

# KNR Constructions

BSE SENSEX

61,338

S&amp;P CNX

18,269


**KNR CONSTRUCTIONS LIMITED**

## Stock Info

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	72.1 / 0.9
52-Week Range (INR)	330 / 203
1, 6, 12 Rel. Per (%)	5/-9/-17
12M Avg Val (INR M)	106
Free float (%)	48.9

## Financials Snapshot (INR b)

Y/E March	2022	2023E	2024E
Net Sales	32.7	36.0	42.6
EBITDA	6.8	7.0	7.9
Adj. PAT	3.6	4.3	5.0
EBITDA Margin (%)	20.7	19.5	18.5
Adj. EPS (INR)	12.8	15.2	17.8
EPS Gr. (%)	42.4	19.0	16.9
BV/Sh. (INR)	79.7	94.5	111.8

## Ratios

Net D/E (x)	-0.1	-0.1	-0.1
RoE (%)	17.5	17.5	17.3
RoCE (%)	18.8	18.3	17.9
Payout (%)	1.8	3.3	2.8

## Valuations

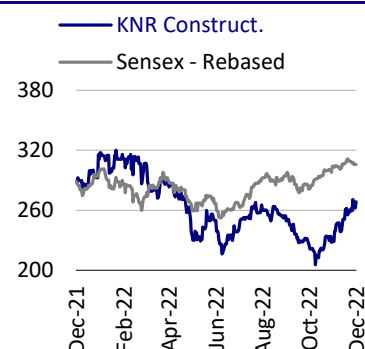
P/E (x)	20.0	16.7	14.3
P/BV (x)	3.2	2.7	2.3
EV/EBITDA (x)	10.4	9.9	8.7
Div. Yield (%)	0.1	0.2	0.2
FCF Yield (%)	0.7	4.2	3.8

## Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	51.1	51.6	51.5
DII	34.6	33.3	33.9
FII	5.7	5.7	4.3
Others	8.6	9.4	10.4

FII Includes depository receipts

## Stock's performance (one-year)


**CMP: INR256**
**TP: INR310 (+21%)**
**Buy**

## Execution set to improve; new order inflows expected

- KNR Constructions (KNR)'s order book to bill ratio stood at ~2.5x of FY22 revenue that provides topline visibility over the next two years. Though the company has not won any notable orders in FY23, its tender pipeline is robust.
- KNR is aiming INR30–40b of order wins in the remaining months of FY23. Management is also looking to bid in other regions within India. However, the focus area would continue to be on the Roads segment. KNR is likely to go slow on bidding for Irrigation projects until its pending Irrigation order book is executed and payments are received.
- With monsoon impact behind, the execution is likely to pick-up during 2HFY23 propelled by the Road segment, while execution in Irrigation would be slow and subject to receipt of payments from authorities. KNR is targeting to clock a revenue of INR35b for FY23E.
- We believe a strong tender pipeline in Roads can translate into decent order inflows in the coming months, which can provide greater visibility on growth beyond FY24. Based on the current order book of INR80b, we expect KNR to clock 14% revenue growth over FY22-24, with EBITDA margin in the 18-19% range. We maintain our BUY rating with a SoTP-based TP of INR310, implying 21% potential upside.

## Aggressive competition has impacted order wins adversely; robust tender pipeline should see new order inflows

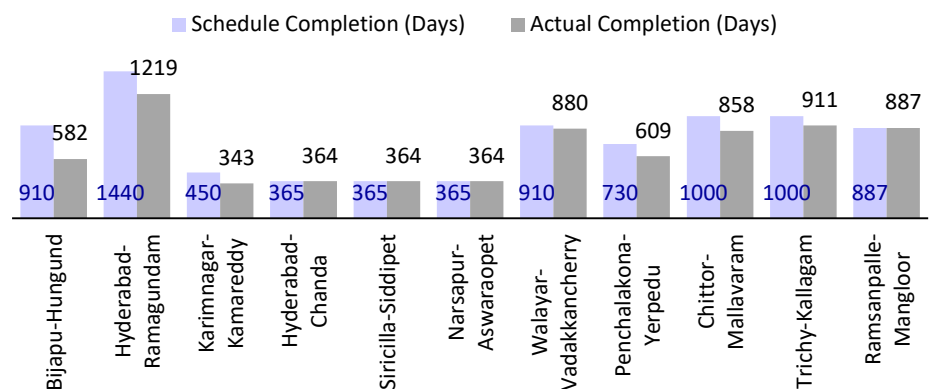
- Bidding in the Roads and Highways segment has been aggressive (even at 20% lower than the NHAI-stated cost), which implies lower order wins for large players. KNR has been very conservative in bidding by not compromising on its margin profile just to add new orders.
- As of Sep'22, its Road EPC projects constituted 31% of the order book, while Road HAM projects constituted 43%, and the remaining 26% came from the irrigation projects.
- With new order wins of 3-4 projects, the company is looking to add INR40b of new orders (mainly from the Roads segment) in the next few months.

## Focus on asset monetization and execution of HAM projects

- KNR successfully transferred 100% stake in three HAM projects – KNR Tirumala, KNR Shankarampet and KNR Srirangam. Total equity and sub-debt infused in these three HAM projects stood at INR3.7b, against which KNR will receive a total consideration of INR5.2b (of this, INR4.9b has already been received). Going forward, it would continue to focus on asset monetization.
- KNR has invested ~INR5.3b in equity in its HAM projects until Sep'22. Incremental equity needed for the entire HAM portfolio is INR5.6b of which INR3b will be infused in FY23E, INR1.6b in FY24E, and ~INR1.0b in FY25E.

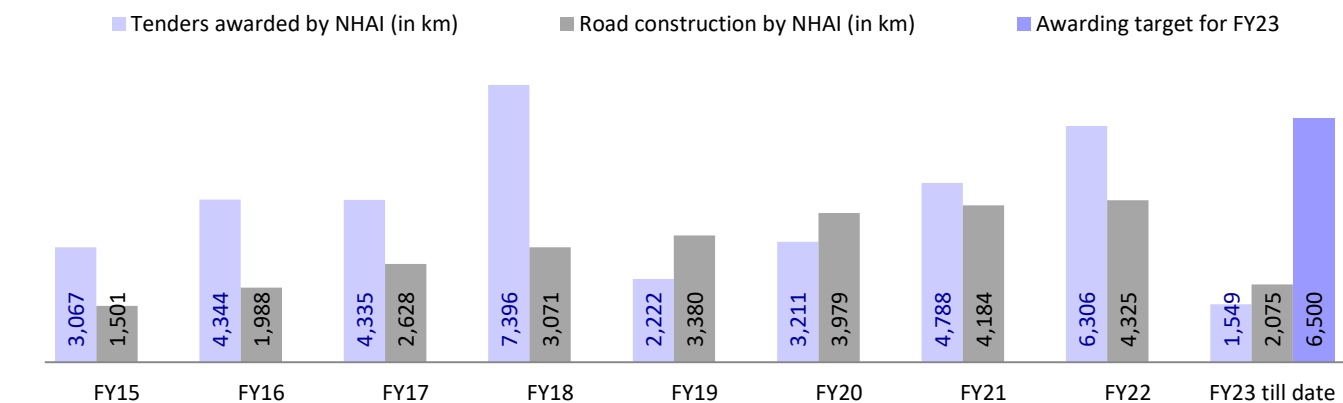
**Strong execution and steady margins to brighten outlook; maintain BUY**

- While KNR's order inflows have been muted, the tender pipeline appears to be strong that should ensure decent order wins in FY23E.
- We expect execution to be strong particularly in FY24 as execution from the existing order-book ramps up. We expect margins to be stable with input costs reducing along with some execution carried out in the high-margin irrigation projects. We maintain our BUY rating with an SoTP-based TP of INR310, implying 21% potential upside.

**Timely execution of projects****Exhibit 1: Track record of early completion of projects**

Sources: Company, MOFSL

- KNR has been focused on execution and completed projects ahead of schedule. This has resulted in receipt of bonus on several occasions.
- Recently in 2QFY23, KNR received a bonus claim of ~INR72m for early completion of one of its HAM projects.

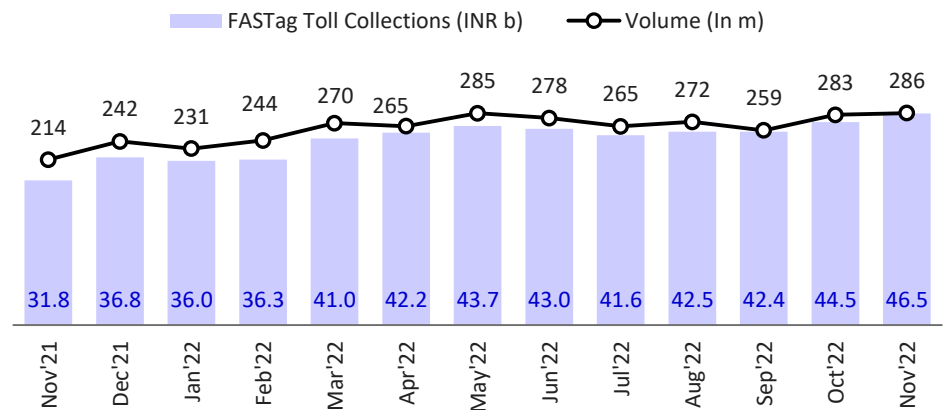
**Awarding and construction activities by NHAI****Exhibit 2: NHAI's awarding and construction trend (in km)**

Sources: NHAI, MOFSL

### NHAI awards 1,549km of projects until Nov'22; targets 6,500km in FY23E

- Project awarding gathered momentum in Oct-Nov'22, with 1,549km of projects being awarded in FY23 to date (v/s only 810km awarded in 1HFY23). Owing to a weak 1H, NHAI will have to accelerate project awarding in 2H to meet its FY23E target of 6,500km.
- NHAI is looking to construct 5,000km of projects in FY23E and has completed 2,075km until Nov'22. Most of the Infra contractors have indicated a robust tender pipeline, with awarding expected from NHAI over the next few months.

### Exhibit 3: FASTag toll collections continue to improve



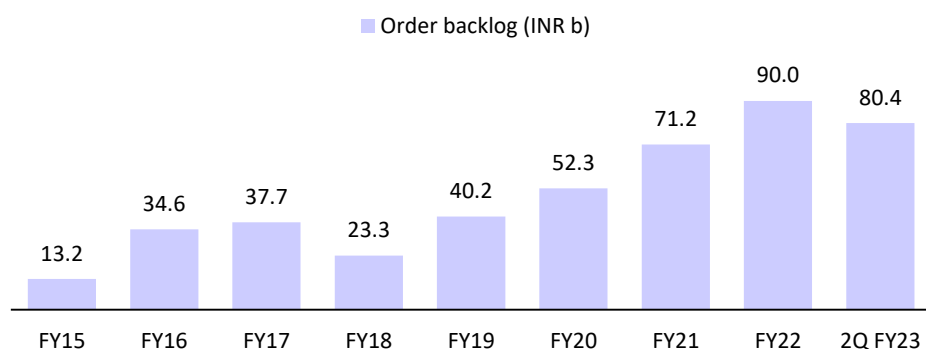
Sources: NPCI, RBI, MOFSL

### FASTag toll collections on the rise

- Daily average FASTag toll collections grew ~8% MoM to ~INR1.6b in Nov'22. After decent collections in Oct'22 (up 1.5% MoM on a daily average basis), the same improved substantially in Nov'22. Average daily volumes (i.e. the number of transactions) grew 4.3% MoM to 9.5m in Nov'22.
- Freight carriers constitute 80-85% of toll collections on highways. Better traffic movement and implementation of FASTags resulted in strong toll collections. An improvement in toll collections is critical for faster monetization of road assets by the Ministry of Road Transport and Highways and will aid companies looking to monetize their existing toll assets.

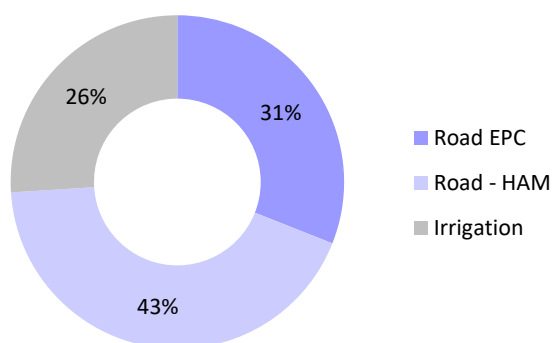
## Financial story in charts

**Exhibit 4: Consistent order inflows have ensured decent order book**



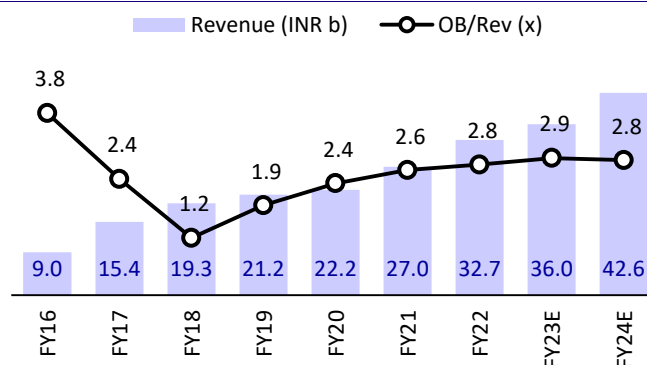
Sources: MOFSL, Company

**Exhibit 5: Order book breakup (2QFY23: INR80b)**



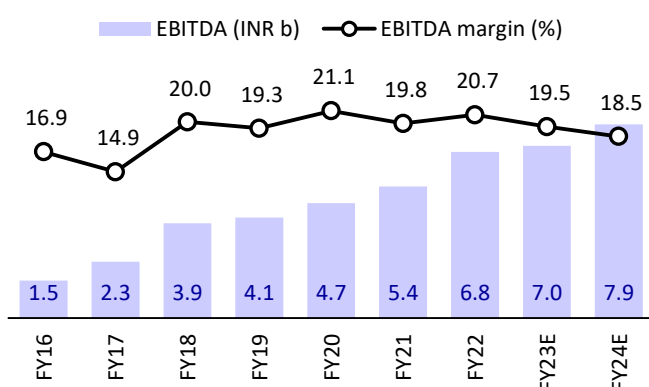
Source: MOFSL, Company

**Exhibit 6: Current order book provides strong revenue visibility, with ~14% CAGR expected over FY22–24**



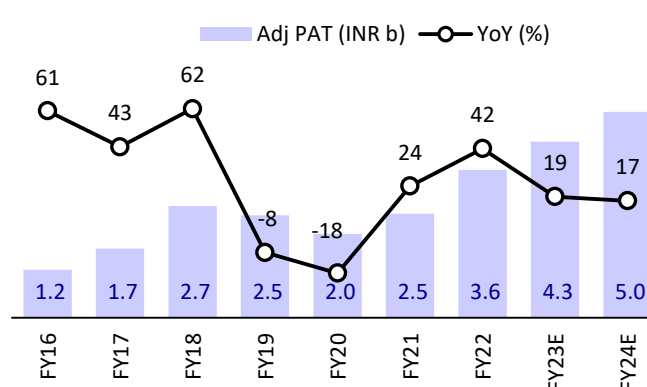
Source: MOFSL, Company

**Exhibit 7: EBITDA and EBITDA margin trends**



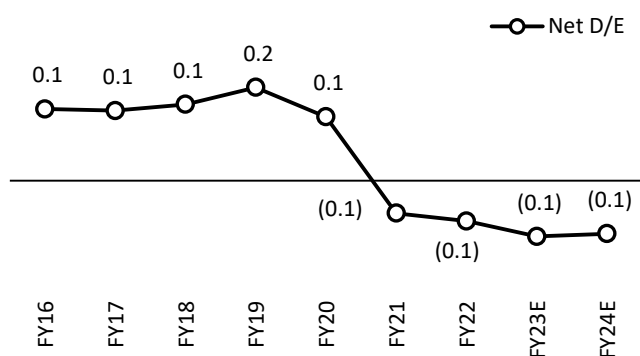
Source: MOFSL, Company

**Exhibit 8: Adjusted PAT to clock 18% CAGR over FY22–24E**



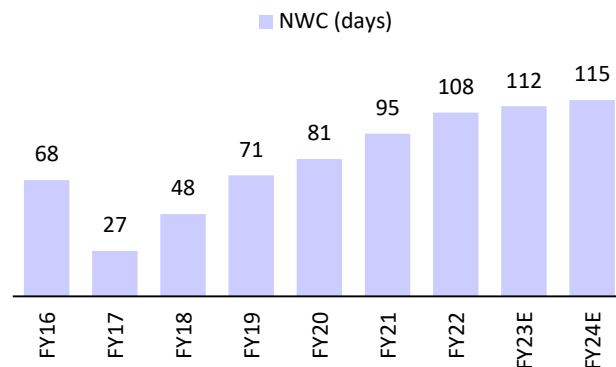
Source: MOFSL, Company

Exhibit 9: Net Debt/equity to remain negative



Source: MOFSL, Company

Exhibit 10: Working capital days to remain stable



Source: MOFSL, Company

**Strong execution and steady margins to brighten outlook; maintain BUY**

- We expect execution to pick-up in the coming months as monsoon impact settles. The order inflow has been weak owing to aggressive bidding at industry level but likely to improve considering the strong tender pipeline of KNR.
- Based on the current order book of INR80b, we expect KNR to clock 14% revenue growth over FY22-24, with EBITDA margin in the 18-19% range. **We maintain our BUY rating with an SoTP-based TP of INR310, implying 21% potential upside.**

Exhibit 11: SoTP-based target price stands at INR310

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

Source: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>21,204</b>	<b>22,212</b>	<b>27,026</b>	<b>32,726</b>	<b>36,003</b>	<b>42,642</b>
Change (%)	9.8	4.8	21.7	21.1	10.0	18.4
<b>EBITDA</b>	<b>4,101</b>	<b>4,691</b>	<b>5,358</b>	<b>6,777</b>	<b>7,021</b>	<b>7,889</b>
Margin (%)	19.3	21.1	19.8	20.7	19.5	18.5
Depreciation	1,681	1,918	1,444	1,346	1,326	1,446
<b>EBIT</b>	<b>2,420</b>	<b>2,772</b>	<b>3,915</b>	<b>5,431</b>	<b>5,695</b>	<b>6,443</b>
Int. and Finance Charges	291	474	487	274	252	256
Other Income	634	346	496	417	360	512
<b>PBT bef. EO Exp.</b>	<b>2,763</b>	<b>2,644</b>	<b>3,924</b>	<b>5,574</b>	<b>5,803</b>	<b>6,699</b>
EO Items	138	213	-90	214	0	0
<b>PBT after EO Exp.</b>	<b>2,901</b>	<b>2,857</b>	<b>3,834</b>	<b>5,788</b>	<b>5,803</b>	<b>6,699</b>
Total Tax	268	605	1,392	1,970	1,516	1,686
Tax Rate (%)	9.2	21.2	36.3	34.0	26.1	25.2
<b>Reported PAT</b>	<b>2,633</b>	<b>2,252</b>	<b>2,442</b>	<b>3,818</b>	<b>4,287</b>	<b>5,013</b>
<b>Adjusted PAT</b>	<b>2,495</b>	<b>2,039</b>	<b>2,532</b>	<b>3,604</b>	<b>4,287</b>	<b>5,013</b>
Change (%)	-8.2	-18.3	24.1	42.4	19.0	16.9
Margin (%)	11.8	9.2	9.4	11.0	11.9	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	26,004	30,875
<b>Net Worth</b>	<b>14,143</b>	<b>16,239</b>	<b>18,678</b>	<b>22,420</b>	<b>26,566</b>	<b>31,438</b>
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
<b>Capital Employed</b>	<b>15,045</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>25,383</b>	<b>30,255</b>
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
<b>Net Fixed Assets</b>	<b>4,340</b>	<b>4,438</b>	<b>4,036</b>	<b>4,803</b>	<b>4,977</b>	<b>5,031</b>
Capital WIP	0	102	24	206	206	206
<b>Total Investments</b>	<b>6,448</b>	<b>7,149</b>	<b>4,898</b>	<b>4,828</b>	<b>6,357</b>	<b>8,357</b>
<b>Current Assets</b>	<b>10,176</b>	<b>13,880</b>	<b>18,764</b>	<b>22,275</b>	<b>25,807</b>	<b>30,831</b>
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	2,832	3,193
Other current assets	6,751	7,557	7,478	9,778	10,757	12,740
<b>Current Liability</b>	<b>5,919</b>	<b>8,639</b>	<b>10,522</b>	<b>10,875</b>	<b>11,964</b>	<b>14,170</b>
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
<b>Net Current Assets</b>	<b>4,258</b>	<b>5,241</b>	<b>8,241</b>	<b>11,400</b>	<b>13,843</b>	<b>16,661</b>
<b>Appl. of Funds</b>	<b>15,045</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>25,383</b>	<b>30,255</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>						
<b>EPS</b>	8.9	7.3	9.0	12.8	15.2	17.8
Cash EPS	14.8	14.1	14.1	17.6	20.0	23.0
BV/Share	50.3	57.7	66.4	79.7	94.5	111.8
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
<b>Valuation (x)</b>						
P/E	28.9	35.3	28.4	20.0	16.7	14.3
P/BV	5.1	4.4	3.9	3.2	2.7	2.3
EV/EBITDA	18.2	15.8	13.2	10.4	9.9	8.7
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	10.7	9.8
<b>Return Ratios (%)</b>						
RoE	19.4	13.4	14.5	17.5	17.5	17.3
RoCE	18.2	13.9	15.1	18.8	18.3	17.9
RoIC	29.4	24.5	24.4	28.0	27.6	28.0
<b>Working Capital Ratios</b>						
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
<b>Leverage Ratio (x)</b>						
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	22.6	25.2
Net Debt/Equity	0.2	0.1	-0.1	-0.1	-0.1	-0.1

### Standalone Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
						(INR m)
<b>OP/(Loss) before Tax</b>	<b>2,906</b>	<b>2,937</b>	<b>3,811</b>	<b>5,788</b>	<b>5,803</b>	<b>6,699</b>
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	-1,516	-1,686
(Inc.)/Dec. in WC	-1,506	-310	-2,004	-1,660	-1,344	-2,457
<b>CF from Operations</b>	<b>2,822</b>	<b>4,180</b>	<b>2,891</b>	<b>3,919</b>	<b>4,521</b>	<b>4,258</b>
Others	-347	-239	89	-487	0	0
<b>CF from Operating incl. EO</b>	<b>2,474</b>	<b>3,941</b>	<b>2,980</b>	<b>3,432</b>	<b>4,521</b>	<b>4,258</b>
(Inc.)/Dec. in FA	-2,034	-2,036	-939	-2,939	-1,500	-1,500
<b>Free Cash Flow</b>	<b>441</b>	<b>1,905</b>	<b>2,041</b>	<b>493</b>	<b>3,021</b>	<b>2,758</b>
(Pur.)/Sale of Investments	-1,083	-1,098	1,424	296	-1,529	-2,000
Others	262	291	127	161	0	0
<b>CF from Investments</b>	<b>-2,855</b>	<b>-2,843</b>	<b>612</b>	<b>-2,483</b>	<b>-3,029</b>	<b>-3,500</b>
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
<b>CF from Fin. Activity</b>	<b>73</b>	<b>-897</b>	<b>-2,749</b>	<b>-390</b>	<b>-393</b>	<b>-396</b>
<b>Inc./Dec. in Cash</b>	<b>-308</b>	<b>200</b>	<b>843</b>	<b>560</b>	<b>1,099</b>	<b>361</b>
Opening Balance	438	130	331	1,173	1,733	2,832
<b>Closing Balance</b>	<b>130</b>	<b>331</b>	<b>1,173</b>	<b>1,733</b>	<b>2,832</b>	<b>3,193</b>

## NOTES



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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