

Accumulate

Annual Report 2021: Aligned to the nation's interest

The annual report highlights how KNR is well placed and positioned to participate in the road sector and thereby develop the nation. KNR has over 40 years of experience and capability of executing technically complex road projects on an individual or a joint venture basis and has successfully executed ~7,500 lane km road projects. Top management's involvement across all stages of execution helps them take quick decision making thereby completing projects ahead of schedule. The investments and strategies adopted during the last several years, along with the ability to demonstrate strengths as a trusted and reliable construction partner, has laid the foundation for KNR to further expedite its growth initiatives into the future. It will be holistically supported by financial capital, modern construction machinery, human capital and strong technology platform.

MDA Overview

While FY21 impacted several aspects of the economic growth, one thing that remained constant is the consistent focus on the infra-development of the country. The Budget has further given a much-needed impetus to infrastructure development which would make the country competitive, reduce trade and transaction costs and improve factor productivity. With increasing focus on India's road network, it will ensure seamless movement of goods and human resources and drive home the growth agenda.

National Infrastructure Pipeline (FY20-25) - Big Opportunity

The Government announced the National Infrastructure Pipeline (NIP) for the FY20-25 to facilitate the implementation of world-class infrastructure projects in the country. This first-of-its-kind initiative is expected to significantly enhance the economy, reduce unemployment rate, and drive the competitiveness of the economy. It is jointly funded by the central, state governments and private sector. The NIP was launched with a projected outlay of Rs111 tn (\$1.5 trillion), to be spread over FY20-25. The NIP is expected to comprise of 7,400 projects, out of which ~ 217 projects, worth Rs1.1 tn (\$15.09 bn), were completed as of 2020.

Sale of 3 HAM projects to CUBE Highways

KNR has received PCOD for Chittor-Malavaram on 10 May'21 and expects PCOD of Ramsanpalle-Mangloor and Tiruchirapalli-Kallagam soon. KNR has also entered into share purchase agreement with Cube highways for above 3 HAM projects wherein KNR will receive Rs4.66 bn against its equity investment of Rs3.92 bn. The average deal valuation works out at 1.2x P/B. On 30 Aug'21, KNR has approved 100% equity transfer for above 3 HAM projects to CUBE highways and expects the deal to complete by 31 Mar'22.

Financial Snapshot

Revenue up 20.4% YoY in FY21 to Rs27.0 bn vs. Rs22.4 bn in FY20. EBITDA margins contracted 188 bps YoY to 19.8% in FY21 vs. 21.7% in FY20. APAT up 36.1% YoY in FY21 to Rs2.7 bn vs. Rs2.0 bn in FY20. KNR received order inflow of Rs45.1 bn in FY21 vs. Rs21.0 bn in FY20, a growth of 114.4% YoY. 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.

CMP	Rs 326
Target/Downside	Rs 308 / 6%
BSE Sensex	58,145
NSE Nifty	17,324

Scrip Details

Equity / FV	Rs 562mn / Rs 2
Market Cap	Rs 92bn
	US\$ 1.3bn
52-week High/Low	Rs 344/Rs 105
Avg. Volume (no)	14,15,750
NSE Symbol	KNRCON
Bloomberg Code	KNRC IN

Shareholding Pattern Jun'21(%)

Promoters	53.3
MF/Banks/FIs	34.4
FII	2.3
Public / Others	10.1

KNRC Relative to Sensex



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Annual Report Macro View

Key Management	M V Venkat Rao has resigned wef 6 Mar'21 and Haritha Varanasi has appointed wef 6 Mar'21 as the Company Secretary.		
Board of Directors	No Changes		
Credit Rating		FY2020	FY2021
	CARE	CARE AA- Stable (Long term credit) CARE A1+ (Short term credit)	CARE AA- Positive (Long term credit) CARE A1+ (Short term credit)
Auditors	M/s. S.S. Kothari Mehta & Co continue to remain the auditors of the company.		
Pledged Shares		FY2020	FY2021
		-	-
Macro-economic Factors	Overall, the economic slowdown, led by the Covid-19 outbreak and the consequential stringent lockdowns, severely impacted economic activity, bringing several manufacturing and trading activities to a halt. However, the GDP rebounded in the later months of the financial year, due to deceleration in de-growth of Covid-19 cases, alongside Government initiatives. The Government announced a special package of Rs 2 Lakh Crores, equivalent to 10% of India's GDP, as part of the Atmanirbhar Bharat initiative, to revive the country's economic growth. Going ahead, the real GDP growth in India is forecasted at 12.5% in 2021 and 6.9% in 2022.		
Key Holders	Shareholding Pattern	Jun'20	Jun'21
	A. Promoters	56.07	53.25
	B. Public Shareholding		
	1. Institutions:		
	a. Mutual Funds	22.81	32.6
	b. Banks/FI	0.02	-
	c. Central Govt.	-	-
	d. State Govt.(s)	-	-
	e. Venture Capital Funds	-	-
	f. Insurance Companies	1.29	1.75
	g. FII(s) / FPI(s)	6.42	2.29
	h. Foreign Venture Capital Funds	-	-
	i. Others (Alternate Investment Funds)	0.11	-
	j. Qualified Institutional Buyer	-	-
	2. Non-Institutions:		
	a. Bodies Corp.	10.73	1.05
	b. Individuals	2.17	8.02
	c. Others	0.38	1.04
	C. Shares held by Custodian for GDRs & ADRs	-	-
	Total	100.00	100.00

Source: Company, DART

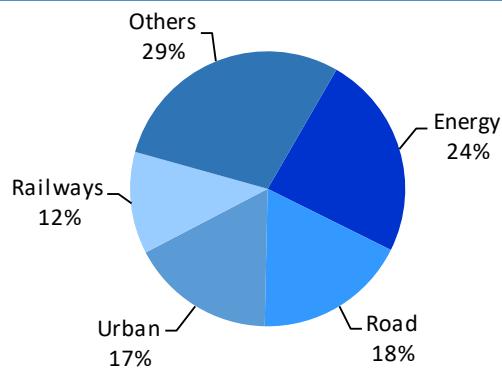
Management Discussion & Analysis

The infrastructure sector is among the core pillars of the Indian economy. The sector is highly responsible for propelling India's overall development and receives intense focus from the government, with a vision towards world-class infrastructure in the country. India is expected to become the world's 3rd largest construction market by 2022. According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDIs in the construction development sector (townships, housing, built up infrastructure and construction development projects) and construction (infrastructure) activities stood at \$25.93 bn and \$23.99 bn, respectively, between April 2000 and December 2020. In the Union Budget 2021, the Government announced an investment of Rs2,33,083 Crore (\$32.02 bn) to enhance the transport infrastructure, thus providing a massive push to the industry.

National Infrastructure Pipeline (FY20-25)

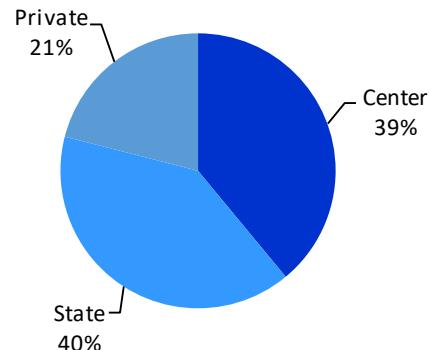
The Government announced the National Infrastructure Pipeline (NIP) for the FY 2020-2025 to facilitate the implementation of world-class infrastructure projects in the country. This first-of-its-kind initiative is expected to significantly enhance the economy, reduce unemployment rate, and drive the competitiveness of the Indian economy. It is jointly funded by the Central Government, state Governments, and the private sector. The NIP was launched with a projected outlay of Rs111 Lakh Crore (\$1.5 trillion), to be spread over 2020-2025. The NIP is expected to comprise around 7,400 projects, out of which approximately 217 projects, worth Rs1,10,000 Crore (\$15.09 bn), were completed as of 2020.

Exhibit 1: NIP Project by Sectors



Source: Company, DART

Exhibit 2: Funding under NIP



Source: Company, DART

Vision

To develop KNR as a centre of excellence in the field of Infrastructure services by striving continuously to provide eco-friendly solution adopting state-of-the-art practices and commitment to quality through motivated human resource.

Mission

Aim to add more business verticals to the organization in the fields of construction of elevated Metro Rail and Railway Projects.

Exhibit 3: Board and Committee composition

Name of Directors	Audit	Nomination & Remuneration	Stakeholders Relationship	CSR	Risk Management
L. B. Reddy	✓	✓		✓	•
B. V. Rama Rao	•	•		•	•
K. Jalandhar Reddy	•		•	•	✓
K Yashoda		•	✓		
G. Chandra Rekha		•	•		•
V Narsimha Ramana					•
S Vaikuntanathan		?	?		•
Total No. of Members	3	4	3	3	6

Source: Company, DART, ✓ Chairperson, • Member

Exhibit 4: Trend of Remuneration (Rs mn)

Name	Position	FY19	FY20	FY21
K Narsimha Reddy	Managing Director	55.8	79.2	99.0
K Jalandhar Reddy	Executive Director and CFO	37.2	52.8	66.6
M V Venkata Rao	Company Secretary	1.3	1.6	1.5
Haritha Varanasi	Company Secretary	-	-	0.1
S.Vaikuntanathan	V.P (F&A)	3.0	3.3	3.3

Source: Company, DART

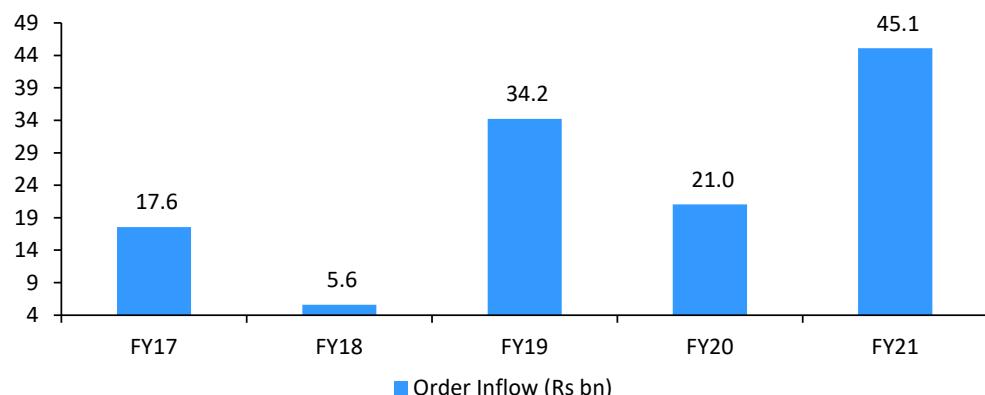
Financial Highlights

Order Inflows: KNR has received orders worth Rs45.1 bn in FY21 vs. Rs21.0 bn in FY20, a growth of 114.4% YoY. Oddanchatram HAM project was actually won during FY19 but due to delay in receiving appointed date, KNR has considered it during FY21 as appointed date is received on 5 Oct'20.

Exhibit 5: FY21 order inflows

Project	Client	Mode	State	Period (months)	EPC Value (Rs bn)
Thukkapur to Sri Komuravelli Mallanna Sagar	Irrigation & CAD Dept.	Irrigation	Telangana	24	16.0
Elevated highway along Avinashi Road	PWD	Road EPC	TN	48	10.3
Chinnagundevelly (Village) to Thukkapur (Village)	Irrigation & CAD Dept.	Irrigation	Telangana	24	7.0
Oddanchatram - Madathukulam	NHAI	Road HAM	TN	24	6.4
Cheyur – Vandavasi Polur Road	PWD	Road EPC	TN	30	5.4
TOTAL					45.1

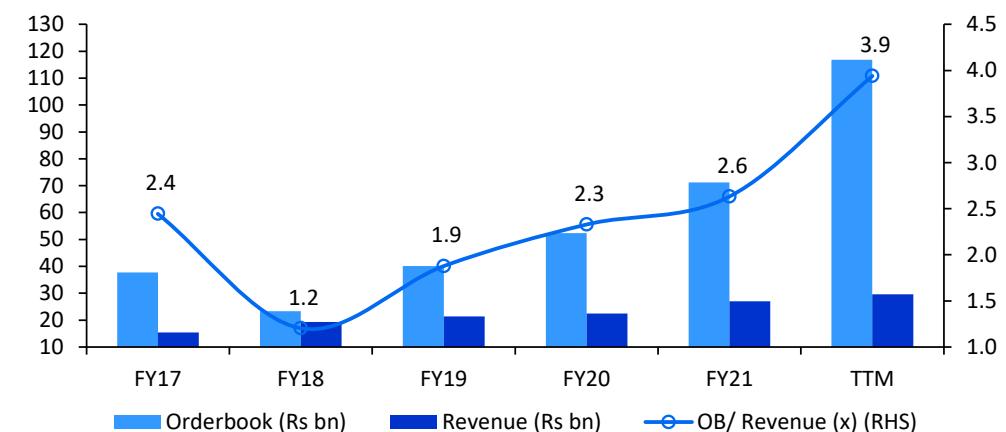
Source: Company, DART

Exhibit 6: Order Inflow Trend (Rs bn)


Source: Company, DART

Order Book: KNR's orderbook as on FY21 stood at Rs71.2 bn and as on Jun'21 it stood at Rs116.8 bn providing revenue visibility of 3.9x TTM revenue.

Exhibit 7: Order book (Rs116.8 bn) as on Jun'21



Source: Company, DART

Projects marked (*) worth Rs50.8 bn (43.5% of orderbook) are yet to receive appointed date and KNR expects it to receive soon.

Exhibit 8: Orderbook (Rs116.8 bn) as on Jun'21

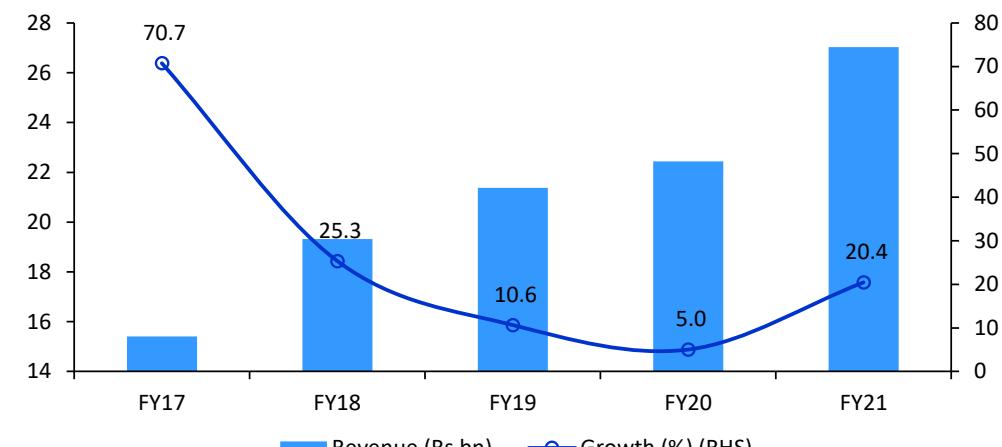
Project	State	Client	Mode	O/S value (Rs mn)	% of total OB
Ramanattukara Junction to Valanchery bypass *	Kerala	NHAI	Road HAM	17,450	14.9
Valanchery bypass - Kappirikkad *	Kerala	NHAI	Road HAM	15,950	13.7
Thukkapur to Sri Komuravelli Mallanna Sagar	Telangana	Irrigation & CAD Department	Irrigation	14,675	12.6
Bangalore Mangalore (Periya Shanti to Bantwal) *	Karnataka	NHAI	Road EPC	9,829	8.4
Elevated highway along Avinashi Road in Coimbatore City	TN	PWD	Road EPC	9,759	8.4
Chittoor Thatchur section (Package 3) *	AP & TN	NHAI	Road HAM	7,600	6.5
Chinnagundevelly (Village) to Thukkapur (Village)	Telangana	Irrigation & CAD Department	Irrigation	6,958	6.0
Palamuru Rangareddy Lift Irrigation Scheme	Telangana	Navayuga Engineering	Irrigation	5,487	4.7
KSHIP (Magadi to Somwarpet)	Karnataka	Karnataka State	Road HAM	5,417	4.6
Cheyyur – Vandavasi Polur Road	TN	PWD	Road EPC	5,390	4.6
Oddanchatram - Madathukulam	TN	NHAI	Road HAM	4,550	3.9
Trichy-Kallagam	TN	NHAI	Road HAM	2,124	1.8
Secunderabad Zone-1	Telangana	GHMC	Road EPC	1,830	1.6
Formation of Sri Komuravelli Mallanna Sagar	Telangana	Megha Engineering	Irrigation EPC	1,720	1.5
Ramsanpalle-Mangloor	Telangana	NHAI	Road HAM	1,420	1.2
Kanchugaranahalli to Jigani via Harohalli and Urgandoddi	Karnataka	Karnataka State	Road EPC	1,340	1.1
Hubli – Hospet Section	Karnataka	NHAI	Road EPC	1,120	1.0
Khairtabad Zone-1	Telangana	GHMC	Road EPC	1,090	0.9
Others				3,085	2.6
TOTAL				1,16,794	100.0

Source: Company, DART

Profit and Loss Analysis

Revenue: KNR reported revenue of Rs27.0 bn in FY21 vs. Rs22.4 bn in FY20, a growth of 20.4% YoY.

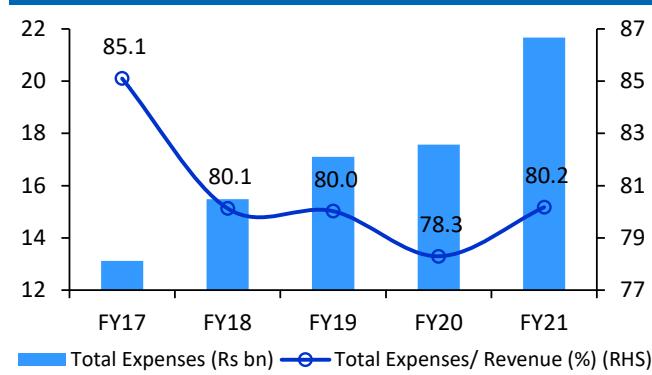
Exhibit 9: Revenue growth of 15.1% CAGR between FY17-FY21



Source: Company, DART

Expenses: Total expenses increased by 23.3% YoY to Rs21.7 bn led by rise in raw material expenses by 23.0% YoY to Rs9.3 bn, rise in subcontracting exp by 145.2% YoY to Rs1.9 bn, rise in spreading and assortment exp by 18.4% YoY to Rs6.2 bn and employee expenses by 5.5% YoY to Rs1.3 bn and other exp by 7.7% YoY to Rs3.0 bn.

Exhibit 10: Total exp. trend as a % to revenue



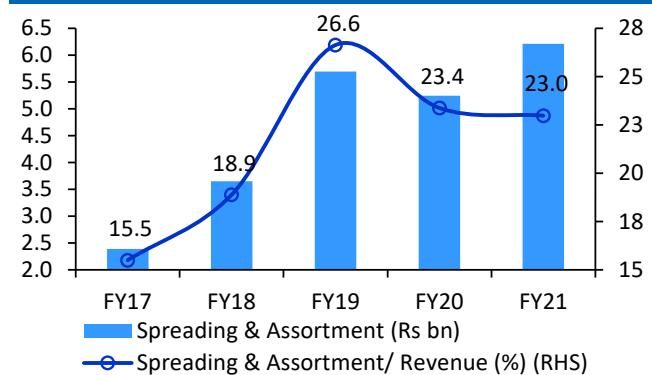
Source: Company, DART

Exhibit 11: Raw material trend as a % to revenue



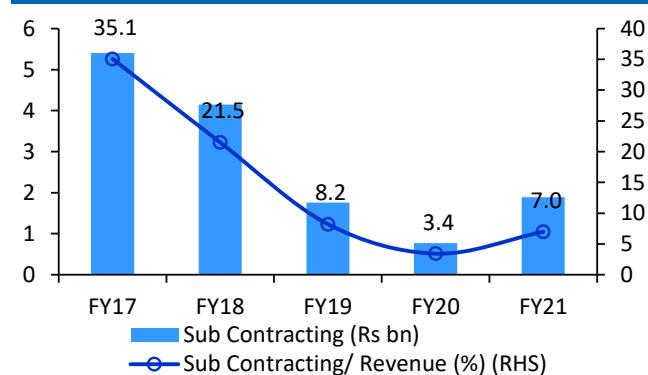
Source: Company, DART

Exhibit 12: Spreading & Asst trend as a % to revenue

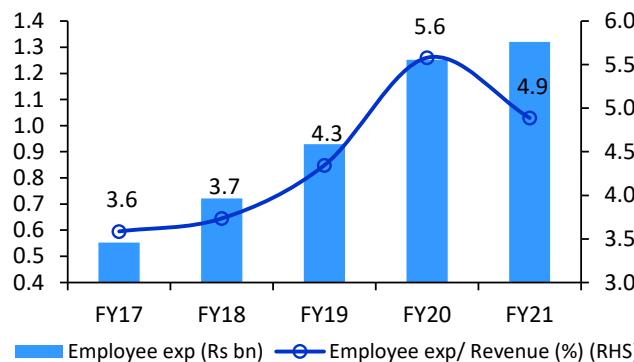


Source: Company, DART

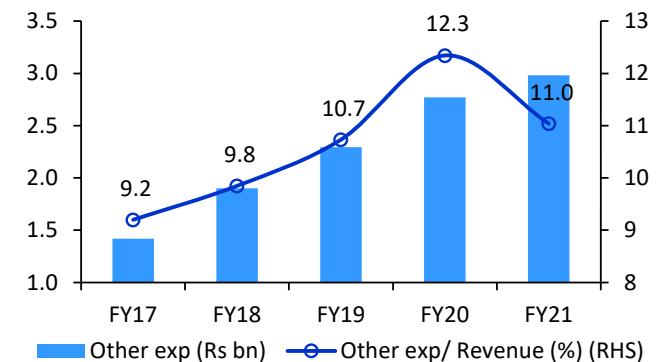
Exhibit 13: Subcontracting trend as a % to revenue



Source: Company, DART

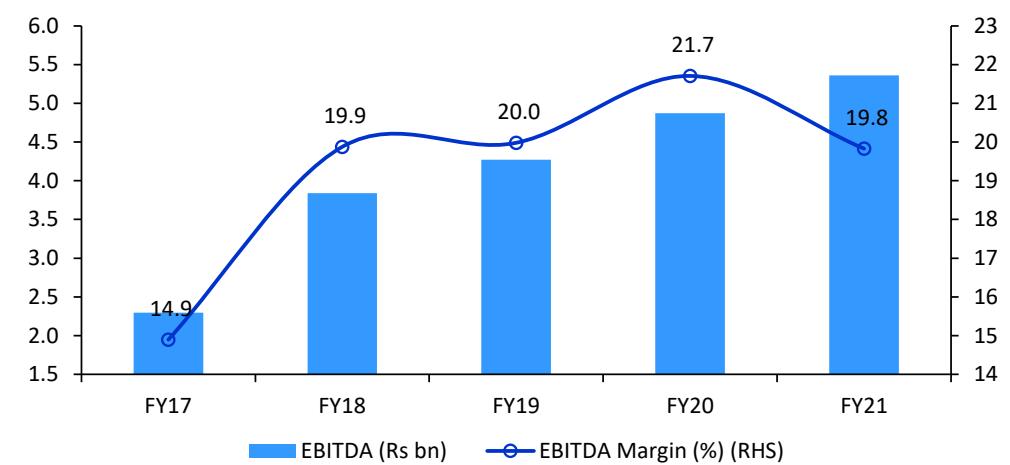
Exhibit 14: Employee exp. trend as a % to revenue


Source: Company, DART

Exhibit 15: Other exp trend as a % to revenue


Source: Company, DART

EBITDA: EBITDA increased by 10.0% YoY to Rs5.4 bn in FY21 and EBITDA margins down by 188 bps YoY to 19.8%.

Exhibit 16: EBITDA Margin Trend


Source: Company, DART

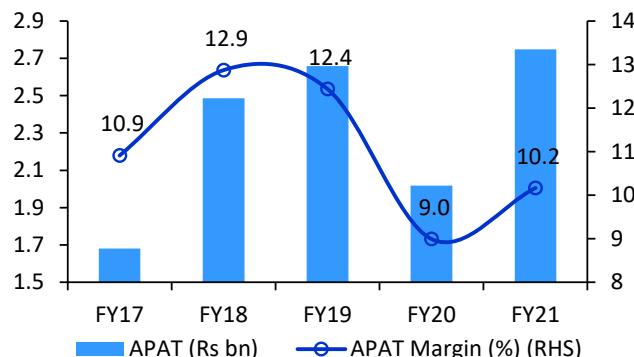
Depreciation: Depreciation decreased by 24.7% YoY to Rs1.44 bn in FY21 vs. Rs1.9 bn in FY20. Gross block increased by 8.8% YoY to Rs13.1 bn vs. Rs12.0 bn in FY20.

Finance Cost: Finance cost increased by 2.8% YoY to Rs487 mn vs. Rs474 mn in FY20.

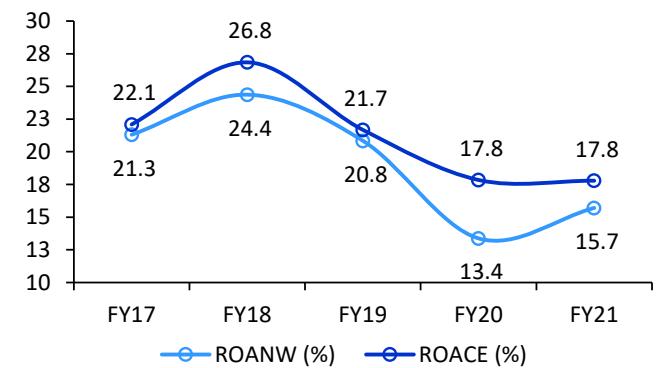
Effective Tax Rate: Total effective tax rate for FY21 stood at 30.9% vs. 23.3% in FY20.

PAT: Reported PAT increased by 8.4% YoY to Rs2.4 bn in FY21 vs Rs2.25 bn in FY20 and APAT increased by 36.1% YoY to Rs2.7 bn in FY21 vs. Rs2.0 bn in FY20. NPM increased by 121 bps YoY to 10.0% in FY21.

Return Ratios: ROACE almost flat at 17.8% in FY21 and ROANW increased to 15.7% from 13.4%.

Exhibit 17: PAT margin trend


Source: Company, DART

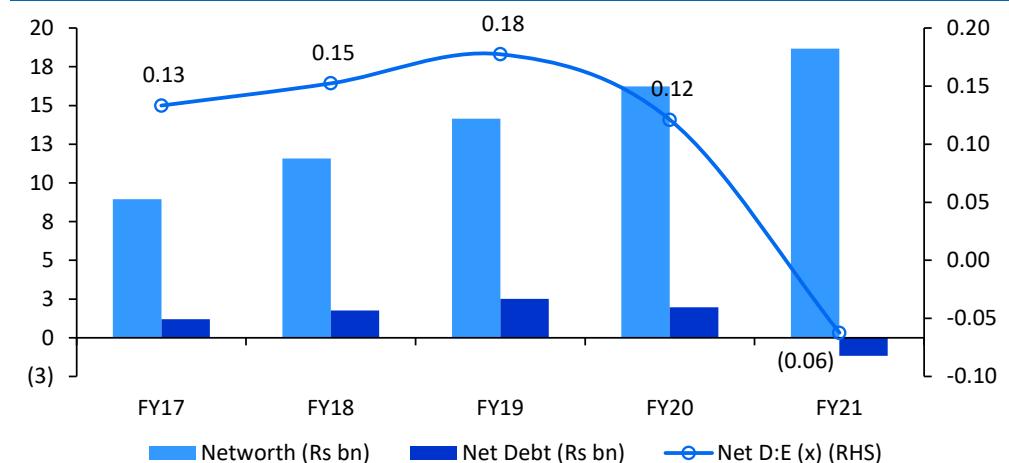
Exhibit 18: Return Ratios Trend


Source: Company, DART

Balance Sheet Analysis

Networth: Networth increased 15.0% YoY to Rs18.7 bn in FY21 vs. Rs16.2 bn in FY20.

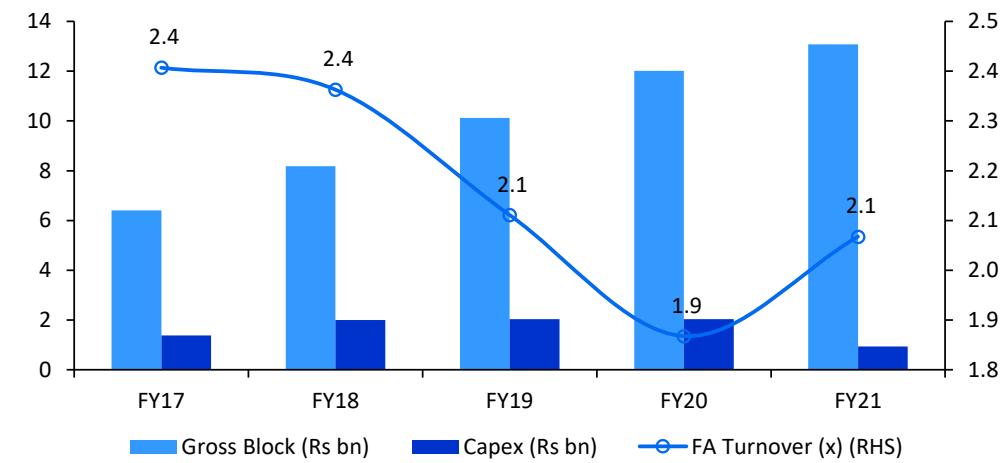
Borrowings: Total borrowings decreased by Rs2.29 bn in FY21 to Rs7 mn. Net D:E stood at (0.06x) in FY21 vs. 0.12x in FY20.

Exhibit 19: Net D:E trend


Source: Company, DART

Gross Block: Gross block increased by 8.8% YoY to Rs13.1 bn vs. Rs12.0 bn in FY20. Capex down 53.9% YoY to Rs0.9 bn in FY21 vs. Rs2.0 bn in FY20. FA turnover increased to 2.1x in FY21 vs. 1.9x in FY20.

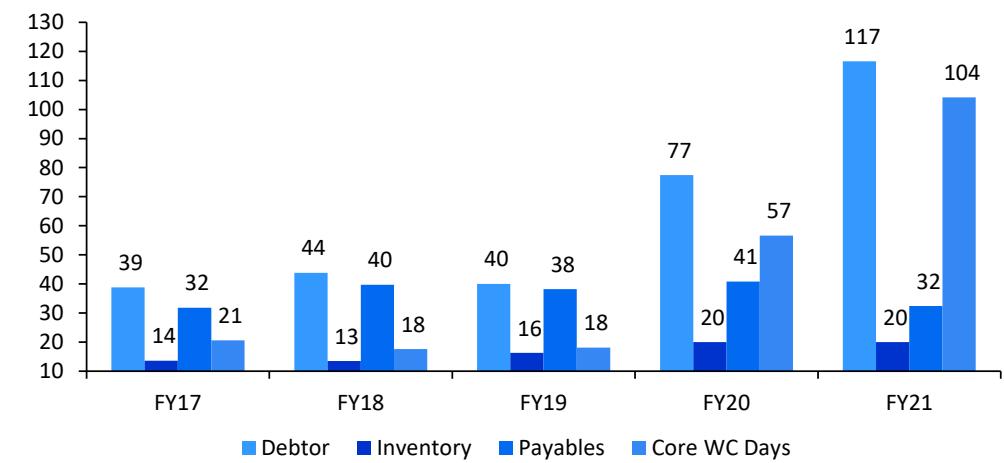
Exhibit 20: Gross Block Trend



Source: Company, DART

Working Capital: Trade receivables increased by 81.3% YoY to Rs8.6 bn in FY21 and debtor days increased to 117 vs. 77 days. Inventories increased by 20.2% YoY to Rs1.5 bn in FY21 but inventory days flat at 20 days. Trade payables decreased by 4.5% YoY to Rs2.4 bn in FY21 resulting in decreased trade payable days of 32 vs. 41 days. Core working capital days increased to 104 days vs. 57 days.

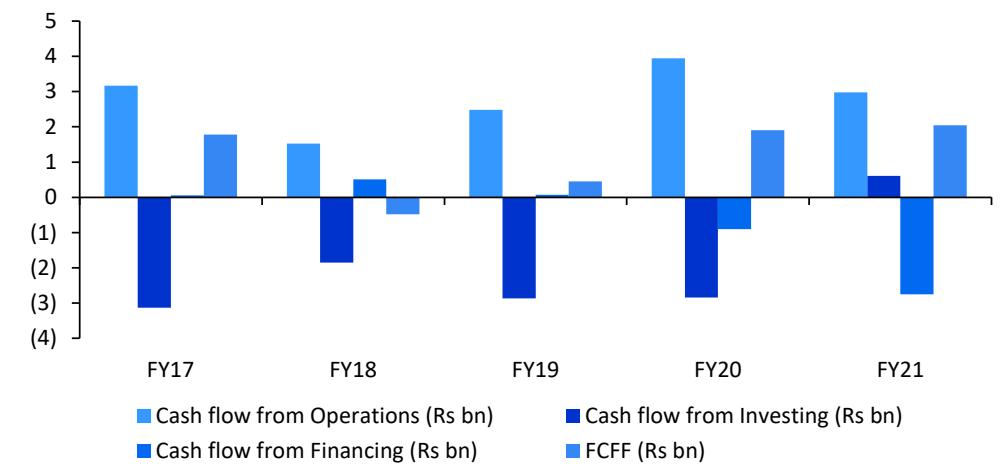
Exhibit 21: Core Working capital days trend



Source: Company, DART

Cash Flow: Cash flow from operations down 24.4% YoY to Rs3.0 bn in FY21 vs. Rs3.9 bn in FY20. Cash flow from investing stood at Rs0.6 bn in FY21 vs. (Rs2.8 bn) in FY20. Cash flow from financing stood at (Rs2.7 bn) in FY21 vs. (Rs0.9 bn) in FY20.

Exhibit 22: Cash Flows Trend



Source: Company, DART

Dividend: The Board of Directors have recommended final dividend of Rs0.25/- per equity Share for FY21 amounting to Rs70.3 mn.

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	22,442	27,026	33,069	42,685
Total Expense	17,572	21,668	26,949	34,575
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
EBIDTA	4,871	5,358	6,120	8,110
Depreciation	1,918	1,444	1,549	1,743
EBIT	2,952	3,915	4,571	6,367
Interest	474	487	180	200
Other Income	566	496	333	300
Exc. / E.O. items	(107)	(112)	0	0
EBT	2,937	3,811	4,725	6,467
Tax	685	1,370	1,476	1,653
RPAT	2,252	2,442	3,249	4,814
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,018	2,747	3,249	4,814

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	281	562	562	562
Minority Interest	0	0	0	0
Reserves & Surplus	15,958	18,116	21,294	26,038
Net Worth	16,239	18,678	21,857	26,601
Total Debt	2,297	7	0	0
Net Deferred Tax Liability	(1,610)	(1,486)	(1,352)	(1,535)
Total Capital Employed	16,926	17,199	20,505	25,065

Applications of Funds

Net Block	4,464	4,036	4,512	4,269
CWIP	102	24	0	0
Investments	7,149	4,898	5,484	9,204
Current Assets, Loans & Advances	13,854	18,748	23,553	28,203
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	954	445
Loans and Advances	57	105	135	173
Other Current Assets	7,474	7,357	10,658	13,640
Less: Current Liabilities & Provisions	8,642	10,521	13,044	16,611
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	10,509	11,592
Total Assets	16,926	17,185	20,505	25,065

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
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) As Percentage of Net Sales (%)				
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
(C) Measure of Financial Status				
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
(D) Measures of Investment				
AEPS (Rs)	7.2	9.8	11.6	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
(E) Valuation Ratios				
CMP (Rs)	326	326	326	326
P/E	45.4	33.4	28.2	19.0
Mcap (Rs Mn)	91,654	91,654	91,654	91,654
MCap/ Sales	4.1	3.4	2.8	2.1
EV	93,621	90,488	90,701	91,209
EV/Sales	4.2	3.3	2.7	2.1
EV/EBITDA	19.2	16.9	14.8	11.2
P/BV	5.6	4.9	4.2	3.4
Dividend Yield (%)	0.2	0.0	0.1	0.1
(F) Growth Rate (%)				
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	24.0	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	597	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.)
Nov-20	Buy	169	127
Feb-21	Accumulate	240	222
May-21	Accumulate	259	228
Aug-21	Accumulate	308	286

*Price as on recommendation date

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