

# KNR Constructions

**BSE SENSEX**

62,028

**S&P CNX**

18,315


**KNR CONSTRUCTIONS LIMITED**

## Stock Info

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	67.5 / 0.8
52-Week Range (INR)	281 / 203
1, 6, 12 Rel. Per (%)	-4/5/-14
12M Avg Val (INR M)	77
Free float (%)	48.9

## Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Net Sales	35.6	40.7	44.5
EBITDA	6.9	7.8	8.5
Adj. PAT	3.9	4.6	4.9
EBITDA Margin (%)	19.5	19.2	19.0
Adj. EPS (INR)	14.0	16.5	17.6
EPS Gr. (%)	9.1	17.8	6.7
BV/Sh. (INR)	96.2	112.1	129.2

## Ratios

Net D/E (x)	-0.1	-0.1	-0.1
RoE (%)	15.9	15.8	14.5
RoCE (%)	16.6	16.8	15.5
Payout (%)	2.9	3.0	2.8

## Valuations

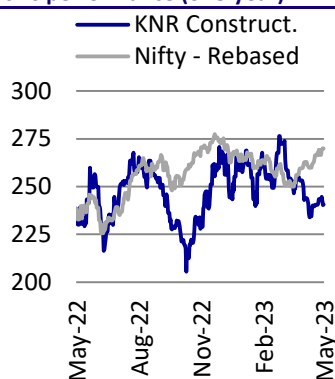
P/E (x)	17.2	14.6	13.7
P/BV (x)	2.5	2.1	1.9
EV/EBITDA (x)	9.2	8.1	7.5
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	5.9	4.6	3.8

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	51.1	51.1	51.5
DII	34.4	34.9	33.5
FII	5.9	5.8	5.4
Others	8.6	8.2	9.6

FII Includes depository receipts

## Stock's performance (one-year)


**CMP: INR240**
**TP: INR310 (+29%)**
**Buy**

## Recent order inflows boost dwindling order book

- By securing ~INR20b worth of new orders in 4QFY23, KNR Constructions (KNR) enhanced its total order book to ~INR 100b (calculated based on order announced post 3Q FY23). These orders alleviate concerns about the depleting order book. The order book to bill ratio of KNR now stands at ~3x FY23E, providing strong revenue visibility over the next two years.
- For its irrigation projects, KNR is expected to bid cautiously prioritizing the execution of its existing pending Irrigation order book and ensuring timely receipt of payments.
- Higher allocation to Ministry of Roads (up 36% YoY) in the Union Budget of FY24E, ahead of the upcoming general elections in FY24 is expected to contribute to a strong momentum in project awarding and execution throughout FY24.
- The robust tender pipeline in the Roads sector is likely to result in decent order inflows in FY24, providing enhanced visibility on growth in FY25 and beyond. Considering KNR's current order book value of ~INR 100b, we expect a 12% revenue CAGR over FY23-25. The margins are likely to be in the range of 18% to 20%. With this positive outlook, we reiterate our BUY rating with a target price of INR 310 based on Sum of the Parts (SoTP) valuation.

## Order inflows resumes for KNR as aggressive bidding by new players cools off; diversification into new segments to mitigate operational risk

- Aggressive bidding by new and inexperienced players (20-25% lower than the NHA estimated project cost) had adversely impacted order inflows for large players. This resulted in negligible order wins for KNR in 2HFY22 and 9MFY23.
- However, since Jan'23, the intensity of competitive bidding has eased off to some extent, taking order inflows to ~INR 20b for KNR in 4QFY23. As a result, the company's total order book stands at ~INR 100b. Looking ahead, KNR aims to secure order wins ranging from INR 40-50b in FY24.
- Additionally, the company is actively exploring opportunities within the railway sector as part of its diversification strategy. By venturing into new markets, KNR seeks to mitigate operational risks and enhance its growth prospects.

## Lean balance sheet structure provides comfort in project execution

- KNR has followed a financially conservative approach, emphasizing an asset-light business model, and effective working capital management, resulting in a lean balance sheet structure. Through the proceeds from the Cube deal (KNR received INR 5.2b from the sale of its three HAM projects) and enhanced irrigation collection, the company has successfully paid off its debt in full.
- Looking ahead, KNR has a total equity requirement of INR 7.3b for its secured HAM projects, with INR 2.9b already invested as of Dec'22, INR 2.6b planned for FY24, and the remaining INR 1b scheduled for FY25. This excludes the equity of the HAM projects won in 4Q FY23.

### Government's push for infrastructure development bodes well for players like KNR

- The Union Budget for FY24 has reiterated that the government's strong commitment to the creation of road infrastructure, with a significant allocation of INR 2.7t (up 36% YoY) to the Ministry of Roads. This renewed focus on capital expenditure for road development is expected to lead to a surge in new project awards, signaling a potentially robust market for the road construction industry.
- With its expertise in road construction and a strong track record of project execution, KNR is well-positioned to benefit from the anticipated increase in demand for road infrastructure in the country. The company also enjoys healthy balance sheet and strong return ratio. Also, its equity commitment is likely to be supported by internal cash generation.
- We expect KNR to report revenue/EBITDA/PAT CAGR of 12%/10%/12% over FY23-25E along with stable margins. We reiterate our BUY rating with a SoTP-based TP of INR310.

### KNR wins three HAM projects in 4Q FY23

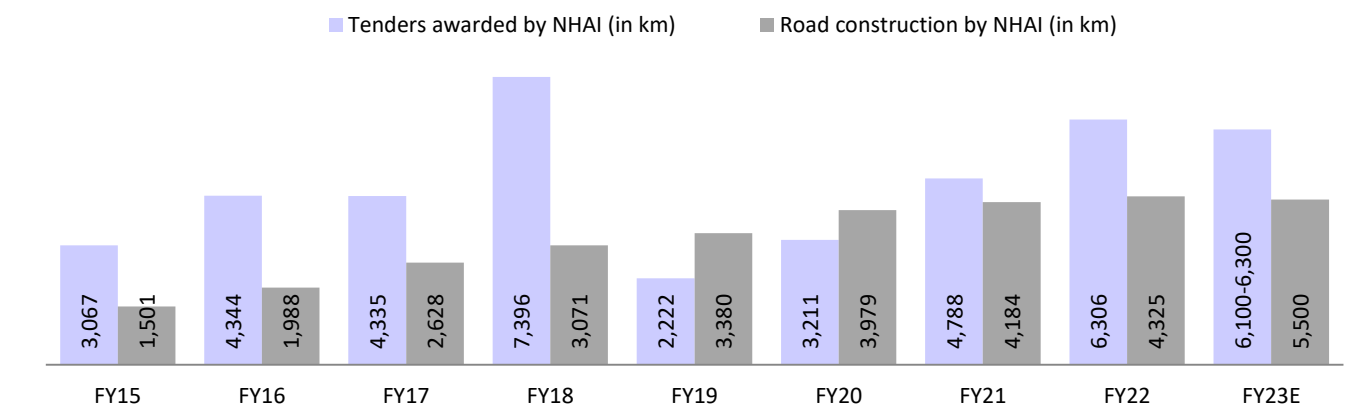
Exhibit 1: Order wins in 4QFY23

Date of Awarding	State	Project Cost (INR b)	Mode
01-Mar-23	Andhra Pradesh	6.7	HAM
10-Mar-23	Karnataka	6.5	HAM
10-Mar-23	Karnataka	6.9	HAM
Total Order Inflow		20.1	

Sources: Company, MOFSL

### Awarding and construction activities by NHAI

Exhibit 2: NHAI's awarding and construction trend (in km)

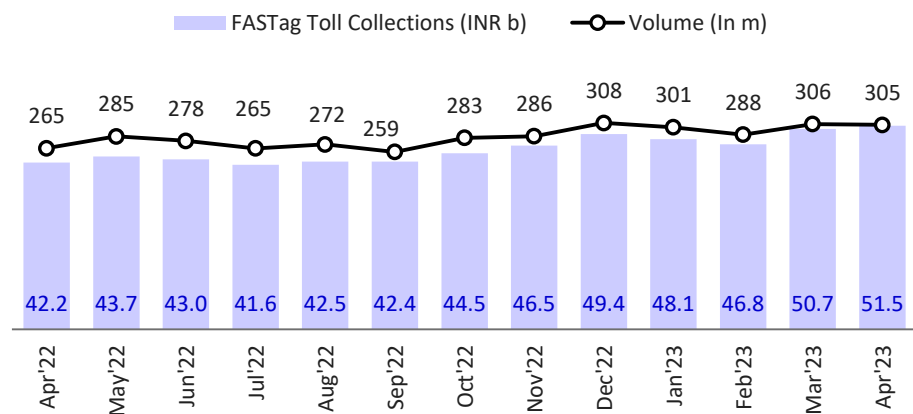


Sources: NHAI, MOFSL

### NHAI awarding gathers pace

- Project awarding has gathered momentum since Dec'22, with ~6300km of projects being awarded in FY23 (v/s only 1,549km awarded in till Nov'22).
- The central government intends to accelerate the construction of roads in FY24 by 15-20% with a healthy pipeline of projects and an increase in capital expenditure outlay.
- The project pipeline remains strong at 55,000 km under various stages of execution. This, along with focus on project completions ahead of general elections, is expected to boost execution to 12,000- 12,500km in FY24.

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



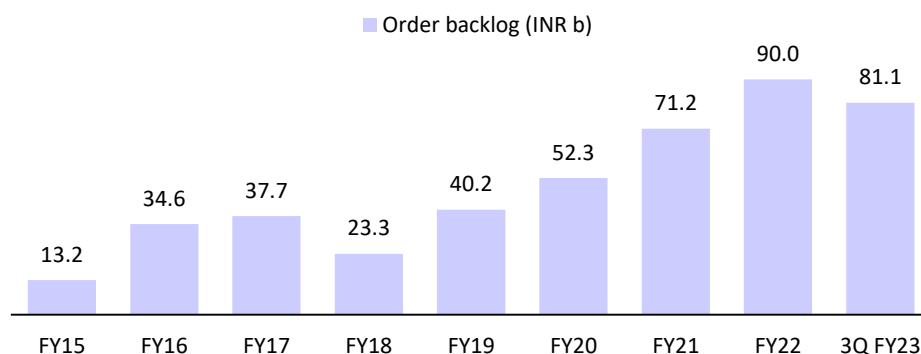
Sources: NPCI, RBI, MOFSL

### FASTag toll collections continue to gain traction

- Daily average FASTag toll collections grew ~5% MoM to ~INR1.7b in Apr'23, after robust collections in Mar'23 (INR 1.6b on a daily average basis). Average daily volumes (i.e., the number of transactions) remained stable MoM at 305m in Apr'23.
- The successful implementation of FASTags has resulted in strong toll collections on highways. Enhanced toll collections are crucial for expediting the monetization of road assets by the Ministry of Road Transport and Highways (MoRTH). Moreover, increased toll revenue will be beneficial for companies seeking to monetize their existing toll assets.

## Financial story in charts

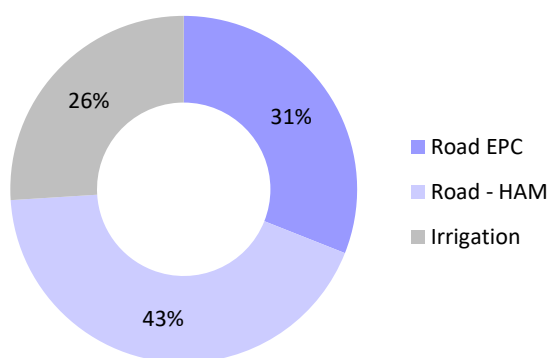
**Exhibit 4: Order backlog has been improving**



Sources: Company, MOFSL

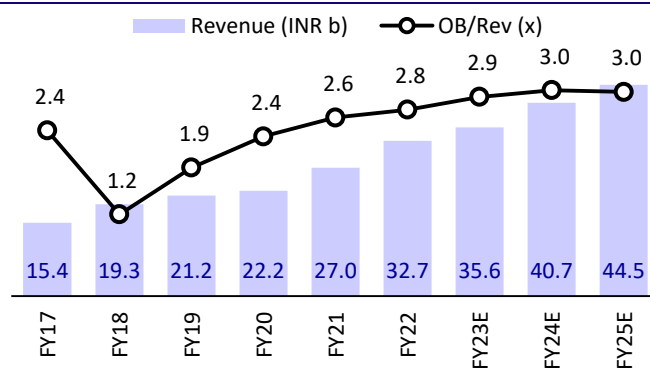
Note: Order inflows of INR 20b has been received in 4Q FY23

**Exhibit 5: Order book breakup (3QFY23: INR80b)**



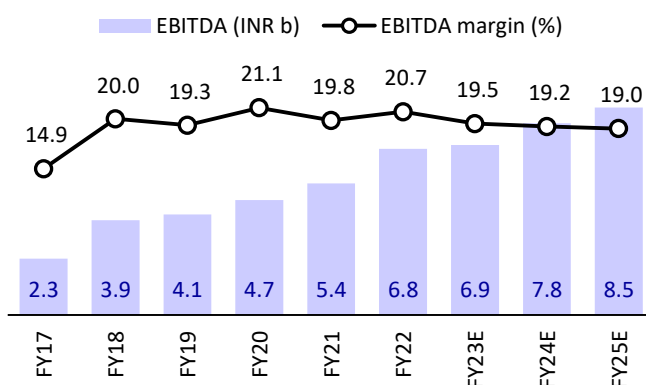
Source: MOFSL, Company

**Exhibit 6: Current order book provides strong revenue visibility, with ~12% CAGR expected over FY23–25**



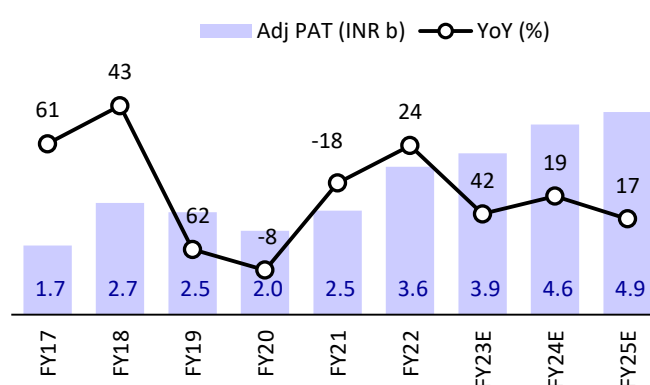
Source: MOFSL, Company

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



Source: MOFSL, Company

**Exhibit 8: Adjusted PAT to clock 12% CAGR over FY23–25**



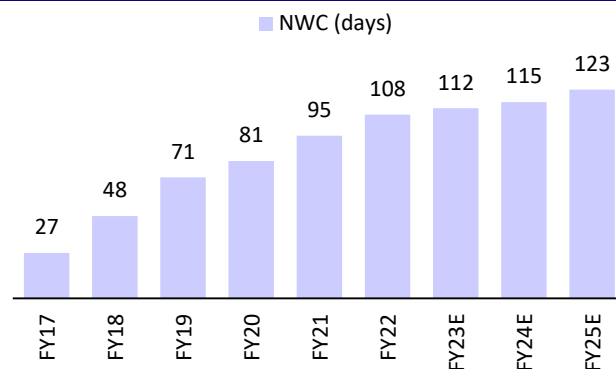
Source: MOFSL, Company

Exhibit 9: Net Debt/equity to remain negative



Source: MOFSL, Company

Exhibit 10: Working capital days to remain stable



Source: MOFSL, Company

### Order book position improves with new order wins in 4QFY23; reiterate BUY

- The key to the next phase of growth for KNR lies in securing new order inflows. The company has a substantial tender pipeline, which presents opportunities for winning additional projects. Margins are expected to remain stable, aided by the stabilization of input costs.
- Based on the current order book of ~INR100b, we expect KNR to clock 12% revenue CAGR over FY23-25E, with EBITDA margin in the range of 18-20% range. **We reiterate our BUY rating with a SoTP-based TP of INR310.**

Exhibit 11: SoTP-based target price stands at INR310

Particulars	INR m	Per share (INR)
<b>Valuation</b>		
March'25E PAT – 16x P/E	79,000	281
BOT Portfolio valuation	8,262	29
<b>Total</b>	<b>87,262</b>	<b>310</b>

Source: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>22,212</b>	<b>27,026</b>	<b>32,726</b>	<b>35,553</b>	<b>40,737</b>	<b>44,538</b>
Change (%)	4.8	21.7	21.1	8.6	14.6	9.3
<b>EBITDA</b>	<b>4,691</b>	<b>5,358</b>	<b>6,777</b>	<b>6,933</b>	<b>7,822</b>	<b>8,462</b>
Margin (%)	21.1	19.8	20.7	19.5	19.2	19.0
Depreciation	1,918	1,444	1,346	1,460	1,595	1,775
<b>EBIT</b>	<b>2,772</b>	<b>3,915</b>	<b>5,431</b>	<b>5,473</b>	<b>6,227</b>	<b>6,687</b>
Int. and Finance Charges	474	487	274	427	407	445
Other Income	346	496	417	320	367	356
<b>PBT bef. EO Exp.</b>	<b>2,644</b>	<b>3,924</b>	<b>5,574</b>	<b>5,366</b>	<b>6,186</b>	<b>6,598</b>
EO Items	213	-90	214	1,380	0	0
<b>PBT after EO Exp.</b>	<b>2,857</b>	<b>3,834</b>	<b>5,788</b>	<b>6,746</b>	<b>6,186</b>	<b>6,598</b>
Total Tax	605	1,392	1,970	1,974	1,557	1,661
Tax Rate (%)	21.2	36.3	34.0	29.3	25.2	25.2
<b>Reported PAT</b>	<b>2,252</b>	<b>2,442</b>	<b>3,818</b>	<b>4,772</b>	<b>4,629</b>	<b>4,938</b>
<b>Adjusted PAT</b>	<b>2,039</b>	<b>2,532</b>	<b>3,604</b>	<b>3,930</b>	<b>4,629</b>	<b>4,938</b>
Change (%)	-18.3	24.1	42.4	9.1	17.8	6.7
Margin (%)	9.2	9.4	11.0	11.1	11.4	11.1

### 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	26,489	30,977	35,774
<b>Net Worth</b>	<b>16,239</b>	<b>18,678</b>	<b>22,420</b>	<b>27,051</b>	<b>31,540</b>	<b>36,336</b>
Total Loans	2,300	7	0	0	0	0
Deferred Tax Liabilities	-1,610	-1,486	-1,183	-1,183	-1,183	-1,183
<b>Capital Employed</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>25,869</b>	<b>30,357</b>	<b>35,154</b>
Gross Block	12,671	13,713	15,826	16,971	18,471	20,971
Less: Accum. Deprn.	8,233	9,677	11,022	12,128	13,723	15,498
<b>Net Fixed Assets</b>	<b>4,438</b>	<b>4,036</b>	<b>4,803</b>	<b>4,843</b>	<b>4,748</b>	<b>5,473</b>
Capital WIP	102	24	206	206	206	206
<b>Total Investments</b>	<b>7,149</b>	<b>4,898</b>	<b>4,828</b>	<b>6,328</b>	<b>8,328</b>	<b>10,328</b>
<b>Current Assets</b>	<b>13,880</b>	<b>18,764</b>	<b>22,275</b>	<b>26,306</b>	<b>30,612</b>	<b>33,947</b>
Inventory	1,232	1,480	2,270	2,467	2,826	3,090
Account Receivables	4,761	8,632	8,494	9,599	11,406	13,361
Cash and Bank Balance	330	1,173	1,733	3,618	4,208	4,189
Other current assets	7,557	7,478	9,778	10,622	12,171	13,307
<b>Current Liability</b>	<b>8,639</b>	<b>10,522</b>	<b>10,875</b>	<b>11,814</b>	<b>13,537</b>	<b>14,800</b>
Account Payables	2,511	2,397	2,945	3,200	3,667	4,009
Other current liabilities	5,896	7,780	7,590	8,246	9,448	10,330
Provisions	232	345	339	369	422	462
<b>Net Current Assets</b>	<b>5,241</b>	<b>8,241</b>	<b>11,400</b>	<b>14,492</b>	<b>17,075</b>	<b>19,147</b>
<b>Appl. of Funds</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>25,869</b>	<b>30,357</b>	<b>35,154</b>

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>						
<b>EPS</b>	7.3	9.0	12.8	14.0	16.5	17.6
Cash EPS	14.1	14.1	17.6	19.2	22.1	23.9
BV/Share	57.7	66.4	79.7	96.2	112.1	129.2
DPS	0.5	0.0	0.2	0.4	0.4	0.4
Payout (%)	6.8	0.0	1.8	14.0	16.5	17.6
<b>Valuation (x)</b>						
P/E	33.1	26.7	18.7	17.2	14.6	13.7
P/BV	4.2	3.6	3.0	2.5	2.1	1.9
EV/EBITDA	14.8	12.4	9.7	9.2	8.1	7.5
Dividend Yield (%)	0.2	0.0	0.1	0.2	0.2	0.2
FCF per share	6.8	7.3	1.8	14.1	11.2	9.1
<b>Return Ratios (%)</b>						
RoE	13.4	14.5	17.5	15.9	15.8	14.5
RoCE	13.9	15.1	18.8	16.6	16.8	15.5
RoIC	24.5	24.4	28.0	25.7	28.0	26.3
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	1.8	2.0	2.1	2.1	2.2	2.1
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
<b>Leverage Ratio (x)</b>						
Current Ratio	1.6	1.8	2.0	2.2	2.3	2.3
Interest Coverage Ratio	5.8	8.0	19.8	12.8	15.3	15.0
Net Debt/Equity	0.1	-0.1	-0.1	-0.1	-0.1	-0.1

### Standalone Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
						(INR m)
<b>OP/(Loss) before Tax</b>	<b>2,937</b>	<b>3,811</b>	<b>5,788</b>	<b>5,366</b>	<b>6,186</b>	<b>6,598</b>
Depreciation	1,923	1,444	1,346	1,460	1,595	1,775
Interest and Finance Charges	473	427	271	427	407	445
Direct Taxes Paid	-844	-787	-1,826	-1,974	-1,557	-1,661
(Inc.)/Dec. in WC	-310	-2,004	-1,660	-1,207	-1,993	-2,091
<b>CF from Operations</b>	<b>4,180</b>	<b>2,891</b>	<b>3,919</b>	<b>4,072</b>	<b>4,638</b>	<b>5,067</b>
Others	-239	89	-487	1,380	0	0
<b>CF from Operating incl. EO</b>	<b>3,941</b>	<b>2,980</b>	<b>3,432</b>	<b>5,452</b>	<b>4,638</b>	<b>5,067</b>
(Inc.)/Dec. in FA	-2,036	-939	-2,939	-1,500	-1,500	-2,500
<b>Free Cash Flow</b>	<b>1,905</b>	<b>2,041</b>	<b>493</b>	<b>3,952</b>	<b>3,138</b>	<b>2,567</b>
(Pur.)/Sale of Investments	-1,098	1,424	296	-1,500	-2,000	-2,000
Others	291	127	161	0	0	0
<b>CF from Investments</b>	<b>-2,843</b>	<b>612</b>	<b>-2,483</b>	<b>-3,000</b>	<b>-3,500</b>	<b>-4,500</b>
Inc./(Dec.) in Debt	-511	-2,290	-7	0	0	0
Interest Paid	-401	-459	-312	-427	-407	-445
Dividend Paid	-153	0	-70	-141	-141	-141
Others	168	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-897</b>	<b>-2,749</b>	<b>-390</b>	<b>-567</b>	<b>-548</b>	<b>-586</b>
<b>Inc./Dec. in Cash</b>	<b>200</b>	<b>843</b>	<b>560</b>	<b>1,885</b>	<b>590</b>	<b>-19</b>
Opening Balance	130	331	1,173	1,733	3,618	4,208
<b>Closing Balance</b>	<b>331</b>	<b>1,173</b>	<b>1,733</b>	<b>3,618</b>	<b>4,208</b>	<b>4,189</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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