

**BSE SENSEX**

57,912

**S&P CNX**

17,393


**Stock Info**

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	78.2 / 1
52-Week Range (INR)	344 / 189
1, 6, 12 Rel. Per (%)	-1/-4/16
12M Avg Val (INR M)	240
Free float (%)	48.5

**Financials Snapshot (INR b)**

Y/E March	2021	2022E	2023E
Net Sales	27.0	32.0	39.0
EBITDA	5.4	6.5	7.6
Adj. PAT	2.5	3.5	4.7
Adj. EPS (INR)	9.0	12.4	16.8
EPS Gr. (%)	24.1	38.1	35.5
BV/Sh. (INR)	66.4	79.1	95.4

**Ratios**

Net D/E (x)	-0.1	0.0	-0.1
RoE (%)	14.5	17.1	19.3
RoCE (%)	15.1	18.4	20.1
Payout (%)	0.0	3.8	3.0

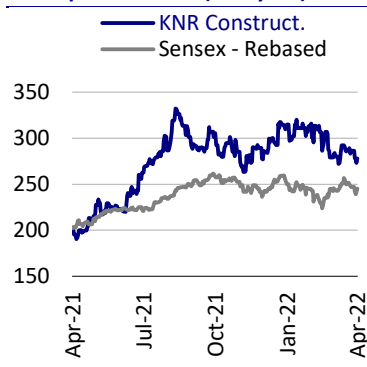
**Valuations**

P/E (x)	30.9	22.4	16.5
P/BV (x)	4.2	3.5	2.9
EV/EBITDA (x)	14.4	11.9	10.0
Div. Yield (%)	0.0	0.1	0.1
FCF Yield (%)	2.6	1.9	3.6

**Shareholding pattern (%)**

As On	Mar-22	Dec-21	Mar-21
Promoter	51.5	51.5	55.0
DII	33.5	34.1	32.4
FII	5.4	4.6	2.1
Others	9.6	9.9	10.6

FII Includes depository receipts

**Stock performance (one-year)**

**CMP: INR278**
**TP: INR360 (+29%)**
**Buy**

## Superior execution with a comfortable Balance Sheet

- KNRC sits on a strong order book of ~INR100b (excluding recently won projects), which provides clear revenue visibility for the next three years. It has received appointed dates (AD) for two HAM projects in Jan'22 and financial closure (FC) in one HAM project in Apr'22, which will support execution in FY23E and FY24E.
- We expect margin to stay elevated, despite inflationary pressures from higher commodity prices, as a sizable portion (~26%) of its order book consists of irrigation projects.
- KNRC has strengthened its Balance Sheet further by monetizing two of its HAM projects via stake sale to Cube Highways, which allows it to bid for new projects.
- With an order book of ~INR100b, we expect KNRC to clock 20% revenue growth over FY21-24, with EBITDA margin in the 18-20% range. We maintain our Buy rating, with a SoTP-based TP of INR360/share, implying an upside of 29%. Our TP is premised on: a) 16x FY24E EPS for the EPC business, and b) P/Inv of 1.2x for its Road assets.

## The healthy order book provides comfort for future execution

- KNRC hasn't bagged any new orders in 4QFY22, but its order book of ~INR100b (FY22E order book-to-revenue ratio of 3x) provides comfort on the execution front.
- Competitive intensity has been very high in NHAI projects and is likely to lead to muted order flows in 4QFY22. The management is highly focused on margin and has not gone ahead with aggressive bidding.
- With competition expected to reduce going forward, order inflows can improve in the next few quarters.

## Well-placed to bid for new projects by monetizing its HAM assets

- KNRC has transferred its 49% stake in KNR Tirumala and KNR Shankarampet HAM projects to Cube Highways and Infrastructure III for INR2.5b. This includes repayment of 100% sub-debt of INR1.6b infused by the company into the two SPVs.
- The balance 51% stake sale for the above two projects will be completed on or before 30<sup>th</sup> Jun'22.
- This is in line with its strategy to remain asset-light. The asset sales will allow KNRC to bid for a large number of new projects.

## Valuation and view

- Including recently won projects, KNRC has bagged ~INR50b in orders in FY22. We expect the company to focus on faster execution of the current order book. Irrigation receivables are a key monitorable due to the payment delays witnessed.
- On the back of a strong order book (~INR100b), we expect a revenue/EPS CAGR of 20%/30% over FY21-24, with EBITDA margin in the 18-20% range. We maintain our Buy rating with a SoTP-based TP of INR360/share, implying 29% upside.

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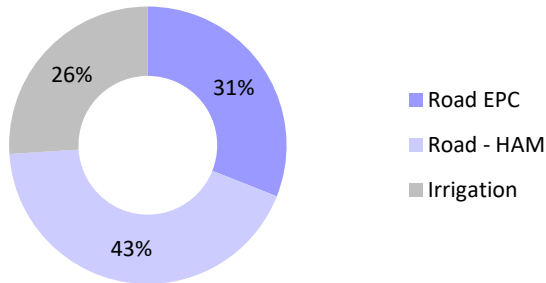
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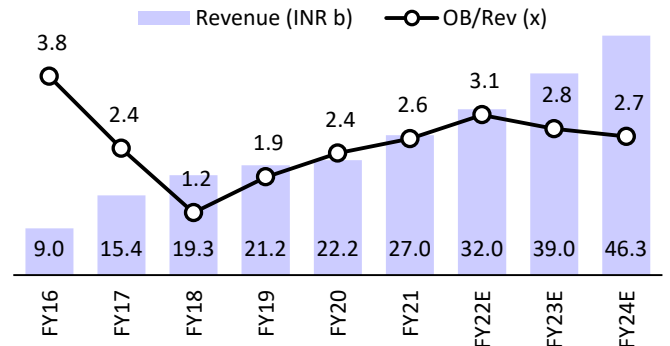
Story in charts

Exhibit 1: Order book breakup (3QFY22: INR100b)



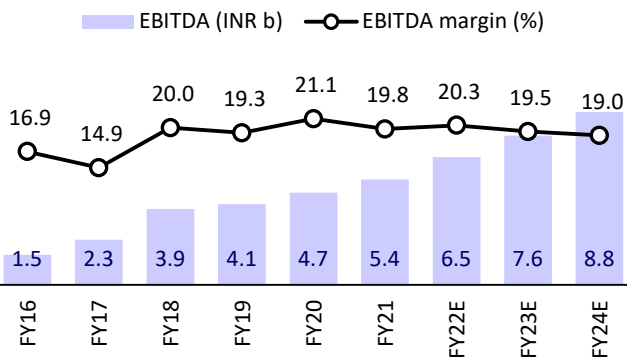
Source: Company, MOFSL

Exhibit 2: Current order book provides strong revenue visibility, expect ~20% CAGR over FY21-24



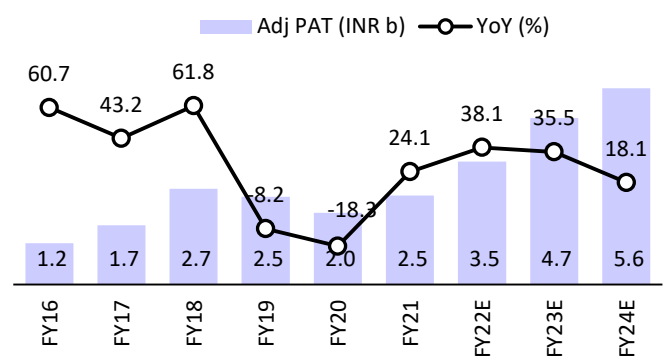
Source: Company, MOFSL

Exhibit 3: EBITDA and EBITDA margin trend



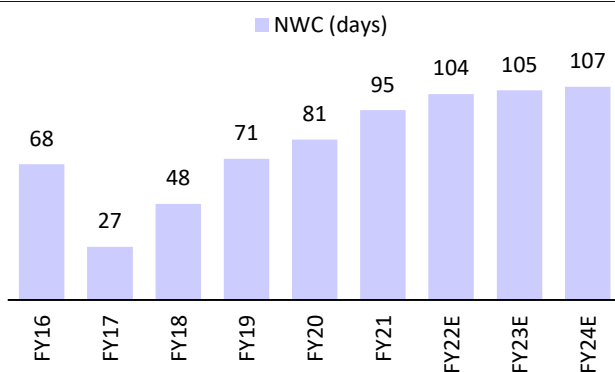
Source: Company, MOFSL

Exhibit 4: Expect 30% CAGR in adjusted PAT over FY21-24



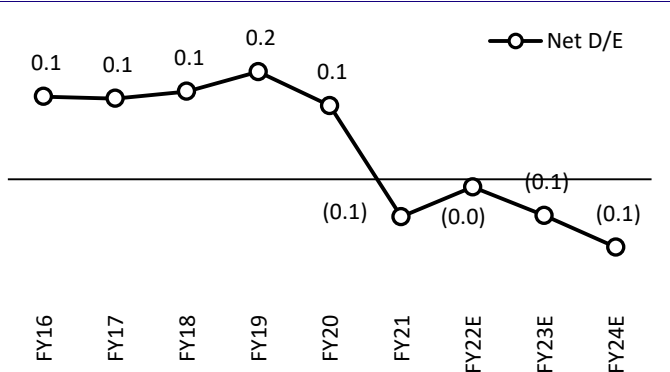
Source: Company, MOFSL

Exhibit 5: Working capital cycle to extend due to rise in receivables



Source: Company, MOFSL

Exhibit 6: KNRC has one of the best financials in the Roads sector, with net cash on its Balance Sheet from FY21



Source: Company, MOFSL

## Financials and valuations

Standalone Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>19,317</b>	<b>21,204</b>	<b>22,212</b>	<b>27,026</b>	<b>32,031</b>	<b>38,965</b>	<b>46,277</b>
Change (%)	25.3	9.8	4.8	21.7	18.5	21.7	18.8
<b>EBITDA</b>	<b>3,861</b>	<b>4,101</b>	<b>4,691</b>	<b>5,358</b>	<b>6,502</b>	<b>7,598</b>	<b>8,793</b>
Margin (%)	20.0	19.3	21.1	19.8	20.3	19.5	19.0
Depreciation	1,341	1,681	1,918	1,444	1,315	1,464	1,599
<b>EBIT</b>	<b>2,520</b>	<b>2,420</b>	<b>2,772</b>	<b>3,915</b>	<b>5,187</b>	<b>6,135</b>	<b>7,194</b>
Int. and Finance Charges	231	291	474	487	290	274	279
Other Income	393	634	346	496	320	468	555
<b>PBT bef. EO Exp.</b>	<b>2,682</b>	<b>2,763</b>	<b>2,644</b>	<b>3,924</b>	<b>5,218</b>	<b>6,328</b>	<b>7,470</b>
EO Items	2	138	213	-90	214	0	0
<b>PBT after EO Exp.</b>	<b>2,683</b>	<b>2,901</b>	<b>2,857</b>	<b>3,834</b>	<b>5,432</b>	<b>6,328</b>	<b>7,470</b>
Total Tax	-37	268	605	1,392	1,722	1,593	1,880
Tax Rate (%)	-1.4	9.2	21.2	36.3	31.7	25.2	25.2
<b>Reported PAT</b>	<b>2,721</b>	<b>2,633</b>	<b>2,252</b>	<b>2,442</b>	<b>3,710</b>	<b>4,735</b>	<b>5,590</b>
<b>Adjusted PAT</b>	<b>2,719</b>	<b>2,495</b>	<b>2,039</b>	<b>2,532</b>	<b>3,496</b>	<b>4,735</b>	<b>5,590</b>
Change (%)	61.7	-8.2	-18.3	24.1	38.1	35.5	18.1
Margin (%)	14.1	11.8	9.2	9.4	10.9	12.2	12.1

Standalone Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	281	281	281	562	562	562	562
Total Reserves	11,297	13,862	15,958	18,116	21,685	26,280	31,729
<b>Net Worth</b>	<b>11,578</b>	<b>14,143</b>	<b>16,239</b>	<b>18,678</b>	<b>22,248</b>	<b>26,842</b>	<b>32,291</b>
Total Loans	2,118	2,641	2,300	7	7	7	7
Deferred Tax Liabilities	-1,408	-1,739	-1,610	-1,486	-1,486	-1,486	-1,486
<b>Capital Employed</b>	<b>12,289</b>	<b>15,045</b>	<b>16,929</b>	<b>17,199</b>	<b>20,769</b>	<b>25,363</b>	<b>30,813</b>
Gross Block	8,795	10,752	12,671	13,713	15,513	17,013	18,513
Less: Accum. Deprn.	4,859	6,412	8,233	9,677	10,992	12,455	14,054
<b>Net Fixed Assets</b>	<b>3,936</b>	<b>4,340</b>	<b>4,438</b>	<b>4,036</b>	<b>4,521</b>	<b>4,558</b>	<b>4,459</b>
Capital WIP	0	0	102	24	24	24	24
<b>Total Investments</b>	<b>5,356</b>	<b>6,448</b>	<b>7,149</b>	<b>4,898</b>	<b>6,190</b>	<b>7,319</b>	<b>8,619</b>
<b>Current Assets</b>	<b>8,959</b>	<b>10,176</b>	<b>13,880</b>	<b>18,764</b>	<b>22,205</b>	<b>28,270</b>	<b>35,296</b>
Inventory	712	951	1,232	1,480	1,922	2,338	2,777
Account Receivables	2,320	2,344	4,761	8,632	10,250	12,664	15,271
Cash and Bank Balance	438	130	330	1,173	940	2,206	4,110
Other current assets	5,489	6,751	7,557	7,478	9,093	11,062	13,138
<b>Current Liability</b>	<b>5,962</b>	<b>5,919</b>	<b>8,639</b>	<b>10,522</b>	<b>12,172</b>	<b>14,807</b>	<b>17,585</b>
Account Payables	2,184	2,236	2,511	2,397	2,562	3,117	3,702
Other Current Liabilities	3,593	3,518	5,896	7,780	9,289	11,300	13,420
Provisions	184	164	232	345	320	390	463
<b>Net Current Assets</b>	<b>2,997</b>	<b>4,258</b>	<b>5,241</b>	<b>8,241</b>	<b>10,033</b>	<b>13,463</b>	<b>17,711</b>
<b>Appl. of Funds</b>	<b>12,290</b>	<b>15,045</b>	<b>16,929</b>	<b>17,199</b>	<b>20,769</b>	<b>25,363</b>	<b>30,813</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	9.7	8.9	7.3	9.0	12.4	16.8	19.9
Cash EPS	14.4	14.8	14.1	14.1	17.1	22.0	25.6
BV/Share	41.2	50.3	57.7	66.4	79.1	95.4	114.8
DPS	0.1	0.2	0.5	0.0	0.4	0.4	0.4
Payout (%)	1.2	2.6	6.8	0.0	3.8	3.0	2.5
<b>Valuation (x)</b>							
P/E	28.8	31.3	38.3	30.9	22.4	16.5	14.0
P/BV	6.8	5.5	4.8	4.2	3.5	2.9	2.4
EV/EBITDA	20.7	19.7	17.1	14.4	11.9	10.0	8.4
Dividend Yield (%)	0.0	0.1	0.2	0.0	0.1	0.1	0.1
FCF per share	-1.7	1.6	6.8	7.3	5.3	10.0	12.9
<b>Return Ratios (%)</b>							
RoE	26.5	19.4	13.4	14.5	17.1	19.3	18.9
RoCE	24.7	18.2	13.9	15.1	18.4	20.1	19.6
RoIC	47.7	29.4	24.5	24.4	27.9	30.0	30.8
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	2.2	2.0	1.8	2.0	2.1	2.3	2.5
Asset Turnover (x)	1.6	1.4	1.3	1.6	1.5	1.5	1.5
Inventory (Days)	13	16	20	20	22	22	22
Debtor (Days)	44	40	78	117	117	119	120
Creditor (Days)	41	38	41	32	29	29	29
<b>Leverage Ratio (x)</b>							
Current Ratio	1.5	1.7	1.6	1.8	1.8	1.9	2.0
Interest Coverage Ratio	10.9	8.3	5.8	8.0	17.9	22.4	25.8
Net Debt/Equity ratio	0.1	0.2	0.1	-0.1	0.0	-0.1	-0.1

### Standalone Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>OP/(Loss) before Tax</b>	<b>2,682</b>	<b>2,906</b>	<b>2,937</b>	<b>3,811</b>	<b>5,218</b>	<b>6,328</b>	<b>7,470</b>
Depreciation	1,341	1,681	1,923	1,444	1,315	1,464	1,599
Interest and Finance Charges	209	291	473	427	290	274	279
Direct Taxes Paid	-237	-550	-844	-787	-1,722	-1,593	-1,880
(Inc.)/Dec. in WC	-2,347	-1,506	-310	-2,004	-2,026	-2,164	-2,344
<b>CF from Operations</b>	<b>1,648</b>	<b>2,822</b>	<b>4,180</b>	<b>2,891</b>	<b>3,075</b>	<b>4,309</b>	<b>5,124</b>
Others	-120	-347	-239	89	214	0	0
<b>CF from Operations incl. EO</b>	<b>1,528</b>	<b>2,474</b>	<b>3,941</b>	<b>2,980</b>	<b>3,289</b>	<b>4,309</b>	<b>5,124</b>
(Inc.)/Dec. in FA	-2,009	-2,034	-2,036	-939	-1,800	-1,500	-1,500
<b>Free Cash Flow</b>	<b>-480</b>	<b>441</b>	<b>1,905</b>	<b>2,041</b>	<b>1,489</b>	<b>2,809</b>	<b>3,624</b>
(Pur.)/Sale of Investments	-23	-1,083	-1,098	1,424	-1,292	-1,129	-1,300
Others	184	262	291	127	0	0	0
<b>CF from Investments</b>	<b>-1,848</b>	<b>-2,855</b>	<b>-2,843</b>	<b>612</b>	<b>-3,092</b>	<b>-2,629</b>	<b>-2,800</b>
Inc./Dec. in Debt	763	268	-511	-2,290	0	0	0
Interest Paid	-167	-298	-401	-459	-290	-274	-279
Dividend Paid	-85	-68	-153	0	-141	-141	-141
Others	0	170	168	0	0	0	0
<b>CF from Fin. Activity</b>	<b>512</b>	<b>73</b>	<b>-897</b>	<b>-2,749</b>	<b>-430</b>	<b>-415</b>	<b>-420</b>
<b>Inc./Dec. in Cash</b>	<b>192</b>	<b>-308</b>	<b>200</b>	<b>843</b>	<b>-233</b>	<b>1,266</b>	<b>1,904</b>
Opening Balance	246	438	130	331	1,173	940	2,206
<b>Closing Balance</b>	<b>438</b>	<b>130</b>	<b>331</b>	<b>1,173</b>	<b>940</b>	<b>2,206</b>	<b>4,110</b>

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

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