



COMPANY NAME	: KNR Constructions Ltd.
BSE Code	: 532942
Time Duration	: 1 year
CMP	: ₹219.65 (as on 18 June., 2020)
Target Price	: ₹283

Mid Bridge recommendation for the month of June is KNR Constructions Limited. It is one of the leading infrastructure companies in the country. It stands as one of the major firm in southern India, after executing inner state road and infra projects there. Its expertise lay in the sectors such as roads, highways, flyovers and bridges etc. The total of 6,000 km plus road projects in over 12 states of the country, reflect its capabilities and network in the sector. The company also has an exposure to the irrigation and water infrastructure management.

### Operating capabilities

The infrastructure sector is highly capital intensive. These companies need large amount of short-term as well long-term funds. The capital is used to fund the current projects, in order to sustain delay from project owners, project sanctioning and obtaining new projects etc. Hence, for long-term sustainability of the firm, timely execution of projects is very important.

KNR's history shows a trend of timely executions in many of its projects. For example, Bijapur-Hungund project in the state Karnataka was completed nearly a year ahead of the scheduled time target. In addition to this, projects such as Hyderabad-Chanda (Telangana) and Penchalakona-Yerpedu (Andhra Pradesh) too were completed either on time or well ahead of the schedule. This has resulted in net working capital days, as low as 36 days for the company. It helps in faster project procurement from marquee clients.

### Order book: Key revenue driver

As stated above, its operational capabilities help it obtain a strong order inflow. The inflow of future orders shows stability over long-run and also helps in valuing the company. As of end of FY20, it has nearly Rs 5,229.7 crore worth order book in hand. The value of these orders is little more than that of two times of its annual revenue. Its order book is a mix of hybrid annuity model (HAM) and irrigation projects, having 70 per cent and 30 per cent mix, respectively. The company's irrigation projects order book as on FY20 stood at Rs 1,573.6 crore. The irrigation business has seen smart growth over past one year. It contributed just 20 per

cent by the end of previous fiscal year.

In addition to this, the company is also expected to benefit from the constant regulatory support. Initiatives such as Bharatmala project, higher targets of per day road construction speed, rising budgetary allocations etc. from the government, further boosts its order book intake.

### 'Safe order book'

The infrastructure sector faced several issues in the past few years. From liquidity crisis to COVID-19 lockdown have added unwanted delays for the projects and fund offtake from clients. Further, Coronavirus spread forced the government to stop all the projects for nearly 45 days to 60 days. However, few states in the country were prudent enough to control the spread of virus and stand at pole position to kick start the economic activity. Notably, these states also include business areas of KNR Constructions.

The company is one of the dominant players in South India. It procures its 90 per cent revenue from these regions of the country. States such as Karnataka, Telangana, Andhra Pradesh, Kerala, which have lesser impact of COVID-19 (as of June 2020), have nearly 80 per cent to 90 per cent orders for the company. Orders from these states can be seen as safe to move. Further, this can prove helpful to the company in maintaining its working capital days and financial performance. We expect that in the time of economic revival in near future, this will act as the most important trigger for the company.

### Robust financial health

The company rides well on low leverage with net borrowing at nearly Rs 650 crore as of end of FY20, which translates into debt to equity of 0.43. Further, in 47 per cent HAM order book, in which 40 per cent is funded by the government, we expect that debt levels may remain steady and down. Its toll collection assets stood at nearly Rs 850 crore by the end of FY20 and have an ability to sustain debt burdens.

During the fiscal year ended March 2020, the company entered

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into a special purchase agreement with Cube Highways for the sale of KNR Walayar Tollways Pvt Ltd for an enterprise value of Rs 529.3 crore, which includes three HAM projects. This infusion of capital can be expected to be handy for the company in tough times, owing to the slowdown.

### Financial performance

Its stability at operational level is very much visible in its financial numbers and stock price performance. Its revenue growth, which has registered CAGR of 15 per cent in the last five years, operating margins of 23 per cent and net profit margins at 13 per cent, are amongst the highest in the sector. Besides, the company has the lowest D/E (0.19x) among its peers, which lends

financial stability. In term of return ratio, ROE and ROCE stands healthy at 22.42 per cent and 19 per cent, respectively.

### Valuation and outlook

The stock is trading at TTM EPS of Rs 18.88 and PE multiple of 11.15. Further, the market cap to sales ratio stood at 1.13 for the company. This ratio implies that the current market value is as equal as its annual sales. Hence, we see that higher revenue recognition resulting from order book could boost the stock price. Though, another spread of the virus and related activities can weigh on the market price. By looking at its healthy order book, execution capabilities and attractive valuations, we recommend to BUY with a price target of Rs 283.

Inc/Exp Statement (Standalone)					
Description	202003	201903	201803	201703	201603
Net Sales	2244.24	2137.26	1931.65	1541.05	902.55
Total Income	2300.83	2200.64	1970.97	1571.33	934.27
Total Expenditure	1757.17	1709.78	1545.53	1311.47	749.64
PBIDT	543.66	490.86	425.44	259.86	184.62
PAT	225.22	263.26	272.09	157.25	161.07
Dividend %	0.00	20.00	20.00	25.00	10.00
Adj. EPS(Rs)	16.02	18.72	19.35	11.18	11.45

Quarter On Quarter (Standalone)					
Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	675.56	557.88	21.09	715.71	-5.61
Total Expenditure	528.68	433.49	21.96	571.61	-7.51
PBIDT (Excl OI)	146.88	124.39	18.08	144.10	1.93
PAT	67.21	40.21	67.15	92.15	-27.07
PBIDTM% (Excl OI)	21.74	22.30	-2.51	20.13	8.00
PBIDTM%	22.82	23.55	-3.10	22.25	2.56
PATM%	9.95	7.21	38.00	12.88	-22.75
Adj. EPS(Rs)	4.78	2.86	67.13	6.55	-27.02



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