

## KNR Constructions Q4FY20

### 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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	683	731	-6.57%	565	20.89%	2301	2201	4.55%
PBT	86	101	-15.22%	59*	46.16%	294**	291	1.06%
PAT	67	92	-27.08%	40	67.16%	235	263	-10.65%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	741	787	-5.86%	613	20.82%	2517	2366	6.40%
PBT	93	113	-17.04%	69*	36.18%	313**	289	8.22%
PAT	75	104	-28.06%	50	49.42%	245	262	-6.63%

\*includes exceptional item of Rs 6.7 Cr

\*\*includes exceptional item of Rs 10.7 Cr

#### Detailed Results:

- The consolidated revenues for Q4 were down 6% YoY.
- Consolidated PAT saw a big decline of 28% YoY.
- The exceptional item of Rs 6.7 Cr in Q3 was due to impairment of KNR Walayar Tollways which is to be sold to Cube Highways with whom KNR has signed a SPA.
- EBITDA for Q4 rose 2% YoY.
- The consolidated EBITDA margin improved 160 bps YoY to 21.7% in Q4.
- It currently has 5 HAM projects worth Rs 6049 Cr.
- The company entered into a Concession Agreement for KNR Palani Infra Pvt. Ltd. (NHAI HAM) project worth Rs 920 Crores (BPC) in Tamil Nadu has been signed on 6<sup>th</sup> Dec '19 and submitted documents for financial closure on 22<sup>nd</sup> May '20.
- The company has received 2 irrigation projects worth Rs. 2,309.23 Cr from Irrigation & CAD Department, Govt. of Telangana on 17<sup>th</sup> May 2020.
- The order book as of 31st March '20 is Rs 5229.7 Cr out of which 47% are captive HAM projects.
- The top 5 road projects are of Rs 2697.8 Cr while other projects consist of Rs 958.4 Cr. Irrigation projects form Rs 1573.5 Cr of the order book. The company has an additional Rs 2658.1 Cr worth HAM projects which have not been included in the order book.
- The order book distribution is:
  - Arunachal Pradesh: Rs 93.2 Cr
  - AP & Telangana: Rs 3122 Cr
  - Karnataka: Rs 27 Cr
  - Kerala: Rs 1256 Cr

5. Tamil Nadu: Rs 732 Cr
12. The net-working capital days has risen to 53 days in Q4.

**Investor Conference Call Highlights:**

1. The transport infrastructure sector in India holds a further investment opportunity of USD 575 billion over the next 5 years.
2. Roads and railways constitute 80% of the total investment opportunity, driven by investments in flagships, such as Bharatmala Pariyojana, etc.
3. The Ministry of Road Transport and Highways has decided to release INR 7,500 crore to INR 8,000 crore of retention money to provide liquidity support to EPC concessionaires.
4. The physical progress as on March 31 2020 for the 4 HAM projects are as follows:
  1. Chittor to Mallavaram: 54.4%
  2. Ramsanpalle to Mangloor: 43.7%
  3. Trichy to Kallagam: 37.4%
  4. Magadi to Somwarpet: 6.9%
5. The company has signed a SPA with Cube Highways for sale of 100% stake in KNR Walayar Tollways Pvt. Ltd. for an enterprise value of INR 529.27 crores. The transaction to be completed within the next 1 to 2 months.
6. The toll revenue during the quarter is INR 17.9 lakhs per day.
7. In terms of order book breakup, road constitutes INR 3,666 crores (70%) and irrigation projects constitute INR 1,574 crores (30%).
8. Migrant labour is a real issue for the company with only 20-30% of labourers remaining at sites currently. Projects are running at an efficiency of 50-65%.
9. The company expects Q1 & Q2 to be muted for the company and most of the work for the year to be done in Q3 & Q4.
10. The management has stated that the company can easily expect a 2-3% premium on regular margins from irrigation projects.
11. The company has Rs 500 Cr outstanding from Telangana govt. Payment of around Rs 200 Cr got delayed in March due to COVID-19.
12. Land acquisition is another area that has been severely affected due to COVID-19.
13. The company is targeting 3-4 big projects of Rs 3000 Cr to come in this year and is looking to NHAI for these orders.
14. The company will only do maintenance capex of Rs 15 Cr this year and will refrain from any other capex for FY21 in the irrigation projects.
15. Quarterly depreciation run rate of Rs 50 Cr is expected to continue.
16. Other expenses have gone up as the company brought in an external consultant for design and consulting in Q4.
17. The company has applied for a tender offer in Tamil Nadu for an annuity project which it expects to gain in the near future.
18. The company expects NHAI order pipeline to be 4000-4500 km in FY21. The company received arbitration of Rs 61 Cr in FY20.
19. The management expects a dip in margins in Q1& Q2 going forward.
20. Land acquisition in KSHIP project is at 72% while in Palani it is at 50%. The company should get the appointment date for the Palani project in the next 2 months.

21. The company has put up Rs 140 Cr in total in projects where Rs 100 Cr was in KSHIP and Rs 40 Cr was in Palani.
22. According to the current order book and payment schedule, Q1 revenues should be around Rs 450 Cr.
23. The company has outstanding MAT of Rs 34 Cr which it expects to run down in FY21 before switching to the new tax rate next year.
24. The tenders from NHAI are expected to be 20 in number with a worth of around Rs 20,000 Cr in total. Out of these the company has identified 5-6 projects to apply for. The bidding for these projects has gotten delayed due to COVID-19.
25. In Q1, the company has done Rs 300 Cr worth of irrigation and Rs 500 CR is outstanding here.
26. The monthly fixed cost for the company is at Rs 15 Cr.
27. The HAM projects that the company is targeting are of around Rs 6000-7000 Cr.
28. The current order backlog for Megha is Rs 518 Cr and for Navayuga is Rs 847 Cr.
29. The annuity project for Tamil Nadu is expected to be of Rs 500 Cr.
30. The management expects the company to reach normal operating capacity from Q3 onwards.
31. The company had only a 20-30% execution in April & May.
32. The retention money of the company with NHAI is around Rs 150 Cr.
33. The management expects labour to start returning from after monsoons are over.

#### **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 delay in payments from NHAI, KNR has been able to continue to improve its margins substantially. But the company does face severe issues regarding land acquisition and labour crisis which is expected to hit the construction industry hard. The management expects labour to start coming back after monsoons but it remains to be seen how long it will take for the company to get back to normal operating levels. The awarding of projects and tenders has also gotten delayed which has put many industry players under stress. 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.

If you found this report useful and would like to receive more such investing insights, you can [subscribe to our updates](#).

**Subscribe**



Click here to Subscribe  
on WhatsApp