

## KNR Constructions Ltd

BSE: 532942 | Sector: Construction

19<sup>th</sup> September 2017

vScore : 60 | Gain% : **23.19%**

**Buy Date:** 19-Sep-2017 | **Buy Price :** Rs. 207.00

**Exit Date:** 25-Oct-2017 | **Exit Price :** Rs. 255.0

### BUSINESS BACKGROUND

KNR Construction Ltd (KNRCL) is one of the leading infrastructure company engaged in the business of infrastructure project development providing Engineering, Procurement and Construction (EPC) services across various fast growing sectors namely roads, highways, flyovers and bridges. Over a period, the company has gained expertise in construction of roads on EPC basis and further diversified into other infrastructure segments like irrigation, water supply and urban water infrastructure management. KNRCL has a pan India presence with projects more than ~6,000 km across 12 states in India.

The company's clientele in road segment includes National Highway Authority of India (NHAI), Ministry of Road Transport and Highway (MoRTH), state governments and private companies.

### INVESTMENT HIGHLIGHTS

**Q1FY18 results:** In Q1FY18, revenue of the company has registered growth of 58% YoY to Rs 481 cr. The company registered EBITDA of Rs 84 cr in Q1FY18 vs Rs 44 cr in Q1FY17. EBITDA margin stood at 17.58% in Q1FY18 as against 14.41% in Q1FY17. PAT of the company registered growth of 124% YoY to Rs 68 cr. PAT margin stood at 14% in Q1FY18 vs 9.97% Q1FY17. (All figures are on standalone basis)

### Segment Highlights:

The company engaged in business of infrastructure project development. Other than this, company engaged in irrigation and water management projects.

### KEY DATA

FACE VALUE	Rs	2
DIVID YIELD %		-%
52 WK HI/LOW		229/114
NSE CODE		KNRCON
MARKET CAP		Rs. 2826 Cr

### SHAREHOLDING PATTERN

PROMOTERS	-	57.95%
BANKS, MFs & DIIIs	-	26.99%
FIIIs	-	4.59%
Others	-	10.47%

### KEY FUNDAMENTALS

Year Ending	FY17A	FY18E	FY19E
Rev Gr%	71	15	17
Net Profit Gr%	(3)	35	6.5
ROE%	19	21	19
ROCE %	21	23	24
EPS (Rs)	11.2	15.2	16.2
P/E (x)	17.8	13.1	12.3

**Anti Dumping on TDI, fuels the growth of the company:****Robust order book gives strong revenue visibility :**

The company's current order book stands at Rs.33,388 mn as on 30th June 2017 including the order of Rs 20,148 mn, which the company had won for top five road projects in South India. The company's book-to bill ratio stands at ~2.2 times currently. The order is estimate to get complete in next 2-2.5 years. This robust order book provides at least next two years revenue visibility. In order book, the road project contributes 85% of order book and irrigation contributes 15%. The government has initiated various reforms to ensure speedy approvals and clearances to aid the pace in construction, which will increase the order pipeline of KNR Constructions. Owing to this, the order book can increase by Rs.20000-25000 mn in next 9 months from mostly HAM projects & rest from irrigation and EPC projects.

**Excellent track record of completing project ;immune to execution risk:**

The company has an excellent track record of project execution by demonstrating its track record of ~6,000 km of road projects across 12 states in FY16-FY17. It has completed 46 projects in last five years. Strong project execution skills and speedy decision making involved in completing project ahead of scheduled time which results in bonus. Except the newly acquired projects; all projects are under operation and they can be seen in revenue. The Government is also giving bonus of upto 10% for completing the national highway project before deadline.

**Huge opportunity for KNR Construction from NHAI road projects:**

The road sector presents an enormous opportunity as the government has set an ambitious target of awarding 50,000 KMs of highway projects worth Rs. 5 lakhs crores in the next two years, surpassing the cumulative road length awarded in the last 5 years. In FY17, the government could only construct 8,231 KM of roads, that is 22.5 KM per day vis-à-vis the target of 15,000 KM that is 41 KM per day. In FY18, the government has kept the same target to construct 15,000 KM that is 41 KM per day. NHAI has been asked to execute 8,000 KM of highways for the current fiscal while the rest would be done by ministry. The company is positioned well to cater this opportunity on account of its execution capability and past track record.

## Business Outlook and Valuation :

At the moment for current price of **208** the stock is trading at (TTM) P/E of 14.49x. Going ahead we expect revenue growth of 15% for FY18 and 17% FY19. Hence our expectations for revenue for FY18 and FY19 are INR 1772 Cr and INR 2073 Cr respectively.

We expect company to maintain EBITDA margin around 17-18% for next two years. Going ahead we expect PAT margins of 10-12% for next two years. Our PAT expectations for FY18 and FY19 are INR 213 Cr, INR 227 Cr respectively. Our EPS expectations for FY18 and FY19 are INR 15.2 and INR 16.2 respectively.

We believe KNR Constructions Ltd. at TTM PE of 14.49x with ROCE around 23-24% with superior margins is attractively valued. For FY18 EPS expectations of INR 15.2 we expect target price of **258/share** with a stop loss at 190.

## FINANCIALS:

For the Year Ended March (INR)	FY16A	FY17A	FY18E	FY19E
Net Sales (Cr)	903	1541	1772	2073
EBIDTA (Cr)	155	230	304	385
EBIDTA %	17.17	14.93	17.14	18.56
Profit Before Tax (Cr)	131	164	232	284
Interest (Cr)	13	22	32	46
Depreciation (Cr)	42	64	76	96
Tax (Cr)	-31	6	19	57
Profit After Tax (Cr)	162	158	213	227
PAT%	17.95	10.23	12.03	10.95
Diluted EPS (INR)	11.5	11.2	15.2	16.2
Shareholder's Funds (Cr)	726	896	1099	1316
Borrowings (Cr)	116	130	143	150
Gross Block (Cr)	578	660	667	675

## Key Risks and Concerns:

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- KNR is highly dependent on road projects (~85% of order book). Any delay in awards or any political disharmony can impact the future outlook of the company.
- Slower execution rate can impact the revenue significantly.
- Revenue from the Company's Toll-based BOT projects are subject to risks associated with unpredictability of traffic growth.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk