KNR Constructions

Order inflows to drive further rerating

KNR reported revenue/EBITDA/APAT of INR 11.8/2.1/1.3bn, beating our estimates on all fronts. It guided for FY24 revenue at INR 40bn+, with an EBITDA margin of 14-16% (better margin in H2FY24 vs. H1FY24). For FY23, it won projects worth INR 20.4bn vs. its guidance of INR 50bn and guided for an FY24 order inflow (OI) of INR 40-45bn. The order book (OB) as of Mar'23 stands at INR 88.7bn (~2.4x FY23 revenue). Given the aggressive competition, the company is looking at projects from different segments like state highways, metro, railways and irrigation. The balance HAM equity requirement is INR 4.4bn as of Mar'23, of which INR 2.6/1.6bn will be infused in FY24/25. With INR 0.4bn in Q4FY23, it incurred a capex of INR 1.4bn in FY23 and guided for a similar amount for FY24. The NWC days stood at 67 vs. 53 as of Dec'22. The irrigation receivables as of Mar'23 stood at INR 5bn vs. INR 6.5bn as of Dec'22. At the standalone level, KNR continues to enjoy a strong net cash position. We cut our estimates to factor in lower inflows and margins. We maintain BUY with a reduced TP of INR 318/sh (18x Mar-25E EPS, HAM 1x P/BV).

- **Q4FY23 financial performance:** Revenue: INR 11.8bn (+16.3/+41.6% YoY/QoQ, a 13.7% beat). EBITDA: INR 2.1bn (+1.9/+35.8% YoY/QoQ, a 9.8% beat). EBITDA margin: 18% (-255/77bps YoY/QoQ), lower than our estimate of 19.1%, mainly due to higher input and raw material prices, partly offset by lower employee expenses and better utilization of overheads. Taxes: INR 449mn (-33.9/-46.6% YoY/QoQ), including INR 8.4mn towards IT search tax provisions. APAT: INR 1.3bn (+22.2/+54.7% YoY/QoQ, 14.4% beat). KNR guided for FY24 revenue of INR 40bn+, with EBITDA margins at 14-16%.
- **Stable OB; all eyes on FY24 execution:** For FY23, it won projects worth INR 20.4bn vs. its guidance of INR 50bn and guided for an FY24 OI of INR 40-45bn. The OB as of Mar'23 stands at INR 88.7bn (~2.4x FY23 revenue). Captive (HAM project) works constitute 50% of the OB whereas state/central government/other orders constitute 36/11/3%. Geographically, the OB is diversified in southern India with AP & Telangana/Kerala/Karnataka/TN contributing 37/35/15/14%. Business segment-wise, HAM/other roads/irrigation account for 50/27/23% of the OB. Given the aggressive competition, the company is looking at projects from different segments like state highways, metro, railways and irrigation.
- **Robust net cash position:** At the standalone level, the gross/net debt (cash) stood at INR NIL/(2)bn as of Mar'23 vs. NIL/(INR1.2)bn as of Dec'22. With a strong collection in irrigation, receivables as of Mar'23 stood at INR 5bn vs. INR 6.5bn as of Dec'22), and payment-related issues seem to be getting resolved. This will help alleviate concerns over the irrigation segment and speed up the segment's execution.

Standalone Financial Summary (INR Mn)

Particulars	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	11,756	10,107	*16.3*	8,302	*41.6*	32,726	37,438	39,781	44,029
EBITDA	2,119	2,080	*1.9*	1,560	*35.8*	6,777	7,217	7,419	8,079
APAT	1,286	1,052	*22.2*	832	*54.7*	3,592	4,011	4,321	4,673
EPS (INR)	4.6	3.7	*22.2*	3.0	*54.7*	12.77	14.26	15.36	16.62
P/E (x)						19.1	17.1	15.9	14.7
EV/EBITDA (x)						9.9	9.2	8.6	7.4
RoE (%)						17.5	16.1	14.7	13.6

Source: Company, HSIE Research

Standalone Estimate Change Summary

Particulars	FY24E			FY25E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	39,781	41,181	*(3.4)*	44,029	45,579	*(3.4)*
EBITDA	7,419	7,824	*(5.2)*	8,079	8,614	*(6.2)*
EBITDA (%)	18.7	19.0	*(35.0)*	18.4	18.9	*(55.0)*
APAT	4,321	4,628	*(6.6)*	4,673	5,043	*(7.3)*

Source: Company, HSIE Research

BUY

CMP (*as on 30 May 23*)	INR 244
Target Price	INR 318
NIFTY	18,634

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 341	INR 318
EPS Change %	FY24E	FY25E
	-6.6	-7.3

KEY STOCK DATA	
Bloomberg code	KNRC IN
No. of Shares (mn)	281
MCap (INR bn) / ($ mn)	69/838
6m avg traded value (INR mn)	86
52 Week high / low	INR 281/203

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.8)	(6.9)	(0.1)
Relative (%)	(11.6)	(6.7)	(12.7)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	51.09	51.09
FIs & Local MFs	34.85	34.37
FPIs	5.83	5.93
Public & Others	8.23	8.61
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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