

# KNR Constructions

Estimate change



TP change



Rating change



Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	68.5 / 0.8
52-Week Range (INR)	281 / 203
1, 6, 12 Rel. Per (%)	-2/-6/-12
12M Avg Val (INR M)	77

## Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	37.4	40.8	46.4
EBITDA	7.2	7.9	8.7
PAT	4.1	4.7	5.1
EBITDA (%)	19.3	19.3	18.8
EPS (INR)	14.7	16.6	18.2
EPS Gr. (%)	15.1	12.5	10.0
BV/Sh. (INR)	97.2	113.3	131.1

## Ratios

Net D/E	-0.1	-0.1	-0.1
RoE (%)	16.7	15.8	14.9
RoCE (%)	17.2	16.8	15.9
Payout (%)	1.4	3.0	2.7

## Valuations

P/E (x)	16.5	14.7	13.4
P/BV (x)	2.5	2.2	1.9
EV/EBITDA (x)	9.2	8.4	7.6
Div Yield (%)	0.1	0.2	0.2
FCF Yield (%)	-0.6	5.0	2.5

## 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

**CMP: INR244**
**TP: INR320 (+31%)**
**Buy**

## An all-round beat

### Strong order book provides revenue visibility

- Revenue grew 16% YoY (42% QoQ) to ~INR11.8b (19% beat) in 4QFY23. While EBITDA stood at INR2.1b (16% beat), EBITDA margin declined 255bp YoY and 77bp QoQ to 18% (est. 18.6%).
- Driven by robust execution, APAT increased by 14% YoY to INR1.3b (20% beat).
- KNRC secured new orders worth ~INR20b in 4QFY23, taking its total order book to ~INR89b. The order pipeline is decent, with KNRC expecting INR40-50b in new project wins in FY24.
- The robust tender pipeline in the Road sector is expected to generate order inflows worth INR40-50b in FY24, which should support growth in FY25 and beyond. Taking into account KNRC's existing order book value of INR89b, we expect an 11% CAGR in revenue over FY23-25. EBITDA margin is expected to be around 18-20%. Given this positive outlook, we reiterate our BUY rating with a TP of INR320 (SoTP-based valuation).

### Key takeaways from the management commentary

- In FY23, the order inflow was affected by competitive intensity and overcrowding in the market. However, the company is now seeing opportunities in sectors such as railways, metros and irrigation.
- In FY24, KNR expects an order inflow of INR40b-50b. It is actively exploring various opportunities in other sectors, such as urban development projects, metro & railways, etc., and is also considering bidding in western regions, such as Maharashtra.
- Irrigation receivables stood at INR5b at the end of FY23.
- KNRC has a total equity requirement of INR7.3b for its secured HAM projects, with INR2.96b already invested as of Mar'23, INR2.6b planned for FY24, INR1.6b for FY25 and the remaining INR1.7b scheduled for FY26.
- KNRC expects revenue of over INR40b in FY24. Irrigation revenue is expected to be ~INR9b-10b and is expected to account for 25-30% of total revenue in the future.

### Valuation and view

- KNRC reported decent order inflows in 4QFY23, which places it in a much better position. The order pipeline is strong, and its focus on diversification to other infra segments should help it increase order inflows. Irrigation receivables are stabilizing and KNRC is confident of completing the pending irrigation order book.
- We have marginally increased our estimates on the execution front for FY25. We expect KNRC to report revenue/EBITDA/PAT CAGRs of 11%/10%/11% over FY23-25 along with stable margins. We reiterate BUY with a revised SoTP-based TP of INR320.

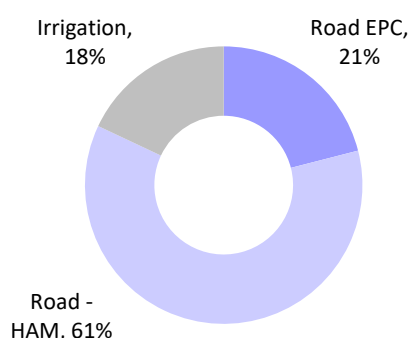
## Quarterly performance – Standalone

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
<b>Net Sales</b>	<b>7,400</b>	<b>7,556</b>	<b>7,663</b>	<b>10,107</b>	<b>8,906</b>	<b>8,474</b>	<b>8,302</b>	<b>11,756</b>	<b>32,726</b>	<b>37,438</b>	<b>9,871</b>	<b>19</b>
YoY Change (%)	54.4	25.7	11.7	8.0	20.4	12.2	8.3	16.3	21.1	14.4	-2.3	
Total Expenditure	5,967	5,880	6,074	8,027	7,256	6,586	6,742	9,636	25,949	30,220	8,037	
<b>EBITDA</b>	<b>1,433</b>	<b>1,675</b>	<b>1,589</b>	<b>2,080</b>	<b>1,650</b>	<b>1,888</b>	<b>1,560</b>	<b>2,119</b>	<b>6,777</b>	<b>7,218</b>	<b>1,834</b>	<b>16</b>
Margin (%)	19.4	22.2	20.7	20.6	18.5	22.3	18.8	18.0	20.7	19.3	18.6	
Depreciation	269	320	358	399	327	366	381	401	1,346	1,474	386	
Interest	79	72	64	60	69	84	160	80	274	393	114	
Other Income	48	105	78	185	91	76	59	96	417	321	95	
Extra-Ord expense	0	0	214	0	0	0	1,380	0	214	1,380	0	
<b>PBT before EO expense</b>	<b>1,133</b>	<b>1,389</b>	<b>1,246</b>	<b>1,806</b>	<b>1,345</b>	<b>1,514</b>	<b>1,079</b>	<b>1,735</b>	<b>5,574</b>	<b>5,672</b>	<b>1,429</b>	<b>21</b>
Tax	403	437	452	679	336	438	840	449	1,970	2,062	360	
Rate (%)	35.5	31.4	36.3	37.6	25.0	28.9	77.9	25.9	35.3	36.4	25.2	
<b>Reported PAT</b>	<b>730</b>	<b>952</b>	<b>1,008</b>	<b>1,128</b>	<b>1,008</b>	<b>1,076</b>	<b>1,619</b>	<b>1,286</b>	<b>3,818</b>	<b>4,989</b>	<b>1,069</b>	<b>20</b>
<b>Adj PAT</b>	<b>730</b>	<b>952</b>	<b>794</b>	<b>1,128</b>	<b>1,008</b>	<b>1,076</b>	<b>777</b>	<b>1,286</b>	<b>3,604</b>	<b>4,148</b>	<b>1,069</b>	
YoY Change (%)	83.5	55.9	2.3	46.5	38.1	13.0	-69.9	14.0	42.4	15.1	-5.2	
Margin (%)	9.9	12.6	10.4	11.2	11.3	12.7	2.9	10.9	11.0	11.1	10.8	

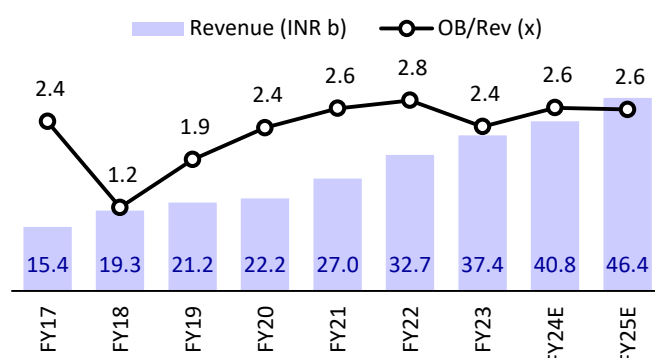
E: MOFSL Estimates

Exhibit 1: OB breakup (4QFY23: INR89b)



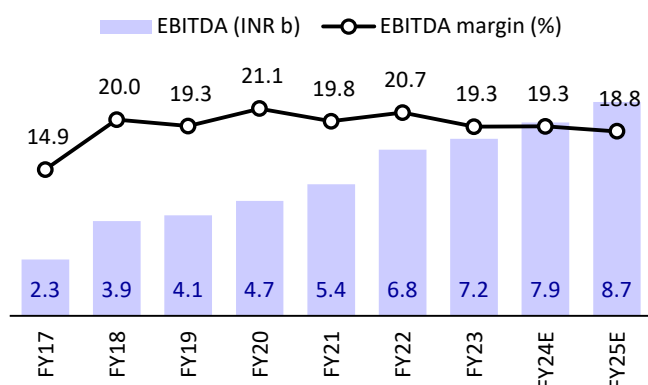
Source: MOFSL, Company

Exhibit 2: With current OB revenue likely to clock ~11% CAGR over FY23–25E



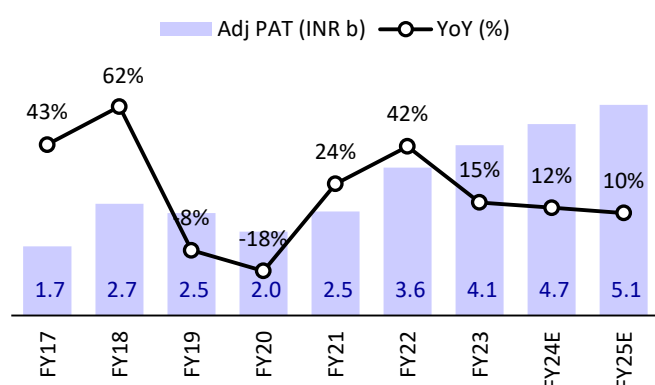
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: Adjusted PAT to see 11% CAGR over FY23–25E



Source: MOFSL, Company

## Highlights from the management commentary

### Overview

- The construction of national highways in FY23 was affected by an extended monsoon season, which lasted until mid-Nov'22 in certain regions.
- Order inflows in FY23 were affected by competitive intensity and overcrowding in the market. However, the company is now seeing opportunities in sectors such as railways, metros, and irrigation.
- During the quarter, execution was primarily driven by HAM projects (~40%).
- The order book stood at INR89b as of 4QFY23-end.
- In FY24, KNRC expects an order inflow of INR40b-50b. It is actively exploring various opportunities in other sectors such as urban development projects, metro & railways, etc., and is also considering bidding in western regions, such as Maharashtra.
- KNRC incurred capex of ~INR400m in 4QFY23.

### Irrigation projects

- Irrigation revenue for 4Q FY23 stood at INR3b (25.73% of revenues) and made up ~25% of total revenue in FY23.
- The pending receivables in Irrigation stand at INR5b, down from INR6.5b as of 3QFY23-end.

### Guidance

- KNRC expects revenue of over INR40b in FY24 with margins in the range of 18-19% in FY24.
- The company has a total equity requirement of INR7.3b for its secured HAM projects, with INR2.96b already invested as of Mar'23, INR2.6b planned for FY24, INR1.6b for FY25 and the remaining INR1.7b scheduled for FY26.
- It will spend ~INR1.4b in capex in FY24 (INR1.4b in FY23).
- Irrigation revenue is expected to be ~INR 9b-10b in FY24 and is expected to account for 25-30% of total revenues in the future.
- Free cash flow generation is expected to be INR5.5b in FY24.

### Other details

- The standalone cash on books stood at INR2b.
- At Mar'23-end, inventory stood at INR2.3b and payables at INR3.8b.
- Receivables at the end of Mar'23 stood at INR9.8b, including INR5b from the Irrigation segment.
- Retention money stood at INR2.4b and mobilization advances stood at INR1.6b.

### Exhibit 5: Changes in earnings estimates

Earnings Change INR m	Old		New		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	40,737	44,538	40,812	46,401	0.2	4.2
EBITDA	7,822	8,462	7,877	8,723	0.7	3.1
EBITDA margin	19.2%	19.0%	19.3%	18.8%	0.1	-0.2
Adj. PAT	4,629	4,938	4,658	5,117	0.6	3.6

Source: Company, MOFSL

**Valuation and view**

- KNRC has delivered an all-round beat in 4QFY23. Going forward, the strong bidding pipeline should boost order inflows for KNRC.
- **With an order book of INR89b, we expect KNRC to clock an 11% revenue CAGR over FY23-25, with EBITDA margin at ~19%. We have marginally increased our estimates on the execution front for FY25. We maintain BUY with a revised SoTP-based TP of INR320.**

**Exhibit 6: SoTP Target Price stands at INR320/share**

Particulars	INR m	Per share (INR)
<b>Valuation</b>		
March'25E PAT – 16x P/E	82,090	290
BOT Portfolio valuation	9,244	30
<b>Total</b>	<b>91,116</b>	<b>320</b>

Source: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>22,212</b>	<b>27,026</b>	<b>32,726</b>	<b>37,438</b>	<b>40,812</b>	<b>46,401</b>
Change (%)	4.8	21.7	21.1	14.4	9.0	13.7
<b>EBITDA</b>	<b>4,691</b>	<b>5,358</b>	<b>6,777</b>	<b>7,217</b>	<b>7,877</b>	<b>8,723</b>
Margin (%)	21.1	19.8	20.7	19.3	19.3	18.8
Depreciation	1,918	1,444	1,346	1,474	1,601	1,774
<b>EBIT</b>	<b>2,772</b>	<b>3,915</b>	<b>5,431</b>	<b>5,743</b>	<b>6,276</b>	<b>6,950</b>
Int. and Finance Charges	474	487	274	393	409	465
Other Income	346	496	417	321	367	371
<b>PBT bef. EO Exp.</b>	<b>2,644</b>	<b>3,924</b>	<b>5,574</b>	<b>5,671</b>	<b>6,234</b>	<b>6,856</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>7,051</b>	<b>6,234</b>	<b>6,856</b>
Total Tax	605	1,392	1,970	2,062	1,569	1,726
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>4,988</b>	<b>4,665</b>	<b>5,131</b>
<b>Adjusted PAT</b>	<b>2,039</b>	<b>2,532</b>	<b>3,604</b>	<b>4,148</b>	<b>4,665</b>	<b>5,131</b>
Change (%)	-18.3	24.1	42.4	15.1	12.5	10.0
Margin (%)	9.2	9.4	11.0	11.1	11.4	11.1

### Standalone Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	281	562	562	562	562	562
Total Reserves	15,958	18,116	21,857	26,780	31,305	36,295
<b>Net Worth</b>	<b>16,239</b>	<b>18,678</b>	<b>22,420</b>	<b>27,343</b>	<b>31,867</b>	<b>36,857</b>
Total Loans	2,300	7	0	3	3	3
Deferred Tax Liabilities	-1,610	-1,486	-1,183	-1,229	-1,229	-1,229
<b>Capital Employed</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,641</b>	<b>35,631</b>
Gross Block	12,671	13,518	15,471	16,955	18,255	20,755
Less: Accum. Deprn.	8,233	9,482	10,668	12,142	13,743	15,517
<b>Net Fixed Assets</b>	<b>4,438</b>	<b>4,036</b>	<b>4,803</b>	<b>4,813</b>	<b>4,512</b>	<b>5,238</b>
Capital WIP	102	24	206	25	25	25
<b>Total Investments</b>	<b>7,149</b>	<b>4,898</b>	<b>4,828</b>	<b>5,244</b>	<b>7,244</b>	<b>9,244</b>
<b>Current Assets</b>	<b>13,880</b>	<b>18,764</b>	<b>22,275</b>	<b>25,685</b>	<b>29,381</b>	<b>33,085</b>
Inventory	1,232	1,480	2,270	2,341	2,552	2,901
Account Receivables	4,761	8,632	8,494	9,834	11,427	13,920
Cash and Bank Balance	330	1,173	1,733	1,998	2,853	1,996
Other current assets	7,557	7,478	9,778	11,512	12,549	14,268
<b>Current Liability</b>	<b>8,639</b>	<b>10,522</b>	<b>10,875</b>	<b>9,651</b>	<b>10,521</b>	<b>11,961</b>
Account Payables	2,511	2,397	2,945	3,760	4,099	4,661
Other current liabilities	5,896	7,780	7,590	5,630	6,137	6,977
Provisions	232	345	339	261	284	323
<b>Net Current Assets</b>	<b>5,241</b>	<b>8,241</b>	<b>11,400</b>	<b>16,034</b>	<b>18,860</b>	<b>21,124</b>
<b>Appl. of Funds</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,641</b>	<b>35,631</b>

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>						
EPS	7.3	9.0	12.8	14.7	16.6	18.2
Cash EPS	14.1	14.1	17.6	20.0	22.3	24.6
BV/Share	57.7	66.4	79.7	97.2	113.3	131.1
DPS	0.5	0.0	0.2	0.2	0.4	0.4
Payout (%)	6.8	0.0	1.8	1.4	3.0	2.7
<b>Valuation (x)</b>						
P/E	33.6	27.1	19.0	16.5	14.7	13.4
P/BV	4.2	3.7	3.1	2.5	2.2	1.9
EV/EBITDA	15.0	12.6	9.9	9.2	8.4	7.6
Dividend Yield (%)	0.2	0.0	0.1	0.1	0.2	0.2
FCF per share	6.8	7.3	1.8	-1.4	12.1	6.2
<b>Return Ratios (%)</b>						
RoE	13.4	14.5	17.5	16.7	15.8	14.9
RoCE	13.9	15.1	18.8	17.2	16.8	15.9
RoIC	24.5	24.4	28.0	24.4	23.9	23.2
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	1.8	2.0	2.1	2.2	2.2	2.2
Asset Turnover (x)	1.3	1.6	1.5	1.4	1.3	1.3
Inventory (Days)	20	20	25	23	23	23
Debtor (Days)	78	117	95	96	102	110
Creditor (Days)	41	32	33	37	37	37
<b>Leverage Ratio (x)</b>						
Current Ratio	1.6	1.8	2.0	2.7	2.8	2.8
Interest Coverage Ratio	5.8	8.0	19.8	14.6	15.4	15.0
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	FY23	FY24E	FY25E
<b>OP/(Loss) before Tax</b>	2,937	3,811	5,788	7,051	6,234	6,856
Depreciation	1,923	1,444	1,346	1,474	1,601	1,774
Interest and Finance Charges	473	427	271	363	409	465
Direct Taxes Paid	-844	-787	-1,826	-2,117	-1,569	-1,726
(Inc.)/Dec. in WC	-310	-2,004	-1,660	-5,235	-1,971	-3,120
<b>CF from Operations</b>	4,180	2,891	3,919	1,536	4,703	4,249
Others	-239	89	-487	-1,407	0	0
<b>CF from Operating incl. EO</b>	3,941	2,980	3,432	129	4,703	4,249
(Inc.)/Dec. in FA	-2,036	-939	-2,939	-516	-1,300	-2,500
<b>Free Cash Flow</b>	1,905	2,041	493	-387	3,403	1,749
(Pur.)/Sale of Investments	-1,098	1,424	296	980	-2,000	-2,000
Others	291	127	161	143	0	0
<b>CF from Investments</b>	-2,843	612	-2,483	607	-3,300	-4,500
Inc./(Dec.) in Debt	-511	-2,290	-7	3	0	0
Interest Paid	-401	-459	-312	-402	-409	-465
Dividend Paid	-153	0	-70	-70	-141	-141
Others	168	0	0	0	0	0
<b>CF from Fin. Activity</b>	-897	-2,749	-390	-470	-549	-605
<b>Inc./Dec. in Cash</b>	200	843	560	265	854	-857
Opening Balance	130	331	1,173	1,733	1,998	2,853
<b>Closing Balance</b>	331	1,173	1,733	1,998	2,853	1,996

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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