

KNR Constructions Q2FY21

Financial Results & Highlights

Introduction:

KNR Constructions is engaged in the business of infrastructure sector, primarily in the construction of roads, bridges, flyovers and irrigation projects.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	609	572	6.47%	485	25.57%	1094	1053	3.89%
PBT	69*	90	-23.33%	57	21.05%	1265*	1489	-15.04%
PAT	50	70	-28.57%	40	25.00%	90	118	-23.73%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	664	614	8.14%	530	25.28%	1193	1164	2.49%
PBT	175**	95	84.21%	59	196.61%	234**	151	54.97%
PAT	155	75	106.67%	42	269.05%	197	120	64.17%

*Contains Exceptional item of loss of Rs 11.25 Cr

**Contains exceptional item of profit of Rs 85 Cr

Detailed Results:

- The consolidated revenues for Q2 were up 8% YoY.
- Consolidated PAT saw a rise of 106% YoY on account of the exceptional item which was earned from the sale of KNR Walayar to Cube Highways.
- EBITDA for Q2 rose 8% YoY and margin declined 87 bps to 26.1%.
- Consolidated Cash & cash equivalents as of 30th Sep 2020 was at Rs 32.6 Cr
- The EPC order book as of 30th Sep '20 is Rs 8554.5 Cr out of which 31% are captive HAM projects and 45% are irrigation projects while other road projects were at 24%.
- The top 6 road projects are of Rs 3720 Cr while other projects consist of Rs 973 Cr. Irrigation projects form Rs 3861.5 Cr of the order book.
- The order book distribution is:
 - Arunachal Pradesh: Rs 82.2 Cr
 - AP & Telangana: Rs 5110.3 Cr
 - Karnataka: Rs 1112.2 Cr
 - Kerala: Rs 9.6 Cr
 - Tamil Nadu: Rs 2240.2 Cr
- The net-working capital days have fallen to 44 days in Q2.

Investor Conference Call Highlights:

1. So far in H1 FY 2'21, NHAI has awarded road contracts for building 1,330 km of highways, worth INR 47,289 crore, which is 1.6x higher than 880 — 828 km awarded in the financial year 2020 and 3.5x higher than 373 km awarded in the FY '19 during the same period.
2. The NHAI has set a target of awarding 4,500 km of projects during FY '21. NHAI has plans to award contracts worth INR 2 lakh crores in the second half-year.
3. NHAI recently disclosed that the number of FASTag users in the country has crossed 2 crore landmark, registering a robust 400% growth in the year. Currently, revenue from FASTag constitutes about 78% of the toll collection.
4. KNR's average operational effectiveness this quarter stood at 80%.
5. The percentage physical progress as of September 30, 2020, for 4 HAM projects is as follows: Chittoor to Mallavaram is at 64%, Ramsanpalle to Mangalore is at 56%, Trichy to Kallagam is at 50%, Magadi to Somwarpet at 14%.
6. On October 5, 2020, KNR received a date for its 5th HAM project (Oddanchatram to Madathukulam, KNR Palani HAM project), which is worth INR 920 crore BPC.
7. The toll collection in the Muzaffarpur Barauni project was at Rs 12 Cr in Q2.
8. Client wise, 69% of the order book is from third-party clients and the balance 31% is from captive HAM projects.
9. KNR is targeting a further order inflow of INR 2,000 crores to INR 2,500 crores in the second half of this fiscal year.
10. It has also received a top challenger award and the 18th Construction World Annual Rewards in October 2020.
11. There has been a delay in the collection of dues for the irrigation projects from the Telangana Government as the government has to divert its funding towards other essential sectors and services to prioritize COVID-19 relief measures. The total exposure for the Telangana Government projects as on September 30, 2020, amounts to INR 740 crore. KNR expects the set of fast tranche payments of INR 300 crores approximately from the Telangana Government by the end of November '20 and the balance will be in the fourth quarter.
12. KNR completed the sale of a 100% stake in the Walayar-Vadakkencherry BOT project, that is KNR Walayar Tollways Private Limited to Cube Highways in Q2.
13. The management is expecting plus/minus 5% of Q2 revenues of Rs 600-700 Cr in Q3.
14. The management expects the Rs 740 Cr due from Telangana Govt to be fulfilled by Q4.
15. The company has started receiving payments for the Kaleshwaram project.
16. The progress in the Palamuru-Rangareddy lift irrigation project with Navayuga is 30%.
17. There was no impact on the execution of the Kaleshwaram lift project from the objection raised by NGT.

18. From Rs 308 Cr from Cube, around Rs 210 Cr was used to pay off outstanding promoter loans while the rest was used for working capital.
19. The exceptional item of Rs 11 Cr on the standalone level was the write off due to fall in final value for Walayar transaction.
20. The management believes that margins should be sustainable at 17-18%.
21. The company is looking to add 3 more projects to replace the 3 HAM projects that are already at 60-70% completion.
22. There hasn't been any overhang on irrigation projects from political disputes over water in AP & Telangana.
23. The order from Hooghly, Hospet is at Rs 188 Cr.
24. In Mallanna Sagar, KNR has done 60% of the work while in Vettam it did 30%.
25. Mallanna Sagar is expected to be completed in 6-8 months.
26. The company is at 100% in terms of equipment but has only 80% of required labour and thus operational capacity is capped at 80%.
27. Ramsanpalle is expected to be completed by March while Chittoor should be done by Feb.
28. The Trichy project is stuck as a 5 km stretch is still not available and without it the project has gotten stalled. KNR expects the delay to be around 2-3 months in this project.
29. The company has done Rs 35 Cr of Capex in H1. Overall Capex in FY21 should go up to Rs 100-120 Cr.
30. The company is targeting 10-15 projects out of which, 4 projects are in Kerala, 3 are in Tamil Nadu & 3 are in Telangana. The overall size is around Rs 2000-2500 Cr.
31. The company has received rs 66 Cr from the Palamuru project and is expecting Rs 160 Cr by the end of Nov.
32. Revenue breakup was: Rs 138 Cr or 23% from irrigation, Rs 315 Cr or 53% from HAM & the rest from other EPC and back-to-back projects.
33. Interest costs in Q2 were at Rs 5.9 Cr.
34. In any new HAM project from NHAI, 40% of project cost comes as a grant before COD.
35. There are no pending receivables from NHAI currently.
36. The company is expected to follow the new tax regime in FY22 once the Mat credit gets exhausted.
37. 80% of the Hubli project is expected to be done by March.
38. Unbilled revenue is at Rs 500 Cr mostly from irrigation projects which are expected to be paid by end of Q3.
39. The equity infusion in H1 in HAM projects was at Rs 27 Cr. In H2, this figure is expected to be at Rs 240 Cr.

Analyst's View:

KNR has been one of the top performers in the construction industry. Despite the industry headwinds and the general plight of the companies in this sector due to delays in payments from NHAI, KNR has been able to continue to improve its margins substantially. The company has been able to weather the severe issues regarding land acquisition and labour crisis which it met earlier this year and has been able to achieve marginal growth despite working at only 80% operational capacity. The management was expecting labour to start coming back after monsoons but COVID-19 fears have kept this issue from getting fully resolved. The company has done well to source a new HAM project and is looking to replace the 3 HAM projects that will be over in the next 6-8 months. It remains to be seen how the industry will fare going forward and how long will it take for the Govt's push in infrastructure to gain proper momentum. Nonetheless, given its strong balance sheet, good operational history, and resilient order book, KNR Constructions remains a pivotal construction sector stock to watch out for.

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