

MARCH 22, 2019

	20-Mar	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	38,387	0.1	7.4	5.4
NIFTY Index	11,521	(0.1)	7.3	5.2
NSEBANK Index	29,832	0.2	10.7	9.4
NIFTY 500 Index	9,553	(0.2)	8.0	3.4
CNXMcap Index	17,847	(0.5)	9.5	(0.8)
BSESMCAP Index	14,824	(0.3)	11.7	0.3
World Indices				
Dow Jones	25,963	0.8	(0.3)	15.7
Nasdaq	7,839	1.4	4.1	23.8
FTSE	7,355	0.9	2.5	9.4
NIKKEI	21,609	0.2	0.5	6.9
Hangseng	29,072	(0.9)	0.4	12.4
Shanghai	3,101	0.3	9.3	21.8

	20-Mar	% Chg Day
Value traded (Rs cr)		
Cash BSE	2,702	(70.1)
Cash NSE	35,525	3.9
Derivatives	1,885,084	76.0

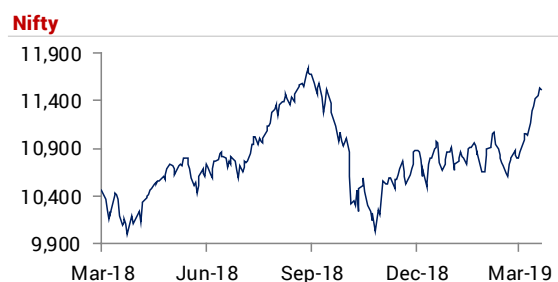
	19-Mar	MTD	YTD
Net inflows (Rs cr)			
FII	2,190	25,209	41,591
Mutual Fund	(713)	(6,913)	2,421

	Price (Rs)	Chg (%)	Vol (mn)
Nifty Gainers & Losers			
20-Mar			
Gainers			
Indiabulls Housing	733	5.0	12.3
Hindalco Ind	207	2.4	8.8
Infosys Ltd	739	2.3	13.5
Losers			
Zee Entertainment	471	(2.8)	6.6
Tata Motors	189	(2.7)	22.5
Axis Bank	721	(1.6)	10.5

Advances / Declines (BSE)					
20-Mar	A	B	T	Total	% total
Advances	165	328	68	561	100
Declines	295	623	67	985	176
Unchanged	1	23	10	34	6

	20-Mar	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	67.7	(0.3)	0.8	25.7
Gold (US\$/OZ)	1,309.4	(0.2)	(1.4)	4.2
Silver (US\$/OZ)	15.5	(0.0)	(2.8)	5.8

	20-Mar	1 Day	1 Mth	3 Mths
Debt / Forex Market				
10 yr G-Sec yield %	7.4	7.4	7.3	7.3
Re/US\$	68.8	69.0	71.1	69.7



Source: Bloomberg

News Highlights

- ▶ The initial commentary on the Reserve Bank of India's (RBI) new swap mechanism to infuse liquidity or cash (\$5 billion) into the banking system has raised more questions than provided answers. (ET)
- ▶ The Centre has marginally lowered the maximum sale price of Bt cotton seeds (BG-II) for a 450-gram packet to Rs 730 for the 2019-20 season. The licence, or trait fee, charged by companies has also been slashed by almost 49 per cent to Rs 20.(BS)
- ▶ Banks may have to book heavy losses, as NCLT rules that debt converted into equity under SDR will not be treated as a financial claim. Lenders hope for relief from the RBI as well as the NCLT.(ET)
- ▶ A lobbying body of aircraft engineers at **Jet Airways** has written to the airlines regulator Directorate General of Civil and the aviation ministry saying the stress from months of unpaid salaries has put the safety of the airline's flights at risk. (ET)
- ▶ **IndiGo** continues to recruit expat and 'out-of-job' pilots. IndiGo is facing acute shortage of commanders amid aggressive expansion of its fleet.(ET)
- ▶ **Infosys'** shareholders returned Kiran Mazumdar-Shaw to the board with a clear majority, but the dissent to her appointment was higher when compared to recent inductions of independent directors at the company. (ET)
- ▶ The board of **Mindtree**, deferred a decision on share buyback, will meet again on March 26 even as it faces a Rs 108bn hostile takeover bid from L&T. (ET)
- ▶ **Infosys** has signed a three-year partnership agreement with Roland-Garros to provide technology solution for tennis tournament The French Open, also called Roland-Garros. (ET)
- ▶ **Power Finance Corporation** said it will acquire the entire 52.63 per cent shares of the government in REC for Rs 145bn by the month-end, a move that will help the centre to meet its disinvestment target. (ET)
- ▶ **Bajaj Auto** and Austria's Pierer Industrie AG have started discussions to assess the possibility of transferring Bajaj's 48 per cent stake in KTM AG to KTM Industries AG, with the Pierer-Group continuing to retain the controlling majority over KTM Industries AG.(ET)
- ▶ **PNB** approached the Central Bureau of Investigation against Hanjer Biotech Energies after a forensic audit revealed that more than Rs 2bn has been siphoned off. The account has been declared a non-performing asset. (ET)
- ▶ **Reliance Industries (RIL)** is selling fuels to Venezuela from India and Europe to sidestep sanctions that bar US-based companies from dealing with the South American nation's state run PDVSA.(ET)
- ▶ **Jubilant Life Sciences** informed bourses that the USFDA has classified Nanjangud facility as Official Action Indicated. The USFDA also stated that the facility might be subject to a cGMP regulatory or enforcement action based on this inspection.(ET)

What's Inside

- ▶ **Company 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

Company Update

Stock Details

Market cap (Rs mn)	:	37896
52-wk Hi/Lo (Rs)	:	340 / 163
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	151,555
Shares o/s (mn)	:	141

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19E	FY20E	FY21E
Revenue	19,069	25,360	30,605
Growth (%)	(1.3)	33.0	20.7
EBITDA	3,690	4,132	4,994
EBITDA margin (%)	19.4	16.3	16.3
PAT	2,137	2,320	2,722
EPS	15.2	16.5	19.4
EPS Growth (%)	(16.2)	8.6	17.3
BV (Rs/share)	97	112	131
Dividend/share (Rs)	0.8	0.9	1.0
ROE (%)	17.0	15.8	15.9
ROCE (%)	15.7	15.8	18.7
P/E (x)	17.6	16.2	13.8
EV/EBITDA (x)	10.9	9.6	7.9
P/BV (x)	2.8	2.4	2.0

Source: Kotak Securities – Private Client Research

Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	55.4	55.4	55.4
FII	3.0	3.4	3.8
DII	28.8	28.0	28.1
Others	12.9	13.3	12.8

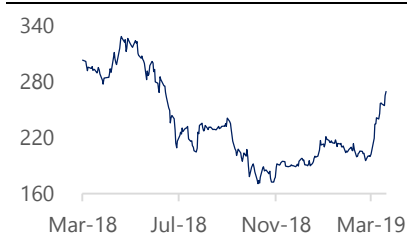
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
KNR Constructions	32.6	34.7	38.3
Nifty	7.3	5.2	2.6

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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KNR CONSTRUCTIONS LTD

PRICE RS.268

TARGET RS.282

ADD

KNR stock has witnessed strong run-up since our last update. The company has bagged ~Rs 10 bn of new projects in the last one month and is on track to meet its guidance of adding ~Rs 20 bn of new orders in 3-6 months timeline.

Key Highlights

- KNR had an order book of Rs 55.1 bn (including estimated EPC component of 5 HAM projects) at the end of Q3FY19. Further, it added one HAM project in Tamil Nadu of BPC Rs 9.2 bn and EPC project of Rs 1.35 bn. The company has robust pipeline of projects from road and irrigation sector which gives strong revenue growth visibility in the next 2-3 years.
- KNR has strong portfolio of 6 HAM projects with bid project cost (BPC) of Rs 65.3 bn out of which one is in construction stage, three have achieved financial closure (awaiting appointed date) and balance two are awaiting financial closure.
- KNR is confident of receiving appointed date in three HAM projects by April 2019 where it has achieved financial closure and is also fully mobilized in terms of resources.
- Based on its strong balance sheet (standalone net debt to equity at 0.1x) and cash flows, KNR can meet its equity commitment in HAM projects easily. Further, stake sale agreement with Cube Highways will reduce its upfront equity commitment in HAM projects.

Outlook and Valuation

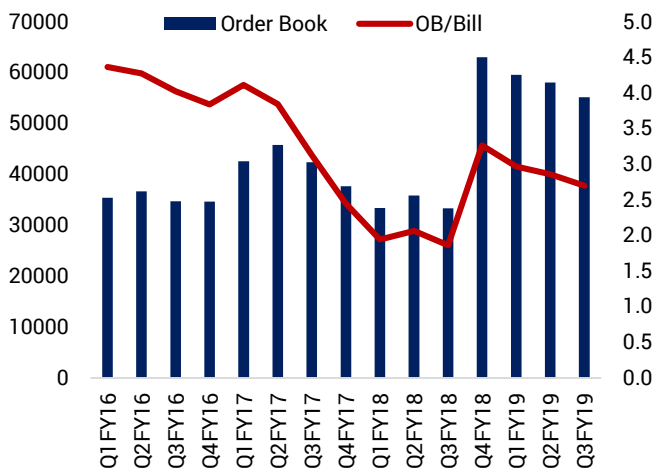
The company management had guided for over Rs18bn revenue in FY19E and Rs 23-24 bn revenue in FY20E with EBITDA margins of 14-15%. We have upgraded our EPS estimates for FY19E based on strong execution in old orders and company's confidence of exceeding its guidance. The EPC business (adjusted for Rs 35 per share revised value of BOT) is available at a PE of 15.4x/14.2/12.1x based on FY19E/FY20E/FY21E revised EPS of Rs 15.2/16.5/19.4 per share, respectively. We downgrade our rating on the stock to Add (Vs Buy earlier) with revised SOTP based target price of Rs 282 (Vs Rs 239 earlier), as we see limited upside over our revised target price.

Strong order book gives revenue growth visibility

KNR had an order book of Rs 55.1 bn (including estimated EPC component of 5 HAM projects) at the end of Q3FY19. Further, it added one HAM project in Tamil Nadu of BPC Rs 9.2 bn and EPC project of Rs 1.35 bn from Karnataka government. The company bagged this project from NHAI for 4-laning of Oddanchatram - Madathukulam section of NH - 209 (New NH-83) under Bharatmala Pariyojna Phase - I in the state of Tamil Nadu. EPC component in the project is estimated at Rs 6.3 bn with equity requirement of Rs 750 mn. Thus, the company has bagged ~Rs 10 bn of new projects in the last one month and is on track to meet its guidance of adding ~Rs 20 bn of new orders in 3-6 months timeline. The company is looking for one more HAM project of ~Rs 12 bn in the southern region. The company is also L1 in one flyover project of Rs 2.4 bn in the southern region and is not included in the order book. Hence, if we add all these projects, the current order book of the company stands at ~Rs 65 bn which is ~3.4x FY19E revenue. In addition, the company has robust pipeline of

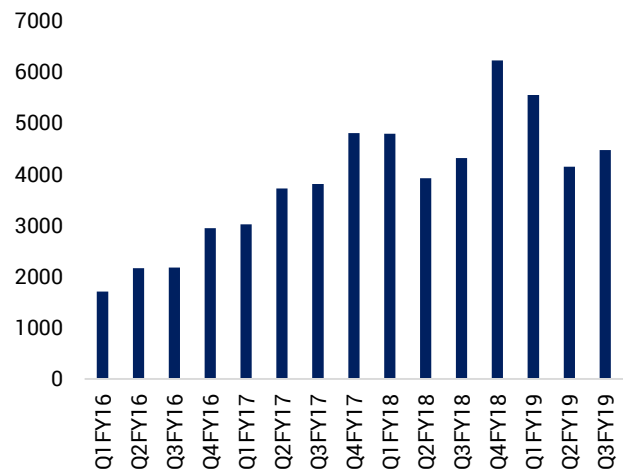
projects from road and irrigation sector which gives strong revenue growth visibility for KNR in the next 2-3 years.

Order Book (Rs mn) and TTM OB/bill (x) trend



Source: Company

Quarterly Standalone Revenue (Rs mn)



Source: Company

HAM projects broadly moving inline, barring minor delays in appointed date

KNR has strong portfolio of 6 Hybrid Annuity Projects (HAM) projects with bid project cost (BPC) of Rs 65.3 bn out of which one is in construction stage, three have achieved financial closure and balance two is awaiting financial closure. KNR has received appointed date in Rs 17.3 bn Chittoor to Mallavaram HAM project in Hyderabad and has completed 12% of the construction work. The company is at final stage of receiving appointed date in Trichy to Kallagam (TN) project. In Meensurutti to Chidambaram (TN), the appointed date is delayed by a month (vs earlier expected in March 2019) due to land acquisition issues related to some difference over land price payment to the land owner. Ramsanpalle to Mangloor (Telangana) project is at final stage of forest clearance and the company is hopeful of receiving the appointed date in April 2019. In KSHIP project, financial closure process is underway and is expected to be completed by end of April 19.

HAM projects details

HAM Projects	LoA Date	Authority	State	BPC (Rs mn)	Equity (Rs mn)
Trichy to Kallagam	01-Mar-18	NHAI	Tamil Nadu	10206	962
Meensurutti to Chidambaram	08-Mar-18	NHAI	Tamil Nadu	4820	455
Chittoor to Mallavaram	26-Mar-18	NHAI	Andhra Pradesh	17301	1,433
Ramsanpalle to Mangloor	26-Mar-18	NHAI	Telangana	12340	1,042
Magadi to Somwarpet	18-Jan-19	KSHIP	Karnataka	11445	533.5*
Oddanchatram to Madathukulam	Mar-19	NHAI	Tamil Nadu	9200	750*
Total				65312	5176

Source: Company, * Estimated amount

Agreement with Cube to reduce upfront equity commitment in HAM project

KNR has entered into share purchase agreement with Cube Highways and Infrastructure Pte. Ltd for three HAM projects, Trichi Kallagm (TN), Meensurutti to Chidambaram (TN) and Chittoor to Mallavaram (AP) with total BPC of Rs 32.3 bn and estimated equity requirement of Rs 2.85 bn. The deal will be completed in two phase. In first phase Cube Highways will acquire 49% stake till COD and

it will acquire balance 51% stake later based on NHA rule related to lock in period of investment. Cube Highways will buy 49% stake in these projects at approximate valuation of 1.5x to 2x P/BV. Further, Cube Highways will buy stake in 4th NHA HAM project Ramsanpalle to Mangloor (Telangana) soon after completing due diligence. This is expected to free equity capital investment for KNR in these projects and would improve cash flows of the company in the longer run to bid for new projects. Cube Highways will start infusing equity once 90% right of way would be available. These projects have ~80% right of way available on appointed date. Till that time KNR will infuse its portion of equity.

Strong balance sheet and cash flows to support future growth

Based on its strong balance sheet (standalone net debt equity at 0.1x) and cash flows, KNR can meet its equity commitment in these projects easily. Further, the company has an option to monetize its BOT assets and land bank at appropriate time which would help its future growth. The company may go for monetization of its BOT project Walayar Tollways in Kerala. The strong standalone balance sheet will also help it in meeting capex requirement for FY20E which is at Rs 1.3-1.4 bn. In FY19E, the company is expected to incur Rs 1.8-1.9 bn capex.

Positive on sector

As per company, the next phase of highway development in India will focus on building expressways. The management believes that there are several projects in the pipeline including Bharatmala 2. Under the second phase of Bharatmala, the government has proposed to build nearly 3,000 kilometers of expressways including Varanasi, Ranchi, Kolkata, Indore to Mumbai, Bengaluru-Pune and Chennai-Trichy. As per sources, the target date for rolling out these roads under Bharatmala phase 2 would be 2024. The company believes that the awarding activity would pick up in FY20 after general elections. It is positive on irrigation sector as well particularly in the southern states like Andhra Pradesh.

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 is positive development and will help in meeting upfront equity commitment in HAM projects. The company management had guided for over Rs18bn revenue in FY19E and Rs 23-24 bn revenue in FY20E with EBITDA margins of 14-15%. We have upgraded our EPS estimates for FY19E based on good execution in old orders and company's confidence of exceeding its guidance. We have also introduce our FY21E estimate for the company. The EPC business (adjusted for Rs 35 per share revised value of BOT) is available at a PE of 15.4x/14.2/12.1x based on FY19E/FY20E/FY21 revised EPS of Rs 15.2/16.5/19.4 per share, respectively. We downgrade our rating on the stock to Add (Vs Buy earlier) with revised SOTP based target price of Rs 282 (Vs Rs 239 earlier), as we see limited upside over our revised target price.

Valuation Table

Segment	Parameter	Multiple (x)	Per Share (Rs)
Standalone Construction Business	PE	15	247
Road BOT	BV of equity	1	35
Consol KNR	Value		282

Source: Kotak Securities Private Client Research

Revision in estimates

Particulars (Rs mn)	Previous		Revised		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	18468.0	23436.0	19069	25360	3.3	8.2
EBITDA	3557.0	3752.0	3690	4132	3.7	10.1
EBITDA Margin%	19.3	16.0	19.4	16.3	10 bps	30 bps
Adj PAT	2017.0	1926.0	2137	2320	6.3	20.4
Adj EPS (Rs)	14.3	13.7	15.2	16.5	6.3	20.4

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 inhouse construction equipment.

FINANCIALS: CONSOLIDATED

Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Revenues	19,317	19,069	25,360	30,605
% change yoy	25.3	(1.3)	33.0	20.7
Direct Cost	12,854	12,503	17,871	21,782
Employee Cost	721	901	1,028	1,151
Other Expenses	1,880	1,974	2,329	2,678
Total Expenses	15,455	15,378	21,228	25,611
EBITDA	3,861	3,690	4,132	4,994
% change yoy	68.2	(4.4)	12.0	20.9
Depreciation	1,344	1,548	1,616	1,616
EBIT	2,517	2,142	2,516	3,378
Other Income	393	550	550	550
Interest	231	318	337	299
Profit Before Tax	2,679	2,374	2,729	3,629
% change yoy	54	(11)	15	33
Tax	(39)	237	409	907
as % of EBT	(1.5)	10.0	15.0	25.0
PAT	2,718	2,137	2,320	2,722
% change yoy	61.7	(21.4)	8.6	17.3
Shares outstanding (mn)	141	141	141	141
EPS (Rs)	18.1	15.2	16.5	19.4
DPS (Rs)	0.9	0.8	0.9	1.0
CEPS (Rs)	27.7	26.2	28.0	30.9
BVPS (Rs)	82.3	96.8	112.4	130.8

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Pre-Tax Profit	2,511	2,374	2,729	3,629
Depreciation	1,344	1,548	1,616	1,616
Change in WC	(1,511)	(995)	(660)	(674)
Other operating activities	(1,005)	(237)	(409)	(907)
Operating Cash Flow	1,338	2,690	3,276	3,665
Capex	(2,658)	(2,000)	(1,400)	(1,500)
Free Cash Flow	(1,319)	690	1,876	2,165
Change in Investments	610	(1,200)	(1,500)	(1,500)
Investment cash flow	(2,048)	(3,200)	(2,900)	(3,000)
Equity Raised	-	-	-	-
Debt Raised/Repaid	759	600	(300)	(300)
Dividend	(132)	(111)	(120)	(141)
Other Financing activity	276	-	-	-
CF from Financing	903	489	(420)	(441)
Change in Cash	193	(21)	(44)	223
Opening Cash	246	438	417	373
Closing Cash	439	417	373	597

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Paid - Up Equity Capital	281	281	281	281
Reserves	11,297	13,323	15,522	18,103
Net worth	11,578	13,604	15,803	18,384
Borrowings	2,200	2,800	2,500	2,200
Total Liabilities	13,778	16,404	18,303	20,584
Gross Block	9,076	11,076	12,476	13,976
Accumulated Depreciation	5,140	6,688	8,304	9,921
Net block	3,936	4,388	4,171	4,055
Capital work in progress	0	0	0	0
Total fixed assets	3,936	4,388	4,171	4,055
Investments	5,356	6,556	8,056	9,556
Inventories	712	1,045	1,737	2,096
Sundry debtors	2,320	2,290	3,046	3,675
Cash and equivalents	439	417	373	597
Loans and advances & Others	4,499	4,999	4,999	5,999
Total current assets	7,969	8,751	10,155	12,368
Sundry creditors and others	5,696	5,486	6,253	7,546
Provisions	184	203	223	245
Total CL & provisions	5,880	5,688	6,476	7,792
Net current assets	2,089	3,063	3,679	4,576
Other assets	990	990	990	990
Net Deferred tax	1,408	1,408	1,408	1,408
Total Assets	13,778	16,404	18,303	20,584

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
EBITDA margin (%)	20.0	19.4	16.3	16.3
EBIT margin (%)	13.0	11.2	9.9	11.0
Net profit margin (%)	14.1	11.2	9.1	8.9
Adjusted EPS growth (%)	51.7	(16.2)	8.6	17.3
Receivables (days)	44	44	44	44
Inventory (days)	13	20	25	25
Loans & Advances (days)	85	96	72	72
Payable (days)	108	105	90	90
Net Working Capital (days)	35	55	51	50
Asset Turnover	1.6	1.3	1.5	1.6
Net Debt/ Equity	0.2	0.2	0.1	0.1
RoCE (%)	22.5	15.7	15.8	18.7
RoE (%)	24.8	17.0	15.8	15.9
P/E (x)	14.8	17.6	16.2	13.8
P/BV (x)	3.3	2.8	2.4	2.0
EV/EBITDA (x)	10.2	10.9	9.6	7.9
EV/Sales (x)	2.0	2.1	1.6	1.3

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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