

KNR Constructions

Order inflows to drive further rerating

KNR reported weak revenue/EBITDA of INR 9.3/1.7/, missing our estimates by 6%/3%. APAT, however, at INR 1.1bn beat our estimate by 6.5%. KNR maintained its FY24 revenue at INR 40bn+, with an EBITDA margin decreasing by 200-250bps from FY23 margin (at 18.6%) on likely delay in payments in irrigation projects due to the general election. The OB as of Jun'23 stood at INR 62.7bn with no new orders recorded during the quarter. It is targeting INR 40-50bn in new orders for FY24. The total project pipeline stands at INR 450bn, of which INR 220-250bn corresponds to NHAI/road orders and the rest are irrigation projects. Within the irrigation project, KNR is looking for partnership and is in talks with some partners (Patel Engineering, NCC and SEW) for mainly water pipeline-related work. 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 4.04bn as of Jun'23, of which INR 1.5/1.6/0.22bn will be infused in FY24/25/26. In addition, the three new projects won require a total equity infusion of INR 2.3bn, with 50%/25%/25% scheduled to be infused in FY25/26/27 resp. At the standalone level, KNR continues to enjoy a strong net cash position of INR 1bn. We maintain BUY with an increased TP of INR 329/sh (roll-over to 18x Jun-25E EPS, HAM 1x P/BV).

- **Q1FY24 financial performance:** Revenue: INR 9.3bn (+4.4/-21% YoY/QoQ, a 6% miss). Of this, 22%/45%/23% corresponds to revenue from irrigation/HAM/road EPC and rest from others. EBITDA: INR 1.7bn (+5/-18% YoY/QoQ, a 2.8% miss). EBITDA margin: 18.6% (+11/+61bps YoY/QoQ), higher than our estimate of 18%, due to lower input and raw material prices, lower employee expenses and better utilization of overheads. Taxes: INR 367mn (+9.2/-18% YoY/QoQ). RPAT/APAT: INR 1.1bn (+9.3/-14% YoY/QoQ, a 6.5% beat). KNR guided for FY24 revenue of INR 40bn+, with EBITDA margin lower by 200-250bps from FY23 (at 18.6%).
- **Stable order book; good pipeline in irrigation:** No new orders were recorded in Q1FY24; as a result, the OB as of Jun'23 stood at INR 62.7bn. Captive (HAM project) works constitute 47% of the OB whereas state/central government/other orders constitute 38/11/4%. Geographically, the OB is diversified in southern India with AP & Telangana/Kerala/Karnataka/TN contributing 40/31/16/13%. Business segment-wise, HAM/other roads/irrigation account for 47/28/25% of the OB. Given the aggressive competition, the company is looking at projects from different segments like state highways, metro, railways and irrigation. It has INR 35/29/20bn in irrigation pipeline from Telangana/MP/Rajasthan resp.
- **Robust net cash position:** At the standalone/consolidated level, the gross debt stood at INR 0/5.8bn as of Jun'23 and the cash position stood at INR 1/0.9bn. KNR has INR 8.8bn in receivables, of which INR 6.5bn is from Telangana projects as of Jun'23 (latest outstanding is INR 6.9bn and it has received INR 1.8bn FYTD).

Standalone Financial Summary (INR Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	9,296	8,906	4.4	11,756	(20.9)	37,438	39,781	44,029	49,752
EBITDA	1,733	1,650	5.0	2,119	(18.3)	7,217	7,419	8,079	9,179
APAT	1,103	1,008	9.3	1,286	(14.3)	4,011	4,321	4,673	5,355
EPS (INR)	3.9	3.6	9.3	4.6	(14.3)	14.26	15.36	16.62	19.04
P/E (x)						17.1	15.9	14.7	12.8
EV/EBITDA (x)						9.2	8.6	7.4	5.8
RoE (%)						16.1	14.7	13.6	13.4

Source: Company, HSIE Research

BUY

CMP (as on 16 Aug 2023)	INR 243
Target Price	INR 329
NIFTY	19,465

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 318	INR 329
EPS Change %	FY24E	FY25E
	-	-

KEY STOCK DATA

Bloomberg code	KNRC IN
No. of Shares (mn)	281
MCap (INR bn) / (\$ mn)	68/834
6m avg traded value (INR mn)	91
52 Week high / low	INR 281/203

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.4)	(4.6)	(7.0)
Relative (%)	(6.5)	(11.6)	(17.2)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	51.09	51.09
FIs & Local MFs	34.37	33.66
FPIs	5.93	5.97
Public & Others	8.61	9.28
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

Parikshit D Kandpal, CFA
 parikshitd.kandpal@hdfcsec.com
 +91-22-6171-7317

Manoj Rawat
 manoj.rawat@hdfcsec.com
 +91-22-6171-7358

Nikhil Kanodia
 nikhil.kanodia@hdfcsec.com
 +91-22-6171-7362

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com