Motilal Oswal Investment Services

10 February 2023

3QFY23 Results Update | Sector: Infrastructure

KNR Constructions

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	73.8 / 0.9
52-Week Range (INR)	324 / 203
1, 6, 12 Rel. Per (%)	1/-1/-18
12M Avg Val (INR M)	91

Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	35.1	40.9	48.4
EBITDA	6.8	8.0	9.2
PAT	3.9	4.8	5.6
EBITDA (%)	19.5	19.5	19.0
EPS (INR)	13.8	17.1	20.0
EPS Gr. (%)	7.8	23.7	16.9
BV/Sh. (INR)	96.0	112.6	132.1
Ratios			
Net D/E	-0.1	-0.1	-0.1
RoE (%)	15.7	16.4	16.3
RoCE (%)	16.3	17.2	17.0
Payout (%)	3.0	2.9	2.5
Valuations			
P/E (x)	19.0	15.4	13.2
P/BV (x)	2.7	2.3	2.0
EV/EBITDA (x)	10.3	8.7	7.6
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	5.4	4.1	2.5

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	51.1	51.1	51.5
DII	34.9	34.6	34.1
FII	5.8	5.7	4.6
Others	8.2	8.6	9.9

FII Includes depository receipts

CMP: INR262 TP: INR305 (+16%) Buy

Performance muted; but order pipeline healthy

Project awarding and execution to accelerate in FY24E

- KNR Constructions (KNRC)'s revenue was up 8% YoY/down 2% QoQ to ~INR8.3b (6% below our estimate) in 3QFY23. While EBITDA was at INR1.6b (in line), EBITDA margin contracted 190bp YoY/350bp QoQ to 18.8% (v/s our estimate of 18.5%) during the quarter.
- With respect to the search operation by the Income Tax Department, KNRC created a provision of INR240m towards income tax and INR95m towards interest on income tax, leading to a rise in interest cost during the quarter.
- KNRC reported an exceptional profit of INR1.4b during the quarter, relating to the divestments of the company's 51% stake in KNR Tirumala Infra Pvt Ltd and KNR Shankarampat Projects Pvt Ltd, and 100% stake in KNR Srirangam Pvt Ltd to CUBE Highways and Infrastructure III Pte Ltd. The transaction was completed in Oct'22.
- APAT (adjusted for tax on exceptional profit of INR1.4b and provisions) for the quarter stood at INR777m.
- KNRC's order book stood at ~INR80b. The order pipeline is decent, with management expecting INR40-50b of new project wins in FY23.
- Irrigation projects contributed INR1.9b (~25% of revenue) in 3QFY23. The pending receivables from the irrigation projects have reduced substantially and now stand at INR6.5b (v/s INR9b at end-2QFY23).
- While execution has been largely in line with expectations, order inflows have been muted. KNRC, however, is seeing robust order pipeline and expects some order wins in 4QFY23. **With an order book of INR80b, we expect KNRC to clock 17% revenue CAGR over FY23-25, with ~19% EBITDA margin. We marginally cut our estimates for FY24 and maintain our BUY rating on the stock with a revised SoTP-based TP of INR305.**

Key takeaways from the management commentary

- Aggressive bidding for NHAI projects is hurting the industry. Projects are being bid at 30% discount to the authority's base price.
- The irrigation receivables situation is now stabilizing and management expects more payments to come through in the next few months.
- Management expects INR35b of revenue in FY23 and INR40b in FY24. It is targeting INR50b of new order inflows. KNRC is not willing to compromise on margins to bag orders.
- The company expects margin to be in the range of 18-19% in FY23 and FY24.

Valuation and view

- While reduction in irrigation receivables provides comfort, new order inflows hold the key for the next leg of growth. With massive tender pipeline, KNRC could win some projects. We expect margins to be stable with input costs stabilizing and some execution seen from high-margin irrigation projects.
- We have marginally cut our estimates on execution front for FY24 due to subdued order inflows. **Retain BUY** with a revised SoTP-based TP of INR305.

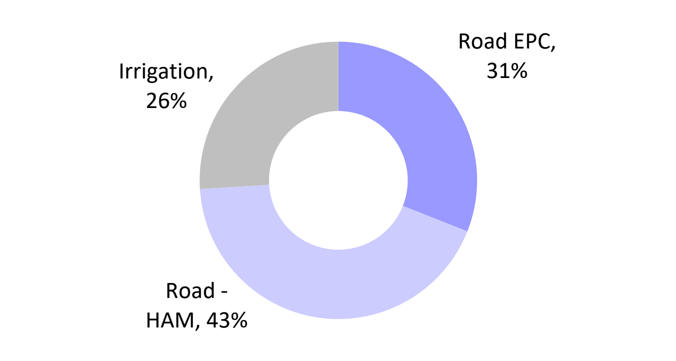
Alok Deora - Research analyst (Alok.Deora@motilaloswal.com)
Saurabh Dugar - Research analyst (Saurabh.Dugar@motilaloswal.com)

Quarterly performance – Standalone **(INR m)**

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	**7,400**	**7,556**	**7,663**	**10,107**	**8,906**	**8,474**	**8,302**	**9,421**	**32,726**	**35,103**	**8,800**	**-6**
YoY Change (%)	54.4	25.7	11.7	8.0	20.4	12.2	8.3	-6.8	21.1	7.3	14.8	
Total Expenditure	5,967	5,880	6,074	8,027	7,256	6,586	6,742	7,675	25,949	28,258	7,172	
EBITDA	**1,433**	**1,675**	**1,589**	**2,080**	**1,650**	**1,888**	**1,560**	**1,747**	**6,777**	**6,845**	**1,628**	**-4**
Margin (%)	19.4	22.2	20.7	20.6	18.5	22.3	18.8	18.5	20.7	19.5	18.5	
Depreciation	269	320	358	399	327	366	381	386	1,346	1,460	330	
Interest	79	72	64	60	69	84	160	73	274	386	60	
Other Income	48	105	78	185	91	76	59	91	417	316	90	
Extra-Ord expense	0	0	214	0	0	0	1,380	0	214	1,380	0	
PBT before EO expense	**1,133**	**1,389**	**1,246**	**1,806**	**1,345**	**1,514**	**1,079**	**1,378**	**5,574**	**5,315**	**1,328**	**-19**
Tax	403	437	452	679	336	438	840	353	1,970	1,967	334	
Rate (%)	35.5	31.4	36.3	37.6	25.0	28.9	77.9	25.6	35.3	37.0	25.2	
Reported PAT	**730**	**952**	**1,008**	**1,128**	**1,008**	**1,076**	**1,619**	**1,025**	**3,818**	**4,728**	**994**	
Adj PAT	**730**	**952**	**794**	**1,128**	**1,008**	**1,076**	**777**	**1,025**	**3,604**	**3,886**	**994**	**-22**
YoY Change (%)	83.5	55.9	2.3	46.5	38.1	13.0	-2.1	-9.1	42.4	7.8	25.2	
Margin (%)	9.9	12.6	10.4	11.2	11.3	12.7	9.4	10.9	11.0	11.1	11.3	

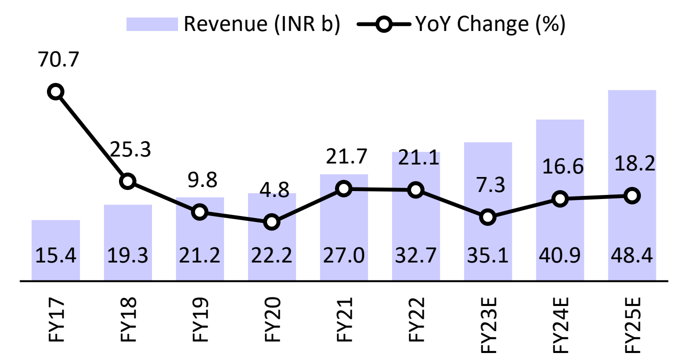
E: MOFSL Estimates; 3Q FY23 APAT calculated after adjusting for extra-ordinary gain and tax adjustments

Exhibit 1: OB breakup (3QFY23: INR80b)



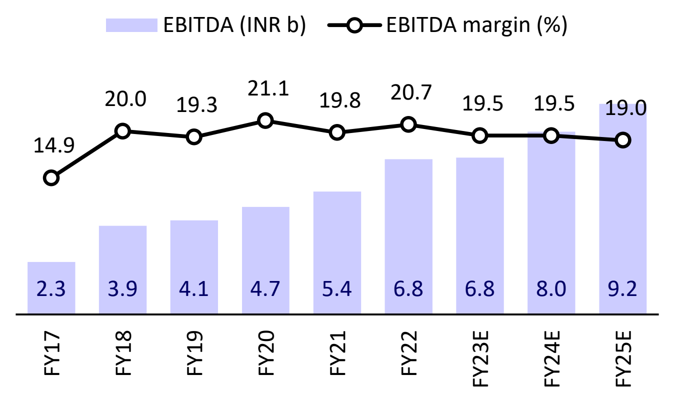
Source: MOFSL, Company

Exhibit 2: With Current OB, revenue likely to witness ~17% CAGR over FY23–25E



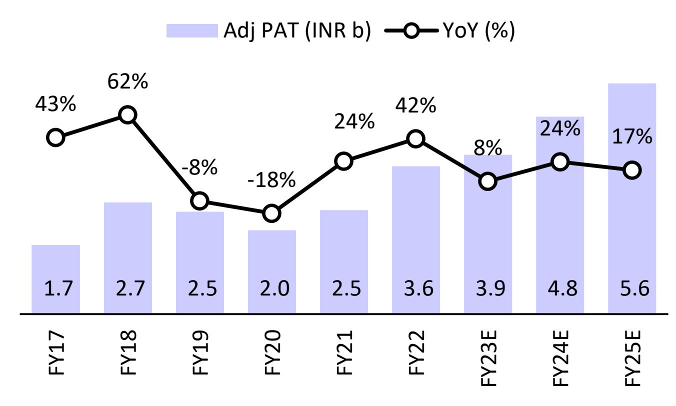
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: Adjusted PAT to grow at 20% CAGR over FY23–25E



Source: MOFSL, Company

Highlights from the management commentary

Overview
- Project awarding by NHAI has been picking up. However, the aggression is very high and projects are being bid at 30% discount to the authority's base price. Some of these projects would not get executed as they would be unviable.
- NHAI has been exploring to float HAM projects with reduced NHAI contribution of 20% (from current levels of 40%). However, it seems unlikely to be implemented considering the pressure from several stakeholders.
- FASTag toll collections continued to show robust growth during the quarter. Toll collections in future would be through GPS.
- The tender pipeline is robust at INR350b. KNRC has bid for 12 tenders in Feb'23 and is looking to bid for 22 tenders in Mar'23. These are mainly HAM project bids. KNRC is also exploring other Infra segments but no bid has been made yet in those segments.
- The order book stood at INR80b as on end of 3QFY23. Order inflows of INR40-50b are targeted for the remaining part of FY23.

Irrigation projects
- Irrigation revenue for 3QFY23 stood at INR1.9b and INR6.2b for 9MFY23.
- The pending receivables in Irrigation stand at INR6.5b which has reduced from INR9b at end of 2QFY23. The INR6.5b includes INR3.3b of outstanding payments and INR3.2b of bills yet to be certified by the authority.

Guidance
- Due to monsoon, several projects in the order book have been slow in execution. Hence, management has provided revenue guidance of INR35b for FY23 and INR40b for FY24.
- Margin to be in the range of 18-19% in FY23 and FY24.
- KNRC would be bidding for projects worth INR170b in Feb and Mar'23.
- KNRC will spend ~INR1.5b towards capex in FY23 (INR1.1b has already been spent in 9MFY23. Similar capex is expected in FY24.

Other details
- The Standalone cash on books stood at INR1.2b and Consolidated cash was at INR1.5b
- At end-Dec'22, Inventory was at INR1.9b and Payables stood at INR2.1b.
- Receivables at end-Dec'22 stood at INR6.3b. This included receivables of INR3.3b from Irrigation and INR2.7b from Highways segments.

Exhibit 5: Earnings revision summary

Earnings Change	Old		New		Change	
INR m	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	36,003	42,642	35,103	40,913	-2.5%	-4.1%
EBITDA	7,021	7,889	6,845	7,978	-2.5%	1.1%
EBITDA margin	19.5%	18.5%	19.5%	19.5%	0.0%	1.0%
Adj. PAT	4,308	5,034	3,886	4,807	-9.8%	-4.5%

Source: Company, MOFSL

Valuation and view

- KNRC has delivered muted execution and margins in 3QFY23. Going forward, the strong bidding pipeline should help its order inflows.
- **With an order book of INR80b, we expect KNRC to clock 17% revenue CAGR over FY23-25, with ~19% EBITDA margin. We marginally cut our estimates for FY24 and maintain our BUY rating on the stock with a revised SoTP-based TP of INR305.**

Exhibit 6: SoTP-based TP stands at INR305/share

Particulars	INR m	Per share (INR)
Valuation		
March'24E PAT – 16x P/E	76,914	275
BOT Portfolio valuation at Investment value	8,328	30
Total	**87,221**	**305**

Source: MOFSL, Company

Financials and valuations

Standalone Income Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	**22,212**	**27,026**	**32,726**	**35,103**	**40,913**	**48,357**
Change (%)	4.8	21.7	21.1	7.3	16.6	18.2
EBITDA	**4,691**	**5,358**	**6,777**	**6,845**	**7,978**	**9,188**
Margin (%)	21.1	19.8	20.7	19.5	19.5	19.0
Depreciation	1,918	1,444	1,346	1,460	1,595	1,775
EBIT	**2,772**	**3,915**	**5,431**	**5,385**	**6,383**	**7,413**
Int. and Finance Charges	474	487	274	386	327	290
Other Income	346	496	417	316	368	387
PBT bef. EO Exp.	**2,644**	**3,924**	**5,574**	**5,315**	**6,424**	**7,510**
EO Items	213	-90	214	1,380	0	0
PBT after EO Exp.	**2,857**	**3,834**	**5,788**	**6,695**	**6,424**	**7,510**
Total Tax	605	1,392	1,970	1,967	1,617	1,890
Tax Rate (%)	21.2	36.3	34.0	29.4	25.2	25.2
Reported PAT	**2,252**	**2,442**	**3,818**	**4,728**	**4,807**	**5,619**
Adjusted PAT	**2,039**	**2,532**	**3,604**	**3,886**	**4,807**	**5,619**
Change (%)	-18.3	24.1	42.4	7.8	23.7	16.9
Margin (%)	9.2	9.4	11.0	11.1	11.7	11.6

Standalone Balance Sheet (INR m)

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	281	562	562	562	562	562
Total Reserves	15,958	18,116	21,857	26,445	31,111	36,590
Net Worth	**16,239**	**18,678**	**22,420**	**27,007**	**31,674**	**37,152**
Total Loans	2,300	7	0	0	0	0
Deferred Tax Liabilities	-1,610	-1,486	-1,183	-1,183	-1,183	-1,183
Capital Employed	**16,929**	**17,199**	**21,237**	**25,825**	**30,491**	**35,970**
Gross Block	12,671	13,518	15,471	16,971	18,471	20,971
Less: Accum. Deprn.	8,233	9,482	10,668	12,128	13,723	15,498
Net Fixed Assets	**4,438**	**4,036**	**4,803**	**4,843**	**4,748**	**5,473**
Capital WIP	102	24	206	206	206	206
Total Investments	**7,149**	**4,898**	**4,828**	**6,328**	**8,328**	**10,328**
Current Assets	**13,880**	**18,764**	**22,275**	**26,112**	**30,804**	**36,032**
Inventory	1,232	1,480	2,270	2,435	2,838	3,355
Account Receivables	4,761	8,632	8,494	9,478	11,456	14,507
Cash and Bank Balance	330	1,173	1,733	3,711	4,287	3,722
Other current assets	7,557	7,478	9,778	10,488	12,224	14,448
Current Liability	**8,639**	**10,522**	**10,875**	**11,665**	**13,595**	**16,069**
Account Payables	2,511	2,397	2,945	3,159	3,682	4,352
Other current liabilities	5,896	7,780	7,590	8,142	9,489	11,215
Provisions	232	345	339	364	424	501
Net Current Assets	**5,241**	**8,241**	**11,400**	**14,447**	**17,209**	**19,963**
Appl. of Funds	**16,929**	**17,199**	**21,237**	**25,825**	**30,491**	**35,970**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)						
EPS	7.3	9.0	12.8	13.8	17.1	20.0
Cash EPS	14.1	14.1	17.6	19.0	22.8	26.3
BV/Share	57.7	66.4	79.7	96.0	112.6	132.1
DPS	0.5	0.0	0.2	0.4	0.4	0.4
Payout (%)	6.8	0.0	1.8	3.0	2.9	2.5
Valuation (x)						
P/E	36.3	29.2	20.5	19.0	15.4	13.2
P/BV	4.6	4.0	3.3	2.7	2.3	2.0
EV/EBITDA	16.2	13.6	10.7	10.3	8.7	7.6
Dividend Yield (%)	0.2	0.0	0.1	0.2	0.2	0.2
FCF per share	6.8	7.3	1.8	14.2	10.8	6.6
Return Ratios (%)						
RoE	13.4	14.5	17.5	15.7	16.4	16.3
RoCE	13.9	15.1	18.8	16.3	17.2	17.0
RoIC	24.5	24.4	28.0	25.3	28.7	28.2
Working Capital Ratios						
Fixed Asset Turnover (x)	1.8	2.0	2.1	2.1	2.2	2.3
Asset Turnover (x)	1.3	1.6	1.5	1.4	1.3	1.3
Inventory (Days)	20	20	25	25	25	25
Debtor (Days)	78	117	95	99	102	110
Creditor (Days)	41	32	33	33	33	33
Leverage Ratio (x)						
Current Ratio	1.6	1.8	2.0	2.2	2.3	2.2
Interest Coverage Ratio	5.8	8.0	19.8	13.9	19.5	25.5
Net Debt/Equity	0.1	-0.1	-0.1	-0.1	-0.1	-0.1

Standalone Cash Flow Statement **(INR m)**

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	2,937	3,811	5,788	**5,315**	**6,424**	**7,510**
Depreciation	1,923	1,444	1,346	1,460	1,595	1,775
Interest and Finance Charges	473	427	271	386	327	290
Direct Taxes Paid	-844	-787	-1,826	-1,967	-1,617	-1,890
(Inc.)/Dec. in WC	-310	-2,004	-1,660	-1,069	-2,186	-3,318
CF from Operations	4,180	2,891	3,919	**4,125**	**4,543**	**4,366**
Others	-239	89	-487	1,380	0	0
CF from Operating incl. EO	3,941	2,980	3,432	**5,505**	**4,543**	**4,366**
(Inc.)/Dec. in FA	-2,036	-939	-2,939	-1,500	-1,500	-2,500
Free Cash Flow	1,905	2,041	493	**4,005**	**3,043**	**1,866**
(Pur.)/Sale of Investments	-1,098	1,424	296	-1,500	-2,000	-2,000
Others	291	127	161	0	0	0
CF from Investments	-2,843	612	-2,483	**-3,000**	**-3,500**	**-4,500**
Inc./(Dec.) in Debt	-511	-2,290	-7	0	0	0
Interest Paid	-401	-459	-312	-386	-327	-290
Dividend Paid	-153	0	-70	-141	-141	-141
Others	168	0	0	0	0	0
CF from Fin. Activity	-897	-2,749	-390	**-527**	**-468**	**-431**
Inc./Dec. in Cash	200	843	560	**1,978**	**575**	**-565**
Opening Balance	130	331	1,173	1,733	3,711	4,287
Closing Balance	331	1,173	1,733	**3,711**	**4,287**	**3,722**

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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