



BUY

Price	Rs73
Target Price	Rs91
Investment Period	12 months

Stock Info

Sector	Construction
Market Cap (Rs cr)	205
Beta	0.7
52 WK High / Low	88 /21
Avg. Daily Volume	12566
Face Value (Rs)	10

BSE Sensex	14,658
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Nifty	4,349
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BSE Code	532942
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NSE Code	KNRCON
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Reuters Code	KNRL.BO
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Bloomberg Code	KNRC@IN
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Shareholding Pattern (%)

Promoters	71.9
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MF/Banks/Indian FIs	17.0
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FII/ NRIs/ OCBs	4.4
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Indian Public/others	6.7
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Abs.	3m	1yr	3yr#
Sensex (%)	41.6	7.3	(18.8)
KNRC (%)	85.7	38.6	(52.9)

Note: # Since listing on Feb. 18, 2008

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Performance Highlights

■ **Robust 26.6% growth in Top-line:** For 4QFY2009, on a standalone basis, KNR Construction's (KNRC) Net Revenue, which grew 26.6% yoy to Rs205.9cr (Rs162.6cr), exceeded our expectation. For FY2009, the company clocked a turnover of Rs769cr (Rs547cr) on a consolidated basis.

■ **Operating Margins at 14.4%:** On the Operating front, the company recorded a Profit of Rs29.7cr (Rs21.1cr), up 41.2% on a yoy basis. OPMs improved by 149bp to 14.4% (13.0%) on account of reduction in the prices of steel and other raw materials. The company also achieved savings in other construction expenses. For FY2009, KNRC clocked Operating Profit of Rs107.4cr (Rs76.8cr). For FY2009, the company reported similar 14% Margins as of FY2008.

■ **4QFY2009 Net Profit at Rs11.9cr:** The company's Bottom-line grew by an impressive 32.0% to Rs11.9cr (Rs9.0cr) during the quarter. The company's Bottom-line was up on account of higher Operating Margins reported during the quarter. For FY2009, KNRC clocked Net Profit of Rs43.7cr (Rs29.5cr).

■ **Major Orders worth Rs576cr bagged:** KNR Constructions bagged a Rs576.4cr order to execute an eight-lane expressway for Hyderabad Growth Corridor (HGCL). This project is a 51:49 joint venture (JV) between KNR and GVR Infra Projects. This expressway would connect Patancheru to Shamirpet.

Key Financials (Consolidated)

Y/E Mar (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	547.4	768.7	869.9	972.2
% chg	68.7	40.4	13.2	11.8
Net Profit	29.5	43.7	47.2	51.2
% chg	44.8	47.7	8.1	8.5
OPM (%)	14.0	14.0	14.2	13.9
EPS (Rs)	10.5	15.5	16.8	18.2
P/E (x)	6.9	4.7	4.3	4.0
P/BV (x)	0.9	0.8	0.7	0.6
RoE (%)	13.1	16.5	15.6	14.9
RoCE (%)	11.6	14.4	15.7	15.8
EV/Sales (x)	0.6	0.5	0.4	0.4
EV/EBITDA (x)	4.5	3.8	3.1	3.0

Source: Company, Angel Research

Outlook and Valuation

Overall investment in Road Construction is estimated at Rs2,446bn during the Eleventh Plan. Hence, there exists tremendous growth opportunity for players with a proven track record like KNRC. The company's Order Book stood at Rs1,142cr (1.5x FY2009 Net Revenues) thereby providing certain degree of Revenue visibility. Further, the phenomenal decline in the prices of steel and other raw materials is expected to provide cushion to the company's Operating Margins thereby improving its overall Profitability. Moreover, KNRC is bound to benefit from the falling interest rates by way of lowering borrowing costs. The company is also L1 in one of the orders, which is worth Rs230cr, which we expect the company to bag in the next quarter. The company also expects to bag some project from NHAI as it has bid for projects in excess of Rs20,000cr. However, concerns relating to delays in orders being granted and a high interest rate scenario persist. Evens so, we expect the company to post a CAGR of 12.5% in Revenue and 8.3% in PAT over FY2009-11E.

On the valuation front, as per our FY2011E Earnings, at current levels the stock is trading at a P/E of 4x and EV/EBITDA of 3x, which is much lower compared to its peers. **Hence, we have ascribed a higher Target P/E multiple of 5x FY2011E Earnings to the KNRC stock and have arrived at a revised Target Price of Rs91 (Rs68), implying an upside of 25% from current levels. We maintain a Buy on the stock.**

Exhibit 2: 4QFY2009 Performance						
Y/E March (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Net Sales	205.9	162.6	26.6	768.7	547.4	40.4
Consumption of RM	47.4	6.2	661.6	226.0	85.8	163.4
(% of Sales)	23.0	3.8		29.4	15.7	
Staff Costs	5.4	2.9	85.3	19.1	11.1	71.4
(% of Sales)	2.6	1.8		2.5	2.0	
Other Expenses	123.3	132.4	(6.8)	416.2	373.7	11.4
(% of Sales)	59.9	81.4		54.1	68.3	
Total Expenditure	176.1	141.6	24.4	661.2	470.6	40.5
Operating Profit	29.7	21.1	41.2	107.4	76.8	39.9
OPM (%)	14.4	13.0		14.0	14.0	
Interest	2.4	3.3	(27.1)	16.5	14.0	18.0
Depreciation	7.0	4.5	56.4	30.3	21.5	40.4
Other Income	(1.5)	0.6	(338.1)	5.6	5.4	3.9
PBT (excl. Extr. Items)	18.9	14.0	35.3	66.3	46.7	42.0
Extr. Income/(Expense)	-	-		-	-	
PBT (incl. Extr. Items)	18.9	14.0	35.3	66.3	46.7	42.0
(% of Sales)	9.2	8.6		8.6	8.5	
Provision for Taxation	6.9	4.9	41.3	22.6	17.1	32.1
(% of PBT)	36.8	35.2		34.2	36.7	
Reported PAT	11.9	9.0	32.0	43.7	29.5	47.7
PATM (%)	5.8	5.6		5.7	5.4	
Equity shares (cr)	28.1	28.1		28.1	28.1	
EPS (Rs)	4.2	3.2	32.0	15.5	10.5	
Adjusted PAT	11.9	9.0	32.0	43.7	29.5	47.7

Source: Company, Angel Research


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Ratings (Returns) : **Buy (Upside > 15%)**
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)