

Sector	Infrastructure
Recommendation	BUY
Upside	21%

Stock Data	
Sensex	52290
52 Week h/l (₹)	260/100
Market cap(₹Cr)	6,772
BSE code	532942
NSE code	KNRCON
FV (₹)	2
Div yield (%)	0.10

Shareholding Pattern			
	Sep-20	Dec-20	Mar-21
Promoters	55.03	55.03	55.03
DII+FII	35.88	35.81	34.42
Others	9.09	9.16	10.55

Source: www.bseindia.com

## Share Price Trend



## Profile

KNR constructions Limited (KNR) is a multidomain infrastructure project development company providing (EPC) engineering, procurement and construction services across various fast-growing sectors namely roads & highways, irrigation and urban water infrastructure management. The project execution strength primarily is in road transportation engineering projects namely construction and maintenance of roads, highways, flyovers and bridges wherever integral to the projects undertaken. Over the years, KNR has developed a significant and diversified presence across the construction and infrastructure domains in India.

## Investment Rationale

**Increase in Government spending on Infrastructure:** India is expected to become the third largest construction market by 2022. Only 24% of the National Highway network in India is four-lane, and therefore presents and immense scope for improvement. Infrastructure in India is expected to grow at 7% CAGR during 2021-25. The Government plans to invest about ₹102 lakh crore on infrastructure projects by 2024-25. In Budget 2021, the Government of India announced the allocation of ₹1.18 lakh crores towards road transport & highway sector.

**NHAI targets provide strong outlook for awarding:** We believe construction pace should accelerate from 2QFY22, as impact of Covid-19 wanes and labor availability normalizes. NHAI is targeting construction of 4,600 kms of highways in FY22 (4,192 kms in FY21), with daily construction likely to touch 40 kms from 36.4 kms in FY21. NHAI targets awarding Rs2.25tn worth of highway projects in FY22 compared with Rs1.71tn awarded in FY21. Project awards would likely aggregate to 5,000 km in FY22 (4,788 km in FY21).

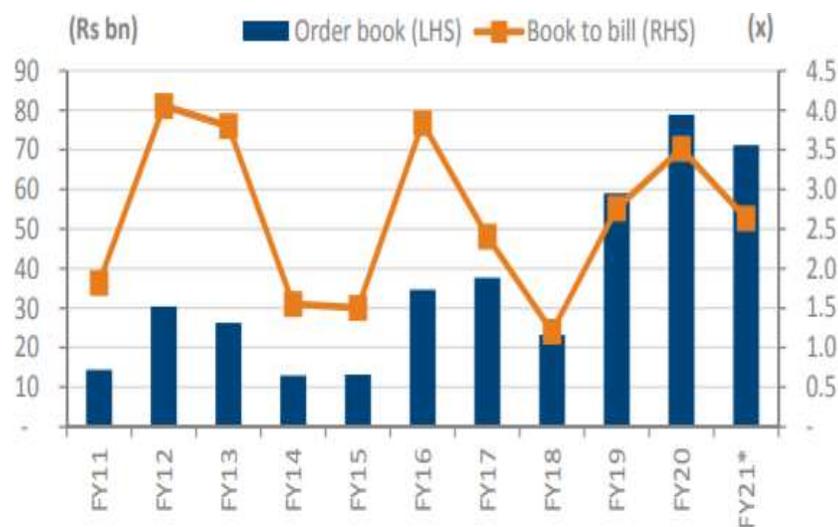
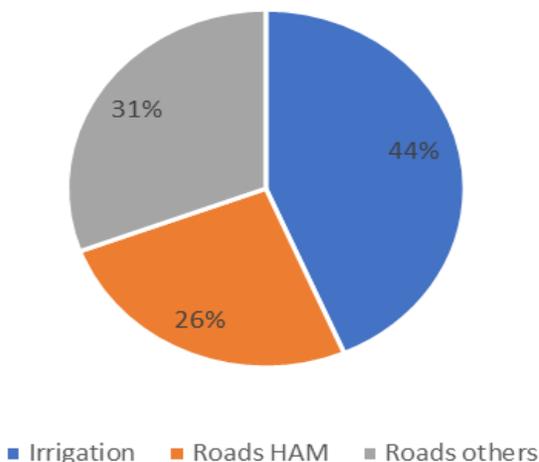
**Bharatmala provides long term growth visibility:** Of the 34,800 km of Bharatmala Pariyojana aggregating to Rs5.35tn worth of projects, 14,679 km have already been awarded by the end of FY21. Projects worth 5,000 km to be awarded by March-2022 and balance 15,121 km to be awarded after March-2022, which provides strong growth visibility beyond FY22.

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**Strong operating performance:** KNR Constructions' 4QFY21 reported a robust 36% qoq jump in revenues and a healthy EBITDA margin of 19.5%. Revenues in FY21 stood at Rs27bn (up 20%), with EBITDA margin at 19.8% aided by contribution from irrigation projects and arbitration claim receipts. KNR ended FY21 with net cash of Rs1.1bn vs. net debt of Rs1.8bn in FY20, supported by strong operating cash flow and divestment of Walayar Tollways.

**Large order book to support growth:** With an under-execution order book of Rs71bn, outlook for FY22 remains strong. KNR has strong order book with >2.5x book-to-bill ratio. Healthy award pipeline along with strong order book leads to growth visibility for FY22 & beyond. The company should see Rs43bn of new projects to start execution starting in 4QFY22.

order-book composition



Source: Company, IIFL Research; Note: \* excludes the 3 recently-won projects worth Rs43.2bn

## Risks

**Covid-19 third wave:** If there is a third wave of covid-19 in India, the company would see delays in execution of projects.

**Delay in orders:** The industry is dependent on the Government awarding projects to the company. Delay in the orders won could hamper the momentum of the business.

**Outlook & Valuation:**

KNR witnessed a strong 4Q on both, execution and margin fronts. With an under-execution order book of Rs71bn (excluding recent wins worth Rs43bn – work is likely to commence in 4QFY22), outlook for FY22 remains strong. As the Government plans to increase its expenditure on the infrastructure development of the country, the sector is likely to see a lot of growth going forward.

Given the robust order inflow, execution tailwinds, better cash flows & net cash balance sheet, we see the potential gains from rerating as well as possible earning upgrades. Hence, we recommend a Buy Rating on KNR Constructions with a Target Price of ₹282.

**Financial Summary**

Consolidated (Rs in mn)	FY19	FY20	FY21 E	FY22 E	FY23 E
Revenue	21,373	22,442	27,026	31,080	38,850
YoY growth (%)	11%	5%	20%	15%	15%
EBITDA margin (%)	20.0	21.7	19.8	19.0	19.5
PAT	2658	2360	2554	3146	4171
ROE (%)	20.7	15.5	14.6	15.6	17.5
P/B (x)	4.5	3.9	3.4	2.9	2.5
EV/EBITDA (x)	15.5	13.5	11.7	10.1	8.2
Net Debt/Equity (x)	0.1	0.1	(0.1)	(0.2)	(0.1)

[Click here](#): to watch the video.

## Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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