

KNR Construction Ltd

Q3FY12 First cut – Better-than-expected earnings

Fundamental Grade **3/5 (Good fundamentals)**

Valuation Grade **4/5 (CMP has upside)**

Industry **Construction & Engineering**

KNR Construction Ltd (KNR) reported strong numbers for Q3FY12. While standalone revenue was slightly below CRISIL Research's estimates, earnings were higher than expected. Though revenues registered healthy y-o-y growth of 18.9%, it was slightly below our expectations. Standalone EBITDA margin improved by ~740 bps to 15.3% due to lower operating expense and was above our expectations. We believe consolidated margin would be lower than standalone's as JV projects typically have lower margins. We will provide clarity on the same post our interaction with the management. Due to higher operating profit and low tax provisioning, PAT increased from Rs 55 mn in Q3FY11 to Rs 168 mn in Q3FY12 and was higher than our expectations. Order intake for the quarter was strong as the company received ~Rs 14 bn worth of orders. We may raise our estimates post interaction with the management. We maintain the fundamental grade of **3/5**.

Q3FY12 result analysis (standalone)

- Revenues grew by 18.9% y-o-y to Rs 1,899 mn due to timely execution of projects. 9MFY12 revenue grew by 5.3% to Rs 5,881 mn.
- EBITDA margin increased by 740 bps y-o-y to 21.6% due to lower other expenses which offset the increase in raw material and employee cost. 9MFY12 EBITDA margin was up by 460 bps y-o-y to 19.0%.
- PAT increased from Rs 55 mn in Q3FY11 to Rs 168 mn in Q3FY12 due to higher operating margins. Accordingly, EPS was Rs 6.0 vs. Rs 2.0 in Q3FY11.

Valuations: Current market price has upside

We continue to value KNR based on the sum-of-the-parts method. Our fair value is Rs 157 per share. We may revise our fair value estimate post our interaction with the management. At the current market price, the stock merits a valuation grade of **4/5**.

KEY FORECAST *

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	7,498	8,875	10,275	12,445	14,570
EBITDA	1,116	1,272	1,519	1,821	2,044
Adj PAT	441	649	640	640	696
Adj EPS-Rs	15.7	23.1	22.7	22.7	24.7
EPS growth (%)	44.9	47.2	(1.5)	(0.0)	8.8
Dividend yield	1.7	1.7	1.4	1.4	1.5
RoCE (%)	20.6	24.3	25.0	26.0	24.2
RoE (%)	18.6	22.6	18.6	16.0	15.2
PE (x)	8.7	5.9	6.0	6.0	5.5
P/BV (x)	1.5	1.2	1.0	0.9	0.8
EV/EBITDA (x)	3.7	3.3	2.7	2.5	2.6

NM: Not meaningful; CMP: Current market price, *Consolidated

Source: Company, CRISIL Research estimate

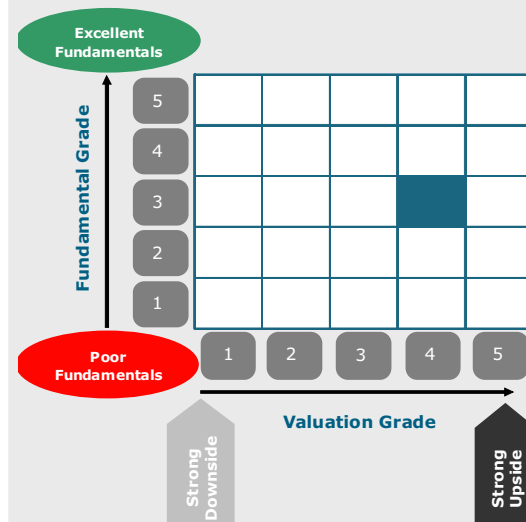


February 16, 2012

Fair Value **Rs 157**

CMP **Rs 137**

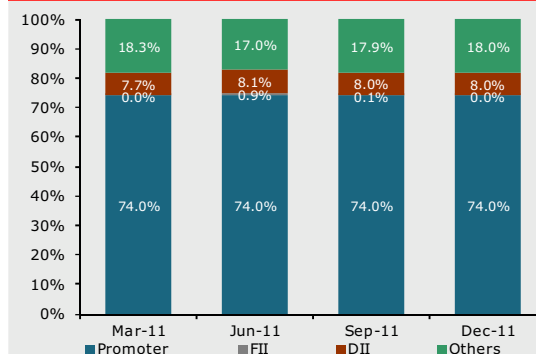
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5532/18202
NSE/BSE ticker	KNRCON
Face value (Rs per share)	10
Shares outstanding (mn)	28.1
Market cap (Rs mn)/(US\$ mn)	3,859/78
Enterprise value (Rs mn)/(US\$ mn)	4,147/84
52-week range (Rs) (H/L)	147/85
Beta	1.1
Free float (%)	26.0%
Avg daily volumes (30-days)	26,277
Avg daily value (30-days) (Rs mn)	3.1

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KNR	34%	26%	19%	15%
NIFTY	14%	9%	9%	1%

ANALYTICAL CONTACT

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