

KNR Constructions Ltd

15th July 2016

BSE: 502986 | Sector: Infra-constructions

 vScore : 60 | Gain% : **181.25%**
Buy Date: 15-Jul-2016 | **Buy Price :** Rs.112.00

Exit Date: 18-Jan-2018 | **Exit Price :** Rs.315.0

Note - The stock had split in the ratio of 1:5

BUSINESS BACKGROUND

KNR Constructions Limited (KNRCL) is an infrastructure development organization. The Company's segments include Express ways, National Highways, State Highways & Rural Roads, Flyovers, Bridges and Viaducts, Irrigation Projects, Urban Development - Civic amenities and Commercial and Residential Projects.

The company is engaged in projects across India, covering Arunachal Pradesh, Bihar, Madhya Pradesh, Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. The projects include Bijapur - Hungund Section of NH - 13 - Karnataka (INDIA), Ganjam-Sunakhala of NH-5 - Orissa (INDIA), Lumding to Lanka section i/c Lanka Bypass of NH-54 - Assam (INDIA), Madurai - Kanniyakumari of NH - 7 - Tamilnadu. The current order book stands at more than INR 4,000 crores for the company.

INVESTMENT HIGHLIGHTS

Q4FY16 results: It recorded sales of INR 294 Cr, compared to INR 256 Cr in Q4FY15, EBITDA of INR 45 Cr (30% YoY up) EBITDA margin increased to 15% compared to 13% last year . Net profit of INR 57 Cr compared to 24.3 Cr in Q4FY15. Adj. EPS: INR 20.6/share compared to INR 8.67/share last year same quarter. (All figures are on standalone basis.)

Segment Highlights: KNR Constructions mainly operates in EPS busienss from where most part of topline comes. Apart form it also has few BOT projects, at the moment the company has 4 BOT projects operating.

KEY DATA

| | | |
|--------------|-----|---------|
| FACE VALUE | Rs | 10 |
| DIVD YIELD % | | 0.8 |
| 52 WK HI/LOW | | 651/408 |
| NSE CODE | | KNRCON |
| MARKET CAP | Rs. | 1,532Cr |

SHAREHOLDING PATTERN

| | | |
|------------------|---|--------|
| PROMOTERS | - | 60.75% |
| BANKS, MFs & DIs | - | 25.52% |
| Fils | - | 2.41% |
| PUBLIC | - | 11.32% |

KEY FUNDAMENTALS

| Year Ending | FY16A | FY17E | FY18E |
|----------------|-------|-------|-------|
| Rev Gr% | 7 | 20 | 25 |
| Net Profit Gr% | 81 | 6 | 30 |
| Roe % | 18 | 16 | 17 |
| RoCE % | 11 | 13 | 14 |
| EPS (Rs) | 44 | 47 | 62 |
| P/E (x) | 12 | 11 | 8 |

Consistent business growth over the last 2-3 years with strong order book:

The business of KNR Constructions have grown consistently over the last 2-3 years. In the year 2013, it recorded sales of INR 764 Cr which increased to INR 995 Cr in FY 2016. The net profit has increased from INR 49 Cr in 2013 to INR 126 Cr in FY 2016.

The EBITDA margins have increased over the years from around 12-13% to 15%+ in last 2 years.

At the end of FY16, the company have order book of INR 3,463 Cr in EPC roads and INR 56 Cr in irrigation. The company has won few more orders recently and hence at the end of May 2016, total order book stands at INR 4,554 Cr. The strong order book provides revenue visibility for next 2-3 years.

National Highways and infrastructure Industry is on a growth path with government support on spending:

The revival in highway and road constructions is taking place and is expected to improve over the next 2-3 years. The KNR Constructions is well poised to take benefit from improved road contracts. With its strong balance sheet and past record of execution and experienced management from the same field, there are very good chances that in future also it will keep getting good orders.

NHAI has awarded projects of more than 4,000 km in FY16 which is further expected to pick up, NHAI is looking to award projects for around 7,000 km and NHIDCL & MoRTH looking to further award another 8,000 km in near future.

Such as strong order book and further chances of winning more projects in next 2 years are very good long term investment factors for the company. It gives revenue visibility for almost next 3 years.

Other projects of the company :

The company is more focused on EPC business as of now. 778 lane kms project in state of Telangana, Karnataka, Kerala, Bihar. 2 annuity based projects and 1 toll based project has completed and one project is under construction. For its annuity based projects the company has formed JV as Patel KNR Infrastructure Ltd and Patel KNR Heavy Infrastructure Ltd through which it is operating 2 BOT projects in Karnataka and Telangana. The company has 40% stake in both the projects. KNR Walayar Tollways Private Ltd operates project in Kerala, the company has 100% stake in it.

BOT under construction project includes KNR Muzaffarpur barauni Tollway Pvt Ltd. This project is in Bihar under NHAI authority and has 21 years of concession period starting from July 2012. The company has 51% stake in this project. Current project status is 92-93% completion and remaining will be done in few months.

Business Outlook and Valuation :

At the moment at current price of 112 the stock is trading at (TTM) P/E of 13. Going ahead we expect revenue growth of 20-25% for FY17 and FY18. Hence our expectations for revenue for FY17 and; FY18 are INR 1,194 Cr and INR 1,492 Cr respectively.

We expect company to maintain EBITDA margin around 17% for next two years. Going ahead we expect PAT margins of 11% for next two years. Our PAT expectations for FY17 and FY18 are INR 133 Crs, INR 174 Crs respectively. Our EPS expectations for FY17 and 18 are INR 47, INR 62 respectively.

We believe KNR Constructions with its strong order book at PE of 13 with ROE above 15% is attractively valued. For FY18 EPS expectations of 62, we expect target price of 315 with a stop loss at 95.

FINANCIALS:

| For the Year Ended March (INR) | FY15A | FY16A | FY17E | FY18E |
|--------------------------------|-------|-------|-------|-------|
| Net Sales (Cr) | 931 | 995 | 1194 | 1492 |
| EBITDA (Cr) | 125 | 174 | 210 | 254 |
| EBITDA % | 13.5 | 17.5 | 17.6 | 17 |
| Profit Before Tax (Cr) | 71 | 112 | 152 | 200 |
| Interest (Cr) | 13.8 | 56.3 | 55 | 54 |
| Depreciation (Cr) | 54 | 48 | 53 | 58 |
| Tax (Cr) | -0.2 | -0.20 | 18 | 26 |
| Profit After Tax (Cr) | 69 | 126 | 133 | 174 |
| PAT% | 7.5 | 12.7 | 11.2 | 11.7 |
| Diluted EPS (INR) | 24.8 | 44.9 | 47.6 | 62.2 |
| Shareholders Funds (Cr) | 788 | 696 | 828 | 999 |
| Borrowings (Cr) | 760 | 736 | 736 | 736 |
| Gross Block (Cr) | 561 | 624 | 686 | 761 |

Key Risks and Concerns:

- Any down turn in the infrastructure activity and government orders can impact company's financials.
- Execution of projects and completion on time is important for revenue and profitability to pick up.
- Any adverse policies introduced by government can affect the overall sector and hence a company.

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