

RESEARCH
BOB Economics Research | Weekly Wrap

Central banks show readiness to step-in

KNR Constructions | Target: Rs 365 | +28% | BUY

Management meet update – On track for a sustainable growth

SUMMARY
India Economics: Weekly Wrap

Global yields fell after disappointing manufacturing, durable goods and payroll data from US. Fed Chairman is also open to steering the rates depending on which direction economy takes. US equity markets welcomed lower yields. However, DXY index fell on prospects of lower yields. Indian yields too fell after RBI reduced policy rate by 25bps. INR was stable on the back of FII inflows. Global markets and central banks remain data dependent. So does RBI. In India's case, IIP and CPI will be released later in the week.

[Click here for the full report.](#)
KNR Constructions

KNR Constructions (KNRC) Q4FY19 executable order backlog expanded 2.6x QoQ to Rs 40.2bn (1.9x FY19 revenue) led by the award of appointed dates (AD). FY19 order backlog including L1 projects remains robust at Rs 59bn (2.8x FY19 revenue) and additionally the company expects inflows of ~Rs 25bn in FY20. We expect revenue CAGR of 23% over FY19-FY21 led by likely award of AD in two HAM projects in Q2FY20 and likely order inflows of ~Rs 16bn worth of irrigation projects by Sep'19 (in final discussion). We raise our earnings estimates and revise our Mar'20 TP to Rs 365 (vs. Rs 330).

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL	Buy	490
ONGC	Buy	230
TCS	Buy	2,390
HPCL	Sell	210

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.08	(4bps)	(40bps)	(87bps)
India 10Y yield (%)	6.97	4bps	(40bps)	(97bps)
USD/INR	69.47	(0.3)	0.3	(2.9)
Brent Crude (US\$/bbl)	63.29	2.6	(10.1)	(17.2)
Dow	25,984	1.0	0.1	2.6
Shanghai	2,828	(1.2)	(2.3)	(7.8)
Sensex	39,616	0.2	4.8	11.8
India FII (US\$ mn)	6 Jun	MTD	CYTD	FYTD
FII-D	140.7	470.2	706.0	(310.4)
FII-E	(225.9)	132.3	11,322.3	3,027.6

Source: Bank of Baroda Economics Research

BOBCAPS Research

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WEEKLY WRAP

10 June 2019

Central banks show readiness to step-in

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Sameer Narang | Jahnavi

chief.economist@bankofbaroda.com**Markets**

- **Bonds:** Global yields closed lower as manufacturing PMI data continued to remain soft, in particular for US, China, Japan and Europe. Services PMI was relatively stable to better in US and Europe. With lower durable goods orders and payroll data, US 10Y yield declined by 4bps (2.08%). Fed futures is showing a rate cut in Jul'19. Crude prices fell by (-) 1.9% (US\$ 63/bbl) in the week. India's 10Y yield declined by 6bps (6.97%) supported by rate cut by RBI. System liquidity was in surplus at Rs 676bn as on 7 Jun 2019 vs Rs 20bn in the previous week.
- **Currency:** Except CNY, other global currencies ended the week higher. DXY fell by (-) 1.2% after weak US jobs data raised hopes of a rate cut by the Fed. EUR gained 1.5% after ECB extended its forward guidance policy to keep interest rates steady till H1CY20. INR rose by 0.3% in the week on the back of lower oil prices and FII inflows of US\$ 603mn.
- **Equity:** Barring Shanghai Comp and Sensex, other major indices ended the week higher. Dow jumped 4.7% as poor jobs data increased hopes of a rate cut by Fed in Jul'19. With US shelving tariffs on Mexico, global equity markets are likely to respond positively. Asian markets have opened higher. So has Sensex which fell by (-) 0.2% last week.
- **Upcoming key events:** US and China industrial production and retail sales data will be released and drive markets this week. Apart from this, US CPI will also be released. On domestic front, inflation and industrial production data will be released and set the course for RBI's interest rate trajectory. Progress of monsoon, already delayed, will also be monitored closely.



BUY

TP: Rs 365 | ▲ 28%

KNR CONSTRUCTIONS

Infrastructure

10 June 2019

Management meet update – On track for a sustainable growth

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Jiten Rushi

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Irrigation segment orders to drive revenue/margin growth: The company is in advanced discussion with Mega Engineering and Navayuga Engineering to bag sub-contracting work for irrigation projects in the state of Telangana worth ~Rs 16bn (Rs 8bn each). These are high margin projects (23%-24%) which are executable over 18 months. The contracts are likely to get confirmed by Sep'19 and the company expects revenue contribution of ~Rs 4bn in FY20. Overall, the company targets revenue of ~Rs 25bn in FY20. Led by contribution from fast pace high-margin irrigation projects, revenue momentum is likely to pick up pace from H2FY20 and we expect revenue CAGR of 23.1% over FY19-FY21.

More divestment on the cards: KNRC is planning to divest its stake in Walayar BOT (Toll) project (100% stake) at par or below its book value (equity invested - Rs 4bn) by end of this financial year. Proceeds from this project will aid the company to bid for more projects and support order inflow accretion. However, the stake sale of Muzaffarpur BOT (Toll) project (51% stake) is unlikely due to NHAI's interest in lane expansion on the project stretch.

Maintain BUY: We raise FY20E/FY21E EPS estimates by 4.7%/14.4% to bake in improvement in revenues and margins on the back of contribution from fast pace high-margin irrigation projects, leading to a revised Mar'20 TP to Rs 365.

Ticker/Price	KNRC IN/Rs 286
Market cap	US\$ 577.9mn
Shares o/s	141mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 303/Rs 165
Promoter/FPI/DII	55%/3%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY17A	FY18A	FY19A	FY20E	FY21E
Adj. net profit (Rs mn)	1,681	2,721	2,468	2,122	2,772
Adj. EPS (Rs)	12.0	19.3	17.6	15.1	19.7
Adj. EPS growth (%)	50.7	61.8	(9.3)	(14.0)	30.6
Adj. ROAE (%)	20.6	26.5	19.2	14.0	15.8
Adj. P/E (x)	23.9	14.8	16.3	18.9	14.5
EV/EBITDA (x)	17.9	10.7	9.8	10.4	7.4

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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