

ACCUMULATE

Price	Rs82
Target Price	Rs89
Investment Period	12 months

Stock Info

Sector	Construction
Market Cap (Rs cr)	231
Beta	0.6
52 WK High / Low	88 /21
Avg. Daily Volume	13573
Face Value (Rs)	10
BSE Sensex	15,670
Nifty	4,536
BSE Code	532942
NSE Code	KNRCON
Reuters Code	KNRL.BO
Bloomberg Code	KNRC@ IN
Shareholding Pattern (%)	
Promoters	72.8
MF/Banks/Indian FIs	16.8
FII/ NRIs/ OCBs	2.5
Indian Public/others	7.9

Abs.	3m	1yr	3yr#
Sensex (%)	37.4	9.2	(13.2)
KNR (%)	66.4	35.1	(46.8)

Note: Since listing on Feb. 18, 2008

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Performance Highlights

■ **Top-line de-grows by 25.3%:** During 1QFY2010, KNR Construction's (KNRC) Net Revenue de-grew by 25.3% yoy to Rs127.1cr (Rs170.2cr), which was below our expectation. This de-growth in the Top-line is on account of slow order booking and certain delays in project execution.

■ **Operating Margin at 18.1%:** On the operating front, the company made a profit of Rs23cr (Rs24.1cr), down 4.7% yoy. The OPM improved by a whopping 392bp to 18.1% (14.2%), on account of a reduction in the prices of steel and other raw materials. We believe that this is one of the highest OPMs in the construction industry. On the raw material and subcontracting expenses front, the company achieved savings of 947bp.

■ **Net Profit at Rs10.7cr:** The company's Bottom-line stood flat at Rs10.7cr (Rs10.2cr), during the quarter. The bottom-line was up on account of a higher Operating Margin reported during the quarter, despite of de-growth in the Top-line.

■ **Major Order worth bagged during 1HFY2010:** KNRC has bagged a Rs576.4cr order to execute an eight-lane expressway for Hyderabad Growth Corridor Ltd (HGCL). This project is a 51:49 joint venture between KNR and GVR Infra Projects Ltd, and the expressway will connect Patancheru to Shamirpet. This quarter, the company is awaiting some orders from the NHAI.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	547	769	808	922
% chg	68.7	40.4	5.1	14.1
Net Profit	29.5	43.7	44.6	49.8
% chg	44.8	47.7	2.1	11.7
OPM (%)	14.0	14.0	14.5	14.2
EPS (Rs)	10.5	15.5	15.8	17.7
P/E (x)	7.8	5.3	5.2	4.6
P/BV (x)	1.0	0.9	0.8	0.7
RoE (%)	13.1	16.5	14.9	14.7
RoCE (%)	11.6	14.4	15.1	15.5
EV/Sales (x)	0.7	0.6	0.5	0.5
EV/EBITDA (x)	4.9	4.0	3.1	3.3

Source: Company, Angel Research

Outlook and Valuation

The investment in Road Construction is estimated at Rs2,446bn during the Eleventh Plan. Hence, there exists tremendous growth opportunities for players like KNRC who have a proven track record. KNRC's current order book stands at around Rs1,000cr (1.5x FY2009 net revenues), thereby providing a certain degree of revenue visibility. Further, the phenomenal decline in the prices of steel and other raw materials is expected to provide a cushion to the company's operating margins, thus improving its overall profitability. Moreover, KNRC is bound to benefit from the falling interest rates, by way of lower borrowing costs. The company is also L1 in one of the orders, worth Rs230cr, which we expect them to get in the next quarter. KNRC also expects NHAI to award them a few projects, as they have bid for projects in excess of Rs20,000cr.

We expect the company to post a CAGR of 9.5% in Revenue and 6.8% in PAT over FY2009-11E. The stock is currently trading at FY2011E P/E of 4.6x and EV/EBITDA of 3.3x. **On account of the concern relating to the delay in order's being granted, coupled with the relatively low order book position (of 1.5x FY2009 sales), we ascribe a target P/E multiple of 5x FY2011E, thereby arriving at a Target price of Rs89 (Rs91), implying a 8% upside from the current level. Hence, we recommend an Accumulate view on KNRC.**

Exhibit 1: 1QFY2010 Performance

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	127.1	170.2	(25.3)	768.7	547.4	40.4
Raw Mat. & Sub Contracting	77.7	120.2	(35.4)	226.0	85.8	163.4
(% of Sales)	61.1	70.6		29.4	15.7	
Staff Costs	4.1	3.2	26.5	19.1	11.1	71.4
(% of Sales)	3.2	1.9		2.5	2.0	
Other Expenses	22.3	22.7	(1.7)	416.2	373.7	11.4
(% of Sales)	17.6	13.3		54.1	68.3	
Total Expenditure	104.1	146.1	(28.8)	661.2	470.6	40.5
Operating Profit	23.0	24.1	(4.7)	107.4	76.8	39.9
OPM (%)	18.1	14.2		14.0	14.0	
Interest	1.7	2.6	(34.4)	16.5	14.0	18.0
Depreciation	6.3	5.3	18.7	30.3	21.5	40.4
Other Income	1.1	(0.3)	(495.6)	5.6	5.4	3.9
PBT (excl. Extr. Items)	16.0	15.9	1.0	66.3	46.7	42.0
Extr. Income / (Expense)	-	-		-	-	
PBT (incl. Extr. Items)	16.0	15.9	1.0	66.3	46.7	42.0
(% of Sales)	12.6	9.3		8.6	8.5	
Provision for Taxation	5.3	5.7	(6.5)	22.6	17.1	32.1
(% of PBT)	33.3	36.0		34.2	36.7	
Reported PAT	10.7	10.2	5.2	43.7	29.5	47.7
PATM (%)	8.4	6.0		5.7	5.4	
Equity shares (cr)	28.1	28.1		28.1	28.1	
EPS (Rs)	3.8	3.6	5.2	15.5	10.5	

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%)
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