

# KNR Constructions

Estimate change	↓
TP change	↓
Rating change	↔

**CMP: INR272 TP: INR320 (+18%) Buy**

## Execution in line, while margins soften; focus on new order inflows

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	76.5 / 0.9
52-Week Range (INR)	306 / 226
1, 6, 12 Rel. Per (%)	4/1/-20
12M Avg Val (INR M)	209

### Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	39.9	43.5	49.5
EBITDA	7.0	7.7	8.9
PAT	4.3	4.7	5.6
EBITDA (%)	17.5	17.7	18.0
EPS (INR)	15.2	16.7	19.9
EPS Gr. (%)	3.0	9.9	18.9
BV/Sh. (INR)	111.9	128.1	147.5

### Ratios

Net D/E	-0.1	0.0	0.0
RoE (%)	14.5	13.9	14.4
RoCE (%)	15.1	14.6	15.0
Payout (%)	3.3	3.0	2.5

### Valuations

P/E (x)	17.9	16.3	13.7
P/BV (x)	2.4	2.1	1.8
EV/EBITDA (x)	10.6	9.7	8.5
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	3.7	2.1	2.6

### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.1	51.1	51.1
DII	29.3	32.3	34.9
FII	7.6	6.6	5.8
Others	12.0	9.3	8.2

FII Includes depository receipts

- KNR Constructions (KNRC)'s 3QFY24 revenue grew 9% YoY to ~INR9b (in line). The execution was primarily driven by the implementation of the Road HAM projects. EBITDA stood at INR1.5b (v/s our estimate of INR1.6b). EBITDA margin was at 16.3% (-250bp YoY and -140bp QoQ) v/s our estimate of 17.9% for 3QFY24. Lower execution of the high-margin irrigation projects impacted overall margins adversely.
- In line with operational performance, APAT stood at INR855m, 14% below our estimate (+10% YoY and -14% QoQ). During 9MFY24, revenue stood at INR27.8b (+8% YoY), EBITDA came in at INR4.9b (-4.5% YoY), EBITDA margin was 17.5%, and APAT stood at INR2.9b (+3.3% YoY).
- KNRC has not secured new orders in 9MFY24, with the current order book at ~INR67b. However, the order pipeline looks promising, with expectations of INR20-30b in new project wins in 4QFY24.
- KNRC is actively seeking opportunities in various states for project bidding and across water and road segments. Despite muted order inflow to date, the tender pipeline remains strong. We have tweaked our estimates to factor in some order inflows in YTD FY24, which could impact execution in the near to medium term. We expect a 10% CAGR in revenue over FY23-26. EBITDA margin is expected to be 17-18%. We cut our EPS estimates for FY24/FY25/FY26 by 4%/9%/3%. **We reiterate our BUY rating with a revised TP of INR320 (based on SoTP valuation). We value the EPC business at a P/E of 14x on FY26E EPS and BOT assets at 1x investment value.**

### Key takeaways from the management commentary

- In 9MFY24, KNRC has not secured any orders. The pace of awarding contracts by NHAI has been sluggish due to land availability issues. However, the order pipeline is promising, totaling INR450b, and KNRC anticipates winning new projects worth INR20-30b in FY24.
- Several tenders, which KNRC has bid for, were due to open but were postponed by the authorities, and hence order inflows could not materialize.
- Management has guided a revenue of INR12b for 4QFY24 and ~10% YoY growth in revenue in FY25.
- EBITDA margin could improve if the execution of the high-margin irrigation projects picks up pace.
- Irrigation receivables stood at INR6.5b at the end of Dec'23 (same as in Nov'23). KNRC has bid for irrigation projects worth INR11-12b in Telangana, but these bids remain pending due to the recently concluded state elections.

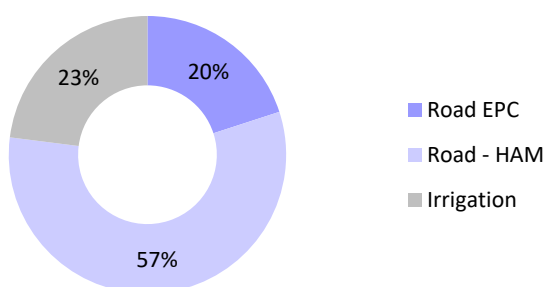
**Valuation and view**

- New order inflows are essential for KNRC's growth beyond FY25. With a robust order pipeline and a focus on diversifying into other segments, the company aims to boost its order intake. Management remains focused on improving the liquidity position of the company in order to bid when NHA's project awarding picks up.
- KNRC is looking to execute the pending irrigation order book once it gets clarity on the payments on those projects by the authority.
- With no order inflows in 9MFY24 and softer execution in irrigation projects, we cut our revenue and earnings estimates, and expect KNRC to report a CAGR of 10%/7%/10% in revenue/EBITDA/PAT over FY23-26, along with ~17-18% margin. **Reiterate BUY with a revised SoTP-based TP of INR320.**

**Quarterly performance -Standalone**

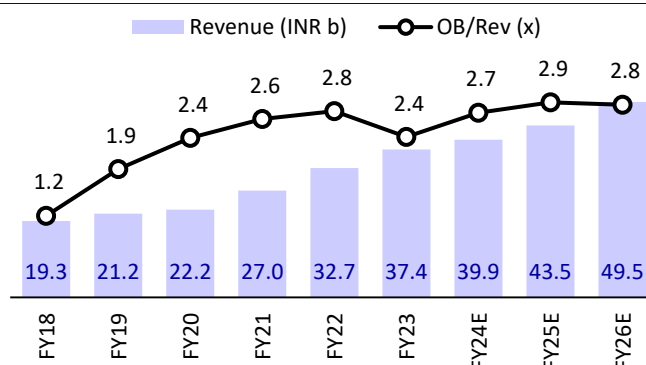
Y/E March	FY23				FY24E				FY23	FY24E	MOSL 3QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>8,906</b>	<b>8,474</b>	<b>8,302</b>	<b>11,756</b>	<b>9,296</b>	<b>9,415</b>	<b>9,054</b>	<b>12,160</b>	<b>37,438</b>	<b>39,924</b>	<b>9,183</b>	<b>-1</b>
YoY Change (%)	20.4	12.2	8.3	16.3	4.4	11.1	9.1	3.4	14.4	6.6	10.6	
<b>EBITDA</b>	<b>1,650</b>	<b>1,888</b>	<b>1,560</b>	<b>2,119</b>	<b>1,733</b>	<b>1,663</b>	7,581	10,042	30,220	32,938	7,539	
Margins (%)	18.5	22.3	18.8	18.0	18.6	17.7	<b>1,473</b>	<b>2,118</b>	<b>7,218</b>	<b>6,987</b>	<b>1,644</b>	<b>-10</b>
Depreciation	327	366	381	401	283	311	16.3	17.4	19.3	17.5	17.9	
Interest	69	84	160	80	50	58	325	331	1,474	1,250	320	
Other Income	91	76	59	96	71	50	72	60	393	240	60	
<b>PBT before EO expense</b>	<b>1,345</b>	<b>1,514</b>	<b>1,079</b>	<b>1,735</b>	<b>1,470</b>	<b>1,344</b>	60	58	321	240	60	
Extra-Ord expense	0	0	1,380	0	0	0	0	0	1,380	0	0	
<b>PBT (pre-exceptional)</b>	<b>1,345</b>	<b>1,514</b>	<b>1,079</b>	<b>1,735</b>	<b>1,470</b>	<b>1,344</b>	<b>1,136</b>	<b>1,786</b>	<b>5,672</b>	<b>5,736</b>	<b>1,324</b>	
Tax	336	438	840	449	367	346	281	449	2,062	1,443	334	
Rate (%)	25.0	28.9	77.9	25.9	25.0	25.7	24.7	25.2	36.4	25.2	25.2	
<b>Reported PAT</b>	<b>1,008</b>	<b>1,076</b>	<b>1,619</b>	<b>1,286</b>	<b>1,103</b>	<b>999</b>	<b>855</b>	<b>1,337</b>	<b>4,989</b>	<b>4,293</b>	<b>990</b>	
<b>Adj PAT</b>	<b>1,008</b>	<b>1,076</b>	<b>777</b>	<b>1,286</b>	<b>1,103</b>	<b>999</b>	<b>855</b>	<b>1,337</b>	<b>4,148</b>	<b>4,293</b>	<b>990</b>	<b>-14</b>
YoY Change (%)	38.1	13.0	-2.1	14.0	9.4	-7.2	10.1	3.9	15.1	3.5	27.4	
Margins (%)	11.3	12.7	9.4	10.9	11.9	10.6	9.4	11.0	11.1	10.8	10.8	

**Exhibit 1: OB breakup (3QFY24: INR67b)**



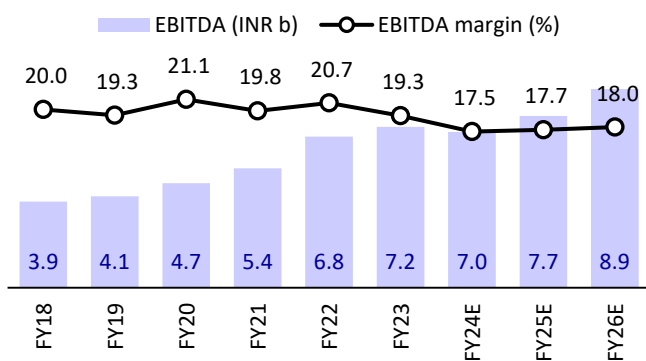
Source: MOFSL, Company

**Exhibit 2: With current OB, revenue likely to clock ~10% CAGR over FY23–26E**



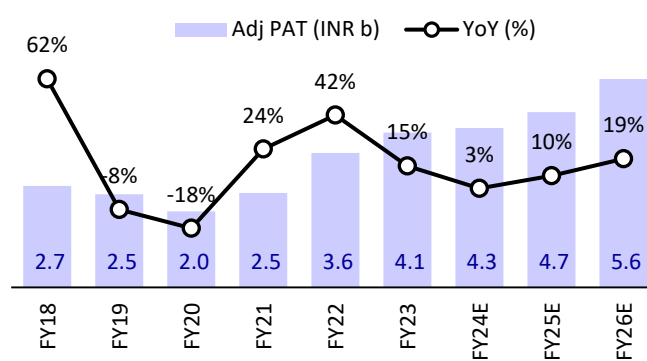
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: Adjusted PAT to post a 10% CAGR over FY23–26E



Source: MOFSL, Company

## Highlights from the management commentary

### Overview

- During the quarter, execution was primarily driven by the Road HAM projects.
- The current order book stands at ~INR67b, with roads (HAM) making up 57%, roads (Others) at 20%, and irrigation projects at 23%. KNRC has a portfolio of five HAM projects in its current order book.
- In 9MFY24, KNRC has not obtained any orders. The pace of awarding contracts by NHAH has been sluggish due to land availability issues. However, the order pipeline is promising, totaling INR450b, and KNRC anticipates winning new projects worth INR20-30b in FY24.
- Projects worth INR17.8b (included in the order book) are yet to receive the appointed date (AD). These are HAM projects for which AD is expected to be received by the end of Mar'24.
- Revenue contribution from irrigation projects was lower during the quarter at INR1.3b. Management expects similar revenue from irrigation in 4Q FY24.
- Net working capital days have reduced to 61 days in Dec'23 from 65 days in Sep'23.
- The focus remains on optimizing liquidity and resolving pending irrigation receivables.
- KNR is currently identifying opportunities in sectors such as railways, metros, irrigation projects in other states, and other construction-related projects.
- The total equity requirement for HAM projects is INR9.9b. This would be as follows: 4QFY24 – INR900m, FY25 – INR2.9b, FY26 - INR650m.
- Standalone cash position as of Dec'23: INR300m

### Irrigation projects

- Execution of irrigation projects, which are in the order book, should pick up once KNRC gets more clarity on the payments from the authorities.
- Pending receivables from the Telangana government for irrigation projects stand at INR6.5b as of Dec'23.
- KNR has bid for irrigation projects worth INR11-12b in Telangana, but bids for irrigation projects remain pending due to the recently concluded state elections.

**Guidance**

- Management has guided a revenue of INR12b in 4QFY24 and ~10% YoY growth in revenue in FY25.
- EBITDA margin could improve if execution of irrigation projects picks up pace.
- KNR has undertaken a capex of INR700m during 9MFY24. FY24 capex is pegged at INR0.9-1b and ~INR1b for FY25.
- The government maintains its focus on infrastructure development, with an 11.1% YoY increase in the budget of 2024-25. Asset monetization is crucial for NHAI to finance upcoming projects, with a target of INR400b for FY25, the highest ever set by NHAI.
- KNR is exploring EPC opportunities in new regions, which is a key focus area for diversification. Further, the company is exploring state road projects in Maharashtra, with bidding in alternative regions if necessary.
- Continuous pursuit of railway projects, BoT projects, state road projects, and exploration of EPC opportunities in solar projects is planned.

**Exhibit 5: Revisions to our earnings estimates**

Earnings Change INR m	Old			New			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,924	45,695	49,241	39,924	43,519	49,485	0.0%	-4.8%	0.5%
EBITDA	7,226	8,316	9,110	6,987	7,703	8,907	-3.3%	-7.4%	-2.2%
EBITDA margin	18.1%	18.2%	18.5%	17.5%	17.7%	18.0%	-0.6%	-0.5%	-0.5%
Adj. PAT	4,453	5,167	5,750	4,274	4,695	5,583	-4.0%	-9.1%	-2.9%

Source: Company, MOFSL

**Valuation and view**

- New order inflows are essential for KNRC's growth beyond FY25. With a robust order pipeline and a focus on diversifying into other segments, the company aims to boost its order intake. Management remains focused on improving the liquidity position of the company in order to bid when NHAI's project awarding picks up.
- KNRC is looking to execute the pending irrigation order book once it gets clarity on the payments on those projects by the authority.
- With no order inflows in 9MFY24 and softer execution in irrigation projects, we cut our revenue and earnings estimates, and expect KNRC to report a CAGR of 10%/7%/10% in revenue/EBITDA/PAT over FY23-26, along with ~17-18% margin.  
**Reiterate BUY with a revised SoTP-based TP of INR320.**

**Exhibit 6: Our SoTP-based TP stands at INR320/share**

Particulars	INR m	Per share (INR)
<b>Valuation</b>		
March'26E PAT – 14x P/E	78,164	280
BOT Portfolio valuation	11,244	40
<b>Total</b>	<b>91,522</b>	<b>320</b>

Source: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

	(INR m)					
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income from Operations</b>	<b>27,026</b>	<b>32,726</b>	<b>37,438</b>	<b>39,924</b>	<b>43,519</b>	<b>49,485</b>
Change (%)	21.7	21.1	14.4	6.6	9.0	13.7
<b>EBITDA</b>	<b>5,358</b>	<b>6,777</b>	<b>7,217</b>	<b>6,987</b>	<b>7,703</b>	<b>8,907</b>
Margin (%)	19.8	20.7	19.3	17.5	17.7	18.0
Depreciation	1,444	1,346	1,474	1,250	1,385	1,545
<b>EBIT</b>	<b>3,915</b>	<b>5,431</b>	<b>5,743</b>	<b>5,737</b>	<b>6,318</b>	<b>7,363</b>
Int. and Finance Charges	487	274	393	240	305	297
Other Income	496	417	321	240	261	396
<b>PBT bef. EO Exp.</b>	<b>3,924</b>	<b>5,574</b>	<b>5,671</b>	<b>5,736</b>	<b>6,274</b>	<b>7,461</b>
EO Items	-90	214	1,380	0	0	0
<b>PBT after EO Exp.</b>	<b>3,834</b>	<b>5,788</b>	<b>7,051</b>	<b>5,736</b>	<b>6,274</b>	<b>7,461</b>
Total Tax	1,392	1,970	2,062	1,463	1,579	1,878
Tax Rate (%)	36.3	34.0	29.3	25.5	25.2	25.2
<b>Reported PAT</b>	<b>2,442</b>	<b>3,818</b>	<b>4,988</b>	<b>4,274</b>	<b>4,695</b>	<b>5,583</b>
<b>Adjusted PAT</b>	<b>2,532</b>	<b>3,604</b>	<b>4,148</b>	<b>4,274</b>	<b>4,695</b>	<b>5,583</b>
Change (%)	24.1	42.4	15.1	3.0	9.9	18.9
Margin (%)	9.4	11.0	11.1	10.7	10.8	11.3

### Standalone Balance Sheet

	(INR m)					
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	562	562	562	562	562	562
Total Reserves	18,116	21,857	26,780	30,913	35,467	40,910
<b>Net Worth</b>	<b>18,678</b>	<b>22,420</b>	<b>27,343</b>	<b>31,476</b>	<b>36,030</b>	<b>41,472</b>
Total Loans	7	0	3	3	3	3
Deferred Tax Liabilities	-1,486	-1,183	-1,229	-1,229	-1,229	-1,229
<b>Capital Employed</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,249</b>	<b>34,803</b>	<b>40,246</b>
Gross Block	13,518	15,471	16,955	18,255	20,755	22,755
Less: Accum. Deprn.	9,482	10,668	12,142	13,392	14,777	16,322
<b>Net Fixed Assets</b>	<b>4,036</b>	<b>4,803</b>	<b>4,813</b>	<b>4,863</b>	<b>5,978</b>	<b>6,433</b>
Capital WIP	24	206	25	25	25	25
<b>Total Investments</b>	<b>4,898</b>	<b>4,828</b>	<b>5,244</b>	<b>7,244</b>	<b>9,244</b>	<b>11,244</b>
<b>Current Assets</b>	<b>18,764</b>	<b>22,275</b>	<b>25,685</b>	<b>28,409</b>	<b>30,775</b>	<b>35,300</b>
Inventory	1,480	2,270	2,341	2,496	2,721	3,094
Account Receivables	8,632	8,494	9,834	11,179	13,056	15,835
Cash and Bank Balance	1,173	1,733	1,998	2,458	1,617	1,155
Other current assets	7,478	9,778	11,512	12,276	13,381	15,216
<b>Current Liability</b>	<b>10,522</b>	<b>10,875</b>	<b>9,651</b>	<b>10,292</b>	<b>11,218</b>	<b>12,756</b>
Account Payables	2,397	2,945	3,760	4,010	4,371	4,970
Other current liabilities	7,780	7,590	5,630	6,004	6,544	7,441
Provisions	345	339	261	278	303	345
<b>Net Current Assets</b>	<b>8,241</b>	<b>11,400</b>	<b>16,034</b>	<b>18,117</b>	<b>19,556</b>	<b>22,543</b>
<b>Appl. of Funds</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,249</b>	<b>34,803</b>	<b>40,246</b>

## Financials and valuations

### Ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>						
EPS	9.0	12.8	14.7	15.2	16.7	19.9
Cash EPS	14.1	17.6	20.0	19.6	21.6	25.3
BV/Share	66.4	79.7	97.2	111.9	128.1	147.5
DPS	0.0	0.2	0.2	0.4	0.4	0.4
Payout (%)	0.0	1.8	1.4	3.3	3.0	2.5
<b>Valuation (x)</b>						
P/E	30.3	21.3	18.5	18.0	16.3	13.7
P/BV	4.1	3.4	2.8	2.4	2.1	1.8
EV/EBITDA	14.1	11.1	10.4	10.6	9.7	8.5
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.2	0.2
FCF per share	7.3	1.8	-1.4	10.1	5.7	7.0
<b>Return Ratios (%)</b>						
RoE	14.5	17.5	16.7	14.5	13.9	14.4
RoCE	15.1	18.8	17.2	15.1	14.6	15.0
RoIC	24.4	28.0	24.4	21.7	21.3	21.3
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	2.0	2.1	2.2	2.2	2.1	2.2
Asset Turnover (x)	1.6	1.5	1.4	1.3	1.3	1.2
Inventory (Days)	20	25	23	23	23	23
Debtor (Days)	117	95	96	102	110	117
Creditor (Days)	32	33	37	37	37	37
<b>Leverage Ratio (x)</b>						
Current Ratio	1.8	2.0	2.7	2.8	2.7	2.8
Interest Coverage Ratio	8.0	19.8	14.6	23.9	20.7	24.8
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	0.0	0.0

### Standalone Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>OP/(Loss) before Tax</b>	<b>3,811</b>	<b>5,788</b>	<b>7,051</b>	<b>5,736</b>	<b>6,274</b>	<b>7,461</b>
Depreciation	1,444	1,346	1,474	1,250	1,385	1,545
Interest and Finance Charges	427	271	363	240	305	297
Direct Taxes Paid	-787	-1,826	-2,117	-1,463	-1,579	-1,878
(Inc.)/Dec. in WC	-2,004	-1,660	-5,235	-1,623	-2,280	-3,449
<b>CF from Operations</b>	<b>2,891</b>	<b>3,919</b>	<b>1,536</b>	<b>4,140</b>	<b>4,105</b>	<b>3,976</b>
Others	89	-487	-1,407	0	0	0
<b>CF from Operating incl. EO</b>	<b>2,980</b>	<b>3,432</b>	<b>129</b>	<b>4,140</b>	<b>4,105</b>	<b>3,976</b>
(Inc.)/Dec. in FA	-939	-2,939	-516	-1,300	-2,500	-2,000
<b>Free Cash Flow</b>	<b>2,041</b>	<b>493</b>	<b>-387</b>	<b>2,840</b>	<b>1,605</b>	<b>1,976</b>
(Pur.)/Sale of Investments	1,424	296	980	-2,000	-2,000	-2,000
Others	127	161	143	0	0	0
<b>CF from Investments</b>	<b>612</b>	<b>-2,483</b>	<b>607</b>	<b>-3,300</b>	<b>-4,500</b>	<b>-4,000</b>
Inc./Dec. in Debt	-2,290	-7	3	0	0	0
Interest Paid	-459	-312	-402	-240	-305	-297
Dividend Paid	0	-70	-70	-141	-141	-141
Others	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-2,749</b>	<b>-390</b>	<b>-470</b>	<b>-381</b>	<b>-446</b>	<b>-438</b>
<b>Inc./Dec. in Cash</b>	<b>843</b>	<b>560</b>	<b>265</b>	<b>459</b>	<b>-841</b>	<b>-462</b>
Opening Balance	331	1,173	1,733	1,998	2,458	1,617
<b>Closing Balance</b>	<b>1,173</b>	<b>1,733</b>	<b>1,998</b>	<b>2,458</b>	<b>1,617</b>	<b>1,155</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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