

KNR Constructions Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
222	300	35.1%	303 / 163	31217

Key Highlights:

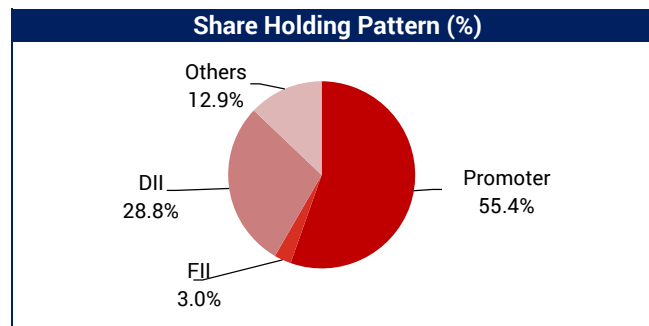
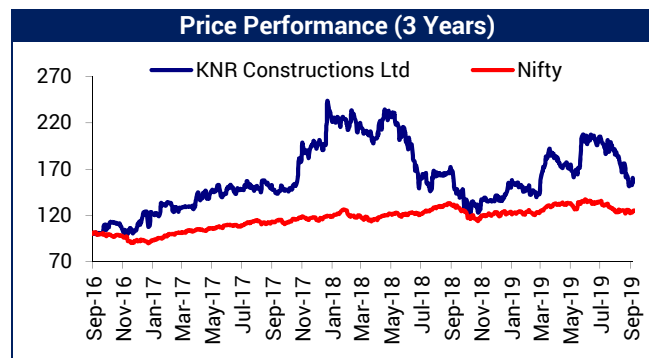
- KNR Constructions Ltd (KNR) is a Hyderabad based construction company promoted by Mr. K. Narasimha Reddy. The company is broadly present in construction of roads and highways with small presence in irrigation space. The company has a track record of executing 6000 lane km of projects across 12 states in India
- KNR has robust order book of Rs. 65.2 bn (at Q1FY20 end) which is 3.4x FY19 revenue and includes Rs. 18.9 bn of EPC component of 3 HAM projects where appointed date/FC are awaited. The present order book is largely concentrated in southern region comprising 97% of order book where the company has strong foothold.
- The company targets to add over Rs. 15 bn of new orders in 9MFY20E, which includes another Rs. 8.5 bn of irrigation project (which it bagged recently) and one more HAM road project.
- KNR has entered into share purchase agreement with Cube Highways and Infrastructure III Pte. Ltd for four HAM projects. Cube Highways will buy 49% stake in these projects at approximate valuation of 1.5x to 2x P/BV. Further, the company has an option to monetize its BOT assets and land bank at appropriate time which would help its future growth.
- 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 has maintained its guidance for standalone revenue growth of 10- 15% YoY in FY20E, with larger contribution expected in H2FY20. The company expects higher growth in FY21E.
- The company expects EBITDA margins to be in the range of 16%-17% in FY20E, as the company has added Rs. 8.5 bn of irrigation projects in Q1FY20 and another Rs. 8.5 bn of irrigation project is expected to be added in Q2FY20.
- Our SOTP target works to Rs. 300 of which Rs. 252 is ascribed to the standalone construction business (valued at 13x PE multiple) and Rs.48 is ascribed to Road BOT/HAM projects (valued at 1x book value of equity).

Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	21,373	24,641	32,835
Growth (%)	10.6	10.6	33.3
EBITDA	4,270	4,230	5,361
EBITDA margin (%)	20.0	17.2	16.3
PBT	2,931	2,813	3,892
Net profit	2,658	2,278	2,725
Adjusted EPS (Rs)	18.7	16.2	19.4
Growth (%)	3.3	(13.4)	19.8
P/E (x)	11.9	13.7	11.4
BV (Rs/share)	101	116	135
EV/EBITDA	8.0	8.3	6.3
ROE (%)	20.5	14.9	15.4
ROCE (%)	18.9	15.0	18.4
Free cash flow	708	124	2,119

Source: Kotak Securities - Private Client Research *Standalone

Financials (Rs mn)*	1QFY19	1QFY20	% Chg
Revenues	5,564	4,646	(16.5)
EBITDA	1,099	900	(18.1)
EBITDA Margin (%)	19.8%	19.4%	
PAT	740	477	(35.5)
PAT Margin (%)	13.3%	10.3%	

Source: Kotak Securities - Private Client Research *Standalone



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
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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