



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## KNR CONSTRUCTIONS

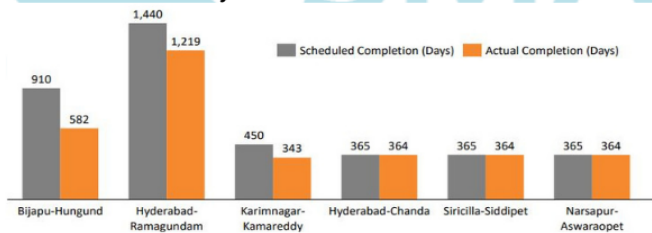
### WHAT WE LIKE

#### STRONG MARKET POSITION & PROJECT PORTFOLIO

Established in 1995, KNR has evolved into a multi-domain infrastructure project development company. It is among the industry leaders in providing EPC as well as BOT solutions across several fast-growing segments with a main forte in roads, highways, flyovers and bridges. It is also diversifying into high margin irrigation projects segment with Rs 3861 Cr of orders till date.

#### TRACK RECORD OF COMPLETING PROJECTS BEFORE SCHEDULE

KNR has a great record of completing its projects before or on time. We at Smart Sync feel that this a differentiating factor that makes KNR stand out from the industry.



#### STRONG ORDER BOOK & BALANCE SHEET

KNR has has a total order book of Rs 8555 Cr as of Sep '20 and it is planning to add an extra Rs 2000-2500 Cr by March '21. Currently, road projects account for 55% of total order book, while irrigation segment forms 45%. The company has already sold KNR Walayar Tollways BOT toll asset in a SPA to Cube Highways. These funds are expected to be used to reduce debt, improve Balance Sheet strength & fund additional capex for future projects.

#### INDUSTRY TAILWINDS

The infra sector is expected to be one of the primary tools for the Govt to revive India's economy and thus a lot of opportunity is expected to arise for the industry. NHAI has also announced that it will be awarding contracts of Rs 2 Lac Cr in H2 to reach its FY21 target of 4500 km. This should be very beneficial for a seasoned highway player like KNR.

#### OUTSTANDING NUMBERS FOR A CONSTRUCTION COMPANY

In the last 5 years, Sales CAGR: 22%, Profit CAGR: 31%, Avg ROE: 19%

Cash Generation from operations have been steady in the last 5 years to above Rs 200 Cr with a steady increase in operating margins as well.

### WHAT WE DON'T LIKE

#### DEPENDENCY ON GOVT FOR ORDERS & RECEIPT OF PAYMENTS

Even though KNR has been excellent in managing its working capital efficiently, it remains dependent on government for growth and sustenance. If government does any delay in awarding new projects or in payment of company's dues, it can have a big impact on the performance of the company. This has already happened during COVID-19 when payments from Telangana govt got delayed.

#### HIGHLY COMPETITIVE INDUSTRY

Construction industry is very competitive. It attracts not only domestic but also foreign players. History of the sector shows that from time to time it is prone to aggressive bidding, resulting in price cut and lower operating margins for the whole industry. To consistently make better margins in such a highly competitive industry is a challenge.

#### CONSTRUCTION RISKS

Infra projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management and other activities conducted over extended time periods, sometimes in remote locations. This could lead to cost-time overruns, thereby impacting profitability.

#### RAW MATERIAL PRICE RISKS

Increase in cost of raw material, particularly steel or cement, or their unavailability over the tenor of the contract can impact schedules and profit margins.

#### REGULATORY RISKS

The complex nature of infra projects means that the company has to interface with various regulatory authorities throughout the project life cycle, making it especially vulnerable to regulatory action. These requirements are complex and subject to frequent changes. Failure to comply with these requirements may result in significant liabilities for the company.

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