

## Accumulate

### View: Robust quarter, Fair Valuation; Maintain Accumulate

- KNR posted revenue and APAT in line however, EBITDA margins above estimates.
- KNR posted 54.4% / 51.9% / 83.5% YoY growth in revenue/ EBITDA/ Adj. PAT to Rs7.4 bn/ Rs1.4 bn/ Rs730 mn in Q1FY22.
- We broadly maintain our estimates for FY22E. We broadly maintain our revenue estimate and increase our EBITDA margin estimates by 65 bps for FY23E and factoring lower depreciation, we increase our APAT estimates by 13.0% for FY23E. KNR is currently working with 95% efficiency and labour at pre covid levels.
- We expect a 25.7% / 32.4% revenue/ APAT CAGR over FY21-23E, with EBITDA margins of 18.5% / 19.0% for FY22E/ FY23E. Although we factor healthy return ratios, a well-managed balance sheet, comfortable working capital, low D:E, quality management and pick up in pace of execution; the stock has increased 26% since our Q4FY21 report dated 21 May'21 thus we maintain Accumulate with a SOTP-based TP to Rs308 (16x FY23E EPS and 1.2x PB for HAM investment).

### Orderbook of Rs116.8 bn provides revenue visibility 3.9x TTM revenue

KNR won orders worth Rs45.1 bn/ Rs7.6 bn during FY21/ YTDFY22, taking the order book to Rs66 bn (Q1FY22). Considering 2 HAM (EPC value – Rs33.4 bn) and 2 EPC – Rs17.4 bn where AD is pending, orderbook stands at Rs116.8 bn providing revenue visibility for 3.9x TTM revenue. We expect fresh order inflow of Rs32.4 bn (excluding Rs50.8 bn already received but AD pending)/ Rs40 bn in FY22E/ FY23E.

### HAM equity investment

KNR invested Rs2 bn/ Rs3.6 bn till FY20/ FY21 in five HAM projects. We factor HAM equity investment of Rs586 mn in FY22E (post net off of 100% stake sale in 3 HAM projects to Cube highways on CoD) and Rs3.7 bn in FY23E.

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	7,400	4,794	54.4	9,358	(20.9)
Total Expense	5,967	3,850	55.0	7,536	(20.8)
EBITDA	1,433	943	51.9	1,822	(21.3)
Depreciation	269	331	(18.6)	388	(30.5)
EBIT	1,164	612	90.0	1,434	(18.9)
Other Income	48	61	(21.3)	94	(48.8)
Interest	79	102	(22.7)	43	82.9
EBT	1,133	571	98.3	1,485	(23.7)
Tax	403	173	132.2	715	(43.7)
RPAT	730	398	83.5	770	(5.2)
APAT	730	398	83.5	963	(24.2)
			(bps)		(bps)
Gross Margin (%)	32.4	34.3	(192)	35.1	(269)
EBITDA Margin (%)	19.4	19.7	(31)	19.5	(10)
NPM (%)	9.9	8.3	157	10.3	(42)
Tax Rate (%)	35.5	30.3	520	48.2	(1261)
EBIT Margin (%)	15.7	12.8	295	15.3	40

CMP	Rs 286		
Target / Upside	Rs 308 / 8%		
NIFTY	16,364		
<b>Scrip Details</b>			
Equity / FV	Rs 562mn / Rs 2		
Market Cap	Rs 80bn		
	USD 1.1bn		
52-week High/Low	Rs 294/ 105		
Avg. Volume (no)	12,77,310		
Bloom Code	KNRC IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	17	34	165
Rel to NIFTY (%)	12	21	121

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	55.0	55.0	53.3
MF/Banks/FIs	34.3	32.4	34.4
FII	1.5	2.1	2.3
Public / Others	9.2	10.5	10.1

### Valuation (x)

	FY21A	FY22E	FY23E
P/E	29.3	24.7	16.7
EV/EBITDA	14.8	13.0	9.9
ROE (%)	15.7	15.9	19.9
RoACE (%)	17.8	18.0	22.0

### Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	27,026	33,069	42,685
EBITDA	5,358	6,120	8,110
PAT	2,747	3,248	4,814
EPS (Rs.)	9.8	11.5	17.1

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**Exhibit 1: Actual V/s DART estimates (Rs mn)**

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	7,400	7,459	(0.8)	In Line
EBITDA (Rs mn)	1,433	1,379	3.9	-
EBITDA%	19.4	18.5	88 bps	Led by lower employee and other expense
APAT (Rs mn)	730	751	(2.8)	In Line

Source: Company, DART

**Exhibit 2: Change in estimates – Broadly maintain FY22E and increase FY23E estimates**

(Rs mn)	FY22E			FY23E		
	New	Old	% change	New	Old	%change
Net revenues	33,069	32,432	2.0	42,685	41,850	2.0
EBIDTA	6,120	5,972	2.5	8,110	7,681	5.6
EBIDTA margin (%)	18.5	18.4	9	19.0	18.4	65
Adj. Net Profit	3,248	3,197	1.6	4,814	4,259	13.0
EPS (Rs)	11.5	11.4	1.6	17.1	15.1	13.0

Source: DART, Company

**Key earnings takeaways**

- Industry: MORTH has constructed record highway construction of 13394 km in FY21 vs. 10,467 km in FY20. Construction in Q1FY22 was 2284 km (+25% YoY). Target to reach 40km/ day construction by FY24. Toll revenue increased 15.5% YoY in Jul'21.
- KNR believes they have sufficient management bandwidth and geared up for 2-3 years. Enough opportunities are there like Bharatmala in road sector and Irrigation too for next 2-3 years. Urban infra also has flyover and bridges. Though some slowdown is seen in state govt projects. Few tenders in road segment are Chennai Bangalore and Hyderabad Bangalore. NHAI has identified 22 expressways in Bharatmala.
- KNR has bided for 2 HAM projects and result is awaited. Additional will bid for 6-7 projects worth Rs10-12 bn each. KNR targets to win Rs20-30 bn order inflows in FY22E and can take 2-3 HAM projects in FY22E.
- KNR had increased its guidance for revenue to Rs34 bn from Rs30 bn for FY22E. KNR has guided for EBITDA margins of 17-18% for FY22E. Escalation clause is there in HAM projects due to increase in commodity prices.
- NHAI is facing approval issues where project size is Rs20 bn and more. Larger the project, more consortium of banks is needed.
- Revenue contribution in Q1FY22 from HAM/ EPC/ Irrigation is 52%/ 17%/ 28% vs. 48%/ 19%/ 23% in Q1FY21.
- All projects in Irrigation OB are working fine except for Rs7 bn Kaleshwaram project JV with HES which has certain land issues. Malana 95% is completed.
- Irrigation receivables are Rs6.5 bn from Telangana govt of which Rs2.7 bn bills are submitted but not yet received payment and the same should receive in 2-3 months.
- KNR will continue to bid for good irrigation projects but only in Telangana and not in AP as AP payment is worst whereas Telangana payments are better. Karnataka and Maharashtra too are coming with Irrigation projects.
- Physical progress – Chittor – 91.8%, Ramsanpalle – 89.1%, Trichy – 72.7%, KSHIP – 39.1% and Oddanchatram – 28.6%.

- Chittor project likely to get Rs90 mn early completion bonus. Cheyyur – Vandavasi EPC work has started and expect revenue to reflect in Q3FY22.
- 50% of covid cases in India currently are from Kerala due to which KNR is facing labour issues and land acquisition has also slowed down.
- KNR received Chittor PCOD on 10 May'21 (142 days ahead of schedule) and balance 2 HAM PCOD is expected in 2 months. KNR will not refinance the project and will look to sell the assets and free up equity.
- KNR has applied for COD for Trichy project for 27.8 km and 4 km was received last week and balance 4 km is pending, of which 3 km is expected in 1-2 months and balance 1 km will take more time or can be descoped.
- KNR is expected to receive arbitration from Odisha of Rs700 mn which excludes the expenses and tax.
- KNR has shifted to new tax rate and effective tax rate will be 25-26%. It can increase to 30% considering increase in deferred tax asset.
- Total equity required is Rs6.25 bn of which Rs4.25 bn is invested as on Jun'21 and Rs1.35 bn/ Rs650 mn to be invested for 5 HAM projects in FY22E/ FY23E.
- Equity for 2 Kerala HAM projects where 60-65% land is available, required is Rs4.3 bn (AD expected in Q3FY22 and revenue execution in Q4FY22 and Rs2 bn equity to be infused in Q4FY22) and Chittor-Thatchur is Rs1 bn (AD expected in FY23E). Expect LOA of Chittor Thatchur in 2 months as there are farmers issues going on.
- Capex guidance for FY22E is Rs1.4-1.5 bn and Rs420 mn is done in Q1FY22. Depreciation guidance of Rs1.2-1.5 bn for FY22E.
- Retention money/ Retention withheld is Rs1.84 bn/ Rs1.08 bn. Mobilization advance receivable/ Mobilization advance to be paid is Rs1.34 bn/ Rs2.2 bn. Net Cash is Rs470 mn. Inventory/ Debtors is Rs1.64 bn/ Rs6.97 bn.
- Out of receivables of Rs6.97 bn, Rs3.98 bn pertain to HAM projects and Rs2.73 bn for irrigation projects.

### **Sale of 3 HAM projects to Cube Highways**

KNR has received appointed date for Chittor-Malavaram, Ramsanpalle-Mangloor, Tiruchirapalli-Kallagam, KSHIP HAM (Magadi-Somwarpet) and Oddanchatram – Madathukulam and KNR has received PCOD for Chittor-Malavaram on 10 May'21 and expects PCOD of Ramsanpalle-Mangloor and Tiruchirapalli-Kallagam in next 2 months.

KNR has also entered into share purchase agreement with Cube highways for 3 HAM projects wherein KNR will receive Rs3.22 bn against its equity investment of Rs1.9 bn (51% share). The average deal valuation works out at 1.7x P/B. Cube Highways will be investing 49% equity (Rs1.84 bn) out of total requirement of Rs3.44 bn during construction period. On achieving CoD, Cube Highways will acquire 25% equity stake out of 51% from KNR and will acquire remaining 26% after expiry of lock in period (~2 years) post CoD. Thus, acquiring 100% stake from KNR.

### **BOT Toll project update**

The company has received 100% CoD for its Muzaffarpur-Barauni Toll project on 24<sup>th</sup> Aug'17 and toll collection started from 1<sup>st</sup> Oct'17. Toll collection during FY18/ FY19/ FY20/ FY21/ Q1FY22 stood at Rs453mn/ Rs728 mn/ Rs692 mn/ Rs427 mn/ Rs120 mn. Toll collection per day stood at Rs1.32 mn in Q1FY22.

**Exhibit 3: Q1FY22 Performance (Standalone)**

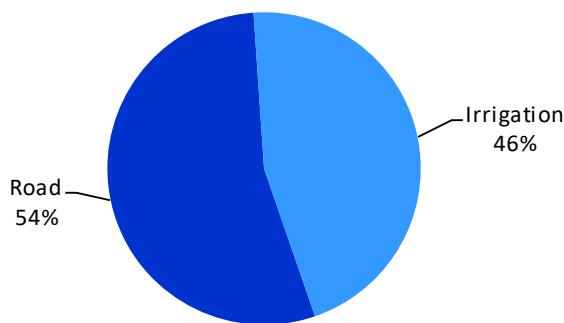
Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenue</b>	<b>7,400</b>	<b>4,794</b>	<b>54.4</b>	<b>9,358</b>	<b>(20.9)</b>	<b>27,026</b>	<b>22,442</b>	<b>20.4</b>
Material consumed	3,292	1,899	73.4	3,321	(0.8)	9,265	7,533	23.0
Sub-contractors work bills	225	410	(45.0)	870	(74.1)	1,888	770	145.2
Spreading & Assortment	1,487	842	76.6	1,887	(21.2)	6,212	5,247	18.4
Employees cost	335	278	20.7	348	(3.8)	1,321	1,252	5.5
Other expenditure	627	423	48.4	1,110	(43.5)	2,983	2,770	7.7
<b>Total expenditure</b>	<b>5,967</b>	<b>3,850</b>	<b>55.0</b>	<b>7,536</b>	<b>(20.8)</b>	<b>21,668</b>	<b>17,572</b>	<b>23.3</b>
<b>EBITDA</b>	<b>1,433</b>	<b>943</b>	<b>51.9</b>	<b>1,822</b>	<b>(21.3)</b>	<b>5,358</b>	<b>4,871</b>	<b>10.0</b>
Depreciation	269	331	(18.6)	388	(30.5)	1,444	1,918	(24.7)
<b>Operating profit</b>	<b>1,164</b>	<b>612</b>	<b>90.0</b>	<b>1,434</b>	<b>(18.9)</b>	<b>3,915</b>	<b>2,952</b>	<b>32.6</b>
Other income	48	61	(21.3)	94	(48.8)	496	566	(12.3)
<b>EBIT</b>	<b>1,212</b>	<b>673</b>	<b>79.9</b>	<b>1,528</b>	<b>(20.7)</b>	<b>4,411</b>	<b>3,518</b>	<b>25.4</b>
Interest	79	102	(22.7)	43	82.9	487	474	2.8
Exceptional item	-	-	-	-	-	112	107	4.9
<b>EBT</b>	<b>1,133</b>	<b>571</b>	<b>98.3</b>	<b>1,485</b>	<b>(23.7)</b>	<b>3,811</b>	<b>2,937</b>	<b>29.8</b>
Provision for taxation	403	173	132.2	715	(43.7)	1,370	685	100.1
<b>Net income</b>	<b>730</b>	<b>398</b>	<b>83.5</b>	<b>770</b>	<b>(5.2)</b>	<b>2,442</b>	<b>2,252</b>	<b>8.4</b>
Adjustments	-	-	-	193	(100.0)	306	(234)	-
<b>Adjusted net income</b>	<b>730</b>	<b>398</b>	<b>83.5</b>	<b>963</b>	<b>(24.2)</b>	<b>2,747</b>	<b>2,018</b>	<b>36.1</b>
<b>EPS (Rs)</b>	<b>2.6</b>	<b>1.4</b>	<b>83.5</b>	<b>3.4</b>	<b>(24.2)</b>	<b>9.8</b>	<b>7.2</b>	<b>36.1</b>
					<b>(bps)</b>			
EBIDTA Margin (Excl. O.I.)	19.4	19.7	(31)	19.5	(10)	19.8	21.7	(188)
EBIDTA Margin (Incl. O.I.)	20.0	21.0	(94)	20.5	(46)	21.7	24.2	(256)
NPM (%)	9.8	8.2	161	10.2	(38)	10.0	8.8	121
Tax/PBT (%)	35.5	30.3	520	48.2	(1261)	35.9	23.3	1,262
Construction/Revenue (%)	67.6	65.7	192	64.9	269	64.2	60.4	387

Source: Company, DART

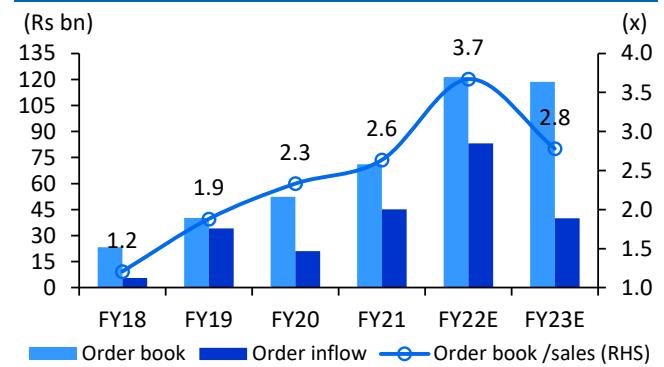
**Exhibit 4: SOTP Valuation**

Component	Valuation Method	Rs/sh	%
Standalone cons business	16x FY23E EPS	273.9	89.0
HAM equity investments (FY23E)	1.2xBV	33.9	11.0
<b>Total</b>		<b>307.8</b>	100.0
<b>CMP</b>		<b>285.8</b>	
Potential upside (%)			7.7

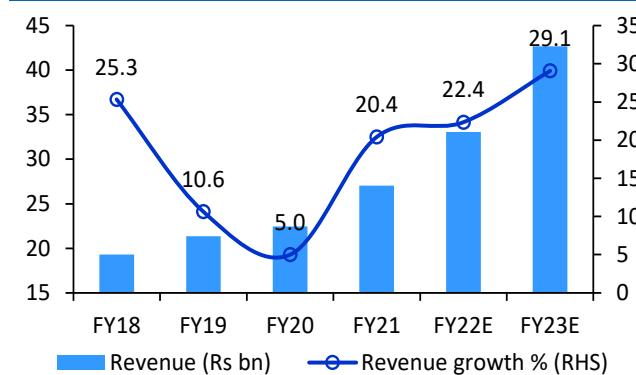
Source: DART, Company

**Exhibit 5: Rs66 bn order book break up**


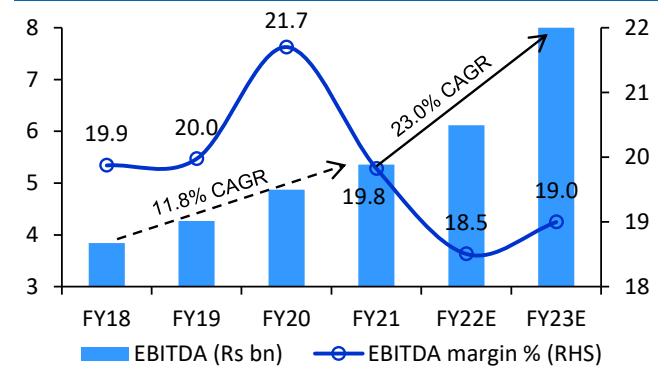
Source: Company, DART

**Exhibit 6: Order book trend**


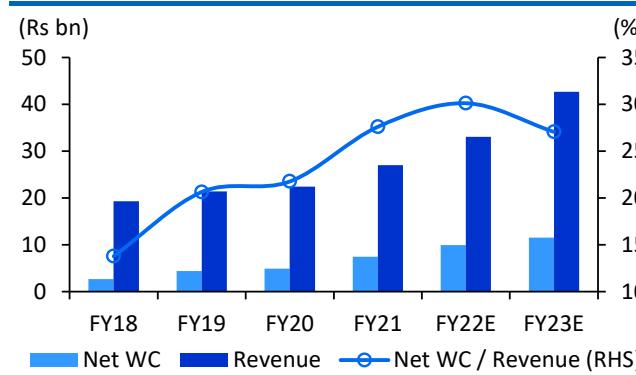
Source: Company, DART

**Exhibit 7: 25.7% Revenue CAGR over FY21-23E**


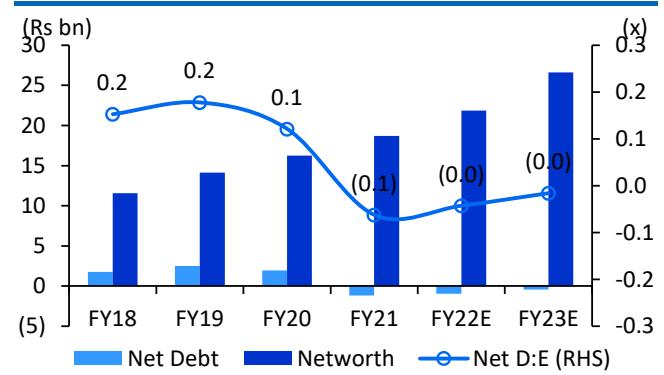
Source: Company, DART

**Exhibit 8: 23.0% EBITDA CAGR over FY21-23E**


Source: Company, DART

**Exhibit 9: Efficient working capital management**


Source: Company, DART

**Exhibit 10: One of the lowest net D:E in the sector**


Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>22,442</b>	<b>27,026</b>	<b>33,069</b>	<b>42,685</b>
<b>Total Expense</b>	<b>17,572</b>	<b>21,668</b>	<b>26,949</b>	<b>34,575</b>
COGS	13,550	17,364	21,726	28,057
Employees Cost	1,252	1,321	1,585	1,823
Other expenses	2,770	2,983	3,638	4,695
<b>EBIDTA</b>	<b>4,871</b>	<b>5,358</b>	<b>6,120</b>	<b>8,110</b>
Depreciation	1,918	1,444	1,549	1,743
<b>EBIT</b>	<b>2,952</b>	<b>3,915</b>	<b>4,571</b>	<b>6,367</b>
Interest	474	487	180	200
Other Income	566	496	333	300
Exc. / E.O. items	(107)	(112)	0	0
<b>EBT</b>	<b>2,937</b>	<b>3,811</b>	<b>4,724</b>	<b>6,467</b>
Tax	685	1,370	1,476	1,653
RPAT	2,252	2,442	3,248	4,814
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>2,018</b>	<b>2,747</b>	<b>3,248</b>	<b>4,814</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	281	562	562	562
Minority Interest	0	0	0	0
Reserves & Surplus	15,958	18,116	21,294	26,037
<b>Net Worth</b>	<b>16,239</b>	<b>18,678</b>	<b>21,856</b>	<b>26,600</b>
Total Debt	2,297	7	0	0
Net Deferred Tax Liability	(1,610)	(1,486)	(1,352)	(1,535)
<b>Total Capital Employed</b>	<b>16,926</b>	<b>17,199</b>	<b>20,504</b>	<b>25,064</b>

**Applications of Funds**

Net Block	<b>4,464</b>	<b>4,051</b>	<b>4,526</b>	<b>4,283</b>
CWIP	102	24	0	0
Investments	7,149	4,898	5,484	9,204
<b>Current Assets, Loans &amp; Advances</b>	<b>13,854</b>	<b>18,748</b>	<b>23,539</b>	<b>28,188</b>
Inventories	1,232	1,480	1,886	2,420
Receivables	4,761	8,632	9,921	11,525
Cash and Bank Balances	330	1,173	939	430
Loans and Advances	57	105	135	173
Other Current Assets	7,474	7,357	10,658	13,640
<b>Less: Current Liabilities &amp; Provisions</b>	<b>8,642</b>	<b>10,521</b>	<b>13,044</b>	<b>16,611</b>
Payables	2,511	2,397	3,099	3,976
Other Current Liabilities	6,131	8,124	9,945	12,635
<i>sub total</i>				
Net Current Assets	5,212	8,226	10,494	11,578
<b>Total Assets</b>	<b>16,926</b>	<b>17,199</b>	<b>20,504</b>	<b>25,064</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	39.6	35.8	34.3	34.3
EBIDTA Margin	21.7	19.8	18.5	19.0
EBIT Margin	13.2	14.5	13.8	14.9
Tax rate	23.3	35.9	31.2	25.6
Net Profit Margin	9.0	10.2	9.8	11.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	60.4	64.2	65.7	65.7
Employee	5.6	4.9	4.8	4.3
Other	12.3	11.0	11.0	11.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	6.2	8.0	25.4	31.8
Inventory days	20	20	21	21
Debtors days	77	117	110	99
Average Cost of Debt	19.2	42.3	5053.3	
Payable days	41	32	34	34
Working Capital days	85	111	116	99
FA T/O	5.0	6.7	7.3	10.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	7.2	9.8	11.5	17.1
CEPS (Rs)	14.0	14.9	17.1	23.3
DPS (Rs)	0.5	0.0	0.3	0.3
Dividend Payout (%)	7.6	0.0	2.2	1.5
BVPS (Rs)	57.7	66.4	77.7	94.6
RoANW (%)	13.4	15.7	15.9	19.9
RoACE (%)	17.8	17.8	18.0	22.0
RoAIC (%)	18.1	18.6	19.1	22.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	286	286	286	286
P/E	39.8	29.3	24.7	16.7
Mcap (Rs Mn)	80,377	80,377	80,377	80,377
MCap/ Sales	3.6	3.0	2.4	1.9
EV	82,343	79,211	79,438	79,946
EV/Sales	3.7	2.9	2.4	1.9
EV/EBITDA	16.9	14.8	13.0	9.9
P/BV	4.9	4.3	3.7	3.0
Dividend Yield (%)	0.2	0.0	0.1	0.1
<b>(F) Growth Rate (%)</b>				
Revenue	5.0	20.4	22.4	29.1
EBITDA	14.1	10.0	14.2	32.5
EBIT	14.0	32.6	16.8	39.3
PBT	1.1	29.8	23.9	36.9
APAT	(24.1)	36.1	18.2	48.2
EPS	(24.1)	36.1	18.2	48.2

**Cash Flow**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	3,941	2,980	2,598	5,063
CFI	(2,843)	612	(2,574)	(5,301)
CFF	(898)	(2,749)	(257)	(270)
FCFF	1,905	2,041	598	3,563
Opening Cash	130	330	1,173	939
Closing Cash	330	1,173	939	430

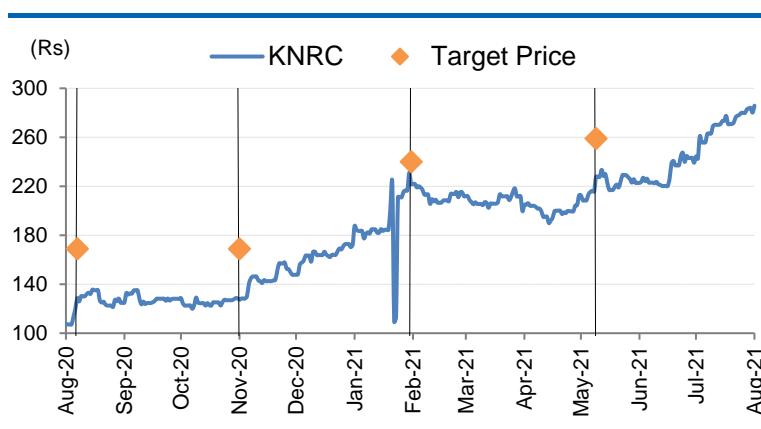
E – Estimates

### 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 (Rs.)	Price (Rs.)
Aug-20	Buy	169	129
Nov-20	Buy	169	127
Feb-21	Accumulate	240	222
May-21	Accumulate	259	228

\*Price as on recommendation date

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