

KNR Constructions

Estimate change

TP change

Rating change



Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USD\$)	73.1 / 0.9
52-Week Range (INR)	344 / 208
1, 6, 12 Rel. Per (%)	-2/-19/-16
12M Avg Val (INR M)	167

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	32.7	36.0	42.6
EBITDA	6.8	6.8	7.9
PAT	3.6	4.3	5.0
EBITDA (%)	20.7	19.0	18.5
EPS (INR)	12.8	15.2	17.8
EPS Gr. (%)	42.4	18.2	17.6
BV/Sh. (INR)	79.7	94.4	111.7

Ratios

Net D/E	-0.1	-0.1	-0.1
RoE (%)	17.5	17.4	17.3
RoCE (%)	18.8	18.2	18.0
Payout (%)	1.8	3.3	2.8

Valuations

P/E (x)	20.3	17.2	14.6
P/BV (x)	3.3	2.8	2.3
EV/EBITDA (x)	10.5	10.3	8.9
Div Yield (%)	0.1	0.2	0.2
FCF Yield (%)	0.7	4.1	3.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.6	51.5	53.3
DII	33.3	33.5	34.4
FII	5.7	5.4	2.3
Others	9.4	9.6	10.1

FII Includes depository receipts

CMP: INR260

TP: INR310 (+19%)

Buy

Robust execution leads to a beat on all fronts

Outlook gloomy for the Irrigation segment

- Revenue grew 20% YoY, but fell 12% QoQ to ~INR8.9b in 1QFY23, 5% above our estimate. EBITDA margin fell ~90bp YoY and 200bp QoQ to 18.5% (in line). EBITDA/PAT grew 15%/38% YoY to INR1.65b/INR1b (est. INR1.57b/INR0.9b). Depreciation expense is lower as the Irrigation capex has been reducing. Depreciation in Irrigation projects is higher than that in Roads.
- Irrigation projects contributed INR3b, or 35% of revenue, in 1QFY23. Pending receivables from Irrigation projects have risen to INR8.5b at present from INR6.5b in May'22. It hasn't received any payments after May'22 for Irrigation projects.
- The order book stands ~INR86b (excluding a HAM project worth INR7.6b). The order pipeline is decent, with the management expecting INR30-40b of project wins in FY23. It is looking at bidding in other regions within India.
- KNRC has seen a strong execution in 1QFY23. Over the next few quarters, the Irrigation segment can see a quarterly execution run-rate of INR1.5b. **We have largely retained our estimates on the execution front and marginally raised our PAT estimate to incorporate the lower depreciation expense as against earlier expectations. With an order book of INR86b, we expect KNRC to clock 14% revenue growth over FY22-24, with EBITDA margin in the 18-19% range. We maintain our Buy with a SoTP-based TP of INR310, implying an upside of 19%.**

Key takeaways from the management commentary

- The contribution of Irrigation/Road HAM/Road EPC in the execution mix stood at 35%/40%/25% in 1QFY23.
- Around 50% of the land has been acquired for the Chittoor Thatchur project. NHAI has assured that it will acquire 80% of the land over the next two months. The appointed date can be expected by the end of FY23.
- The equity requirement for BOT projects stood at INR10.9b, out of which INR5.2b has already been invested.
- KNRC had transferred its 49% stake in KNR Tirumala and KNR Shankarampet HAM projects to Cube Highways and Infrastructure III Pte. The deal is expected to be closed by 2QFY23.

Valuation and view

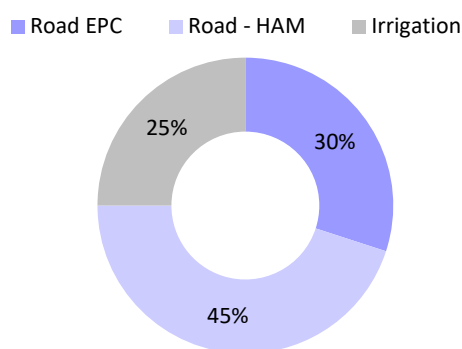
- Given the onset of monsoon and delays in receivables from the Irrigation segment, the pace of execution is likely to remain slow in the near term. As more projects get executed in the later part of FY23, the pace of execution is expected to improve in FY24. We expect a stable margin, with input costs reducing and execution of some high margin irrigation projects.
- We have largely retained our estimates on the execution front and marginally raised our PAT estimate to incorporate the lower depreciation expense as against our earlier expectation. **We maintain our Buy rating with a SoTP-based TP of INR310, implying an upside of 19%.**

Quarterly performance -Standalone

(INR m)

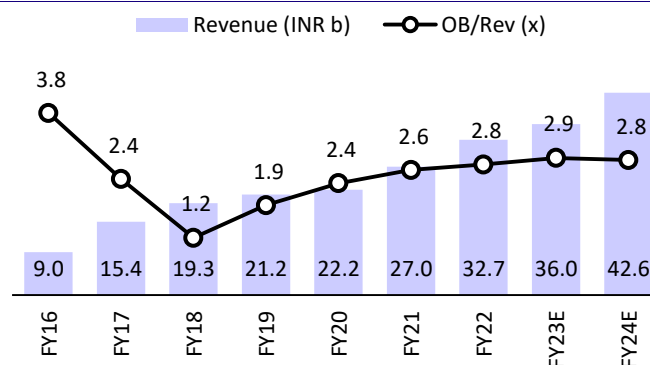
Y/E March	FY22				FY23E				FY22	FY23E	MOSL	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Net Sales	7,400	7,556	7,663	10,107	8,906	7,500	8,500	11,097	32,726	36,003	8,500	5
YoY Change (%)	54.4	25.7	11.7	8.0	20.4	-0.7	10.9	9.8	21.1	10.0	14.9	
Total Expenditure	5,967	5,880	6,074	8,027	7,256	6,090	6,877	8,940	25,949	29,163	6,928	
EBITDA	1,433	1,675	1,589	2,080	1,650	1,410	1,624	2,157	6,777	6,841	1,573	5
Margins (%)	19.4	22.2	20.7	20.6	18.5	18.8	19.1	19.4	20.7	19.0	18.5	
Depreciation	269	320	358	399	327	330	330	339	1,346	1,326	385	
Interest	79	72	64	60	69	60	60	63	274	252	60	
Other Income	48	105	78	185	91	105	105	131	417	432	105	
Extra-Ord expense	0	0	214	0	0	0	0	0	214	0	0	
PBT	1,133	1,389	1,246	1,806	1,345	1,125	1,339	1,887	5,574	5,695	1,233	9
Tax	403	437	452	679	336	283	337	477	1,970	1,433	310	
Rate (%)	35.5	31.4	36.3	37.6	25.0	25.2	25.2	25.3	35.3	25.2	25.2	
Reported PAT	730	952	1,008	1,128	1,008	842	1,002	1,409	3,818	4,261	922	9
Adj PAT	730	952	794	1,128	1,008	842	1,002	1,409	3,604	4,261	922	9
YoY Change (%)	83.5	61.9	2.3	46.5	38.1	-11.6	26.2	25.0	42.4	18.2	26.3	
Margins (%)	9.9	12.6	10.4	11.2	11.3	11.2	11.8	12.7	11.0	11.8	10.9	

Exhibit 1: OB breakup (1QFY23: INR86b)



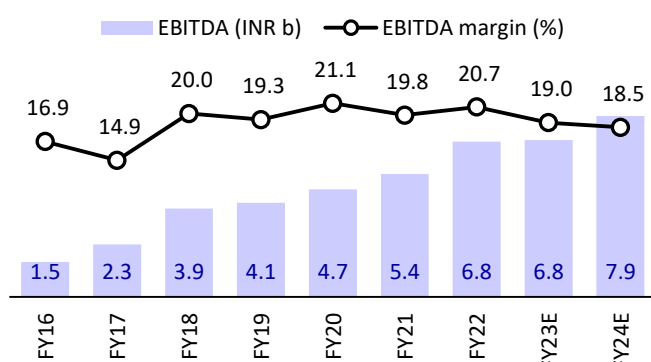
Source: MOFSL, Company

Exhibit 2: Current OB provides strong revenue visibility, with ~14% CAGR expected over FY22–24



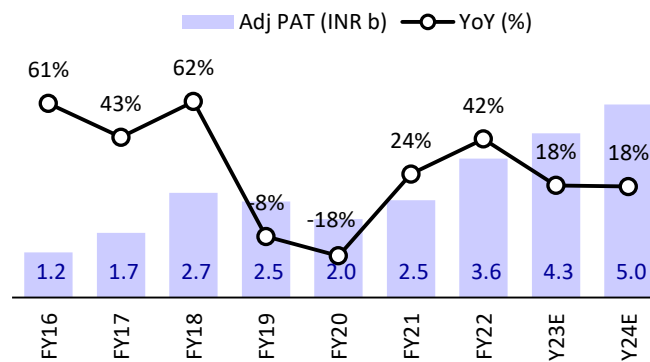
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: Adjusted PAT to grow at 18% CAGR over FY22–24E



Source: MOFSL, Company

Highlights from the management commentary

Industry highlights

- Pace of highway construction was affected due to inflationary pressure during the quarter. Construction at industry level stood at 23km per day in 1Q FY23 against 25 km per day during same period last year. The pace of construction is likely to improve from 2H FY23 as input costs are declining.

- NHAI is expected to reduce HAM project funding to 20% from 40% levels. This would reduce the competition.
- Fastag Toll collection continued to show robust growth during the quarter. Toll collections in future would be through GPS.

Order book

- The order book stood at INR86b as on end of 1Q FY23. EPC and HAM constitute 75% and Irrigation constitutes 25% of the order book.
- The order inflow of INR30-40b is targeted for FY23.
- KNRC is mostly looking at highways segment. Competition is high and is finding difficult to bag orders. The Company would explore other regions within India to bag orders.

Execution

- Execution mix during 1Q FY23 - Irrigation 35%, Road HAM 40% and Road EPC 25% contribution.
- 50% of land has been acquired in the Chittor Thatchur project. NHAI has assured of acquiring 80% of the land in next two months. Appointed date can be expected by end of FY23.

Irrigation projects

- Irrigation projects contributed INR3b (35% of revenue) in 1Q FY23. KNRC hasn't received any payments from the irrigation projects post May.
- The execution in Irrigation would drop by 50% in 2Q FY23 as several irrigation projects are in areas that witness heavy monsoon.
- The pending receivables in Irrigation stand at INR8.5b and the Company expects payments to start in next few months.

Equity requirement

- The equity requirement for the BOT projects stood at INR10.9b. Out of which INR5.2b is already invested.
- The incremental equity requirement stands at INR 5.7b in the coming years (INR3.0b/INR1.6b/INR1.0b for FY23/ FY24/FY25, respectively).

Guidance

- Revenue guidance for the FY23 stands at INR35b. Due to monsoon, several projects in the order book would be impacted in terms of execution.
- KNR is slowing down on execution in irrigation segment till it gets clarity on the pending payments.
- Current depreciation run-rate to continue ahead as no major irrigation related equipment is being procured.

Other details

- The working capital days stood at 60 days in 1Q FY23 (v/s 63 days in FY22).
- Standalone debt stood at INR1.25b and Cash at INR450m.

Exhibit 5: Earnings change summary

Earnings Change INR m	Old		New		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	36,003	43,162	36,003	42,642	0.0	-1.2
EBITDA	6,841	7,985	6,841	7,889	0.0	-1.2
EBITDA margin	19.0%	18.5%	19.0%	18.5%	0.0	0.0
Adj. PAT	4,100	4,911	4,261	5,013	3.9	2.1

Source: Company, MOFSL

Valuation and view

- KNRC has delivered strong execution in 1QFY23. Going forward the irrigation segment could see quarterly execution run-rate of INR1.5b over next few quarters.
- We have largely retained our estimates on execution front and marginally raised our PAT estimates to incorporate the lower depreciation expense as against earlier expectations. With an order book of INR86b, we expect KNRC to clock 14% revenue growth over FY22-24, with EBITDA margin in the 18-19% range. We Maintain BUY with a SoTP-based TP of INR310, implying 19% upside.

Exhibit 6: SoTP Target Price stands at INR310/share

Particulars	INR m	Per share (INR)
Valuation		
March'24E PAT – 15x P/E	77,193	274
BOT Portfolio valuation – 1.2x Investment value	10,028	36
Total	87,221	310

Source: MOFSL, Company

Financials and valuations

Standalone Income Statement

	(INR m)					
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	21,204	22,212	27,026	32,726	36,003	42,642
Change (%)	9.8	4.8	21.7	21.1	10.0	18.4
EBITDA	4,101	4,691	5,358	6,777	6,841	7,889
Margin (%)	19.3	21.1	19.8	20.7	19.0	18.5
Depreciation	1,681	1,918	1,444	1,346	1,326	1,446
EBIT	2,420	2,772	3,915	5,431	5,515	6,443
Int. and Finance Charges	291	474	487	274	252	256
Other Income	634	346	496	417	432	512
PBT bef. EO Exp.	2,763	2,644	3,924	5,574	5,695	6,699
EO Items	138	213	-90	214	0	0
PBT after EO Exp.	2,901	2,857	3,834	5,788	5,695	6,699
Total Tax	268	605	1,392	1,970	1,433	1,686
Tax Rate (%)	9.2	21.2	36.3	34.0	25.2	25.2
Reported PAT	2,633	2,252	2,442	3,818	4,261	5,013
Adjusted PAT	2,495	2,039	2,532	3,604	4,261	5,013
Change (%)	-8.2	-18.3	24.1	42.4	18.2	17.6
Margin (%)	11.8	9.2	9.4	11.0	11.8	11.8

Standalone Balance Sheet

	(INR m)					
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	281	281	562	562	562	562
Total Reserves	13,862	15,958	18,116	21,857	25,978	30,850
Net Worth	14,143	16,239	18,678	22,420	26,540	31,412
Total Loans	2,641	2,300	7	0	0	0
Deferred Tax Liabilities	-1,739	-1,610	-1,486	-1,183	-1,183	-1,183
Capital Employed	15,045	16,929	17,199	21,237	25,358	30,230
Gross Block	10,752	12,671	13,713	15,826	17,326	18,826
Less: Accum. Deprn.	6,412	8,233	9,677	11,022	12,349	13,795
Net Fixed Assets	4,340	4,438	4,036	4,803	4,977	5,031
Capital WIP	0	102	24	206	206	206
Total Investments	6,448	7,149	4,898	4,828	6,357	8,357
Current Assets	10,176	13,880	18,764	22,275	25,782	30,806
Inventory	951	1,232	1,480	2,270	2,498	2,958
Account Receivables	2,344	4,761	8,632	8,494	9,721	11,940
Cash and Bank Balance	130	330	1,173	1,733	2,806	3,167
Other current assets	6,751	7,557	7,478	9,778	10,757	12,740
Current Liability	5,919	8,639	10,522	10,875	11,964	14,170
Account Payables	2,236	2,511	2,397	2,945	3,240	3,838
Other current liabilities	3,518	5,896	7,780	7,590	8,350	9,890
Provisions	164	232	345	339	373	442
Net Current Assets	4,258	5,241	8,241	11,400	13,818	16,636
Appl. of Funds	15,045	16,929	17,199	21,237	25,358	30,230

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)						
EPS	8.9	7.3	9.0	12.8	15.2	17.8
Cash EPS	14.8	14.1	14.1	17.6	19.9	23.0
BV/Share	50.3	57.7	66.4	79.7	94.4	111.7
DPS	0.2	0.5	0.0	0.2	0.4	0.4
Payout (%)	2.6	6.8	0.0	1.8	3.3	2.8
Valuation (x)						
P/E	29.3	35.9	28.9	20.3	17.2	14.6
P/BV	5.2	4.5	3.9	3.3	2.8	2.3
EV/EBITDA	18.4	16.0	13.4	10.5	10.3	8.9
Dividend Yield (%)	0.1	0.2	0.0	0.1	0.2	0.2
FCF per share	1.6	6.8	7.3	1.8	10.6	9.8
Return Ratios (%)						
RoE	19.4	13.4	14.5	17.5	17.4	17.3
RoCE	18.2	13.9	15.1	18.8	18.2	18.0
RoIC	29.4	24.5	24.4	28.0	27.1	28.0
Working Capital Ratios						
Fixed Asset Turnover (x)	2.0	1.8	2.0	2.1	2.1	2.3
Asset Turnover (x)	1.4	1.3	1.6	1.5	1.4	1.4
Inventory (Days)	16	20	20	25	25	25
Debtor (Days)	40	78	117	95	99	102
Creditor (Days)	38	41	32	33	33	33
Leverage Ratio (x)						
Current Ratio	1.7	1.6	1.8	2.0	2.2	2.2
Interest Coverage Ratio	8.3	5.8	8.0	19.8	21.9	25.2
Net Debt/Equity	0.2	0.1	-0.1	-0.1	-0.1	-0.1

Standalone Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	2,906	2,937	3,811	5,788	5,695	6,699
Depreciation	1,681	1,923	1,444	1,346	1,326	1,446
Interest and Finance Charges	291	473	427	271	252	256
Direct Taxes Paid	-550	-844	-787	-1,826	-1,433	-1,686
(Inc.)/Dec. in WC	-1,506	-310	-2,004	-1,660	-1,344	-2,457
CF from Operations	2,822	4,180	2,891	3,919	4,495	4,258
Others	-347	-239	89	-487	0	0
CF from Operating incl. EO	2,474	3,941	2,980	3,432	4,495	4,258
(Inc.)/Dec. in FA	-2,034	-2,036	-939	-2,939	-1,500	-1,500
Free Cash Flow	441	1,905	2,041	493	2,995	2,758
(Pur.)/Sale of Investments	-1,083	-1,098	1,424	296	-1,529	-2,000
Others	262	291	127	161	0	0
CF from Investments	-2,855	-2,843	612	-2,483	-3,029	-3,500
Inc./(Dec.) in Debt	268	-511	-2,290	-7	0	0
Interest Paid	-298	-401	-459	-312	-252	-256
Dividend Paid	-68	-153	0	-70	-141	-141
Others	170	168	0	0	0	0
CF from Fin. Activity	73	-897	-2,749	-390	-393	-396
Inc./Dec. in Cash	-308	200	843	560	1,073	361
Opening Balance	438	130	331	1,173	1,733	2,806
Closing Balance	130	331	1,173	1,733	2,806	3,167

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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