

BSE SENSEX

63,148

S&amp;P CNX

18,857



KNR CONSTRUCTIONS LIMITED

#### Stock Info

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USD\$)	73.9 / 0.9
52-Week Range (INR)	291 / 217
1, 6, 12 Rel. Per (%)	-2/4/13
12M Avg Val (INR M)	135
Free float (%)	48.9

#### Financials Snapshot (INR b)

Y/E March	2023	2024E	2025E
Net Sales	37.4	40.8	46.4
EBITDA	7.2	7.6	8.4
Adj. PAT	4.1	4.4	4.9
EBITDA Margin (%)	19.3	18.5	18.0
Adj. EPS (INR)	14.7	15.5	17.3
EPS Gr. (%)	15.1	5.1	11.3
BV/Sh. (INR)	97.2	112.2	129.0

#### Ratios

Net D/E (x)	-0.1	-0.1	0.0
RoE (%)	16.7	14.8	14.3
RoCE (%)	17.2	15.8	15.3
Payout (%)	1.4	3.2	2.9

#### Valuations

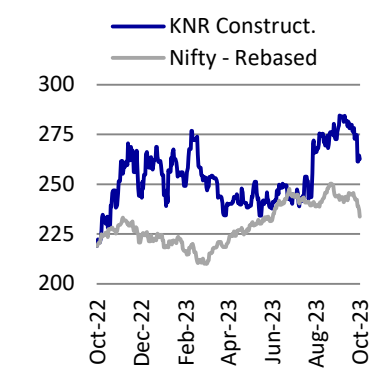
P/E (x)	17.8	16.9	15.2
P/BV (x)	2.7	2.3	2.0
EV/EBITDA (x)	9.9	9.4	8.7
Div. Yield (%)	0.1	0.2	0.2
FCF Yield (%)	-0.5	4.2	2.0

#### Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	51.1	51.1	51.1
DII	32.3	33.7	34.6
FII	6.6	6.0	5.7
Others	10.0	9.3	8.6

FII Includes depository receipts

#### Stock's performance (one-year)



# KNR Constructions

CMP: INR262

TP: INR315 (+20%)

Buy

## Awaiting new order inflows; outlook bright

- KNR Constructions (KNRC) currently has an unexecuted order book of ~INR80b (2x of FY23 revenue). The company is expecting new order inflows of INR40-50b in FY24, which should improve its growth visibility beyond FY25. The order pipeline of INR450b is robust, and management is confident of achieving sizeable order inflows in FY24E despite the upcoming busy election schedule.
- KNRC is actively exploring opportunities for project bidding in various states and is also contemplating potential expansion into other infra sectors. While there have been challenges in the execution of irrigation projects, KNRC foresees a possible improvement in project execution in the upcoming months.
- Management is expecting improved execution during 2HFY24 driven by the Road segment. KNRC is targeting to clock a revenue of INR40b in FY24E with margins in the range of 18-19%.
- While order inflows have been muted, the robust tender pipeline in the Roads sector has the potential to translate into healthy order inflows in the coming months. This would offer a better growth outlook beyond FY25. The diversification into other regions and in select other infra verticals could also help order inflows. Based on the existing order book of INR80b, we expect KNRC to achieve a revenue CAGR of 11% over FY23-25, with an EBITDA margin ranging between 18% and 19%. We reiterate our BUY rating on the stock with an SoTP-based TP of INR315.

## Order inflows muted so far; outlook bright with diversification and strong tender pipeline

- Steep competition in the NHAI projects by new and inexperienced players has hurt order inflows for large players. However, the competitive intensity has eased to some extent, and KNRC is looking to bag some orders now.
- Additionally, KNRC is planning to tap into the urban infra development opportunities in the Railways and the Metro segments. KNRC is also looking to diversify geographically and is actively bidding in the Western and the Central regions, such as Maharashtra and Madhya Pradesh.

## Sound balance sheet provides confidence in project execution; focus remains on asset monetization

- KNRC has adhered to a financially prudent strategy, prioritizing an asset-light business model and efficient working capital management.
- As of Jun'23, KNRC maintained a net cash position of INR0.9b. Through the proceeds from the Cube deal (KNRC received INR5.2b from the sale of its three HAM projects) and enhanced irrigation collection, the company has successfully paid off its debt in full. The gross debt was nil, and the net debt-to-equity stood at 0.03x as of Jun'23.
- Looking ahead, KNRC has an overall equity requirement of INR7.3b for its HAM projects. Until 1QFY24, INR4b has already been invested, leaving INR1.5b earmarked for the remainder of FY24. INR1.6b has been allocated for FY25E, and the remaining funds have been scheduled for FY26.
- KNRC would continue to sell HAM assets as opportunities arise.

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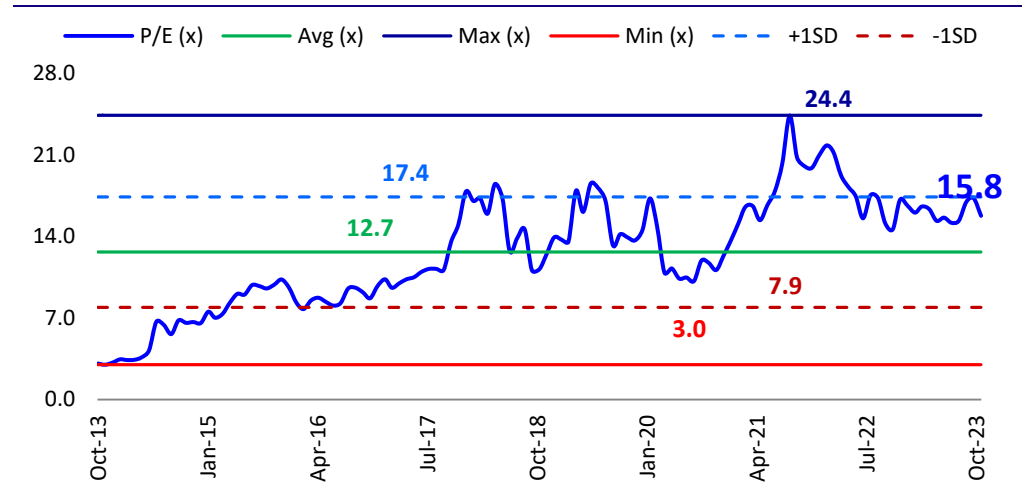
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**Strong execution and steady margins to brighten outlook; maintain BUY**

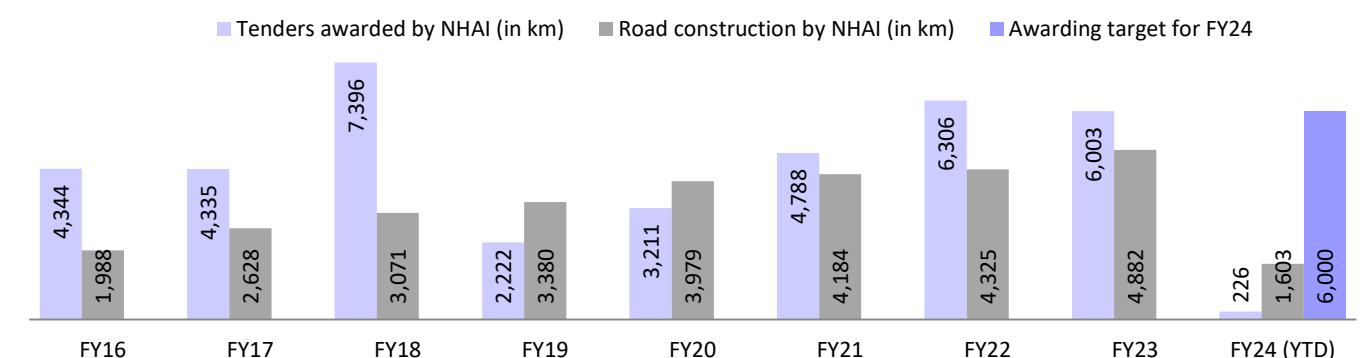
- While KNRC's order inflows have been muted in 1HFY24, the tender pipeline appears to be strong which should ensure decent order wins in 2HFY24.
- With the monsoon impact behind and a decent order book of INR80b, we expect execution to be strong particularly in 2HFY24. We forecast margins to be stable with input costs reducing along with some execution carried out in the high-margin irrigation projects.
- We expect KNRC to report a revenue/EBITDA/PAT CAGR of 11%/8%/8% over FY23-25E along with stable margins. **We reiterate our BUY rating on the stock with an SoTP-based TP of INR315.**

**Exhibit 1: One-year forward P/E (x)**

Sources: Company, MOFSL

## Awarding and construction activities by NHAI

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

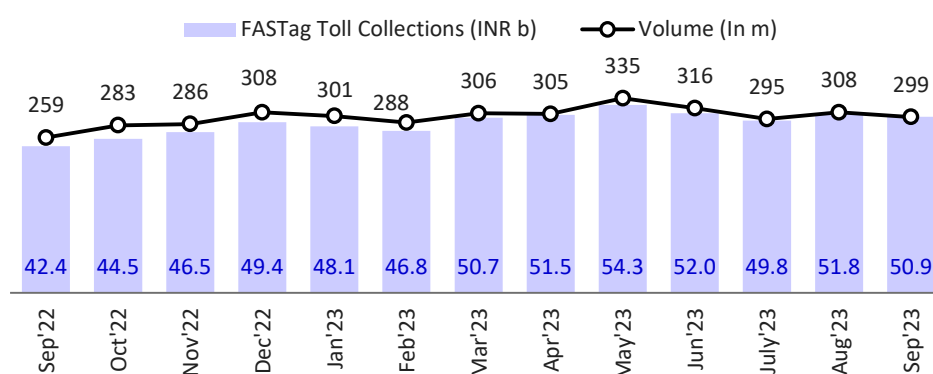


Sources: NHAI, MOFSL

### Project awarding gathers momentum

- Project awarding has gathered momentum since July'23, with 226km of projects being awarded to date (Apr'23- Oct'23) by NHAI alone.
- Industry reports and data from the Ministry of Roads Transport and Highways (MoRTH) revealed that highway construction dropped to a mere 420km or ~14km per day in Jul'23, due to a series of factors, including extended monsoon, affected construction activity in 1HFY24, etc. However, construction activity is expected to pick up in 2HFY24 as several projects won in the last few quarters would start contributing to revenue.

Exhibit 3: FASTag toll collections continue to improve



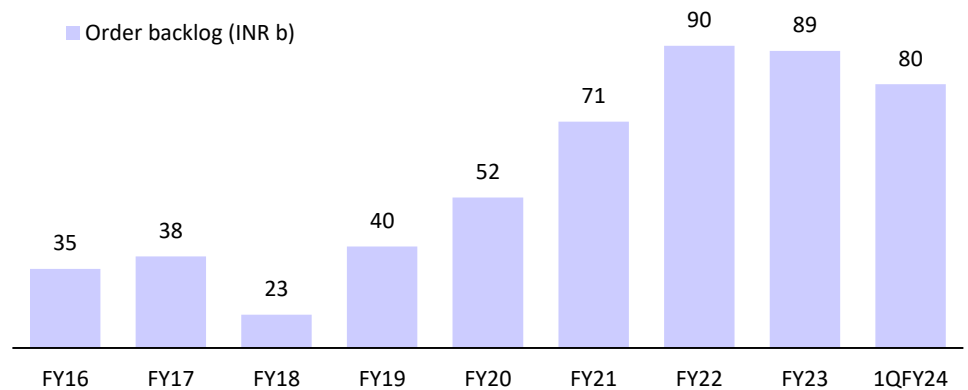
Sources: NPCI, RBI, MOFSL

### FASTag toll collections continue to gain traction

- The successful implementation of FASTags has resulted in strong toll collections on highways. Daily average FASTag toll collections grew ~21% YoY in 1HFY24 (INR 1.7b on a daily average basis). Average daily volumes rose ~14% YoY in 1HFY24.
- Enhanced toll collections are crucial for expediting the monetization of road assets by the MoRTH. Moreover, increased toll revenue will be beneficial for companies seeking to monetize their existing toll assets.

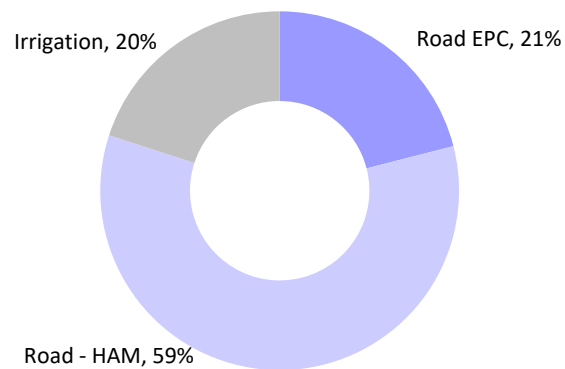
## Financial story in charts

**Exhibit 4: Order backlog stable with robust order pipeline**



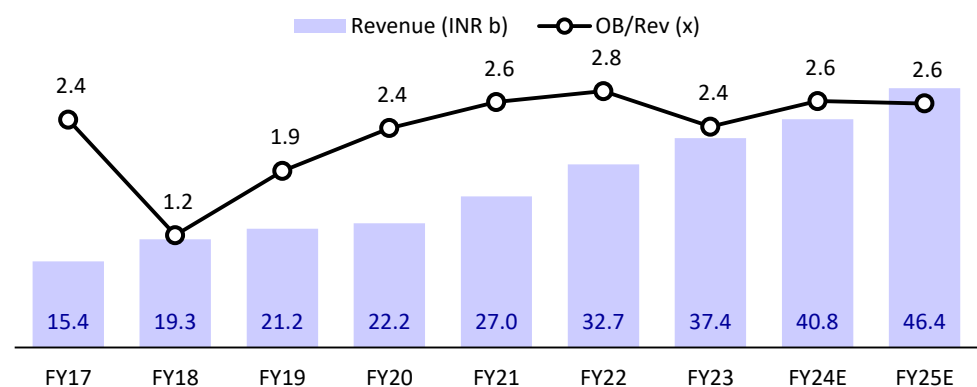
Sources: Company, MOFSL

**Exhibit 5: Order book breakup (1QFY24: INR80b)**



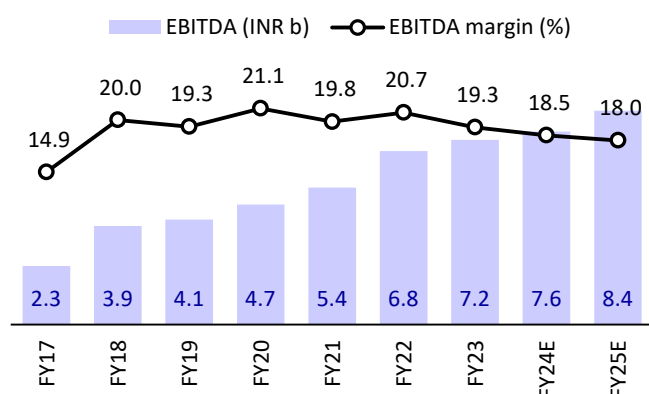
Source: MOFSL, Company

**Exhibit 6: Current order book provides strong revenue visibility, with ~11% CAGR expected over FY23–25**



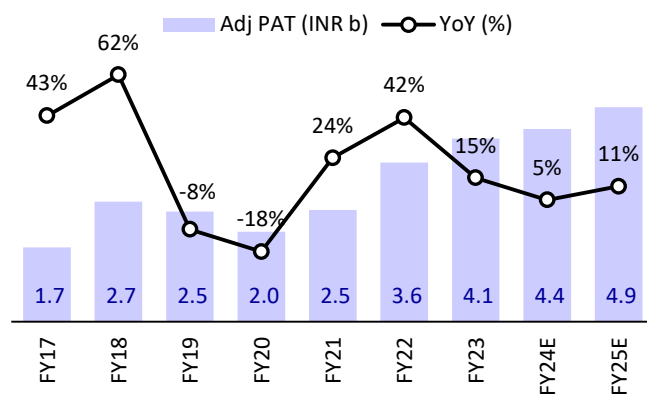
Source: MOFSL, Company

Exhibit 7: EBITDA and EBITDA margin trends



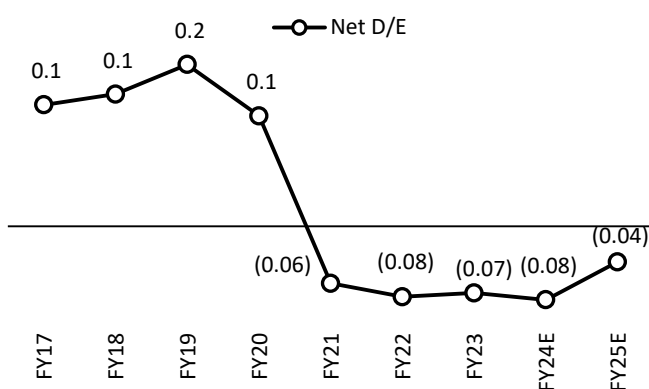
Source: MOFSL, Company

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



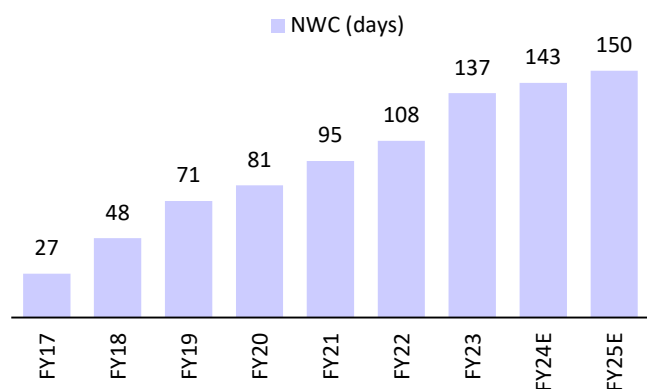
Source: MOFSL, Company

Exhibit 9: Net Debt/Equity to remain negative



Source: MOFSL, Company

Exhibit 10: Working capital days to remain stable



Source: MOFSL, Company

**Strong order book positive with robust order pipeline; reiterate BUY**

- KNRC has seen muted order inflows in 1HFY24. Order inflows remain the key focus area for the company. The order pipeline is strong, and the company's 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.
- Based on the existing order book of INR80b, we expect KNRC to achieve a revenue CAGR of 11% over FY23-25, with an EBITDA margin ranging between 18% and 19%. We reiterate our BUY rating on the stock with an SoTP-based TP of INR315.

Exhibit 11: SoTP-based TP stands at INR315

Particulars	INR m	Per share (INR)
<b>Valuation</b>		
March'25E PAT – 16x P/E	77,646	276
BOT Portfolio valuation	9,244	33
<b>Total</b>	<b>86,890</b>	<b>315</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>7,550</b>	<b>8,352</b>
Margin (%)	21.1	19.8	20.7	19.3	18.5	18.0
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>5,949</b>	<b>6,579</b>
Int. and Finance Charges	474	487	274	393	409	465
Other Income	346	496	417	321	286	371
<b>PBT bef. EO Exp.</b>	<b>2,644</b>	<b>3,924</b>	<b>5,574</b>	<b>5,671</b>	<b>5,826</b>	<b>6,485</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>5,826</b>	<b>6,485</b>
Total Tax	605	1,392	1,970	2,062	1,466	1,632
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>4,360</b>	<b>4,853</b>
<b>Adjusted PAT</b>	<b>2,039</b>	<b>2,532</b>	<b>3,604</b>	<b>4,148</b>	<b>4,360</b>	<b>4,853</b>
Change (%)	-18.3	24.1	42.4	15.1	5.1	11.3
Margin (%)	9.2	9.4	11.0	11.1	10.7	10.5

### 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	30,999	35,712
<b>Net Worth</b>	<b>16,239</b>	<b>18,678</b>	<b>22,420</b>	<b>27,343</b>	<b>31,562</b>	<b>36,274</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>30,335</b>	<b>35,047</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>29,075</b>	<b>32,502</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	2,547	1,413
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>18,555</b>	<b>20,540</b>
<b>Appl. of Funds</b>	<b>16,929</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,335</b>	<b>35,047</b>

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>						
<b>EPS</b>	7.3	9.0	12.8	14.7	15.5	17.3
Cash EPS	14.1	14.1	17.6	20.0	21.2	23.6
BV/Share	57.7	66.4	79.7	97.2	112.2	129.0
DPS	0.5	0.0	0.2	0.2	0.4	0.4
Payout (%)	6.8	0.0	1.8	1.4	3.2	2.9
<b>Valuation (x)</b>						
P/E	36.1	29.1	20.4	17.8	16.9	15.2
P/BV	4.5	3.9	3.3	2.7	2.3	2.0
EV/EBITDA	16.1	13.5	10.6	9.9	9.4	8.7
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	11.0	5.2
<b>Return Ratios (%)</b>						
RoE	13.4	14.5	17.5	16.7	14.8	14.3
RoCE	13.9	15.1	18.8	17.2	15.8	15.3
RoIC	24.5	24.4	28.0	24.4	22.6	21.9
<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	2.7
Interest Coverage Ratio	5.8	8.0	19.8	14.6	14.6	14.2
Net Debt/Equity	0.1	-0.1	-0.1	-0.1	-0.1	0.0

### 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	<b>5,826</b>	<b>6,485</b>
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	-1,466	-1,632
(Inc.)/Dec. in WC	-310	-2,004	-1,660	-5,235	-1,971	-3,120
<b>CF from Operations</b>	<b>4,180</b>	<b>2,891</b>	<b>3,919</b>	<b>1,536</b>	<b>4,398</b>	<b>3,971</b>
Others	-239	89	-487	-1,407	0	0
<b>CF from Operating incl. EO</b>	<b>3,941</b>	<b>2,980</b>	<b>3,432</b>	<b>129</b>	<b>4,398</b>	<b>3,971</b>
(Inc.)/Dec. in FA	-2,036	-939	-2,939	-516	-1,300	-2,500
<b>Free Cash Flow</b>	<b>1,905</b>	<b>2,041</b>	<b>493</b>	<b>-387</b>	<b>3,098</b>	<b>1,471</b>
(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>	<b>-2,843</b>	<b>612</b>	<b>-2,483</b>	<b>607</b>	<b>-3,300</b>	<b>-4,500</b>
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>	<b>-897</b>	<b>-2,749</b>	<b>-390</b>	<b>-470</b>	<b>-549</b>	<b>-605</b>
<b>Inc./Dec. in Cash</b>	<b>200</b>	<b>843</b>	<b>560</b>	<b>265</b>	<b>549</b>	<b>-1,134</b>
Opening Balance	130	331	1,173	1,733	1,998	2,547
<b>Closing Balance</b>	<b>331</b>	<b>1,173</b>	<b>1,733</b>	<b>1,998</b>	<b>2,547</b>	<b>1,413</b>

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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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