

JUNE 12, 2019

	11-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,950	0.4	6.6	7.8
NIFTY Index	11,966	0.4	6.1	7.1
NSEBANK Index	31,265	0.7	7.7	11.8
NIFTY 500 Index	9,805	0.4	5.5	4.9
CNXMcap Index	17,912	0.7	5.2	0.9
BSESMCAP Index	14,619	0.2	3.6	(1.0)
World Indices				
Dow Jones	26,049	(0.1)	0.4	1.9
Nasdaq	7,823	(0.0)	(1.2)	3.1
FTSE	7,398	0.3	2.7	3.5
NIKKEI	21,204	0.3	(0.6)	(1.3)
Hangseng	27,789	0.8	(4.1)	(5.3)
Shanghai	2,926	2.6	(1.0)	(4.9)

Value traded (Rs cr)	11-Jun	% Chg Day
Cash BSE	2,079	4.4
Cash NSE	28,846	7.5
Derivatives	924,248	(2.5)

Net inflows (Rs cr)	10-Jun	MTD	YTD
FII	320	536	78,583
Mutual Fund	209	(839)	1,663

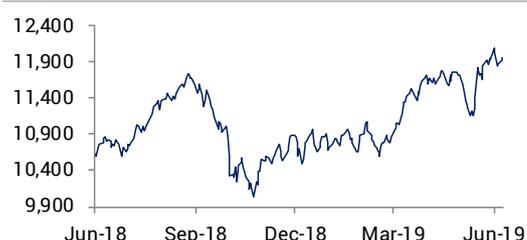
Nifty Gainers & Losers	Price	Chg	Vol
11-Jun	(Rs)	(%)	(mn)
Gainers			
Zee Entertainment	346	3.2	8.1
ONGC	169	2.8	11.3
Tata Motors	171	2.7	20.4
Losers			
Indiabulls Housing	675	(8.0)	35.1
Sun Pharma	390	(3.0)	13.8
M&M	637	(1.6)	2.3

Advances / Declines (BSE)					
11-Jun	A	B	T	T total	% total
Advances	265	397	40	702	100
Declines	192	540	90	822	117
Unchanged	3	26	6	35	5

	11-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	61.4	(1.5)	(13.1)	(8.0)
Gold (US\$/OZ)	1,326.9	(0.1)	3.6	2.4
Silver (US\$/OZ)	14.7	0.3	0.2	(4.1)

Debt / Forex Market	11-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.0	7.1	7.4	7.4
Re/US\$	69.5	69.7	70.5	69.9

Nifty



Source: Bloomberg

News Highlights

- ▶ Industry body CII has made a case for bringing down the corporate tax rate to 18% along with elimination of all exemptions saying it will not result in any loss to the exchequer. (Mint)
- ▶ Reserve Bank of India said it will infuse ₹150 bn into the financial system through bond purchases on Thursday. (BL)
- ▶ Brookfield Asset Management and **Reliance Industries (RIL)** are expected to sign a term sheet for the proposed sale of Jio's telecom towers in the next 7-10 days as the refining-to-retail conglomerate steps up efforts to halve its telecom debt. (ET)
- ▶ **Yes Bank** has reduced its stake in Fortis Healthcare by around 2% by selling over 15.1 million shares of the company in various tranches, according to a regulatory filing by the healthcare firm. The private sector lender had 8.76% stake in Fortis Healthcare before these transactions. (Mint)
- ▶ EU antitrust regulators blocked a bid by Thyssenkrupp and **Tata Steel** to form a landmark joint venture, saying the deal would have pushed up prices and reduced competition. The European Commission said the companies, which had looked to the deal as one way to tackle overcapacity and other challenges in the steel industry, had not done enough to allay its concerns. (Mint)
- ▶ **Vedanta Resources** plans to challenge the appointment of a provisional liquidator and the intended winding up of its Zambian business without the chance to be heard through lawyers of its choice, documents filed in court show. (Mint)
- ▶ **Dewan Housing Finance (DHFL)** has cleared pending interest dues on bonds it had sold last year, scotching speculation that a default was likely on the payments that were otherwise scheduled before the Eid festival earlier this month. (ET)
- ▶ In a further setback to **YES Bank**, Moody's placed its ratings under review for a downgrade. The review for downgrade takes into account Moody's expectation that the ongoing liquidity pressures on Indian finance companies will negatively impact the credit profile of YES Bank, given the bank's sizeable exposure to weaker companies in the sector," the agency said (BL)
- ▶ Blackstone buys majority stake in **Aadhar Housing Finance** for Rs 22 bn (BS)
- ▶ BoB puts **Bhushan Power**, 66 others accounts on block as NCLT process gets delayed (Mint)
- ▶ Mukesh Ambani-led **Reliance Industries (RIL)** and its partner BP Plc announced the sanction of the MJ project in KG D6 block on the east coast of India. MJ (also known as D55) is the third of three new projects in the Block KG D6 integrated development plan and its approval follows sanctions for the development of 'R-Series' deep-water gas field in June 2017 and for the satellites cluster in April 2018. (BS)

What's Inside

- ▶ **Management Meet Update:** KNR Constructions Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Management Meet Update

KNR CONSTRUCTIONS LTD

Stock Details

Market cap (Rs mn)	:	39591
52-wk Hi/Lo (Rs)	:	303 / 163
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	133,547
Shares o/s (mn)	:	141

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	21,373	25,205	32,313
Growth (%)	10.6	17.9	28.2
EBITDA	4,270	4,343	5,252
EBITDA margin (%)	20.0	17.2	16.3
PAT	2,658	2,546	2,921
EPS	18.7	18.1	20.8
EPS Growth (%)	3.2	-3.3	14.7
BV (Rs/share)	101	118	138
Dividend/share (Rs)	0.4	0.5	0.6
ROE (%)	20.5	16.6	16.2
ROCE (%)	18.9	16.1	18.3
P/E (x)	15.0	15.5	13.5
EV/EBITDA (x)	9.6	9.3	7.5
P/BV (x)	2.8	2.4	2.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	55.4	55.4	55.4
FII	3.0	3.0	3.4
DII	28.8	28.8	28.0
Others	12.9	12.9	13.3

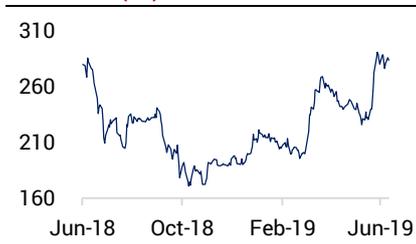
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
KNR Constructions	21.7	17.4	48.2
Nifty	6.1	7.1	13.4

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.281

TARGET RS.312

ADD

We recently met the management of KNR Constructions. The company is positive on its business for long term and targets ~Rs 25 bn revenue in FY20E and higher growth in FY21E.

Key Highlights

- ❑ KNR has robust total order book of Rs 59.1 bn which is 2.8x FY19 revenue. The order book includes 1) Rs 40.1 bn of confirmed orders and Rs 18.9 bn of EPC component of 3 HAM projects where appointed date/FC are awaited. The company targets to add Rs 25 bn of orders in FY20E.
- ❑ KNR expects appointed date (AD) in Trichi Kallagam HAM project of Rs 7.4 bn EPC value in Tamil Nadu in near future and expects AD in other two projects in H2FY20.
- ❑ KNR has strong portfolio of 6 HAM projects with bid project cost (BPC) of Rs 65.3 bn and total equity commitment of ~Rs 5.5 bn. Deal with Cube Highways is positive for the company and will help in meeting upfront equity commitment in HAM projects. This would reduce equity commitment to ~Rs 3.2 bn (over next two years) of which Rs 1.05 bn is already infused.
- ❑ Based on execution timeline of its order book, future pipeline of orders and appointed date expected all HAM projects in FY20E, the company targets standalone revenue of ~Rs 25bn in FY20E (~19% growth), with higher growth in FY21E. The company expects EBITDA margins to come to normal range of 15-16% in FY20E, on a high base of FY19 led by contribution from high margin irrigation orders.

Outlook and Valuation

KNR has track record of generating positive operating cash flows which would help it in meeting capital for future growth. We have maintained our estimates for FY20E and FY21E. The EPC business (adjusted for BOT/HAM value Rs 42/share) is available at a PE of 13.2x/11.5x based on FY20E/FY21E EPS of Rs 18.1/Rs 20.8, respectively. We maintain **ADD** on the stock with SOTP based target price of Rs 312, valuing standalone business at 13x FY21E EPS.

Robust order book and pipeline

KNR has robust order book of Rs 59.1 bn which is 2.8x FY19 revenue. The order book includes 1) Rs 40.1 bn of confirmed orders and Rs 18.9 bn of EPC component of 3 HAM projects where appointed date/FC are awaited. The company targets to add Rs 25 bn of orders in FY20E. It is negotiating for two irrigation projects in Telegana as a subcontractor of value ~Rs 15-16 bn. As per the management, if these projects are added in near term, the total order book of the company can increase from Rs 59 bn to ~Rs 75 bn and will have strong revenue visibility of 2-3 years. The company expects margin in these irrigation projects to be at par with road projects. The company will also be bidding for NHAI projects in FY20E. As per the management, the company is targeting to add few HAM projects from NHAI in the southern region based on bid pipeline from the authority.

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Status of HAM projects

KNR has 6 HAM projects, of which, two are in construction stage; two are awaiting appointed date and balance two are in process of financial closure. KNR has got appointed date in KNR Tirumala Infra (AP) and KNR Shankarampet Infra (Telangana) and expects appointed date in Trichi Kallagam (TN) HAM project (Rs 7.4 bn EPC value) in the near future. These three NHAI HAM projects have outstanding order book of Rs 26.6 bn at the end of Q4FY19 and would contribute to FY20E revenue. Further, the appointed date in KNR Chidambaram Infra (TN) got delayed by 2-3 months due to land clearance issue, the company expects the same in the next 2-3 months. The company expects appointed date in balance two HAM projects by H2FY19. In KSHIP HAM project, the company is in advance stage of financial negotiation and would be submitting documents to the authority. The company does not expect any challenge in KSHIP project as it is ADB funded for which the agreement is already signed by the state government.

Tied up for funding HAM project

KNR requires total ~Rs 5.5 bn of equity infusion in 6 HAM projects which includes 5NHAI HAM projects and one Karnataka State government project. The company does not expect any problem in meeting equity commitment in HAM projects as it has signed deal with Cube Highways and Infrastructure III Pte. Ltd to sell its stake in NHAI HAM projects. KNR has entered into share purchase agreement with Cube Highways for three HAM projects, Trichi Kallagam (TN), Meensurutti to Chidambaram (TN) and Chittor to Mallavaram (AP) with estimated equity requirement of Rs 2.85 bn. Further, the company is targeting similar deal in balance two NHAI HAM projects as well. As per the deal, Cube Highways will acquire 49% stake till COD in first phase. It will acquire balance 51% stake in phases post COD, based on NHAI rule related to lock in period of investment.

HAM projects details

Name	Stretch (State)	LOI/CA Date	FC Date	Appointed Date	Equity	BPC
KNR Srirangam Infra	Trichy to Kallagam (TN)	01-Mar-18	04-Jan-19	In June 19	962	10206
KNR Chidambaram Infra	Meensurutti to Chidambaram (TN)	08-Mar-18	04-Jan-19	In 2-3 months	455	4820
KNR Tirumala Infra	Chittor to Mallavaram (AP)	26-Mar-18	04-Jan-19	04-Jan-19	1,433	17301
KNR Shankarampet Projects	Ramsanpalle to Mangloor (Telangana)	26-Mar-18	04-Oct-18	02-May-19	1,042	12340
KNR Somwarpath Infra	Magadi to Somwarpet (KSHIP, Karnataka)	18-Jan-19	Expected in June 19	By Q3FY19	950*	11445
KNR Palani Infra	Oddanchatram to Madathukulam (TN)	07-Mar-19	Expected in June 19	By Q4 beginning	750*	9200
Total	Total				5592	65312

Source: Company, * Estimated amount

Already infused Rs 1.05 bn in HAM

KNR has already infused Rs 1.05 bn equity in HAM projects and further require Rs 850 mn of its portion of equity commitment in four HAM projects where FC have been achieved and another ~Rs 375 mn in Palani Infra Project where FC has not been achieved (based on expected deal with Cube Highways). In addition, the company requires Rs 950 mn equity in KSHIP project. Hence, altogether KNR would require Rs 3.2 bn own contribution in six HAM projects, of which it has infused Rs 1.05 bn and balance would be infused in the next two years. Apart from internal accruals, the company has other options to meet the same. The company has an option to monetize its BOT assets and land bank at appropriate time which would help its future growth. The company is looking to monetize Walayar Tollways project in Kerala which will free equity infused in the

project and will also reduce Rs 2 bn of standalone debt infused by the promoters via standalone entity.

Guided for Rs 25 bn revenue in FY20E with 15-16% margins

Based on execution timeline of its order book, future pipeline of orders and appointed date expected all HAM projects in FY20E, the company expects standalone revenue of ~Rs 25bn in FY20E, with larger contribution expected in H2FY20, and expects higher growth in FY21E. The company expects EBITDA margins to come to normal range of 15-16% in FY20E as high margin irrigation projects are near their completion and it has also built up cost inflation in its estimates. The company expects lower effective tax rate of 15% in FY20E, as it has outstanding MAT credit of Rs 750 bn which would be accounted in FY20E and FY21E.

Other highlights

- As per management, KNR has no exposure to AP state government developmental projects and is executing only central government/NHAI projects in the state.
- The company is targeting at 1.8-2 bn capex in FY20E with large part of the same will be for irrigation projects.

Outlook and valuation

KNR has track record of generating positive operating cash flows which would help it in meeting capital for future growth. Deal with Cube Highways will help in meeting upfront equity commitment in HAM projects. Further, the company has track record of beating its revenue guidance and margin guidance, and we believe that the trend will continue. We have maintained our estimates for FY20E and FY21E. The EPC business (adjusted for BOT/HAM value Rs 42/share) is available at a PE of 13.2x/11.5x based on FY20E/FY21E EPS of Rs 18.1/Rs 20.8, respectively. We maintain ADD on the stock with SOTP based target price of Rs 312, valuing standalone business at 13x FY21E EPS.

Valuation Table

Segment	Parameter	Multiple (x)	Per Share (Rs)
Standalone Construction Business	FY21E PE	13	270
Road BOT/HAM	BV of equity	1	42
Consol KNR	Value		312

Source: Kotak Securities - Private Client Research

Company Background

KNR Constructions Ltd (KNR), incorporated in 1995, is Hyderabad based construction company promoted by Mr. K. Narasimha Reddy. The company is broadly present in construction of roads and highways with small presence in irrigation space. Over 90% of its order book is located in South India. The company has a track record of executing 6000 lane km of projects across 12 states in India with top management is actively involved at all stages of project execution. It has portfolio of four BOT projects of 778 lane Kms projects in the state of Telangana, Karnataka, Kerala and Bihar of this two are BOT toll based and two are annuity based. The company has securitized its annuity based projects. Further, it has also won six HAM projects in south India. The company executes its road projects through in-house construction equipment.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	19,317	21,373	25,205	32,313
% change yoy	25.3	10.6	17.9	28.2
Direct Cost	12,854	13,881	17,088	22,585
Employee Cost	721	929	1,068	1,228
Other Expenses	1,880	2,293	2,706	3,247
Total Expenses	15,455	17,103	20,862	27,060
EBITDA	3,861	4,270	4,343	5,252
% change yoy	68.2	10.6	1.7	20.9
Depreciation	1,344	1,681	1,727	1,838
EBIT	2,517	2,589	2,616	3,415
Other Income	393	634	697	767
Interest	231	291	318	288
Profit Before Tax	2,679	2,931	2,996	3,894
% change yoy	53.9	9.4	2.2	30.0
Tax	(39)	273	449	974
as % of EBT	(1.5)	9.3	15.0	25.0
PAT	2,718	2,658	2,546	2,921
% change yoy	61.7	(2.2)	(4.2)	14.7
Shares outstanding (mn)	141	141	141	141
EPS (Rs)	18.1	18.7	18.1	20.8
DPS (Rs)	0.5	0.4	0.5	0.6
CEPS (Rs)	27.7	30.7	30.4	33.8
BVPS (Rs)	82.3	100.6	118.1	138.1

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	2,511	2,906	2,996	3,894
Depreciation	1,344	1,681	1,727	1,838
Change in WC	(1,511)	(1,488)	(916)	(881)
Other operating activities	(1,005)	(936)	(449)	(974)
Operating Cash Flow	1,338	2,163	3,357	3,877
Capex	(2,658)	(1,456)	(1,804)	(1,800)
Free Cash Flow	(1,319)	708	1,553	2,077
Change in Investments	610	(528)	(850)	(1,000)
Investment cash flow	(2,048)	(1,983)	(2,654)	(2,800)
Equity Raised	-	-	-	-
Debt Raised/Repaid	759	442	-	(500)
Dividend	(82)	(66)	(89)	(103)
Other Financing activity	226	(2)	-	-
CF from Financing	903	374	(89)	(603)
Change in Cash	193	554	614	475
Opening Cash	246	438	1,324	1,937
Closing Cash	439	992	1,937	2,412

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	281	281	281	281
Reserves	11,297	13,862	16,319	19,137
Net worth	11,578	14,143	16,600	19,418
Borrowings	2,200	2,642	2,642	2,142
Total Liabilities	13,778	16,785	19,242	21,560
Gross Block	9,076	10,536	12,336	14,136
Accumulated Depreciation	5,140	6,821	8,548	10,386
Net block	3,936	3,715	3,788	3,750
Capital work in progress	0	0	0	0
Total fixed assets	3,936	3,715	3,788	3,750
Investments	5,356	5,884	6,734	7,734
Inventories	712	951	1,726	2,213
Sundry debtors	2,320	2,344	2,764	3,544
Cash and equivalents	439	1,324	1,937	2,412
Loans and advances & Others	4,499	5,430	5,973	6,570
Total current assets	7,969	10,049	12,401	14,740
Sundry creditors and others	5,696	5,754	6,560	7,525
Provisions	184	164	181	199
Total CL & provisions	5,880	5,918	6,741	7,724
Net current assets	2,089	4,130	5,660	7,016
Other assets	990	1,317	1,321	1,321
Net Deferred tax	1,408	1,739	1,739	1,739
Total Assets	13,778	16,785	19,242	21,560

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	20.0	20.0	17.2	16.3
EBIT margin (%)	13.0	12.1	10.4	10.6
Net profit margin (%)	14.1	12.4	10.1	9.0
Adjusted EPS growth (%)	51.7	3.2	(3.3)	14.7
Receivables (days)	44	40	40	40
Inventory (days)	13	16	25	25
Loans & Advances (days)	85	93	86	74
Payable (days)	108	98	95	85
Net Working Capital (days)	35	51	57	54
Asset Turnover	1.6	1.4	1.4	1.6
Net Debt/ Equity	0.2	0.1	0.0	(0.0)
RoCE (%)	22.5	18.9	16.1	18.3
RoE (%)	24.8	20.5	16.6	16.2
P/E (x)	15.5	15.0	15.5	13.5
P/BV (x)	3.4	2.8	2.4	2.0
EV/EBITDA (x)	10.5	9.6	9.3	7.5
EV/Sales (x)	2.1	1.9	1.6	1.2

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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