

KNR Constructions Q3FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	945	683	38.36%	713	32.54%	2752	2301	19.60%
PBT	149	86	73.26%	106	40.57%	381*	294***	29.6%
PAT	77	67	14.93%	78	-1.28%	244	225	8.44%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1000	740	35.14%	761	31.41%	2955	2517	17.40%
PBT	159	93.0	71%	120	33%	512**	313***	64%
PAT	87	75	16%	92	-5.43%	375	245	53.06%

*Contains Exceptional item of loss of Rs 11.25 Cr

**Contains exceptional item of profit of Rs 85 Cr

***Contains exceptional item of loss of Rs 10.7 Cr

Detailed Results:

- The consolidated revenues for Q4 were up 35% YoY.
- Consolidated PAT saw a rise of 16% YoY.
- EBITDA for Q4 rose 24% YoY and margin declined 228 bps to 19.5%.
- Consolidated Cash & cash equivalents as of 31st Mar 2021 was at Rs 108.2 Cr
- The EPC order book as of 31st Mar '21 is Rs 7117.9 Cr out of which 25% are captive HAM projects and 44% are irrigation projects while other road projects were at 31%.
- The top 6 road projects are of Rs 2895 Cr while other projects consist of Rs 1114 Cr. Irrigation projects form Rs 3109.1 Cr of the order book.
- The order book distribution is:
 - AP & Telangana: Rs 3864.7 Cr
 - Karnataka: Rs 898.7 Cr
 - Kerala: Rs 25.5 Cr
 - Tamil Nadu: Rs 2328.9 Cr
- The net-working capital days were at 82 days in FY21.
- KNR received 2 new NHAI HAM projects worth Rs 4507.5 Cr & 1 EPC project of Rs 982.9 Cr.
- KNR completed share transfer of KNR Walayar to Cube for an EV of Rs 511.78 Cr.
- KNR issued 1:1 bonus shares in Feb 2021.
- KNR announced a final dividend of Rs 0.25 per share for FY21.

Investor Conference Call Highlights:

1. The central govt has set a target of road construction worth INR 15 lakh crore in the next 2 years.
2. Highway awarding activity by MoRTH and NHAI was also higher in FY 2021 with about 10,965 km of highways awarded as compared to 8,948 km in FY 2020.
3. The NHAI awarded 141 projects in 2020-'21 aggregating to 4,788 km.
4. FASTag based toll collection on national highways rose more than 20% in March to INR 3,100 crore compared to INR 2,560 crore in February, helping India's Highways Development Agency to improve its financials and increase the pace of asset monetization.
5. The average operational effectiveness in this quarter stood at 95%.
6. The percentage physical progress as on March 31, 2021, for the HAM projects is:
 - a. Chittor to Mallavaram is at 82%,
 - b. Ramsanpalle to Mangloor is at 80%,
 - c. Trichy to Kallagam is at 66%,
 - d. Magadi to Somwarpet is at 29%,
 - e. Oddanchatram to Madathukulam is at 27%.
7. The company has entered into a share purchase agreement with Cube Highways and Infrastructure III Private Limited for 3 projects.
8. The company is in the process of making 4-5 bids with an average ticket size of Rs 1000 Cr each.
9. The receivables outstanding is at Rs 863 Cr which includes billed and unbilled revenue. Of this around Rs 525 Cr is from captive HAM projects and the rest is from irrigation projects.
10. The consolidated debt as of 31st March 2021 was at Rs 729 Cr. The net debt to equity was at 0.3x.
11. Of the 3 projects to be sold to Cube, 2 are expected to be done in June while the Ramsanpalle project is expected to be done in the next 2 months.
12. The land acquisition issues in Mallana Sagar Pump House project have been completed and construction has started a month ago. The inflow canal project here is still due to pending land acquisition.
13. The management maintains an internal target of reaching Rs 3000 Cr of sales in FY22 as well, but the actual sales level will depend on how fast the new projects will start and whether they will face any delays due to land acquisition issues or not.
14. The company is looking to collect the disbursements in the month of June for the 3 soon to be completed HAM projects. Thus, the company has been able to complete nearly 60-70% of these projects just from the advance from NHAI and its internal cash flows.
15. The management has not investigated expanding into other categories as there is plenty of room to grow in the road projects category currently.
16. The company will also receive Rs 1-1.5 Cr from the Walayar deal in March 2023.
17. Total order inflow in FY21 was at Rs 8400 Cr. The company is looking to target road orders of Rs 3000-4000 Cr in FY22.
18. The company will have to do a capex of Rs 200-250 Cr in FY22 for the 2 new projects of Rs 4500 Cr which will involve a lot of earthworks.
19. Capex in FY21 was at Rs 100-130 Cr.
20. The residual amount left to be drawn out of the 3 HAM projects to Cube is around Rs 930 Cr.
21. The tax rate in FY21 was at 35% as the company was running out its MAT credit. KNR will be following the new regime from FY22 and will have a tax rate of 25%.
22. KNR's SPV and EPC contracts do not have any pass-through clause for commodity price rise, so the company always does 5-6% padding in price. If commodity price rises are greater than the padding, then the margin profile for KNR will be affected.

23. The management states that KNR doesn't face any issues from the change in govt in TN.
24. The revenue contribution from the new projects is expected to be around 10% of FY22 revenue.
25. Q4 revenue breakup is Rs 180 Cr from irrigation, Rs 478 Cr from HAM and Rs 180 Cr from EPC. FY21 breakup is 23.5% from irrigation, 51% from HAM and 18.5% from other EPC.
26. Mallana Sagar project is now 93% complete while Palamaru is 35% complete.

Analyst's View:

KNR has been one of the top performers in the construction industry. KNR has seen a phenomenal quarter with a 35% YoY rise in revenues. The company has done well to source 2 new HAM projects of Rs 4500 Cr. It is already bidding for new projects and has made 4-5 bids for orders of Rs 1000 Cr each. It has already entered a SPA with Cube for the sale of the 3 HAM projects which will be over soon. The central govt push for awarding road projects of Rs 15 Lac Cr is a great boost for the entire industry and a seasoned player like KNR. 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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