

KNR Constructions Ltd: Q1FY17 Result Update

Strong Quarter, Estimates Revised Upward
CMP: INR 641
Target: INR 755
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Bloomberg: KNRC:IN

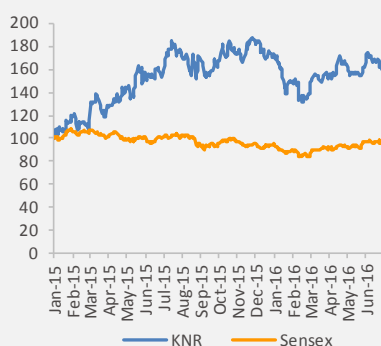
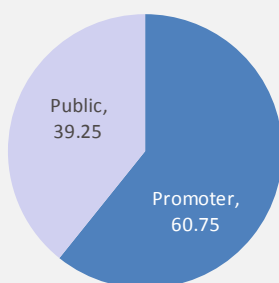
52-week range (INR): 653 / 410

Share in issue (Cr): 3

M cap (INR crs): 1,746

Avg. Daily Vol. BSE/NSE

:('000): 5 / 23

SHARE HOLDING PATTERN (%)

 Date: 16th August, 2017

KNR construction reported very strong set of numbers. Topline grew by whopping 77% YoY to INR 303 cr against our expectation of INR 243 cr. EBITDA margin remain flat at 14.4% YoY and operating profit grew by 77% YoY. PAT grew by 87% YoY and PAT margin improved by 40 bps YoY mainly due to low tax outgo. KNR's order book remains healthy and stands at INR 4925 cr as on 14th August, 2016 (more than 5x FY16 revenue), driven by road segment which contributes 83% of total order book and remaining 17% is contributed by irrigation segment. Based on the huge order book and strong execution, we have upgraded our FY17 and FY18E EPS estimates by 23%. We reiterate our BUY rating with a revised SOTP based target price of INR 755.

Strong execution drove revenue growth and profitability

Backed by the strong execution of the earlier own orders, KNR's revenue grew by 77% YoY to INR 303 cr. Growth in top line was way higher than our expectation of 24% growth YoY. Even after operating in the infrastructure space, where Q4 is normally the best quarter, KNR's revenue in Q1FY17 grew by 250 bps sequentially and that projects the robustness both in order inflow and execution. EBITDA margin maintained at 14.4% YoY and hence EBITDA also grew by 77% YoY. The management has guided to achieve top-line in excess of INR 1200 cr for FY17E and INR 1500 cr in FY18E. The management has also guided that it shall be able to maintain EBITDA levels in the range of 13.5-14.5% in near to medium term.

INR 4924 cr of Order-book indicating towards high growth FY17E and FY18E

KNR as of 14th August, 2016 is sitting on INR 4924 cr of order book. In Q1FY17, the company reported order inflow of INR 1091 cr and it has bid for incremental INR 3000 cr of orders. We believe, for the full year of FY17E, the company is expected to report more than INR 3000 cr of order inflow. Based on strong order-book position, we are upgrading our FY17E / FY18E revenue estimates to INR 1260 / 1632 cr from our earlier estimates of INR 1206 / 1508 cr. Due to higher top line growth and low tax rate assumption, we also upgrade our FY17E / FY18E EPS estimates to INR 37 / 49 cr from INR 30 / 39 cr earlier.

BOT projects and new capex will not put pressure on Standalone Balance Sheet

KNR's Kerala BOT project has toll collection of around INR 11-11.5 lakh per day against INR 16-18 lakh per day that the company had factored while bidding for the project. This project may need another INR 80-100 cr of equity infusion in FY17E for loss funding. Further investment in other BOT projects would be limited as all the projects are completed. The company also increased their FY17E capex guidance to INR 80 cr due to incremental investment in equipments. We believe, higher investment in both BOT and EPC business will not impact the overall debt position as major requirements will be funded from internal accruals. Overall debt levels is expected to remain at INR 100 cr over the next two financial years.

Valuations

We believe that KNR, with an enviable execution track record, strong balance sheet and decent ROCE would be a major beneficiary from the strong revival in the road infrastructure development being witnessed. We reiterate our BUY ratings on the stock with a SoTP based price target of INR 755.

Year to March	Q1FY17	Q1FY16	%Change	Q4FY16	%Change	FY16	FY17E	FY18E
Net Revenue (INR. Crs.)	303	171	77.1	296	2.5	903	1,259	1,632
Revenue Growth(%)						3.0	39.5	29.6
EBITDA (INR Crs.)	45	25	83.7	45	-	155	183	233
Net Profit (INR Crs.)	30	16	87.6	45	(33.6)	161	105	139
Profit Growth(%)						120	(35)	32
Adj. Diluted EPS (INR)	20.6	8.7	137.4	11.7	75.6	57.2	37.4	49.4
**Diluted P/E (x)						9.4	14.4	10.9
EV/EBITDA (x)						11.9	9.9	7.2
RoCE (%)						15.5	13.3	15.9

**for implied construction business

Q1FY17 Result Highlights

Year to March (INR Crs.)	Q1FY17	Q1FY16	%Change	Q4FY16	%Change	FY16	FY15	YoY
Net Revenues	303	171	77.1	296	2.5	903	876	3.0%
Operating Cost	240	118	102.9	203	18.2	607	597	1.7%
Employee Expenses	13	10	30.9	12	11.3	296	279	5.9%
Other Expenses	7	19	(63.6)	36	(81.3)	44	38	14.3%
Operating Expenses	259	147	77.0	251	3.5	97	115	-15.6%
EBITDA	44	25	77.7	45	(3.2)	748	750	-0.3%
Depreciation	13	10	27.6	11	19.9	155	126	23.0%
Other income	6	7	(18.0)	15	(61.9)	43	54	-20.2%
Net finance expense	4	3	57.4	4	6.0	30	12	144.9%
Profit before tax	32	19	71.9	45	(29.5)	13	12	3.1%
Provision for taxes	2	3	-	(12)	(115.1)	130	72	79.6%
Reported net profit	30	16	87.6	58	(47.9)	(31)	(1)	-
As % of net revenues						161	73	120.3%
Operating Cost	79.1	69.1	10.1	68.6	10.5			
Employee cost	4.2	5.7	(1.5)	3.9	0.3	100.0%	100.0%	
Other Expenses	2.2	10.8	(8.6)	12.2	(10.0)	4.8%	4.3%	.5%
Operating expenses	85.6	85.6	(0.1)	84.7	0.9	10.8%	13.2%	-2.4%
EBITDA	14.4	14.4	0.1	15.3	(0.9)	82.8%	85.6%	-2.8%
Reported net profit	10.0	9.4	0.6	19.6	(9.6)	17.2%	14.4%	2.8%
Tax rate (% of PBT)	5.9	13.8	(7.9)	(27.4)	33.2	17.8%	8.3%	9.5%

Financials

Income statement					(INR crs)
Year to March	FY14	FY15	FY16	FY17E	FY18E
Income from operations	834	876	903	1,259	1,632
Direct costs	573	597	607	856	1,122
Employee costs	35	38	44	50	58
Other expenses	101	115	97	170	220
Total operating expenses	709	750	748	1,076	1,399
EBITDA	125	126	155	183	233
Depreciation and amortisation	57	54	43	69	79
EBIT	68	72	112	114	154
Interest expenses	17	12	13	15	15
Other income	16	12	30	18	18
Profit before tax	66	72	130	117	158
Provision for tax	6	-1	-31	12	19
Reported profit	60	73	161	105	139
Equity shares outstanding (mn)	3	3	3	3	3
EPS (INR) basic	21.4	25.9	57.2	37.4	49.4
Diluted shares (mn)	2.8	2.8	2.8	2.8	2.8
EPS (INR) fully diluted	21.4	25.9	57.2	37.4	49.4
Dividend per share	1.0	1.0	3.1	2.0	2.7
Dividend payout (%)	4.7	3.9	5.4	5.4	5.4

Common size metrics- as % of net revenues

Year to March	FY14	FY15	FY16	FY17E	FY18E
Operating expenses	85.0	85.6	82.8	85.5	85.7
Depreciation	6.9	6.2	4.8	5.5	4.8
Interest expenditure	2.1	1.4	1.4	1.2	0.9
EBITDA margins	15.0	14.4	17.2	14.5	14.3
Net profit margins	7.2	8.3	17.8	8.4	8.5

Growth metrics (%)

Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	20.5	5.0	3.0	39.5	29.6
EBITDA	7.4	0.8	23.0	18.0	27.4
PBT	(1.3)	9.2	79.6	(9.9)	35.0
Net profit	15.6	21.1	120.3	(34.5)	32.0
EPS	15.6	21.1	120.3	(34.5)	32.0

Balance sheet					(INR crs)
As on 31st March	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	28	28	28	28	28
Reserves & surplus	485	541	693	793	924
Shareholders funds	513	569	721	821	952
Borrowings	58	88	113	113	113
Sources of funds	571	657	834	933	1,065
Gross block	539	555	618	703	793
Depreciation	275	329	373	442	521
Net block	264	226	246	261	273
Total fixed assets	264	226	246	261	273
Investments	40	31	43	43	43
Inventories	34	36	35	49	64
Sundry debtors	117	177	129	242	313
Cash and equivalents	11	17	11	32	182
Loans and advances	476	493	779	829	829
Total current assets	639	722	956	1,152	1,388
Sundry creditors and others	382	315	385	495	609
Provisions	43	31	53	56	59
Total CL & provisions	424	346	439	551	667
Net current assets	214	376	517	601	721
Net Deferred tax	12	24	28	28	28
Uses of funds	530	657	834	933	1,065
Book value per share (INR)	183	202	256	292	339

Cash flow statement					(INR crs)
Year to March	FY14	FY15	FY16	FY17E	FY18E
Net profit	60	73	161	105	139
Add: Depreciation	57	54	43	69	79
Add: Deferred tax	-8	-12	-4	0	0
Gross cash flow	109	115	200	175	217
Less: Changes in W. C.	71	115	146	64	-30
Operating cash flow	38	0	54	111	248
Less: Capex	27	16	63	85	90
Free cash flow	11	-16	-9	26	158

Ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
ROAE (%)	12.4	13.5	24.9	13.6	15.7
ROACE (%)	12.5	12.1	15.5	13.3	15.9
Total Asset Turns	1.5	1.4	1.1	1.4	1.6
EBIT Margins	10.0	9.6	15.8	10.4	10.6
Debt/Equity	0.1	0.2	0.2	0.1	0.1
Debtors (days)	51	74	52	70	70
Inventory (days)	15	15	14	14	14
Adjusted Other Current Assets (days)	149	149	261	261	261
Payable (days)	149	102	111	111	111
Cash conversion cycle (days)	48	59	21	54	54
Debt/EBITDA	0.5	0.7	0.7	0.6	0.5
Net debt/Equity	0.1	0.1	0.1	0.1	(0.1)
Adj Asset Turns	2.0	1.6	1.7	2.1	1.8
EBIT Margins (%)	10.0	9.6	15.8	10.4	10.6
Adjusted RoCE (%)	16.2	16.1	19.6	16.2	21.2

Valuation parameters

Year to March	FY14	FY15	FY16	FY17E	FY18E
Diluted EPS (INR)	21.4	25.9	57.2	37.4	49.4
Y-o-Y growth (%)	15.6	21.1	120.3	(34.5)	32.0
CEPS (INR)	41.8	45.2	72.5	62.1	77.3
Diluted P/E (x)	28.8	23.8	10.8	16.5	12.5
Price/BV(x)	3.4	3.1	2.4	2.1	1.8
EV/Sales (x)	2.1	2.1	2.0	1.4	1.0
EV/EBITDA (x)	14.3	14.3	11.9	9.9	7.2
Diluted shares O/S	2.8	2.8	2.8	2.8	2.8
Basic EPS	21.4	25.9	57.2	37.4	49.4
Basic PE (x)	28.8	23.8	10.8	16.5	12.5
Dividend yield (%)	0.2	0.2	0.4	0.3	0.4

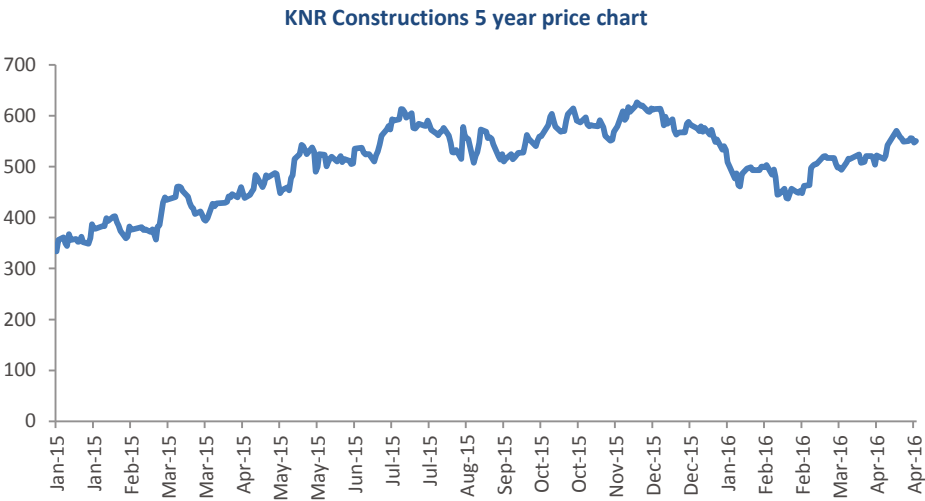
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Rating	Expected to
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Hold	appreciate up to 10% over a 12-month period
Reduce	depreciate more than 10% over a 12-month period



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