YES SECURITIES
INSTITUTIONAL EQUITIES

Nov 15, 2022

RESULT UPDATE Q2 FY23 | Sector: Infrastructure

KNR Constructions Ltd

Robust execution

Our view

KNRC reported strong set of numbers in 2QFY23, despite onset of monsoon. Revenue grew 12% YoY to Rs8.5bn owing to pick up in execution of HAM projects and it included one-off income of Rs327mn w.r.t to arbitration income and early completion bonus. Despite inflationary pressure EBITDA margin came at 22.3% (vs 18.5% in Q1FY23). As of Q2FY23, KNR's order book continued to decrease to Rs80bn from Rs90bn in FY22 as only one new order was bagged in H1 worth Rs343mn. Tendering pipeline is expected to be strong and management expects order inflows of Rs40-50bn in FY23E. Balance sheet continues to improve on account of healthy operating cashflows and low net working capital. Management has retained its revenue guidance of Rs35bn for FY23E and EBITDAM in the range of 18-19%

We remain positive on KNRC's strong financials given its (a) lean balance sheet (b) strong execution capabilities (c) healthy operating margins (average 18% over FY15-22) and (d) decent working capital cycle. It fits perfectly in our thesis of comfortable order book and lean balance sheet (lower risks of equity dilution). We have introduced FY25 estimates with Revenue / PAT growth of 14%/12% YoY. We maintain our 'BUY' rating valuing the EPC business at 18x FY25E EPS and HAM portfolio and BOT projects at 1x book value, to arrive at a TP of Rs377.

Result Highlights

- For Q2FY23, KNR's revenues grew 12.2% YoY to Rs8.5bn (our estimates of Rs7.3bn) on the back of strong execution momentum in its order book.
- EBITDA grew 12.7% YoY to Rs1.9bn, with EBITDAM contracting 10bps YoY to 22.3%, (above our estimates of 17.9%) led by lower other expense.
- On the bottom-line front, adj PAT came in at Rs1.1bn, up 12.9% YoY (our estimates of Rs952mn), mainly attributed to better execution. Other income came in low at Rs76mn (below YSec of Rs131mn).
- At the CMP, the stock trades at a P/E of15.7x FY23E and 13.9x FY24E.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	8.474	7,285	7,820	16.3	8.4	Solid execution, EBITDA margins remain robust
EBITDA	1,888	1,302	1,444	45.0	30.7	
EBITDA margin %	22.3	17.9	18.5	440 bps	381 bps	
Adj.Pat	1,076	728	806	47.7	33.4	

Source: Company, YES Sec

Reco	:	BUY
CMP	:	Rs 239
Target Price	:	Rs 377
Potential Return	:	+58%

Stock data (as on Nov 15, 2022)

Nifty	18,403
52 Week h/l (Rs)	330 / 203
Market cap (Rs/USD mn)	67145 / 828
Outstanding Shares (mn)	281
6m Avg t/o (Rs mn):	60
Div yield (%):	0.1
Bloomberg code:	KNRC IN
NSE code:	KNRCON

Stock performance

	1M	3M	1Y
Absolute return	7.7%	-8.1%	-15.3%

Shareholding pattern (As of Sept'22 end)

Promoter	51.1%
FII+DII	39.0%
Others	8.6%

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenues	36,426	41,162	46,949
Yoy growth (%)	11.3	13.0	14.1
OPM (%)	19.0	19.5	19.5
EPS (Rs)	15.3	17.2	19.3
EPS growth	19.0	12.7	12.2
P/E (x)	15.7	13.9	12.4
EV/EBITDA (x)	9.5	8.1	6.9
Debt/Equity (x)	0.0	0.0	0.0
RoE (%)	15.3	15.3	15.2
RoCE (%)	15.7	15.4	15.0

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RESULT HIGHLIGHTS

Exhibit 2: Result Table (Standalone)

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	7,556	7,663	10,107	8,906	8,474	12.2	-4.8	32,726	27,026	21.1
Total Revenues	**7,556**	**7,663**	**10,107**	**8,906**	**8,474**	**12.2**	**-4.8**	**32,726**	**27,026**	**21.1**
Expenditure	**5,880**	**6,074**	**8,027**	**7,256**	**6,586**	**12.0**	**-9.2**	**25,949**	**21,668**	**19.8**
as % of sales	77.8	79.3	79.4	81.5	77.7			79.3	80.2	
Consumption of RM	2,746	2,702	3,067	4,331	3,154	14.9	-27.2	11,807	9,265	27.4
as % of sales	36.3	35.3	30.3	48.6	37.2			36.1	34.3	
Employee Cost	361	342	410	386	469	30.2	21.7	1,448	1,321	9.6
as % of sales	4.8	4.5	4.1	4.3	5.5			4.4	4.9	
Other expenditure	2,774	3,030	4,551	2,539	2,963	6.8	16.7	12,694	11,082	14.5
as % of sales	36.7	39.5	45.0	28.5	35.0			38.8	41.0	
EBITDA	**1,675**	**1,589**	**2,080**	**1,650**	**1,888**	**12.7**	**14.4**	**6,777**	**5,358**	**26.5**
Depreciation	320	358	399	327	366	14.5	12.1	1,346	1,444	-6.8
EBIT	1,356	1,231	1,681	1,323	1,521	12.2	15.0	5,431	3,915	38.7
Other Income	105	78	185	91	76	-28.1	-16.6	417	496	-16.0
Interest	72	64	60	69	84	16.8	21.3	274	487	-43.7
PBT	1,389	1,246	1,806	1,345	1,513	8.9	12.5	5,574	3,924	42.1
Total Tax	437	452	679	336	438	0.2	30.2	1,970	1,370	43.8
Adjusted PAT	**953**	**794**	**1,128**	**1,008**	**1,076**	**12.9**	**6.7**	**3,604**	**2,554**	**41.1**
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	0.0
PAT after MI	953	794	1,128	1,008	1,076	12.9	6.7	3,604	2,554	41.1
Extra ordinary items	0	214	0	0	0	0.0	0.0	214	-112	0.0
Reported PAT	953	1,008	1,128	1,008	1,076	12.9	6.7	3,818	2,442	56.4
Adjusted EPS	3.4	2.8	4.0	3.6	3.8	12.9	6.7	12.8	9.1	41.1
Margins (%)										
EBIDTA	22.2	20.7	20.6	18.5	22.3	10	375	20.7	19.8	88
EBIT	17.9	16.1	16.6	14.9	18.0	1	310	16.6	14.5	211
EBT	18.4	16.3	17.9	15.1	17.9	-53	276	17.0	14.5	251
PAT	12.6	13.1	11.2	11.3	12.7	9	137	11.7	9.0	263
Effective Tax rate	31.4	36.3	37.6	25.0	28.9	-251	392	35.3	34.9	44

Source: Company, YES Sec

Exhibit 3: Key Assumptions

Rs mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Order inflow	34,583	45,908	51,555	48,127	54,384	64,189
Revenues	22,442	27,026	32,726	36,426	41,162	46,949
Order book	52,297	71,179	90,008	101,709	114,931	132,171
Execution cycle (%)	2%	3%	3%	3%	3%	3%
Ob to sales (x)	2.3	2.6	2.8	2.8	2.8	2.8

`Source: Company, YES Sec

KEY CONCALL HIGHLIGHTS

- Management indicated order pipeline to remain robust with company having bid pipeline worth Rs40bn and targets an order inflow of Rs40-50bn in FY23E
- KNRC reported robust revenue for the quarter (up 12% YoY) led by healthy execution primarily in its HAM projects.
  - Revenue includes one-off income towards arbitration claim submitted by 2 JVs amounting to Rs246mn and early completion bonus received of Rs81mn.
  - Key projects completion status- a) Magadi to Somwarpet- 65.5%; b) Oddanchatram to Madathukulam- 81.9%; c) Ramanattukara to Valancher- 9.4%; d) Valanchery to Kappirikkad-11.5%
- The order book stands strong at Rs80bn (excluding recently won HAM project worth Rs7.7bn) translating into 2.3x TTM revenues.
- Of the total order book HAM road projects account for 43%, Road (Non-Captive) at 31% and 26% comes from Irrigation segment.
  - Land acquisition in Chittor-Thatchur HAM project stands at 72% and is waiting for NGT clearanance. Management expects to receive AD by end of 4QFY23E.
- The total equity investment for its HAM portfolio stands at ~Rs73.3bn, of which the company has already invested Rs1.7bn till date and would be investing further Rs2.9bn/Rs1.6bn/Rs1.1bn in 2HFY23E/24E/25E.
- Stake sale of 3 HAM assets have been concluded in Oct'22 for which consideration of Rs49bn has been received (for equity and sub-debt)
- Standalone debt has increased to Rs2bn (vs Rs1.3bn in 1Q) with cash and cash equivalent of Rs660mn. Net working capital days has improved from 60 days in 1Q to 54 days in 2Q led by better working capital management.
  - Of the total debtors (billed + unbilled), irrigation segment exposure stands at Rs9bn as on date. In Q2, collection to the extent of Rs1.6bn has been done with monthly run rate of Rs500-600mn.
- Guidance- management has maintained its revenue guidance for Rs35bn for FY23E with EBITDAM in the range of 18-19%
- The company plans to incur capex of Rs1-1.2bn in FY23E (in 1H, capex of Rs750mn is done).

Exhibit 4: SOTP Valuation

Particulars	Segment	Driver	KNR's share	Multiple	Value (Rsmn)	Value per share (Rs)	Proportionate (%) of value per share	Basis
EPC Business	Construction	5,427	100	18	97,694	347	92%	18x on FY24 earnings
Muzzafarpur Baruani BOT	BOT	1,771	51	1	903	3	1%	Based on 1 P/B of equity
HAM investment	HAM	5,210	100	1	5,210	19	5%	Based on 1 P/B of equity
HAM projects SOLD to cube	HAM	3,780	51	1	2,313	8	2%	Based on 1 P/B of equity
Total Rs mn						377		

Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds					
Equity capital	562	562	562	562	562
Reserves	18,116	21,857	26,036	30,748	36,035
Non Minority Controling Int.					
Net worth	**18,678**	**22,420**	**26,599**	**31,311**	**36,598**
Debt	11	64	564	1,064	1,564
Deferred tax liab (net)	(1,486)	(1,183)	(1,183)	(1,183)	(1,183)
Total liabilities	**17,203**	**21,301**	**25,980**	**31,192**	**36,980**
Application of Funds					
Gross Block	12,879	14,910	16,410	17,910	19,410
Depreciation	9,487	10,673	12,150	13,762	15,509
Fixed Asset	**3,392**	**4,237**	**4,261**	**4,149**	**3,902**
CWIP	24	206	206	206	206
Investments	5,557	5,486	8,833	10,605	12,573
Net Working Capital	**8,230**	**11,371**	**12,680**	**16,232**	**20,299**
Inventories	1,480	2,270	2,495	2,819	3,216
Sundry debtors	8,632	8,494	8,982	10,149	11,577
Cash & equivalents	1,173	1,733	1,736	3,588	5,651
Loans & Advances	2,959	3,376	4,469	5,365	6,360
Other Current Asset	4,503	6,309	7,924	9,514	11,279
Sundry creditors	2,397	2,945	3,493	3,947	4,502
Provisions	344	339	339	339	339
Other current liabilities	7,777	7,526	9,093	10,917	12,943
Total Assets	**17,203**	**21,301**	**25,980**	**31,192**	**36,980**

Source: Company, YES Sec

Exhibit 6: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	27,026	32,726	36,426	41,162	46,949
% Change YoY	*20.4*	*21.1*	*11.3*	*13.0*	*14.1*
Operating profit	5,358	6,777	6,921	8,027	9,155
EBITDA margins	***19.8***	***20.7***	***19.0***	***19.5***	***19.5***
% Change YoY	*10.0*	*26.5*	*2.1*	*16.0*	*14.1*
Depreciation	1,444	1,346	1,477	1,612	1,747
EBIT	3,915	5,431	5,444	6,415	7,408
EBIT margins	*14.5*	*16.6*	*14.9*	*15.6*	*15.8*
Interest expense	487	274	367	692	1,017
Other income	496	417	656	741	845
Profit before tax	3,924	5,574	5,733	6,464	7,237
Taxes	1,370	1,970	1,443	1,627	1,809
Effective tax rate (%)	*34.9*	*35.3*	*25.2*	*25.2*	*25.0*
Net profit	**2,554**	**3,604**	**4,290**	**4,837**	**5,427**
Minorities and other					
Net profit after minorities	2,554	3,604	4,290	4,837	5,427
Exceptional items	(112)	214	0	0	0
Net profit	**2,442**	**3,818**	**4,290**	**4,837**	**5,427**
% Change YoY	*8.4*	*56.4*	*12.4*	*12.7*	*12.2*
EPS (Rs)	9.1	12.8	15.3	17.2	19.3

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	3,811	5,788	5,733	6,464	7,237
Interest	313	123	367	692	1,017
Depreciation	1,444	1,346	1,477	1,612	1,747
Other Items	203	(339)	-	-	-
(Inc)/Dec in WC	(2,004)	(1,660)	(1,306)	(1,700)	(2,004)
Direct Taxes Paid	787	1,826	1,443	1,627	1,809
CF from Oper.Activity	**2,980**	**3,432**	**4,828**	**5,441**	**6,188**
(Inc)/Dec in FA	(959)	(2,976)	(1,500)	(1,500)	(1,500)
Free Cash Flow	2,021	456	3,328	3,941	4,688
(Pur)/Sale of Invest.	1,608	219	(3,347)	(1,772)	(1,968)
CF from Inv. Activity	**649**	**(2,757)**	**(4,847)**	**(3,272)**	**(3,468)**
Change in Networth	-	-	-	-	-
Inc/(Dec) in Debt	(2,290)	(7)	500	500	500
Interest Paid	(459)	(312)	(367)	(692)	(1,017)
Dividends Paid	-	(70)	(111)	(125)	(140)
Others	-	-	(0)	0	0
CF from Fin. Activity	**(2,749)**	**(390)**	**22**	**(317)**	**(657)**
Inc/(Dec) in Cash	**880**	**285**	**3**	**1,852**	**2,063**
Opening cash Balance	202	1,082	1,733	1,736	3,588
Others					
Closing cash Balance	**1,082**	**1,367**	**1,736**	**3,588**	**5,651**

Source: Company, YES Sec

Exhibit 8: Du-pont Analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	1.9	1.8	2.8	3.0	3.1
Interest burden (x)	0.3	0.4	0.3	0.3	0.2
EBIT margin (x)	0.1	0.2	0.1	0.2	0.2
Asset turnover (x)	1.6	1.5	1.4	1.3	1.3
Financial leverage (x)	0.9	1.0	1.0	1.0	1.0
RoE (%)	**13.6%**	**15.7%**	**15.3%**	**15.3%**	**15.2%**

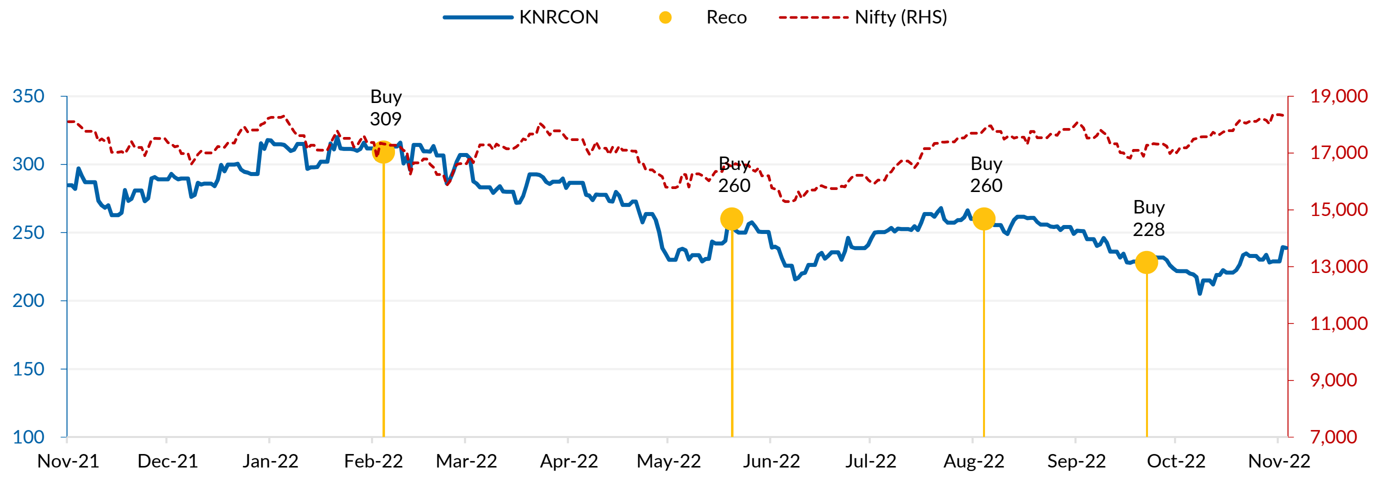
Source: Company, YES Sec

Exhibit 9: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Basic (Rs)					
EPS	9.1	12.8	15.3	17.2	19.3
Dividend per share	0.3	0.4	0.4	0.4	0.5
Cash EPS	14.2	17.6	20.5	22.9	25.5
Book value per share	66	80	95	111	130
Div. payout (%)	3%	2%	3%	3%	3%
Valuation ratios (x)					
P/E	26.3	18.6	15.7	13.9	12.4
P/CEPS	16.8	13.6	11.6	10.4	9.4
P/B	3.6	3.0	2.5	2.1	1.8
EV/EBIDTA	12.3	9.7	9.5	8.1	6.9
Dividend yield (%)	0.1	0.2	0.2	0.2	0.2
Profitability Ratios (%)					
RoIC	14.8	16.8	16.1	15.8	15.4
RoE	13.6	15.7	15.3	15.3	15.2
RoCE	14.8	16.5	15.7	15.4	15.0
Liquidity ratios					
Debtor (days)	117	95	90	90	90
Inventory (days)	20	25	25	25	25
Creditor (days)	32	33	35	35	35
Net working Capital (days)	95	107	110	112	114
Asset Turnover (x)	1.6	1.5	1.4	1.3	1.3

Source: Company, YES Sec

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

Khushbu Jayesh Gandhi Digitally signed by Khushbu Jayesh Gandhi Date: 2022.11.15 23:15:24 +05'30'

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.