiving term loan sanctions for 3 HAM projects and are in the process of completing financial closure.

### Stabilization in BOT Toll Collection

KNR's toll BOT project Walayar-Vadakkancherry in Kerala has received final 100% CoD on 31-Oct-15 and toll collection during FY18 stood at ₹ 517 mn. Currently, toll collection per day is ₹ 2.3 mn. Another toll BOT project Muzaffarpur-Barauni in Bihar has received final 100% CoD on 24-Aug-17 and toll collection started from 1-Oct-17. Toll collection during FY18 stood at ₹ 453 mn. Currently toll collection per day is ₹ 2.0 mn.

### Growth Plans and Focus

Under the KNR growth plan, thrust will be given to highway HAM projects, EPC in highways, irrigation including waterways, flyovers and segmental structural section in metros and bridges. In complex bridges, flyovers and railway connectivity projects, KNR will explore technological-cum-financial JV partners. Focus will be on capacity building in manpower, machinery, materials and finance with the objective of timely delivery with perfection.

### View

We expect KNR to witness healthy revenue growth over FY18-20E, supported by healthy margins and return ratios coupled with well managed balance sheet, comfortable working capital and low D:E ratio. Hence, we maintain Buy with a SOTP of ₹418. (Exhibit 1)

### FINANCIALS (₹ mn)

Particulars	FY16	FY17	FY18	FY19E	FY20E
Revenue	9,025	15,411	19,317	22,750	32,725
Growth (%)	3.0	70.7	25.3	17.8	43.8
EBITDA	1,529	2,296	3,861	3,826	5,235
EBITDA Margin (%)	16.9	14.9	20.0	16.8	16.0
Net Profit	952	1,681	2,486	2,066	2,937
Growth (%)	28.4	76.7	47.9	(16.9)	42.1
EPS (₹)	6.8	12.0	17.7	14.7	20.9
Growth (%)	28.4	76.7	47.9	(16.9)	42.1
PER(X)	30.6	17.3	11.7	14.1	9.9
ROANW (%)	24.4	19.3	26.5	16.4	19.6
ROAIC (%)	18.6	20.7	24.1	18.6	25.6

CMP	₹207
Target / Upside	₹418/102%
BSE Sensex	37,922
NSE Nifty	11,438

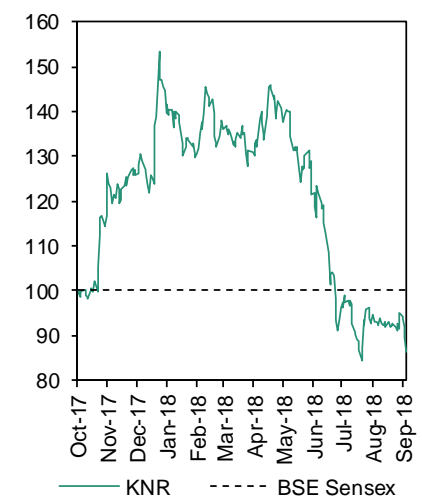
### Script Details

Equity / FV	₹281/₹2
Market Cap	₹29bn
	USD 402mn
52-week High/Low	₹349/198
Avg. Volume (no)	188,957
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN

### Shareholding Pattern Jun'18 (%)

Promoters	55.4
MF/Banks/FIs	27.3
FIIIs	3.3
Public / Others	14.1

### KNR Relative to Sensex



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**Exhibit 1: SOTP Valuation**

Component	Valuation Method	₹/sh	%
Standalone cons business	17x FY20E EPS	355.0	84.9
BOT Toll project – Walayar - Vadakkancherry	1xBV	28.3	6.8
BOT Toll project – Muzzarpur - Barauni	1xBV	3.7	0.9
HAM equity investments	1xBV	31.4	7.5
<b>Total</b>		<b>418.3</b>	<b>100.0</b>
CMP		207.0	
Potential upside (%)		102.1	

Source: Company, DART

## Management Discussion and Analysis

KNR has entered its 40<sup>th</sup> year of operations and the company terms it as four decades of engineering excellence. KNR has achieved this through deployment of state of the art technology, built efficiencies and achieved 'ahead of schedule' status for most of the projects. In FY18, they received a special recognition of the '2nd Fastest Growing Construction Company (medium category)' at the Construction World Awards 2017, which is a testimony of their consistency and excellence.

**Vision:** KNR has a vision to develop as a center of excellence in the field of infrastructure services by striving continuously to provide eco-friendly solutions adopting state-of-the-art practices that are commitment to quality through motivated human resources.

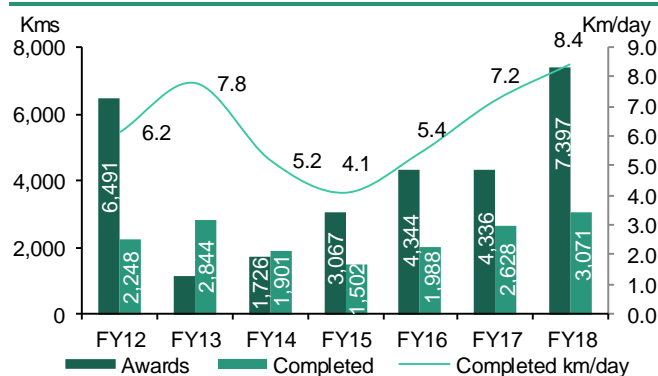
**Mission:** KNR aims to add more business verticals to the organization in the fields of construction of elevated metro rail and railway projects.

**Key Developments and Opportunities:** In the Union Budget 2018-19, the Government of India laid strong emphasis on further promoting the infrastructure sector by allocating ₹ 5.97 tn. The total capital outlay planned by MoRTH stands at approximately ₹ 1.21 tn, growing by 10% over the previous year with the push from the government providing financial support and various initiatives has given a big boost to the sector.

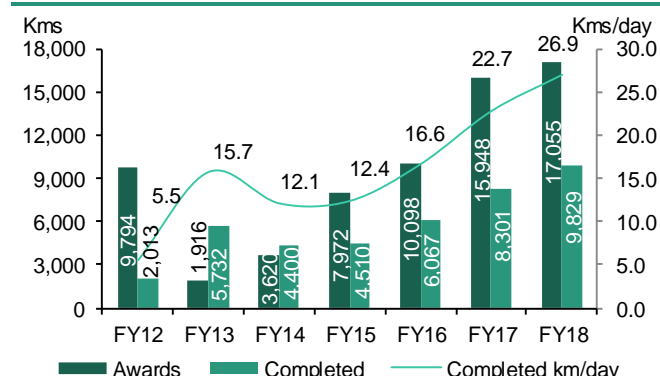
Also, the launch of Bharatmala Pariyojana Scheme Phase I, with an investment of ₹ 5.35 tn, aims at developing National Highways totaling 34,800 kms over a period of 5 years ending in 2021-22. The Government has also approved development of another 48,877 kms of projects totaling to ₹ 1.57 tn under other ongoing schemes like NH(O), Special Accelerated Road Development Programme in North East (SARDP-NE), Externally Aided Projects (EAP) and Roads Projects in Left Wing Extremism Affected Areas (LWE) to be completed by 2021-22.

MoRTH has recorded highest ever awarding of 17,055km in FY18 which grew 6.9% YoY. Out of these, NHAI has awarded 7,397 km in FY18, a growth of 70.6% YoY and MoRTH has awarded 9,658 km in FY18 which is a drop of 16.8% YoY. Out of the total awarded projects worth ₹ 1,220 bn by NHAI in FY18, ₹ 765 bn has been awarded on HAM mode (63%), ₹ 427 bn on EPC mode (35%) and remaining on BOT mode (2%).

Road construction touched a high of 9,829 km in FY18 indicating a growth of 18.4% YoY, out of which NHAI has constructed 3,071 km, growth of 16.8% YoY and MoRTH has constructed 6,758 km in FY18, growth of 19.1% YoY.

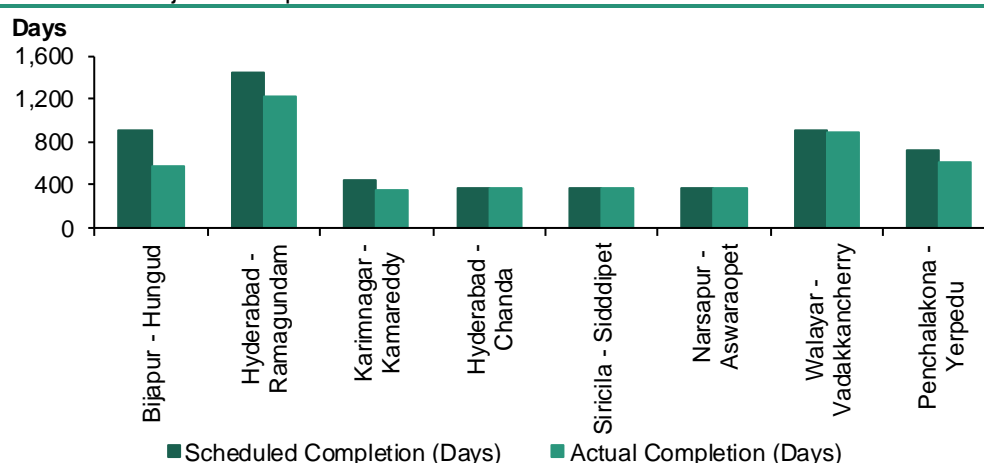
**Exhibit 2: NHAI Award & Construction**


Source: Company, DART

**Exhibit 3: MORTH Award & Construction**


Source: Company, DART

**Strategy:** KNR will focus on securing EPC contracts from reputed clients and concessionaires by capitalising on the opportunity of huge infrastructure development and continuously explore growth opportunities by forming strategic JVs alongwith executing all the projects on time or ahead of schedule.

**Exhibit 4: Projects completed ahead of schedule**


Source: Company, DART

**Exhibit 5: Board Meetings Trend**

Particulars	FY13	FY14	FY15	FY16	FY17	FY18
No. of board meetings held during FY	6	8	9	9	7	9
Average no. of director's strength	7	6	6	5	5	5
Average no. of director's present	5.2	5.4	5	4.5	4	4
Average % attendance of directors	74	90	83	91	80	80

Source: Company, DART

**Exhibit 6: Trend of Remuneration Paid to Directors**

Name	Position	FY13	FY14	FY15	FY16	FY17	FY18
Shri K. Narasimha Reddy (₹ mn)	Managing Director	13	12	17	24	36	50
Shri K. Jalandhar Reddy (₹ mn)	Executive Director	6	6	9	13	24	35
Total Remuneration (₹ mn)		19	19	26	37	60	86
Remuneration % to Adj. PAT		3.7	3.1	3.5	3.9	3.6	3.4

Source: Company, DART

**Exhibit 7: HAM Portfolio**

Particulars	Trichy-Kallagam	Meensurutti-Chidambaram	Chittor-Mallavaram	Ramsanpalle-Mangloor	Magadi-Somwarpath
Stake	100%	100%	100%	100%	100%
Project type	HAM	HAM	HAM	HAM	HAM
State	Tamil Nadu	Tamil Nadu	Andhra Pradesh	Telangana	Karnataka
Client	NHAI	NHAI	NHAI	NHAI	KSHIP
No of lanes	4	2	6	4	2
Length (KM)	38.7	31.5	61.1	46.8	166
Concession period	17 years	17 years	17.5 years	17 years	9 years
Bid project cost (₹ mn)	10,206	4,820	17,301	12,340	11,445
Estimated Equity (₹ mn)	955	455	1,433	1,034	534
Estimated Debt (₹ mn)	3,820	1,820	5,730	4,135	2,134
Status	Bank Sanctions 28-Jun-18	Bank Sanctions 7-Jul-18	Bank Sanctions 7-Jul-18	Financial Closure in Progress	LOA Received

Source: Company, DART

**Exhibit 8: BOT Toll Projects**

Particulars	KNR Walayar Tollways Pvt. Ltd.	KNR Muzaffarpur Barauni Tollway Pvt. Ltd.
Stake	100%	51%
Project type	Road-Toll	Road-Toll
State	Kerala	Bihar
JV Partner	-	JKM Infra Project Ltd
Client	NHAI	NHAI
No of lanes	2 to 4	2
Length (KM)	54	108
Concession Start Date	18-May-13	8-Jul-12
Concession Period	20 years	21 years
Scheduled COD	15-Nov-15	9-Jul-14
Actual Scheduled COD	31-Oct-15	3-Jun-16
Revenue Sharing	Grant	Premium
Project Cost (₹ mn)	9,005	4,589
Equity (30-Jun-18) (₹ mn)	3,974	1,771
Debt (30-Jun-18) (₹ mn)	2,000	3,100
Status	100% PCOD issued on 31-Oct-15	100% PCOD issued on 24-Aug-17
Toll Revenue (₹ mn)	Q1FY19: 211.63 FY18: 516.93	Q1FY19: 186.41 FY18 : 453.19

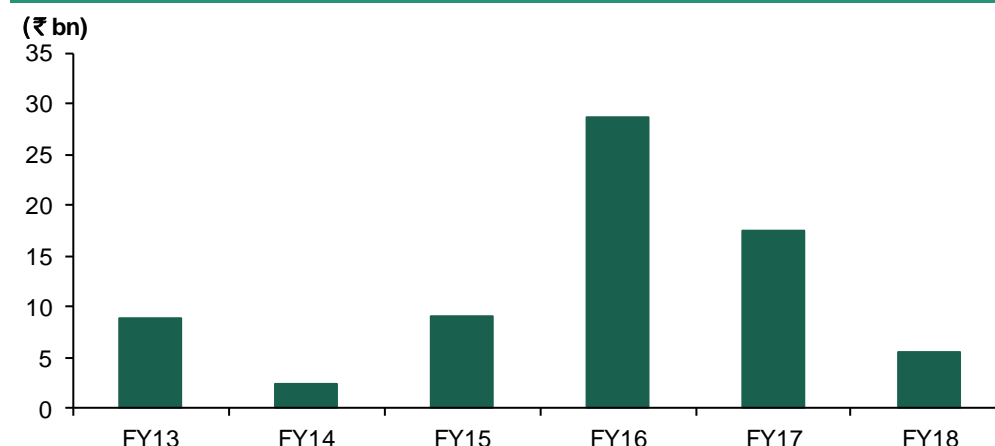
Source: Company, DART

## Financial Highlights

### Operational Performance

**Order Inflows:** The company received lowest order inflow in the past 3 years of ₹ 5.6bn in FY18 vs. ₹ 17.6bn in FY17, a de-growth of 68.1%. They received only one order in the irrigation segment. However, 5 HAM road projects were received in YTD FY19 worth ₹ 56.1 bn (EPC value of ₹ 39.75 bn).

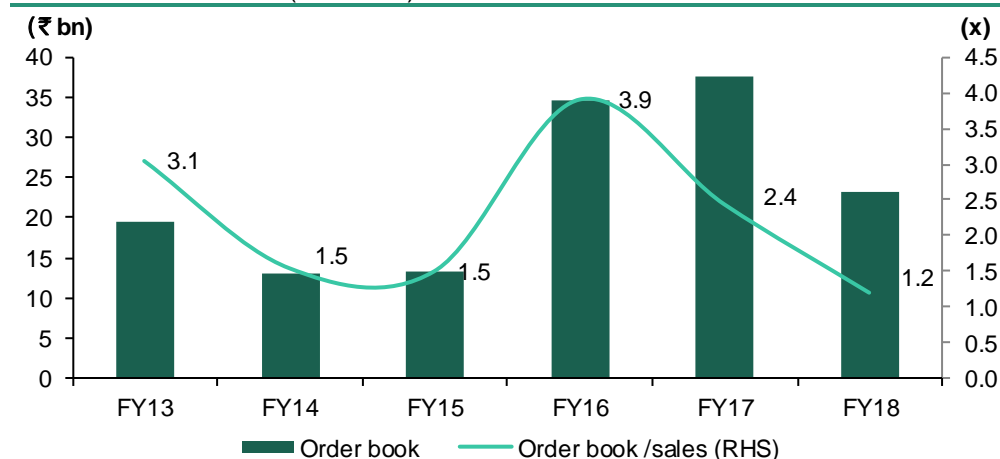
**Exhibit 9: Order Inflow Trend**



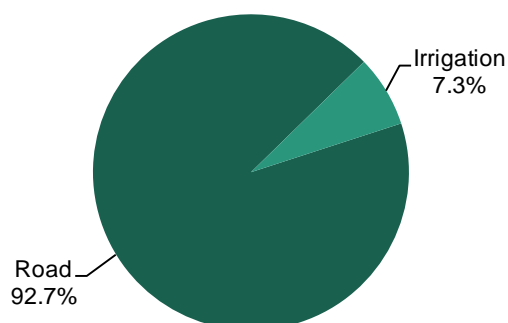
Source: Company, DART

**Order book:** Lowest order inflow in the past 3 years lead to lowest orderbook (FY16-FY18) of ₹ 23.3 bn in FY18 (de-growth of 38.3% YoY). However, considering the 5 road HAM wins in YTD FY19, EPC orderbook stands ₹ 59.6 bn (EPC cost ₹ 39.7 bn) providing robust 3x TTM revenue visibility.

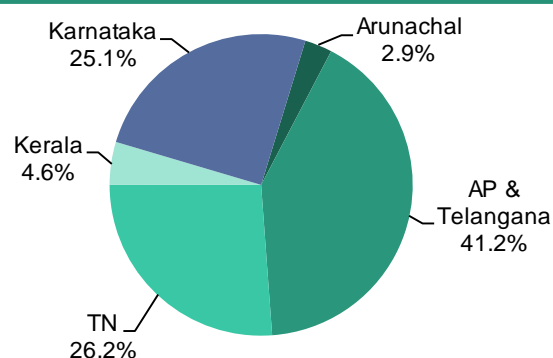
**Exhibit 10: Orderbook (₹ 59.6 bn) as of Q1FY19**



Source: Company, DART

**Exhibit 11: Segment-wise Orderbook (₹ 59.6 bn)**


Source: Company, DART

**Exhibit 12: Geography-wise Orderbook (₹ 59.6 bn)**


Source: Company, DART

**Exhibit 13: Orderbook Breakup (₹ 59.6 bn)**

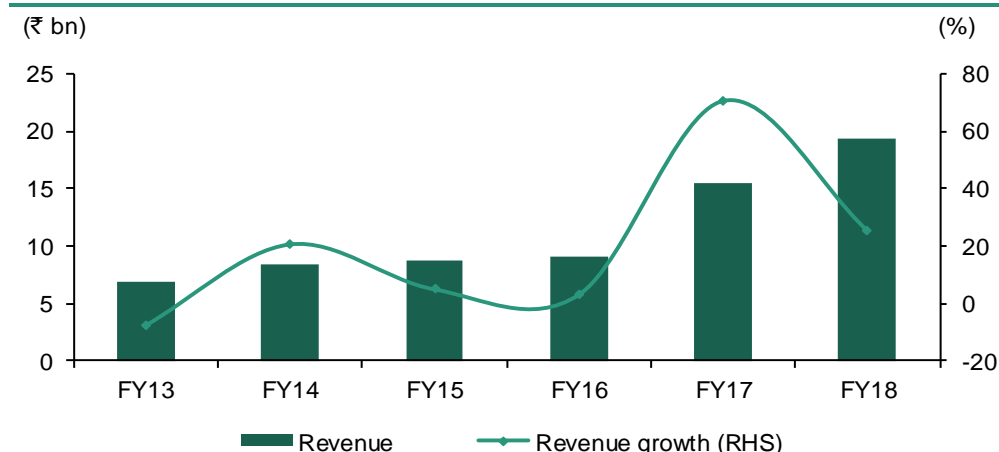
Key Projects	₹ mn
Hubli – Hospet Section of NH - 63	5,205
Thiruvananthapuram Bypass	2,707
State Road from Gobuk – Mariyang – Sijhon Nallah	1,742
Dindigul-Bangalore Road (Pollachi to Coimbatore Section)	1,686
Construction of Two Tier Flyover in Salam City	1,395
Trichy to Kallagam	7,464
Meensurutti to Chidambaram	3,518
Chittor to Mallavaram	11,607
Ramsanpalle to Mangloor	8,438
Magadi to near Somwarpeth	8,723
Other Road Projects	2,711
Irrigation Projects	4,337
Other Projects	17
<b>Total</b>	<b>59,550</b>

Source: Company, DART

## Profit and Loss Analysis

**Revenue:** The company reported revenue of ₹ 19.3 bn, a growth of 25.3% YoY primarily led by Yedula Irrigation, Madurai-Ramanathapuram, Thiruvananthapuram bypass and Dindigul-Bangalore.

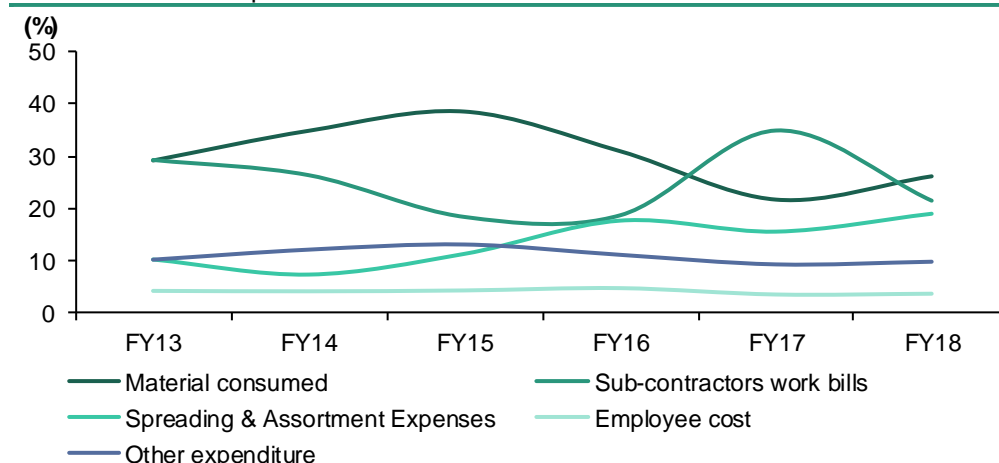
**Exhibit 14:** Revenue Growth of 22.8% CAGR between FY13-FY18



Source: Company, DART

**Expenses:** The total cost of sales increased by 17.8% YoY to ₹ 15.5 bn led by rise in construction cost (the rise was led by material consumption and spreading & assortment expense by 50.9% and 52.8% respectively which was partially offset by fall in sub-contract expense by 23.2%), employee expense by 30.6% at 3.7% of revenue and other expenses by 32.6% at 9.7% of revenue.

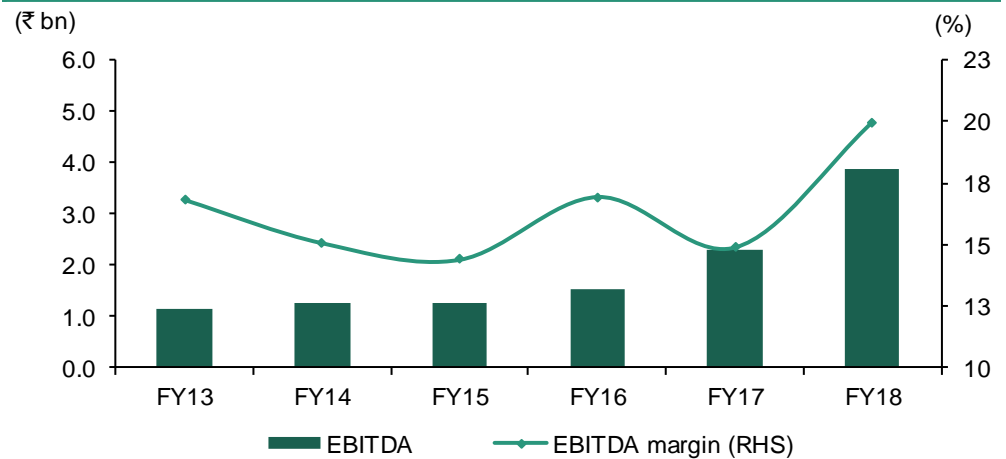
**Exhibit 15:** Total Expenses Trend as a % to Net Revenue



Source: Company, DART

**EBITDA:** EBITDA margins expanded by 509bps YoY to 20.0% led by operational efficiencies on account of lower sub-contracting costs and few projects nearing completion having better margins. FY18 revenue includes ₹ 168 mn received on account of sale of stake in 2 JVs. Excluding the same, EBITDA margins increased by 439bps YoY to 19.3%.



**Exhibit 16: EBITDA Margin Trend**


Source: Company, DART

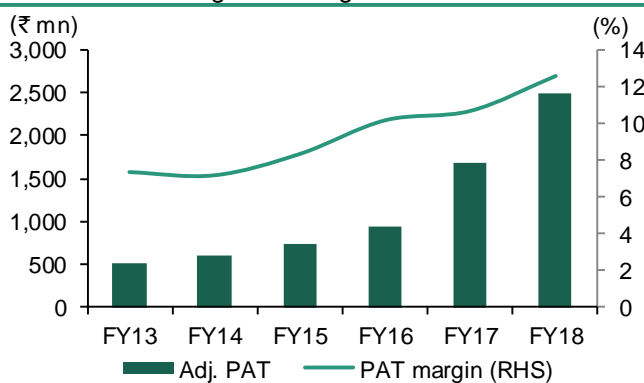
**Depreciation:** Depreciation increased 110% YoY to ₹ 1.3bn due to higher asset utilization for couple of irrigation projects with shorter execution period.

**Finance Cost:** Finance cost increased by 5.7% YoY to ₹ 231 mn due to rise in borrowings by ₹ 763 mn to ₹ 2.2 bn primarily led by rise in long term borrowings.

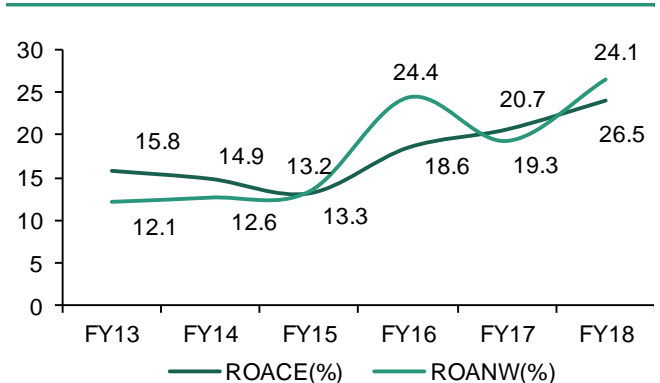
**Effective Tax Rate:** Total effective tax rate for FY18 stood at (1.4%) vs. 3.7% at (₹ 39mn) vs. ₹ 60mn for FY17.

**PAT:** Reported PAT increased 73.0% YoY to ₹ 2.7bn led by operational efficiencies and improvement in tax rates. However, Adj. PAT growth was restricted to 47.8% YoY at ₹ 2.5bn due to exceptional gain of ₹ 235mn in FY18 vs. exceptional loss of ₹ 109mn in FY17. PAT margin thus increased by 191bps YoY to 12.6%.

**Return Ratios:** ROACE increased to 24.1% in FY18 from 20.7% in FY17 and ROANW also increased to 26.5% from 19.3%.

**Exhibit 17: Rising PAT Margin**


Source: Company, DART

**Exhibit 18: Return Ratios Trend**


Source: Company, DART

**EPS:** EPS grew from ₹ 12.0 to ₹ 17.7 in FY18, a growth of 47.8% YoY.

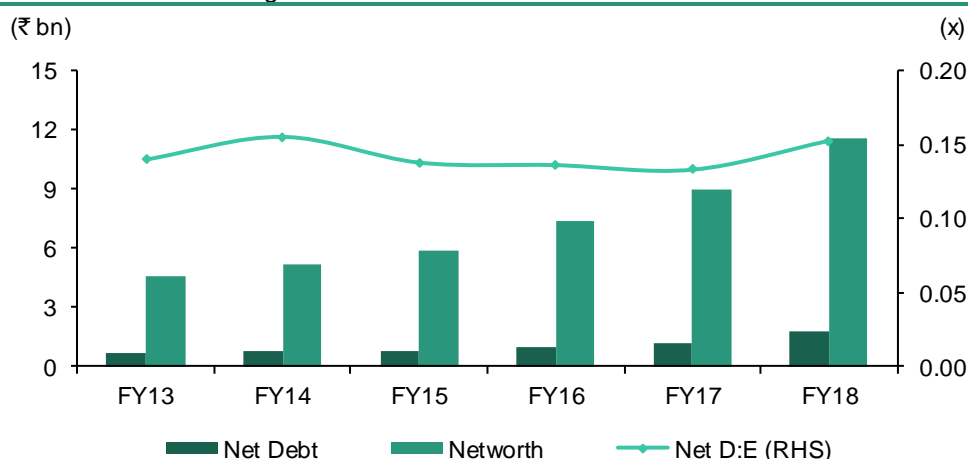


## Balance Sheet Analysis

**Networth:** The company's networth increased 29.3% YoY to ₹ 11.6bn in FY18. Reserves and Surplus increased 30.2% YoY to ₹ 11.3bn.

**Borrowings:** Total borrowings increased to ₹ 2.2bn in FY18 from ₹ 1.4bn in FY17. Increase was due to increase in long term borrowings by 62.6% YoY to ₹ 2.1 bn. Net D:E marginally rose to 0.15x in FY18 from 0.13x in FY17.

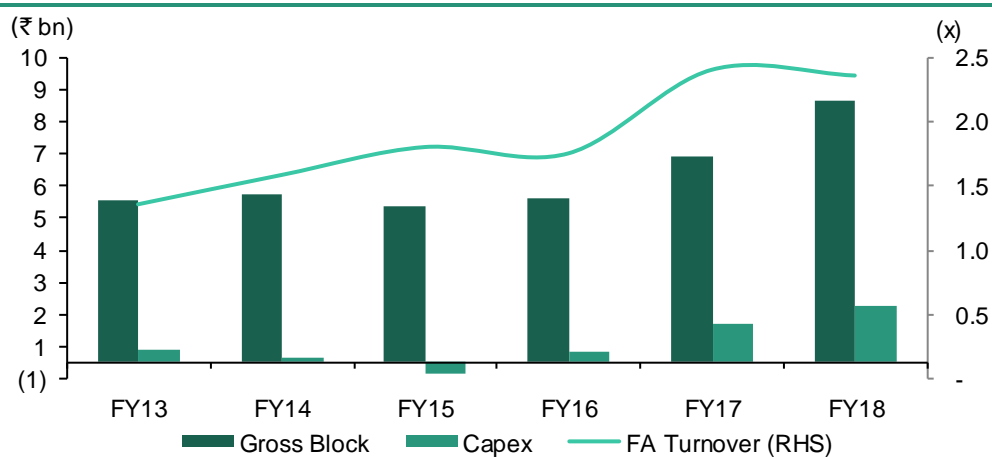
### Exhibit 19: Maintaining Low Net D:E



Source: Company, DART

**Gross Block:** The company incurred a capex of ₹ 1.8bn in FY18, highest ever in the past 8 years. Gross block stands at ₹ 8.2bn in FY18 vs. ₹ 6.4bn in FY17.

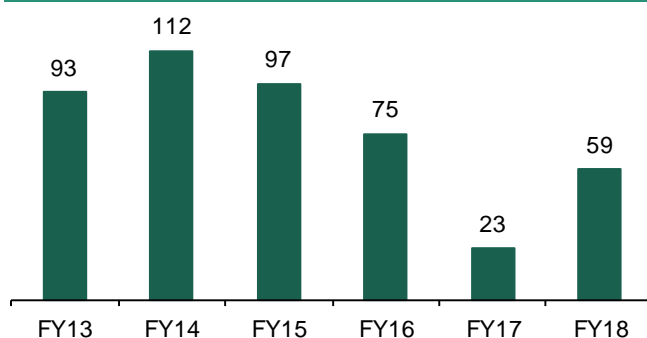
### Exhibit 20: Gross Block Trend



Source: Company, DART

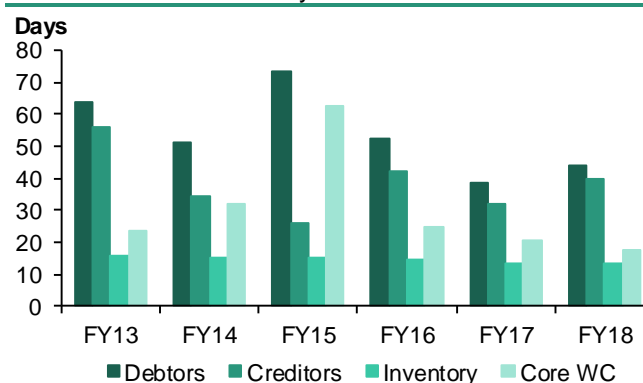
**Working Capital:** Trade receivables increased significantly to ₹ 2.3 bn in FY18, a growth of 41.5% resulting in increased debtor days of 44 days vs. 39 days. Inventories increased to ₹ 712 mn in FY18, a growth of 24.1% resulting in flat inventory days of 14 vs. 13 days. Trade payables too increased to ₹ 2.1bn in FY18, a growth of 56.4% resulting in increased trade payable days of 40 vs. 32 days. Core working capital days thus decreased to 18 days vs. 21 days. However, total working capital days increased to 59 days vs. 23 days.

**Exhibit 21: Total Working Capital Days**



Source: Company, DART

**Exhibit 22: Core WC Days**



Source: Company, DART

**Other Current Assets:** Other current assets increased to ₹ 2.7bn in FY18 from ₹ 1.8bn in FY17, a growth of 48.8% YoY. The increase is due to advances to sub-contractors and dues from customers/ unbilled revenue.

**Other Financial Assets:** Other financial assets increased to ₹ 1.5bn in FY18 from ₹ 1.3bn in FY17, a growth of 17.0% YoY. The increase is due to retention deposits and withheld.

**Other Financial Liabilities:** Other financial liabilities decreased to ₹ 1.2bn in FY18 from ₹ 1.8bn in FY17, a decline of 34.4% YoY. The fall is led by advance received from clients.

**Retention Money:** Net retention money was up 14.6% YoY to ₹ 436 mn in FY18 vs. ₹ 381 mn in FY17.

**Exhibit 23: Retention Money Trend**

Particulars (₹ mn)	FY13	FY14	FY15	FY16	FY17	FY18
Retention Money payable	(211)	(321)	(309)	(316)	(677)	(804)
Retention Money receivable	494	710	710	681	1,058	1,241
<b>Net Retention Money</b>	<b>283</b>	<b>389</b>	<b>401</b>	<b>365</b>	<b>381</b>	<b>436</b>

Source: Company, DART

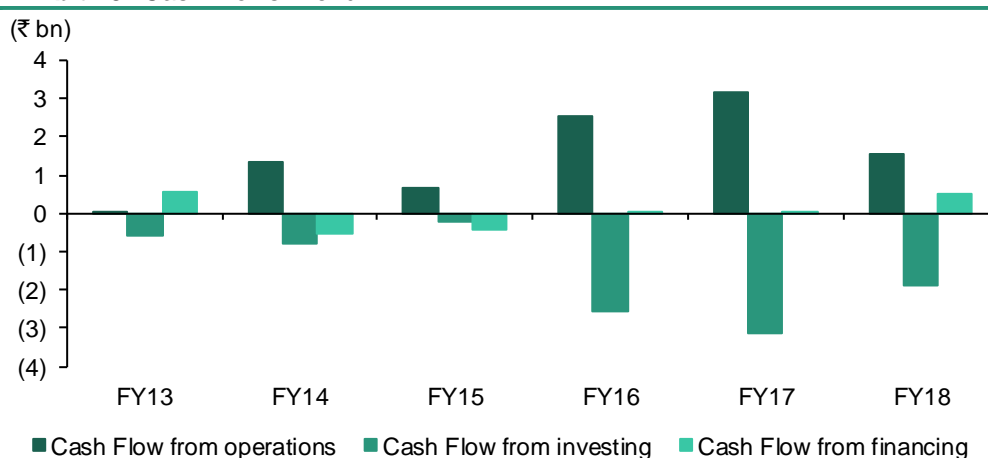
**Mobilization advance:** Net mobilization amount decreased to (₹ 911 mn) in FY18 vs. ₹ 580 mn in FY17 due to fall in mobilisation advance received on account of low order inflows in FY18.

**Exhibit 24: Mobilisation Advance Trend**

Particulars (₹ mn)	FY13	FY14	FY15	FY16	FY17	FY18
Mobilization advance paid	(611)	(716)	(509)	(835)	(889)	(1,120)
Mobilization advance received	1,383	787	531	1,665	1,469	209
<b>Net mobilization amount</b>	<b>772</b>	<b>71</b>	<b>22</b>	<b>829</b>	<b>580</b>	<b>(911)</b>

Source: Company, DART

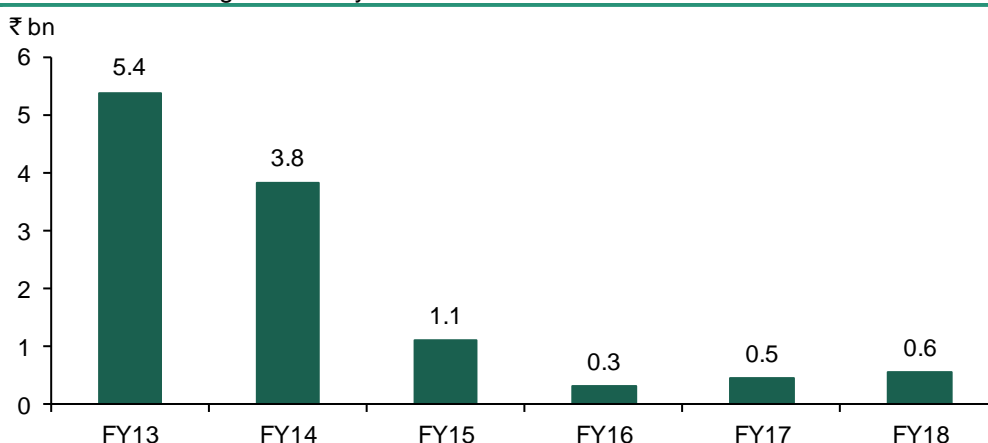
**Cash Flow:** Cash flow from operations down by 50.5% to ₹ 1.6bn in FY18 compared to ₹ 3.2bn in FY17. WC changes for the year was (₹ 2.3bn) in FY18 vs. ₹ 0.7bn in FY17. Tax outgo down to (₹ 237mn) vs. (₹ 75mn). Cash flow from investing improved to (₹ 1.9bn) in FY18 vs. (₹ 3.1bn) in FY17 due to change in investments which was partially offset by increase in capex. Cash flow from financing increased to ₹ 490mn in FY18 vs. ₹ 53mn in FY17 mainly due to increase in debt.

**Exhibit 25: Cash Flows Trend**


Source: Company, DART

**Dividend:** The company declared a dividend of ₹ 0.4 per equity share on face value of ₹ 2 per share. The cash outflow on account of dividend and dividend distribution tax amounted to ₹ 85 mn in FY18.

**Contingent Liabilities:** The company has a contingent liability of ₹ 555 mn as on FY18, a rise of 20.1% YoY. This was due to increase in disputed income tax & interest on TDS alongwith others (civil cases).

**Exhibit 26: Contingent Liability Trend**


Source: Company, DART

### Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
<b>Revenue</b>	<b>15,411</b>	<b>19,317</b>	<b>22,750</b>	<b>32,725</b>
Growth (%)	70.7	25.3	17.8	43.8
<b>Total Expenditure</b>	<b>13,115</b>	<b>15,455</b>	<b>18,924</b>	<b>27,490</b>
Material consumption	3,351	5,055	6,761	10,819
Construction expenses	5,405	4,150	3,412	4,909
Sub-contractors work bills	2,389	3,649	5,005	6,545
Employees cost	552	721	901	1,127
Other Expenses	1,417	1,880	2,844	4,091
Other Income	303	393	362	399
<b>EBIDTA (Excl. OI)</b>	<b>2,296</b>	<b>3,861</b>	<b>3,826</b>	<b>5,235</b>
Growth (%)	50.1	68.2	(0.9)	36.8
<b>EBIDTA (Incl. OI)</b>	<b>2,599</b>	<b>4,254</b>	<b>4,188</b>	<b>5,634</b>
Depreciation	639	1,341	1,380	1,070
<b>EBIT</b>	<b>1,960</b>	<b>2,913</b>	<b>2,809</b>	<b>4,564</b>
Interest	219	231	290	305
<b>Profit Before Tax</b>	<b>1,632</b>	<b>2,682</b>	<b>2,519</b>	<b>4,259</b>
Tax	60	(39)	452	1,322
<b>Net Profit</b>	<b>1,573</b>	<b>2,721</b>	<b>2,066</b>	<b>2,937</b>
Adjustments	109	(235)	0	0
<b>Adj. Net Profit</b>	<b>1,681</b>	<b>2,486</b>	<b>2,066</b>	<b>2,937</b>
Growth (%)	76.7	47.9	(16.9)	42.1

### Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
<b>Sources of Funds</b>				
Equity Capital	281	281	281	281
Reserves	8,674	11,297	13,296	16,165
<b>Net Worth</b>	<b>8,955</b>	<b>11,578</b>	<b>13,577</b>	<b>16,446</b>
Long Term Loan	1,441	2,204	2,442	2,220
Short Term Loan	0	0	450	500
<b>Loan Funds</b>	<b>1,441</b>	<b>2,204</b>	<b>2,892</b>	<b>2,720</b>
Deferred Tax Liability	(815)	(1,408)	(1,494)	(1,535)
<b>Total Capital Employed</b>	<b>9,580</b>	<b>12,375</b>	<b>14,975</b>	<b>17,631</b>
<b>Application of Funds</b>				
Gross Block	6,403	8,176	9,676	11,176
Less: Acc Depreciation	3,796	4,861	6,240	7,310
<b>Net Block</b>	<b>2,607</b>	<b>3,315</b>	<b>3,435</b>	<b>3,866</b>
Capital Work in Progress	15	0	0	0
<b>Investments</b>	<b>5,351</b>	<b>5,356</b>	<b>8,019</b>	<b>8,960</b>
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	574	712	946	1,375
Sundry Debtors	1,640	2,320	2,730	3,927
Cash and Bank Balance	246	438	396	783
Loans and Advances	349	279	341	522
Other Current Assets	4,582	5,830	6,538	9,120
sub total	7,391	9,579	10,951	15,726
<b>Less: Current Liabilities &amp; Provisions</b>				
Current Liabilities	5,639	5,692	7,176	10,556
Provisions	145	184	254	365
sub total	5,784	5,876	7,430	10,921
Net Current Assets	1,607	3,703	3,521	4,805
<b>Total Assets</b>	<b>9,580</b>	<b>12,375</b>	<b>14,975</b>	<b>17,631</b>

E – Estimate

### Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
<b>Profit before tax</b>	<b>1,632</b>	<b>2,682</b>	<b>2,519</b>	<b>4,259</b>
Depreciation	639	1,341	1,380	1,070
Finance cost	219	231	290	305
Other income	(47)	(85)	(362)	(399)
Others	68	(34)	(18)	0
Direct taxes paid	(75)	(237)	(539)	(1,363)
Change in Working Capital	730	(2,329)	505	(469)
<b>(A) CF from Operations</b>	<b>3,165</b>	<b>1,568</b>	<b>3,774</b>	<b>3,403</b>
Capex	(1,383)	(2,009)	(1,500)	(1,500)
<b>Free Cash Flow</b>	<b>1,782</b>	<b>(440)</b>	<b>2,275</b>	<b>1,903</b>
Inc./ (Dec.) in Investments	(1,607)	(23)	(2,662)	(942)
Other	(144)	166	172	(52)
<b>(B) CF from Investments</b>	<b>(3,133)</b>	<b>(1,866)</b>	<b>(3,991)</b>	<b>(2,494)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./ (Dec.) in Debt	273	763	532	(150)
Interest exp net	(220)	(189)	(290)	(305)
Dividend Paid (Incl. Tax)	0	(85)	(68)	(68)
<b>(C) CF from Financing</b>	<b>53</b>	<b>490</b>	<b>174</b>	<b>(523)</b>
Net Change in Cash	85	192	(42)	386
<b>Opening Cash balances</b>	<b>161</b>	<b>246</b>	<b>438</b>	<b>396</b>
<b>Closing Cash balances</b>	<b>246</b>	<b>438</b>	<b>396</b>	<b>783</b>

### Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin (excl. O.I.)	14.9	20.0	16.8	16.0
EBIDTA Margin (incl. O.I.)	16.9	22.0	18.4	17.2
EBIT Margin	12.7	15.1	12.3	13.9
Interest/EBIT	11.2	7.9	10.3	6.7
Tax/PBT	3.7	(1.5)	18.0	31.0
Net Profit Margin	10.9	12.9	9.1	9.0
<b>(B) As Percentage of Revenue</b>				
Raw Material	21.7	26.2	29.7	33.1
Sub-contractors work bills	35.1	21.5	15.0	15.0
Employees expenses	3.6	3.7	4.0	3.4
Other Expenses	9.2	9.7	12.5	12.5
<b>(C) Measures of Financial Status</b>				
Debt / Equity (x)	0.2	0.2	0.2	0.2
Interest Coverage (x)	8.9	12.6	9.7	15.0
Average Cost Of Debt (%)	16.8	12.7	11.4	10.9
Debtors Period (days)	39	44	44	44
Closing stock (days)	14	13	15	15
Working Capital (days)	23	59	47	47
Fixed Assets Turnover (x)	2.4	2.4	2.4	2.9
<b>(D) Measures of Investment</b>				
Diluted EPS (₹)	12.0	17.7	14.7	20.9
CEPS (₹)	16.5	27.2	24.5	28.5
DPS (₹)	0.5	0.5	0.4	0.4
Book Value (₹)	63.7	82.3	96.6	117.0
RoANW (%)	19.3	26.5	16.4	19.6
RoACE (%)	20.7	24.1	18.6	25.6
RoAIC (%)	48.2	55.2	42.7	63.2
<b>(E) Valuation Ratios</b>				
CMP (₹)	207	207	207	207
P/E (x)	17.3	11.7	14.1	9.9
Market Cap. (₹mn)	29,108	29,108	29,108	29,108
MCap/ Sales (x)	1.9	1.5	1.3	0.9
EV (₹mn)	30,302	30,873	31,604	31,045
EV/Sales (x)	2.0	1.6	1.4	0.9
EV/EBDITA (x)	13.2	7.9	8.2	6.0
P/BV (x)	3.3	2.5	2.1	1.8
FCFE Yield (%)	8.0	1.1	9.6	6.0
Dividend Yield (%)	0.2	0.2	0.2	0.2

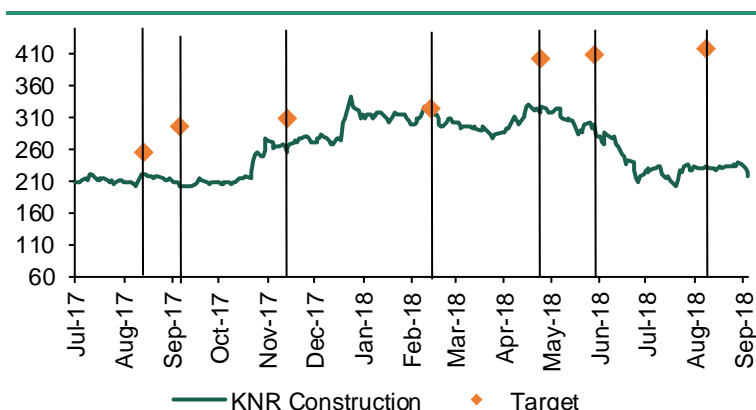
E – Estimate

## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Aug-17	Buy	255	221
Sept-17	Buy	297	266
Nov-17	Buy	308	255
Feb-18	Accumulate	324	322
Apr-18	Buy	403	313
May-18	Buy	407	293
Aug-18	Buy	418	230

\* As on Recommendation Date

## DART Team

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**Analyst(s) Certification**

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

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### INDUSTRY INFRASTRUCTURE

**CMP (as on 10 Aug 2018)** Rs 231

**Target Price** Rs 392

Nifty 11,430

Sensex 37,869

#### KEY STOCK DATA

Bloomberg KNRC IN

No. of Shares (mn) 141

MCap (Rs bn) / (\$ mn) 33/473

6m avg traded value (Rs mn) 66

#### STOCK PERFORMANCE (%)

**52 Week high / low** Rs 349/193

3M 6M 12M

Absolute (%) (25.4) (25.3) 14.0

Relative (%) (32.9) (36.6) (6.1)

#### SHAREHOLDING PATTERN (%)

Promoters 55.38

FIs &amp; Local MFs 27.32

FPIs 3.26

Public &amp; Others 14.04

Source : BSE

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## Outperformance continues

KNRC continues to outperform its growth guidance and delivered strong 1QFY19 revenue at Rs 5.6bn which was 18.4% above estimates. EBITDA at Rs 1.1bn was 35.7% above our estimates, with EBITDA margins expanding to 19.7% (+215bps YoY, +42bps QoQ). We estimate sustainable margins to be around 16-17% and have revised our estimates to reflect the same. APAT beat stood at 57.5%.

Order book is Rs 59.5bn with Rs 2bn addition in Arunachal Pradesh project scope. KNRC is focusing on completing financial closure of its 5 HAM projects (EPC value – Rs 39.8bn) that were won in 4QFY18. KNR has announced FC for 3 and 4<sup>th</sup> HAM FC is expected in Aug-18.

KNR continues to maintain a lean WC capital cycle with NWC days at 30, especially demonstrating strong control on receivables (28days) as compared to 50-75 days for other listed peers. We continue to maintain **BUY** with and increased SOTP of Rs 392/sh.

### Financial Summary (Standalone)

Year Ending March (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	5,564	4,808	15.7	6,244	(10.9)	15,411	19,317	20,406	29,434
EBITDA	1,099	846	29.9	1,207	(9.0)	2,296	3,861	3,456	4,682
APAT	630	676	(6.8)	797	(20.9)	1,432	1,917	1,417	2,089
Diluted EPS (Rs)	4.5	4.8	(6.8)	5.7	(20.9)	10.2	13.6	10.1	14.9
P/E (x)						22.7	16.9	22.9	15.5
EV / EBITDA (x)						14.6	8.9	9.6	7.0
RoE (%)						17.5	18.7	11.3	14.3

Source: Company, HDFC sec Inst Research

### Highlights of the quarter

- **Concerns on execution more of conservatism at display:** KNRC has guided for muted revenue growth and recent media interaction suggests guidance at 10-15% revenue de-growth YoY. We have cut our Rev/APAT estimate by 12% and now project muted YoY revenue growth. KNR has booked 1QFY19 revenue of Rs 5.5bn on Rs 19.8bn order base. With Rs 39.8bn of HAM EPC projects moving into execution by 3QFY19 and new order wins over next 3-4months adding incrementally, KNRC may end up reporting YoY revenue growth.
- **Balance Sheet remains strong net D/E at 0.03x, NWC at 30days:** NWC remains comfortable at 30days (one of the best vs EPC peers). KNRC's gross debt is Rs 2.5bn, of which a large chunk is the promoter's loan at Rs 2bn. Cash and Equivalents is Rs 2bn.
- **Near-term outlook:** On account of land availability issues in few EPC projects and its impact on execution/getting appointed dates for HAM projects, we have cut down FY19E revenue estimate by 12% to Rs 20.4bn. We have increased EBITDA margins to 16-17% range.



**KNRC 1QFY19 continued its strong show with revenues 18.4% above estimates at Rs 5.6bn**

**EBITDA at Rs 1.1bn was 35.7% above our estimates, with EBITDA margins expanding to 19.7%**

**Other income is high on account of Rs 40mn of labour cess reversals and Rs 50mn of subcontractor provision write back**

**APAT came at Rs 630mn, 57.5% ahead of our estimates**

**On account of slight delays in a few projects due to land availability and a possibility of delay in getting appointed dates for HAM projects, we have cut down FY19E revenue estimate by 12% to Rs 20.4bn. FY19E APAT cut by 12.4%**

**Increased margins in line with the sustained level of margins that KNRC is delivering over the past 5 quarters**

## Standalone Quarterly Financial

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net Sales</b>	<b>5,564</b>	<b>4,808</b>	<b>15.7</b>	<b>6,244</b>	<b>(10.9)</b>
Material Expenses	(3,585)	(3,441)	4.2	(4,121)	(13.0)
Employee Expenses	(196)	(148)	32.4	(200)	(2.1)
Other Operating Expenses	(684)	(373)	83.1	(716)	(4.5)
<b>EBITDA</b>	<b>1,099</b>	<b>846</b>	<b>29.9</b>	<b>1,207</b>	<b>(9.0)</b>
Interest Cost	(72)	(52)	38.3	(88)	(18.3)
Depreciation	(360)	(244)	47.5	(491)	(26.7)
Other Income (Incl. EO Items)	178	123	45.0	183	(3.0)
<b>PBT</b>	<b>844</b>	<b>673</b>	<b>25.6</b>	<b>811</b>	<b>4.1</b>
Tax	(104)	4	(2,914.4)	(14)	645.0
<b>RPAT</b>	<b>740</b>	<b>676</b>	<b>9.5</b>	<b>797</b>	<b>(7.1)</b>
E/o (adj for tax)	(110)	-	-	-	-
<b>APAT</b>	<b>630</b>	<b>676</b>	<b>(6.8)</b>	<b>797</b>	<b>(20.9)</b>

Source: Company, HDFC sec Inst Research

## Margin Analysis

MARGIN ANALYSIS	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses % Net Sales	64.4	71.6	(712)	66.0	(156)
Employee Expenses % Net Sales	3.5	3.1	44	3.2	32
Other Operating Expenses % Net Sales	12.3	7.8	452	11.5	82
<b>EBITDA Margin (%)</b>	<b>19.7</b>	<b>17.6</b>	<b>215</b>	<b>19.3</b>	<b>42</b>
Tax Rate (%)	12.4	(0.6)	1,290	1.7	1,062
<b>APAT Margin (%)</b>	<b>11.3</b>	<b>14.1</b>	<b>(274)</b>	<b>12.8</b>	<b>(144)</b>

Source: Company, HDFC sec Inst Research

## Change in Estimates

	FY19E New	FY19E Old	% Change	FY19E New	FY19E Old	% Change
Revenues (Rs mn)	20,406	23,200	(12.0)	29,434	29,434	0.0
EBITDA (Rs mn)	3,456	3,622	(4.6)	4,682	4,594	1.9
Margin (%)	16.9	15.6	132.5bps	15.9	15.6	29.9bps
APAT (Rs mn)	1,417	1,617	(12.4)	2,089	2,138	(2.3)

Source: HDFC sec Inst Research

*We expect steady inflows to keep the order book at comfortable levels*

**FY18-20E revenue CAGR 23.4%**

*Tax rate to increase as projects with tax exemption achieve completion*

*The reported PAT includes impact of MAT credit. We have adjusted this to arrive at normalized PAT*

**KNR to generate strong FCF**

## Key Assumptions And Estimates

STANDALONE (Rs mn)	FY19E	FY20E	Comments
Closing order book	67,611	68,176	We expect steady inflows to keep the order book at comfortable levels
Order book growth (%)	7.3	0.8	
New order booking	25,000	30,000	
Book to bill ratio	3.3	2.3	Book to bill ratio to remain steady
<b>Total Revenue</b>	<b>20,406</b>	<b>29,434</b>	<b>FY18-20E Revenue CAGR of 23.4%</b>
Growth (%)	5.6	44.2	
EBIDTA	3,456	4,682	
EBIDTA margin (%)	16.9	15.9	Margins to decline from FY19E compared to FY18 as KNRC had written back some excess provision in projects nearing completion during FY18
Depreciation	1,472	1,664	
Financial Charges	297	377	Borrowing cost to remain at comfortable levels
PBT	2,024	2,985	
PBT margin (%)	9.9	10.1	
Tax	303.6	596.9	
Tax rate (%)	15.0	20.0	Tax rate to increase as projects with tax exemption achieve completion
RPAT	1,720	2,388	
Net margin (%)	8.4	8.1	
Extraordinary	(303.6)	(298.5)	To reflect MAT rate we taken additional provisioning. KNRC numbers will be reflected in RPAT
Adjusted PAT	1,417	2,089	
Gross Block Turnover	2.2	2.8	Improvement on account of new orders inflow
Debtor days	45	45	
CFO - a	3,857	3,177	<b>Higher revenue growth, robust client advance to result in higher positive cash flow from operations</b>
CFI - b	(2,424)	(2,356)	Investments in Gross block and HAM projects
FCF - a+b	1,433	821	KNR to generate strong FCF
CFF - c	(283)	(461)	
Total change in cash - a+b+c	1,151	359	

Source: HDFC sec Inst Research

**We value standalone EPC business at Rs 330/share (10x one year forward EV/EBITDA) – vs Rs 303/share earlier. Increase on account of EBIDTA revision upward for FY20E**

**Kerala BOT at Rs 28/share (at 1x P/BV of equity invested)**

**Muzaffarpur Barauni BOT at Rs 5/share (at 1x P/BV of equity invested)**

**Real estate at Rs 5/share (at 1x P/BV of amount invested)**

**HAM Projects investment at 23/share (at 1x book value of investments). Total pending HAM equity is Rs 4.4bn over next 2-3yrs**

**Our SOTP target price is Rs 392/share**

## Outlook and valuation

**Maintain BUY – with an increased TP of Rs 392/sh**

### Valuation methodology

- We have valued KNRC's EPC business at 10x one year forward EV/EBITDA. Our rationale behind this is (1) Strong order backlog of ~Rs 59.5bn (3.1x FY18 revenue), (2) Robust balance sheet net D/E of 0.03x, (3) Superior earnings quality vs. similar-sized peers makes a case for valuation premium and (4) Tremendous opportunity in HAM projects in the Southern states in the near future.
- KNR's promoter's share of debt is Rs 2,000mn of the standalone debt of Rs 2,470mn. Adjusted for promoters' loans and Rs 2,090mn of cash and cash equivalents, KNR standalone is a net cash company. This gives us comfort on gearing. Apart from that, improvement in the working capital cycle (driven by 10% mobilisation advances on NHAI road EPC orders) will keep debt under check.

- Investments in the road sector will continue to drive stock performance. KNRC, with its strong execution skills, is likely to benefit from the pick-up in order activity.
- We value the (1) Standalone EPC business at Rs 330/share (10x Mar-20 EV/EBITDA), (2) Kerala BOT at Rs 28/share (at 1x P/BV of equity invested), (3) Muzaffarpur Barauni BOT at Rs 5/share (at 1x P/BV of equity invested), (4) Real estate at Rs 5/share (at 1x P/BV of amount invested) and (5) HAM Projects investment at 23/share (at 1x book value of investments).

### SOTP Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
KNR Standalone	Core construction business	46,470	330	At 10x Mar-20 EV/EBITDA
Kerala BOT	Roads toll	3,974	28	At 1x P/BV(x) of invested equity
Muzaffarpur Barauni BOT	Roads toll	694	5	At 1x P/BV(x) of invested equity
Real Estate	Land on Book	718	5	At book value in balance sheet
HAM Projects investment	Roads BOT	3,200	23	Expected investment over next 3yrs at book value in balance sheet.
<b>Total</b>		<b>51,538</b>	<b>392</b>	

Source: HDFC sec Inst Research

## Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Dilip Buildcon	115.7	846	BUY	1,434	46.5	63.1	68.5	17.4	12.8	11.8	9.8	7.9	6.3	14.6	14.4	14.6
IRB Infra Developers	67.8	193	BUY	328	22.6	29.1	26.7	3.3	4.0	3.1	3.5	3.6	2.9	30.3	25.3	30.9
NCC	59.5	99	BUY	159	5.2	5.8	7.7	17.2	15.2	11.5	8.5	8.0	6.6	4.2	3.5	3.8
Sadbhav Engineering	47.8	279	BUY	438	12.9	15.4	16.6	10.4	8.7	8.0	9.1	7.0	5.5	11.8	12.5	12.0
PNC Infratech	42.1	164	BUY	322	4.1	8.7	10.5	26.3	12.1	7.5	10.8	7.2	4.9	6.2	11.9	16.5
Ashoka Buildcon	40.7	145	BUY	348	(5.9)	6.5	7.4	8.1	7.8	7.7	6.5	6.3	5.8	12.8	12.3	11.1
<b>KNR Constructions</b>	<b>32.1</b>	<b>231</b>	<b>BUY</b>	<b>392</b>	<b>13.6</b>	<b>10.1</b>	<b>14.9</b>	<b>12.5</b>	<b>16.9</b>	<b>11.4</b>	<b>6.6</b>	<b>7.1</b>	<b>5.2</b>	<b>18.7</b>	<b>11.3</b>	<b>14.3</b>
ITD Cementation*	24.6	143	BUY	211	6.1	10.8	12.3	23.4	15.9	12.2	10.4	7.3	6.2	16.2	17.9	16.8
Ahluwalia Contracts	21.8	326	BUY	486	17.3	22.2	25.3	18.1	14.1	12.4	9.1	7.4	6.3	20.5	21.4	19.9
J. Kumar Infraprojects	17.3	228	BUY	415	18.1	22.2	27.7	12.6	10.3	8.2	6.9	5.3	4.7	9.4	10.7	12.2
JMC Projects	17.7	527	BUY	844	31.6	33.4	39.9	12.7	12.0	10.1	6.8	6.4	5.4	14.4	13.3	14.0
PSP Projects	17.4	483	BUY	639	18.0	27.7	35.5	26.8	17.4	13.6	15.0	9.9	7.3	31.7	28.4	28.2
HG Infra	15.9	244	NR	NR	12.9	19.6	24.7	18.9	12.5	9.9	8.8	5.7	4.7	23.5	21.1	21.5
<b>Average (Core EPC)</b>					<b>15.6</b>	<b>21.1</b>	<b>24.4</b>	<b>16.0</b>	<b>12.3</b>	<b>9.8</b>	<b>8.6</b>	<b>6.9</b>	<b>5.5</b>	<b>16.5</b>	<b>15.7</b>	<b>16.6</b>

Source: Company, HDFC sec Inst Research \*ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E, 10<sup>th</sup> August 2018 Prices

### Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Revenues (post JV partner share)</b>	<b>9,025</b>	<b>15,411</b>	<b>19,317</b>	<b>20,406</b>	<b>29,434</b>
<b>Growth (%)</b>	<b>2.1</b>	<b>70.7</b>	<b>25.3</b>	<b>5.6</b>	<b>44.2</b>
Material Expenses	6,805	12,281	12,854	15,505	22,900
Employee Expenses	431	552	721	773	1,030
Other Operating Expenses	260	281	1,880	671	883
<b>EBIDTA</b>	<b>1,529</b>	<b>2,296</b>	<b>3,861</b>	<b>3,456</b>	<b>4,682</b>
<b>EBIDTA (%)</b>	<b>16.9</b>	<b>14.9</b>	<b>20.0</b>	<b>16.9</b>	<b>15.9</b>
<b>EBIDTA Growth (%)</b>	<b>13.8</b>	<b>50.1</b>	<b>68.2</b>	<b>(10.5)</b>	<b>35.5</b>
Depreciation	423	639	1,341	1,472	1,664
<b>EBIT</b>	<b>1,106</b>	<b>1,657</b>	<b>2,520</b>	<b>1,984</b>	<b>3,018</b>
Other Income (Incl. EO Items)	317	194	393	338	344
Interest	132	219	231	297	377
<b>PBT</b>	<b>1,291</b>	<b>1,632</b>	<b>2,682</b>	<b>2,024</b>	<b>2,985</b>
Tax	(319)	60	-39	304	597
<b>RPAT</b>	<b>1,611</b>	<b>1,573</b>	<b>2,721</b>	<b>1,720</b>	<b>2,388</b>
EO items (net of tax)	(165)	(141)	(805)	(304)	(298)
<b>APAT</b>	<b>1,445</b>	<b>1,432</b>	<b>1,917</b>	<b>1,417</b>	<b>2,089</b>
<b>APAT Growth (%)</b>	<b>97.9</b>	<b>(0.9)</b>	<b>33.9</b>	<b>(26.1)</b>	<b>47.5</b>
<b>EPS</b>	<b>10.3</b>	<b>10.2</b>	<b>13.6</b>	<b>10.1</b>	<b>14.9</b>
<b>EPS Growth (%)</b>	<b>97.9</b>	<b>(0.9)</b>	<b>33.9</b>	<b>(26.1)</b>	<b>47.5</b>

Source: Company, HDFC sec Inst Research

### Balance Sheet (Standalone)

As at March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	281	281	281	281	281
Reserves	7,096	8,674	11,297	13,185	15,488
<b>Total Shareholders Funds</b>	<b>7,377</b>	<b>8,955</b>	<b>11,578</b>	<b>13,466</b>	<b>15,770</b>
Long Term Debt	1,125	1,303	2,118	2,299	2,299
Short Term Debt	-	-	82	-	-
<b>Total Debt</b>	<b>1,125</b>	<b>1,303</b>	<b>2,200</b>	<b>2,299</b>	<b>2,299</b>
Deferred Taxes	(374)	(432)	(1,408)	(432)	(432)
Other Non Current Liabilities	325	314	284	314	314
<b>TOTAL SOURCES OF FUNDS</b>	<b>8,453</b>	<b>10,140</b>	<b>12,654</b>	<b>15,648</b>	<b>17,951</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1,762	2,607	3,316	3,327	2,862
CWIP	59	15	0	15	15
Investments, LT Loans & Advances	3,363	4,663	5,100	6,363	7,863
Other Non Current Assets	1,663	1,850	1,561	1,973	2,109
<b>Total Non-current Assets</b>	<b>6,848</b>	<b>9,135</b>	<b>9,977</b>	<b>11,678</b>	<b>12,849</b>
Inventories	353	574	712	825	1,208
Debtors	1,294	1,640	2,320	2,516	3,636
Cash & Equivalents	161	246	439	1,590	1,949
ST Loans & Advances, Others	3,555	4,153	4,801	5,278	7,323
<b>Total Current Assets</b>	<b>5,364</b>	<b>6,612</b>	<b>8,272</b>	<b>10,209</b>	<b>14,117</b>
Creditors	1,038	1,344	2,102	2,230	3,226
Other Current Liabilities & Provns	2,721	4,263	3,493	4,010	5,790
<b>Total Current Liabilities</b>	<b>3,759</b>	<b>5,607</b>	<b>5,595</b>	<b>6,240</b>	<b>9,016</b>
<b>Net Current Assets</b>	<b>1,605</b>	<b>1,005</b>	<b>2,677</b>	<b>3,969</b>	<b>5,101</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>8,454</b>	<b>10,140</b>	<b>12,655</b>	<b>15,647</b>	<b>17,951</b>

Source: Company, HDFC sec Inst Research

## Cash Flow (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
PBT	1,291	1,632	2,682	2,024	2,985
Non-operating & EO items	(86)	20	(393)	(338)	(344)
Interest expenses	132	219	231	297	377
Depreciation	423	639	1,341	1,472	1,664
Working Capital Change	830	730	(2,197)	704	(908)
Tax paid	(56)	(75)	39	(304)	(597)
<b>OPERATING CASH FLOW ( a )</b>	<b>2,534</b>	<b>3,165</b>	<b>1,703</b>	<b>3,857</b>	<b>3,177</b>
Capex	(595)	(1,383)	(2,035)	(1,498)	(1,200)
Free cash flow (FCF)	1,939	1,782	(332)	2,359	1,977
Investments	(1,944)	(1,750)	(437)	(1,263)	(1,500)
Other non operating income	-	-	393	338	344
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,538)</b>	<b>(3,133)</b>	<b>(2,079)</b>	<b>(2,424)</b>	<b>(2,356)</b>
Share capital Issuance	-	-	-	-	-
Debt Issuance	204	273	897	99	-
Interest expenses	(128)	(220)	(231)	(297)	(377)
Dividend	(68)	-	(97)	(84)	(84)
Others	-	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>9</b>	<b>53</b>	<b>569</b>	<b>(283)</b>	<b>(461)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>4</b>	<b>85</b>	<b>193</b>	<b>1,151</b>	<b>359</b>
Opening cash balance	157	161	246	439	1,590
Closing Cash & Equivalents	161	246	439	1,590	1,949

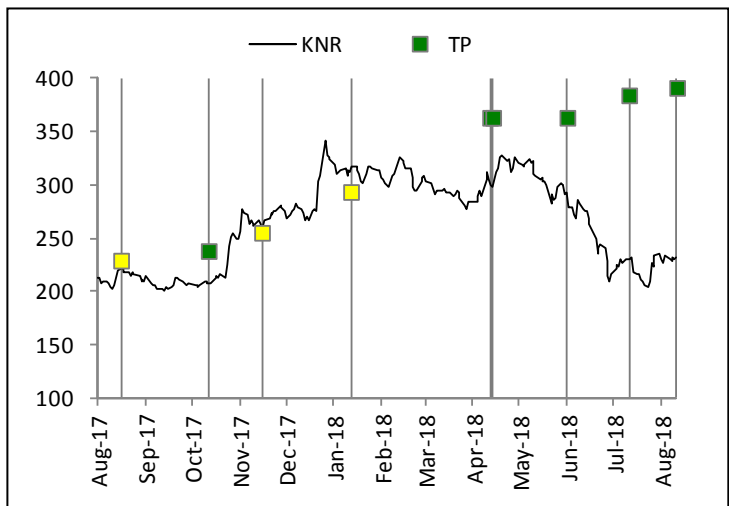
Source: Company, HDFC sec Inst Research

## Key Ratios (Standalone)

	FY16	FY17	FY18	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	24.6	20.3	33.5	24.0	22.2
EBITDA Margin	16.9	14.9	20.0	16.9	15.9
EBIT Margin	12.3	10.8	13.0	9.7	10.3
APAT Margin	16.0	9.3	9.9	6.9	7.1
RoE	22.1	17.5	18.7	11.3	14.3
Core RoCE	28.0	30.5	35.9	21.9	29.7
RoCE	19.0	16.2	17.0	10.7	13.3
<b>EFFICIENCY</b>					
Tax Rate (%)	(24.7)	3.7	(1.5)	15.0	20.0
Asset Turnover (x)	1.8	2.4	2.2	2.1	2.7
Inventory (days)	14	14	13	15	15
Debtors (days)	52	39	44	45	45
Payables (days)	42	32	40	40	40
Cash Conversion Cycle (days)	25	21	18	20	20
Other Current Assets (days)	144	98	91	94	91
Other Current Liab (days)	110	101	66	72	72
<b>Net Working Capital Cycle (Days)</b>	<b>58</b>	<b>18</b>	<b>42</b>	<b>43</b>	<b>39</b>
Debt/EBITDA (x)	0.7	0.6	0.6	0.7	0.5
Net D/E	0.13	0.12	0.2	0.1	0.0
Interest Coverage	8.4	7.6	10.9	6.7	8.0
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	10.3	10.2	13.6	10.1	14.9
CEPS (Rs/sh)	13.3	14.7	23.2	20.5	26.7
DPS (Rs/sh)	0.0	0.0	0.6	0.5	0.5
BV (Rs/sh)	52	64	82	96	112
<b>VALUATION</b>					
P/E	22.5	22.7	16.9	22.9	15.5
P/BV	4.4	3.6	2.8	2.4	2.1
EV/EBITDA	21.9	14.6	8.9	9.6	7.0
OCF/EV (%)	7.6	0.1	0.0	0.1	0.1
FCF/EV (%)	5.8	5.3	(1.0)	7.1	6.0
FCFE/Market Cap (%)	6.2	5.6	1.0	6.7	4.9
Dividend Yield (%)	0.0	0.0	0.3	0.2	0.2

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-Aug-17	221	NEU	228
11-Oct-17	209	BUY	239
15-Nov-17	255	NEU	255
12-Jan-18	314	NEU	293
12-Apr-18	300	BUY	364
14-Apr-18	298	BUY	364
31-May-18	298	BUY	364
10-Jul-18	230	BUY	385
12-Aug-18	231	BUY	392

### Rating Definitions

**BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period



**INSTITUTIONAL RESEARCH**
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# KNR Construction

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
37,645	11,356
<b>Bloomberg</b>	<b>KNRC IN</b>
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	32.1 / 0.5
52-Week Range (INR)	349 / 199
1, 6, 12 Rel. Per (%)	0/-40/-8
12M Avg Val (INR M)	67
Free float (%)	44.6

## Financials & Valuations (INR b)

Y/E MARCH	FY18	FY19E	FY20E
Net Sales	19.3	20.2	28.0
EBITDA	3.9	3.5	4.2
NP	2.7	1.9	2.4
EPS (INR)	19.4	13.7	16.8
EPS Gr. (%)	61.8	-29.1	22.3
BV/Sh. (INR)	82.3	95.3	111.8
RoE (%)	26.5	15.5	16.2
RoCE (%)	19.5	14.0	15.5
Payout (%)	11.9	16.8	13.7
Div. Yield	2.8	2.4	2.1

Estimate change 

TP change 

Rating change 

**CMP: INR228**

**TP: INR315 (+38%)**

**Buy**

## Building strong momentum – a beat on all fronts

- **Operating performance better than expected:** 1QFY19 revenue grew 16% YoY to INR5.6b, exceeding our estimate of INR4.9b, supported by smooth execution of projects in hand. Key projects contributing to revenue were KP Sagar Irrigation Project (INR1.7b; 30% of revenue), Yedula (INR500m), Madurai (INR540m) and Pollachi (INR450m). Operating profit of INR1.1b (+30% YoY), too, was above our estimate of INR0.74b, supported by better-than-expected execution. Operating margin expanded 210bp YoY to 19.7%, ahead of our estimate of 15.2%. PAT grew 10% YoY to INR740m, exceeding our estimate of INR417m. Tax rate stood at 12.3% v/s our estimate of 10%.
- **Order backlog provides strong medium-term revenue visibility:** As at June 2018, order backlog stood at INR59.6b (including EPC value of HAM project), providing revenue visibility of 3.2x its FY18 revenue. Of the total order book of INR59.6b, 93% comes from the Road segment and the balance from the Irrigation segment. KNR expects order inflow of INR25b to be finalized over the next 12 months from the irrigation and road sectors.
- **BoT portfolio – stabilization in toll revenue collection:** Both of KNRC's projects – Kerala BoT and Muzzafarpur-Baurani project – are 100% complete. Toll collection stood at INR1.6m/day for both the projects. KNR expects toll collection for Kerala BoT to improve to INR1.8m/per day once adjoining roads are fully operational.
- **Valuation and view:** Given the above-estimated performance, we raise our FY19 margin estimate to 17.1% from 16.1%. However, a higher tax rate provision (15% v/s 10% earlier) nets off the potential increase in earnings. We, thus, maintain our estimate and value KNRC on an SOTP basis: INR268/share for standalone EPC business (16x FY20E EPS of INR16.8), and INR46/share for investments in BOT projects, annuity projects and land parcels (1x book value). Maintain **Buy** with a target price of INR315.

## Standalone - Quarterly Earning Model

Y/E March	FY18				FY19				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY18E	FY19E	MoSL 1Q	Var (%)
<b>Net Sales</b>	<b>4,807</b>	<b>3,933</b>	<b>4,332</b>	<b>6,244</b>	<b>5,564</b>	<b>3,847</b>	<b>4,353</b>	<b>6,484</b>	<b>19,317</b>	<b>20,247</b>	<b>4,859</b>	<b>14</b>
YoY Change (%)	58.6	5.3	13.3	29.5	15.7	-2.2	0.5	3.8	25.3	4.8	1.1	
Total Expenditure	3,962	3,109	3,348	5,036	4,465	3,251	3,678	5,399	15,455	16,793	4,121	
<b>EBITDA</b>	<b>845</b>	<b>825</b>	<b>984</b>	<b>1,207</b>	<b>1,099</b>	<b>596</b>	<b>675</b>	<b>1,085</b>	<b>3,861</b>	<b>3,454</b>	<b>739</b>	<b>49</b>
Margins (%)	17.6	21.0	22.7	19.3	19.7	15.5	15.5	16.7	20.0	17.1	15.2	
Depreciation	244	235	371	491	360	328	328	295	1,341	1,310	306	
Interest	52	43	49	88	72	54	62	98	231	286	69	
Other Income	123	27	61	183	178	78	89	68	393	413	123	
<b>PBT before EO expense</b>	<b>672</b>	<b>574</b>	<b>624</b>	<b>811</b>	<b>844</b>	<b>293</b>	<b>374</b>	<b>759</b>	<b>2,682</b>	<b>2,271</b>	<b>463</b>	<b>82</b>
<b>PBT</b>	<b>672</b>	<b>574</b>	<b>624</b>	<b>811</b>	<b>844</b>	<b>293</b>	<b>374</b>	<b>759</b>	<b>2,682</b>	<b>2,271</b>	<b>463</b>	
Tax	-4	-17	-33	14	104	29	37	170	-39	341	46	
Rate (%)	-0.6	-2.9	-5.2	1.7	12.3	10.0	10.0	22.3	-1.5	15.0	10.0	
<b>Reported PAT</b>	<b>676</b>	<b>591</b>	<b>657</b>	<b>798</b>	<b>740</b>	<b>263</b>	<b>337</b>	<b>590</b>	<b>2,721</b>	<b>1,930</b>	<b>417</b>	<b>77</b>
<b>Adj. PAT</b>	<b>676</b>	<b>591</b>	<b>657</b>	<b>798</b>	<b>740</b>	<b>263</b>	<b>337</b>	<b>590</b>	<b>2,721</b>	<b>1,930</b>	<b>417</b>	
YoY Change (%)	123.7	34.5	58.1	52.1	9.5	-55.4	-48.7	-26.1	61.8	-29.1	-38.3	
Margins (%)	14.1	15.0	15.2	12.8	13.3	6.8	7.7	9.1	14.1	9.5	8.6	

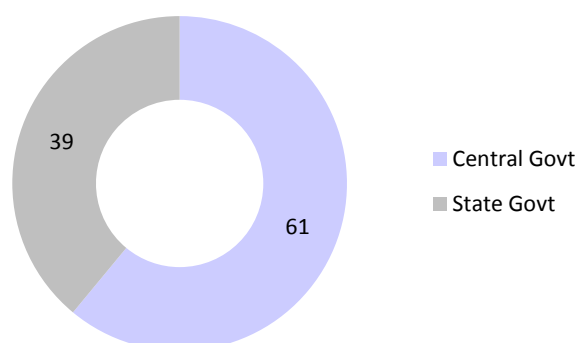
E: MOSL Estimates

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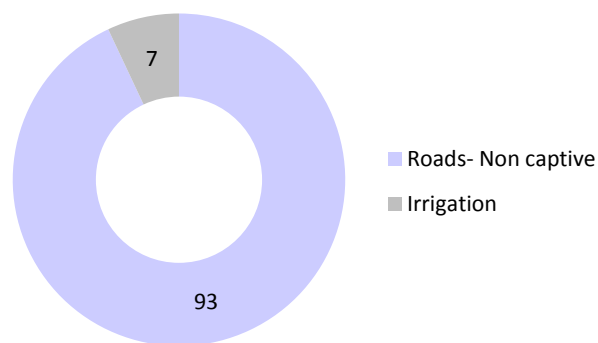
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**Exhibit 1: Client-wise order book bifurcation as on March 2018 (%)**

Source: MOSL, Company

**Exhibit 2: Business-wise order book bifurcation as on June 2018 (including EPC portion of HAM projects) (%)**

Source: MOSL, Company

**Exhibit 3: Unexecuted order book (INR m)**

Key Projects	1QFY19
Hubli Hospet section of NH 63	5,205
Thiruvananthapuram Bypass	2,707
State road from Gobuk-Mariyang-Sijhon Nallah in Auranachal Pradesh	1,742
Rehabilitation and upgradation of Dindigul-Bangalore Road (Pollachi to Coimbatore Section)	1,686
Two flyovers in Salem city	1,395
<b>Top 5 Customer contribution</b>	<b>13,556</b>
<b>other road project</b>	<b>2,711</b>
<b>Irrigation projects</b>	<b>4,337</b>
<b>Total</b>	<b>19,800</b>

Source: MOSL, Company

**Valuation and view**

Given the above-estimated performance, we raise our FY19 margin estimate to 17.1% from 16.1%. However, a higher tax rate provision (15% v/s 10% earlier) nets off the potential increase in earnings. We, thus, maintain our estimate and value KNRC on an SOTP basis: INR268/share for standalone EPC business (16x FY20E EPS of INR16.8), and INR46/share for investments in BOT projects, annuity projects and land parcels (1x book value). Maintain **Buy** with a target price of INR315. We like KNRC for its robust execution track record, driven by backward integration, a strong balance sheet (net-debt-equity of 0.1x) and consistent operating margins (14.5-15%).

## Financials and valuations

### Standalone - Income Statement

(INR m)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Total Income from Operations</b>	<b>7,562</b>	<b>6,921</b>	<b>8,348</b>	<b>8,761</b>	<b>9,025</b>	<b>15,411</b>	<b>19,317</b>	<b>20,247</b>	<b>28,048</b>
Change (%)	-4.6	-8.5	20.6	5.0	3.0	70.7	25.3	4.8	38.5
Materials & Subcontracting Cost	5,693	5,291	6,510	6,696	6,805	11,145	12,854	14,477	20,475
Employees Cost	269	295	349	381	435	552	721	899	1,249
Other Expenses	205	171	230	423	231	1,417	1,880	1,418	2,082
<b>Total Expenditure</b>	<b>6,167</b>	<b>5,757</b>	<b>7,090</b>	<b>7,500</b>	<b>7,471</b>	<b>13,115</b>	<b>15,455</b>	<b>16,793</b>	<b>23,806</b>
% of Sales	81.6	83.2	84.9	85.6	82.8	85.1	80.0	82.9	84.9
<b>EBITDA</b>	<b>1,394</b>	<b>1,164</b>	<b>1,258</b>	<b>1,261</b>	<b>1,554</b>	<b>2,296</b>	<b>3,861</b>	<b>3,454</b>	<b>4,242</b>
Margin (%)	18.4	16.8	15.1	14.4	17.2	14.9	20.0	17.1	15.1
Depreciation	514	557	572	541	431	639	1,341	1,310	1,363
<b>EBIT</b>	<b>881</b>	<b>608</b>	<b>686</b>	<b>721</b>	<b>1,123</b>	<b>1,657</b>	<b>2,520</b>	<b>2,144</b>	<b>2,879</b>
Int. and Finance Charges	96	113	172	122	126	219	231	286	308
Other Income	0	175	155	125	305	303	393	413	454
<b>PBT bef. EO Exp.</b>	<b>784</b>	<b>670</b>	<b>669</b>	<b>723</b>	<b>1,301</b>	<b>1,741</b>	<b>2,682</b>	<b>2,271</b>	<b>3,025</b>
EO Items	0	0	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>784</b>	<b>670</b>	<b>669</b>	<b>723</b>	<b>1,301</b>	<b>1,741</b>	<b>2,682</b>	<b>2,271</b>	<b>3,025</b>
Total Tax	257	149	59	-7	-310	60	-39	341	666
Tax Rate (%)	32.7	22.2	8.8	-1.0	-23.8	3.4	-1.5	15.0	22.0
Minority Interest	0	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>528</b>	<b>521</b>	<b>610</b>	<b>730</b>	<b>1,611</b>	<b>1,681</b>	<b>2,721</b>	<b>1,930</b>	<b>2,360</b>
<b>Adjusted PAT</b>	<b>528</b>	<b>521</b>	<b>610</b>	<b>730</b>	<b>1,611</b>	<b>1,681</b>	<b>2,721</b>	<b>1,930</b>	<b>2,360</b>
Change (%)	-13.6	-1.2	17.0	19.7	120.7	4.3	61.8	-29.1	22.3
Margin (%)	7.0	7.5	7.3	8.3	17.9	10.9	14.1	9.5	8.4

### Standalone - Balance Sheet

(INR m)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	281	281	281	281	281	281	281	281	281
Total Reserves	3,787	4,275	4,852	5,411	6,988	8,674	11,297	13,114	15,441
<b>Net Worth</b>	<b>4,068</b>	<b>4,557</b>	<b>5,133</b>	<b>5,692</b>	<b>7,270</b>	<b>8,955</b>	<b>11,578</b>	<b>13,395</b>	<b>15,722</b>
Total Loans	499	710	908	964	1,168	1,303	2,119	2,201	2,201
Deferred Tax Liabilities	7	-36	-118	-239	-276	-432	-1,408	-2,382	-2,382
<b>Capital Employed</b>	<b>4,574</b>	<b>5,231</b>	<b>5,923</b>	<b>6,417</b>	<b>8,162</b>	<b>9,827</b>	<b>12,290</b>	<b>13,214</b>	<b>15,541</b>
Gross Block	4,736	5,083	5,252	5,482	5,784	7,236	8,236	9,236	10,236
Less: Accum. Deprn.	1,637	2,181	2,615	3,239	3,375	4,014	5,355	6,665	8,028
<b>Net Fixed Assets</b>	<b>3,098</b>	<b>2,901</b>	<b>2,637</b>	<b>2,243</b>	<b>2,409</b>	<b>3,222</b>	<b>3,936</b>	<b>2,570</b>	<b>2,207</b>
Capital WIP	4	39	3	26	59	15	0	0	0
<b>Total Investments</b>	<b>546</b>	<b>483</b>	<b>400</b>	<b>315</b>	<b>434</b>	<b>5,351</b>	<b>5,180</b>	<b>5,430</b>	<b>5,680</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>4,510</b>	<b>6,081</b>	<b>6,386</b>	<b>7,211</b>	<b>9,603</b>	<b>7,158</b>	<b>8,933</b>	<b>12,615</b>	<b>17,097</b>
Inventory	268	297	341	359	353	574	712	969	1,403
Account Receivables	934	1,213	1,171	1,765	1,294	1,640	2,320	3,606	5,072
Cash and Bank Balance	85	72	112	157	161	246	438	3,711	4,734
Loans and Advances	3,223	4,499	4,763	4,930	7,794	4,698	5,463	4,329	5,889
<b>Curr. Liability &amp; Prov.</b>	<b>3,585</b>	<b>4,274</b>	<b>3,505</b>	<b>3,379</b>	<b>4,343</b>	<b>5,920</b>	<b>5,760</b>	<b>7,400</b>	<b>9,443</b>
Account Payables	1,020	1,063	786	705	1,121	1,427	2,184	1,641	2,281
Other Current Liabilities	1,664	2,118	2,282	2,365	2,690	2,127	3,391	3,359	4,761
Provisions	900	1,093	437	309	532	2,366	184	2,401	2,401
<b>Net Current Assets</b>	<b>925</b>	<b>1,808</b>	<b>2,881</b>	<b>3,832</b>	<b>5,259</b>	<b>1,238</b>	<b>3,174</b>	<b>5,214</b>	<b>7,654</b>
Misc Expenditure	0	0	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>4,574</b>	<b>5,231</b>	<b>5,922</b>	<b>6,417</b>	<b>8,162</b>	<b>9,827</b>	<b>12,290</b>	<b>13,215</b>	<b>15,541</b>

## Financials and valuations

### Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>3.8</b>	<b>3.7</b>	<b>4.3</b>	<b>5.2</b>	<b>11.5</b>	<b>12.0</b>	<b>19.4</b>	<b>13.7</b>	<b>16.8</b>
Cash EPS	7.4	7.7	8.4	9.0	14.5	16.5	28.9	23.0	26.5
BV/Share	28.9	32.4	36.5	40.5	51.7	63.7	82.3	95.3	111.8
DPS	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Payout (%)	6.2	6.3	5.4	4.5	2.0	1.9	1.2	1.7	1.4
<b>Valuation (x)</b>									
P/E				44.3	20.1	19.2	11.9	16.8	13.7
Cash P/E				25.5	15.8	13.9	8.0	10.0	8.7
P/BV				5.7	4.4	3.6	2.8	2.4	2.1
EV/Sales				3.8	3.7	2.2	1.8	1.5	1.1
EV/EBITDA				26.3	21.5	14.5	8.8	8.9	7.0
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FCF per share	1.0	-8.2	7.7	2.8	0.6	36.5	0.3	26.7	11.5
<b>Return Ratios (%)</b>									
RoE	13.8	12.1	12.6	13.5	24.9	20.7	26.5	15.5	16.2
RoCE	12.1	12.7	11.9	10.7	15.1	16.8	19.5	14.0	15.5
RoIC	14.8	11.3	10.9	10.2	13.4	22.6	37.0	31.9	48.8
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	1.6	1.4	1.6	1.6	1.6	2.1	2.3	2.2	2.7
Asset Turnover (x)	1.7	1.3	1.4	1.4	1.1	1.6	1.6	1.5	1.8
Inventory (Days)	13	16	15	15	14	14	13	17	18
Debtor (Days)	45	64	51	74	52	39	44	65	66
Creditor (Days)	49	56	34	29	45	34	41	30	30
<b>Leverage Ratio (x)</b>									
Current Ratio	1.3	1.4	1.8	2.1	2.2	1.2	1.6	1.7	1.8
Interest Cover Ratio	9.1	5.4	4.0	5.9	8.9	7.6	10.9	7.5	9.3
Net Debt/Equity	0.0	0.0	0.1	0.1	0.1	0.1	0.1	-0.1	-0.2

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	784	670	669	723	1,301	1,632	2,682	2,271	3,025
Depreciation	514	557	572	541	431	639	1,341	1,310	1,363
Interest & Finance Charges	110	112	175	128	126	219	231	286	308
Direct Taxes Paid	-414	-266	-235	-251	-22	-60	39	-341	-666
(Inc)/Dec in WC	-149	-1,838	165	-516	-1,423	4,108	-3,269	1,232	-1,418
<b>CF from Operations</b>	<b>844</b>	<b>-764</b>	<b>1,345</b>	<b>624</b>	<b>414</b>	<b>6,538</b>	<b>1,025</b>	<b>4,759</b>	<b>2,613</b>
Others	-14	-6	-13	47	0	0	0	0	0
<b>CF from Operating incl EO</b>	<b>830</b>	<b>-770</b>	<b>1,332</b>	<b>671</b>	<b>414</b>	<b>6,538</b>	<b>1,025</b>	<b>4,759</b>	<b>2,613</b>
(Inc)/Dec in FA	-688	-383	-252	-272	-334	-1,408	-985	-1,000	-1,000
<b>Free Cash Flow</b>	<b>142</b>	<b>-1,153</b>	<b>1,081</b>	<b>400</b>	<b>80</b>	<b>5,130</b>	<b>40</b>	<b>3,759</b>	<b>1,613</b>
(Pur)/Sale of Investments	187	71	52	52	-119	-4,917	171	-250	-250
Others	-85	-269	-599	-30	-2	64	0	0	0
<b>CF from Investments</b>	<b>-585</b>	<b>-581</b>	<b>-799</b>	<b>-250</b>	<b>-455</b>	<b>-6,261</b>	<b>-813</b>	<b>-1,250</b>	<b>-1,250</b>
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-197	155	197	56	204	136	815	82	0
Interest Paid	-110	-112	-172	-130	-126	-219	-231	-286	-308
Dividend Paid	-65	-33	-33	-33	-33	0	0	-33	-33
Others	-344	556	-517	-302	0	0	-603	0	0
CF from Fin. Activity	-717	566	-524	-409	45	-83	-19	-236	-341
<b>Inc/Dec of Cash</b>	<b>49</b>	<b>-12</b>	<b>40</b>	<b>45</b>	<b>4</b>	<b>85</b>	<b>193</b>	<b>3,272</b>	<b>1,022</b>
Opening Balance	36	85	72	112	157	161	246	439	3,711
<b>Closing Balance</b>	<b>85</b>	<b>72</b>	<b>112</b>	<b>157</b>	<b>161</b>	<b>246</b>	<b>439</b>	<b>3,711</b>	<b>4,734</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Disclosure of Interest Statement	<b>KNR Construction</b>
Analyst ownership of the stock	No

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Institutional Equity Research

# KNR Constructions

Construction | India

1QFY19 Result Update | August 14, 2018

CMP (Rs)	229
Upside/ (Downside) (%)	24
Bloomberg Ticker	KNRC IN
Market Cap. (Rs bn)	32
Free Float (%)	45
Shares O/S (mn)	141

**BUY** 

Target Price: Rs285

## Healthy Performance Continues; Upgrade to BUY

KNR Constructions (KNRC) has reported a strong performance in 1QFY19, which is ahead of our estimate, mainly on account of stronger-than-estimated revenue booking and higher operating margin. While revenue grew by 16% YoY (-11% QoQ) to Rs5.6bn, EBITDA improved by a strong 30% YoY to Rs1.09bn vs. our estimate of Rs805mn and EBITDA margin expanded by 216bps YoY (+41bps QoQ) to 19.7%. Owing to robust margin, KNRC's profit grew by 10% YoY to Rs740mn. Having seen muted EPC order inflow of Rs5.6bn in FY18, KNRC continued to witness dismal inflow in 1QFY19 as well, for which its current order backlog stands at mere Rs19.8bn (1x FY18). Hence, KNRC is dependent upon the EPC components of Rs39.8bn from recently bagged 5 HAM projects. It requires Rs4.4bn as equity commitment for these 5 HAM projects. We upgrade our earnings estimates by 7% each for FY19E and FY20E mainly to factor in superior margin in 1QFY19. **As stock witnessed sharp correction in last three months and the current valuations look attractive, we upgrade our recommendation on the stock to BUY from HOLD with a revised Target Price of Rs285.**

### Strong Performance on Better Execution

Aided by sustained execution ramp-up, KNRC's revenue grew by 16% YoY to Rs5.6bn. Like previous quarter, a strong EBITDA margin at 19.7% continues to remain a key positive, as lower subcontracting expenditure and higher margin from near-completion projects resulted in higher margin. However, low-margin HAM projects – which are likely to contribute significantly to its revenue – are expected to result in lower margin compared to margins posted for last couple of quarters.

### Order Backlog Looks Abysmally Low; HAM Projects to Aid Order Book

Having witnessed dismal EPC order inflow (barring HAM) in FY18 of Rs5.6bn, its current order backlog at Rs19.8bn (1x FY18 revenue) does not look impressive to fuel growth. We believe inclusion of EPC component of Rs40bn from 5 HAM projects is expected to aid growth, going forward. While KNRC has already obtained bank sanctions for 3 projects, land acquisition is still underway. It expects revenue flow to commence from 3QFY19 onwards from these HAM projects.

### Outlook & Valuation

We maintain our positive view on KNRC mainly owing to strong balance sheet (0.2x net D/E) and sound execution credentials. However, we do not expect any meaningful growth in its earnings over next 2 years considering lower-margin HAM projects and near completion of high-margin projects. Considering likely pressure on its balance-sheet (due to equity commitment of Rs4.4bn for HAM projects) and further jump in consolidated debt, we downgrade our target multiple from 18x to 16x. **As stock witnessed sharp correction in last three months with which the current valuations look attractive, we upgrade our recommendation on the stock to BUY from HOLD with a revised Target Price of Rs285.**

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	15,411	19,317	19,774	24,027
EBITDA	2,296	3,861	3,164	3,916
Net Profit	1,500	2,721	1,841	2,383
EPS (Rs)	10.7	19.4	13.1	16.9
DPS (Rs)	-	0.4	0.5	0.5
P/E (x)	21.5	11.8	17.5	13.5
P/B (x)	3.6	2.8	2.4	2.1
EV/EBITDA (x)	14.5	8.8	10.5	8.5
RoE (%)	18.4	26.5	14.8	16.4
Divi. Yield (%)	-	0.2	0.2	0.2

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	4.6	(25.8)	10.8
Relative to Nifty	1.5	(30.9)	(5.1)

Shareholding Pattern (%)	Mar'18	Jun'18
Promoter	55.4	55.4
Public	44.6	44.6

### 1 Year Stock Price Performance



Note: \* CMP as on Aug. 14, 2018

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Institutional Equity Research

# KNR Constructions

Construction | India

CMP (Rs)	229
Upside/ (Downside) (%)	24
Bloomberg Ticker	KNRC IN

**BUY** 

Target Price: Rs285

## Key Risks

- Inordinate delay in land acquisition for HAM Projects.
- Geographical diversification may put pressure on margins.

## Exhibit 1: Quarterly Performance

(Rs mn)	1QFY19	1QFY18	% yoy chg.	4QFY18	% qoq. chg.
<b>Net Sales</b>	<b>5,564</b>	<b>4,807</b>	<b>15.7</b>	<b>6,244</b>	<b>(10.9)</b>
Cost of materials consumed	1,370	1,013	35.3	1,645	(16.7)
% sales	24.6	21.1		26.3	
Employee Costs	196	148	32.3	200	(1.9)
% sales	3.5	3.1		3.2	
Spreading & Assortment Exps.	1,817	817	122.2	1,266	43.5
% sales	32.7	17.0		20.3	
Sub-contract exps.	399	1,610	(75.2)	1,210	(67.0)
% sales	7.2	33.5		19.4	
Other Exps.	684	373	83.1	716	(4.5)
% sales	12.3	7.8		11.5	
<b>Total Exps.</b>	<b>4,465</b>	<b>3,962</b>	<b>12.7</b>	<b>5,036</b>	<b>(11.3)</b>
<b>EBITDA</b>	<b>1,099</b>	<b>845</b>	<b>30.0</b>	<b>1,207</b>	<b>(9.0)</b>
<b>EBITDA Margins (%)</b>	<b>19.7</b>	<b>17.6</b>		<b>19.3</b>	
Depreciation	360	244	47.7	491	(26.7)
Finance Costs	72	52	38.5	88	(18.2)
Other Income	178	123	44.9	183	(2.8)
<b>PBT</b>	<b>844</b>	<b>672</b>	<b>25.6</b>	<b>811</b>	<b>4.1</b>
Tax Exps.	104	(4)	(2,912.1)	14	661.9
% PBT	12.3			1.7	
<b>PAT</b>	<b>740</b>	<b>676</b>	<b>9.5</b>	<b>797</b>	<b>(7.2)</b>
<b>APAT</b>	<b>740</b>	<b>676</b>	<b>9.5</b>	<b>797</b>	<b>(7.2)</b>
Net Margins (%)	13.3	14.1		12.8	

Source: Company, RSec Research

## Exhibit 2: Revised v/s Old Estimates

(Rs mn)	FY19E			FY20E		
	Old	Revised	% change	Old	Revised	% change
Sales	19,774	19,774	-	24,027	24,027	-
EBITDA	3,045	3,164	3.9	3,748	3,916	4.5
EBITDA margins (%)	15.4	16.0		15.6	16.3	
PAT	1,729	1,841	6.5	2,232	2,383	6.8
Net Margin (%)	8.7	9.3		9.3	9.9	

Source: RSec Research

Institutional Equity Research

# KNR Constructions

Construction | India

CMP (Rs)	229
Upside/ (Downside) (%)	24
Bloomberg Ticker	KNRC IN

**BUY** 

Target Price: Rs285

## Profit & Loss

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
<b>Income</b>	<b>15,411</b>	<b>19,317</b>	<b>19,774</b>	<b>24,027</b>
% yoy growth	70.7	25.3	2.4	21.5
Operating Expenses	13,115	15,455	16,610	20,111
<b>EBIDTA</b>	<b>2,296</b>	<b>3,861</b>	<b>3,164</b>	<b>3,916</b>
<b>EBIDTA Margin (%)</b>	<b>14.9</b>	<b>20.0</b>	<b>16.0</b>	<b>16.3</b>
Depreciation & Amortization	639	1,341	1,312	1,421
Interest	219	231	267	254
Other Income	303	393	354	407
Exceptional Item	109	-	-	-
<b>PBT</b>	<b>1,632</b>	<b>2,682</b>	<b>1,938</b>	<b>2,648</b>
Tax	60	(39)	97	265
% Tax	3.7	(1.5)	5.0	10.0
<b>Net Profit- Reported</b>	<b>1,573</b>	<b>2,721</b>	<b>1,841</b>	<b>2,383</b>
YoY Growth (%)	(2.4)	73.0	(32.3)	29.4
<b>Net Profit- Adjusted</b>	<b>1,500</b>	<b>2,721</b>	<b>1,841</b>	<b>2,383</b>
Net Profit Margin (%)	9.7	14.1	9.3	9.9

## Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Equities and Liabilities</b>				
Share Capital	281	281	281	281
Reserves & Surplus	8,674	11,323	13,080	15,379
Total Shareholder's funds	8,955	11,604	13,362	15,661
LT Borrowings	1,303	2,119	1,799	1,699
LT Provisions	17	43	48	54
Other LT Liabilities	297	242	273	306
Total NC Liabilities	1,617	2,404	2,120	2,058
Trade Payables	1,344	2,102	2,249	1,980
Other Curr. Liabilities	4,135	3,433	3,865	4,330
ST Provisions	128	142	160	179
<b>Total Current Liabilities</b>	<b>5,607</b>	<b>5,677</b>	<b>6,274</b>	<b>6,490</b>
<b>Total Liabilities</b>	<b>16,179</b>	<b>19,686</b>	<b>21,755</b>	<b>24,209</b>
<b>Assets</b>				
Gross Fixed Assets	6,402	8,451	9,651	10,651
Less: Acc. Depreciation	3,795	5,136	6,449	7,870
Net Fixed Assets	2,607	3,315	3,203	2,782
CWIP	15	0	0	0
NC Investment	5,278	5,720	6,720	8,720
Deferred Tax Assets (Net)	432	1,408	432	432
NC Loans and Advances	170	42	47	53
Other NC Assets	1,065	900	1,013	1,135
Total	9,567	11,385	11,416	13,123
Current Investment	688	256	277	299
Inventories	574	712	801	898
Sundry Debtors	1,640	2,320	3,213	3,480
Other Current Assets	1,832	2,744	3,089	3,462
Cash & Bank Balances	246	466	930	675
Loans & Advances	1,633	1,802	2,029	2,273
<b>Total Current Assets</b>	<b>6,612</b>	<b>8,300</b>	<b>10,339</b>	<b>11,086</b>
<b>Total Assets</b>	<b>16,179</b>	<b>19,686</b>	<b>21,755</b>	<b>24,209</b>

Institutional Equity Research

**KNR Constructions**

Construction | India

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Bloomberg Ticker	KNRC IN

**BUY** 

Target Price: Rs285

**Cash Flow Statement**

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	1,632	2,682	1,938	2,648
Depreciation	639	1,341	1,312	1,421
Tax Paid	(75)	(936)	879	(265)
Interest and Financial Exps.	219	231	267	254
<b>Net Change in Working Capital</b>	<b>730</b>	<b>(1,567)</b>	<b>(1,040)</b>	<b>(854)</b>
Others	20	(4)	-	-
<b>Net Cash from Operating Activities</b>	<b>3,165</b>	<b>1,747</b>	<b>3,356</b>	<b>3,205</b>
Capex	(1,465)	(2,034)	(1,200)	(1,000)
Sale / (Purchase) of Investments	(1,607)	(11)	(1,020)	(2,022)
Others	(23)	-	-	-
<b>Net Cash used in Investing Activities</b>	<b>(3,095)</b>	<b>(2,045)</b>	<b>(2,220)</b>	<b>(3,022)</b>
Proceeds/(repay) of Debt	273	816	(320)	(100)
Int., commitment & Fin. Charges Paid	(220)	(231)	(267)	(254)
Dividend and Dividend Tax paid	-	(67)	(84)	(84)
<b>Net Cash used in Financing Activities</b>	<b>53</b>	<b>517</b>	<b>(672)</b>	<b>(438)</b>
<b>Net Increase/ (Decrease) in Cash</b>	<b>123</b>	<b>219</b>	<b>464</b>	<b>(256)</b>
<b>Cash at Beginning of the Year</b>	<b>41</b>	<b>164</b>	<b>383</b>	<b>848</b>
Cash at End of the Year	164	383	848	592
Other Bank Balance	83	83	83	83
Cash at B/S	246	466	930	675

**Key Ratio**

Y/E Mar	FY17	FY18E	FY19E	FY20E
<b>Valuation Ratio (x)</b>				
P/E	21.5	11.8	17.5	13.5
P/CEPS	14.6	7.9	10.2	8.5
P/BV	3.6	2.8	2.4	2.1
EV/EBIDTA	14.5	8.8	10.5	8.5
EV/Sales	2.2	1.8	1.7	1.4
Dividend Payout (%)	-	2.1	3.8	2.9
Dividend Yield (%)	-	0.2	0.2	0.2
<b>Per Share Data (Rs)</b>				
EPS (Basic)	10.7	19.4	13.1	16.9
EPS (Diluted)	10.7	19.4	13.1	16.9
CEPS	15.7	28.9	22.4	27.1
DPS	-	0.4	0.5	0.5
Book Value	64	83	95	111
<b>Returns (%)</b>				
RoCE	18.9	23.4	14.8	17.3
RoE	18.4	26.5	14.8	16.4
<b>Turnover ratios (x)</b>				
Asset Turnover	2.4	2.3	2.0	2.3
Inventory (days)	17	15	15	15
Receivables (days)	49	49	60	58
Payables (days)	40	44	42	33
WCC (days)	26	20	33	40
<b>Solvency ratios (x)</b>				
D/E (x)	0.1	0.2	0.1	0.1
Current Ratio (x)	1.2	1.5	1.6	1.7

## Institutional Equity Research

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**BUY** 

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**Rating History**

Date	Reco	CMP	TP
4-Jun-18	HOLD	281	300
19-Feb-18	BUY	315	360
15-Nov-17	BUY	255	295
17-Aug-17	BUY	221	245
1-Jun-17	BUY	208	230
14-Feb-17	BUY	173	200
15-Nov-16	BUY	701	830
16-Aug-16	BUY	641	770

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Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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