

BSE SENSEX

70,371

S&P CNX

21,239



KNR CONSTRUCTIONS LIMITED

Stock Info

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	73.6 / 0.9
52-Week Range (INR)	306 / 226
1, 6, 12 Rel. Per (%)	1/0/-16
12M Avg Val (INR M)	193
Free float (%)	48.9

Financials Snapshot (INR b)

Y/E March	2024	2025E	2026E
Net Sales	39.9	45.7	49.2
EBITDA	7.2	8.3	9.1
Adj. PAT	4.5	5.2	5.8
EBITDA Margin (%)	18.1	18.2	18.5
Adj. EPS (INR)	15.8	18.4	20.4
EPS Gr. (%)	7.4	16.0	11.3
BV/Sh. (INR)	112.6	130.4	150.4

Ratios

Net D/E (x)	-0.1	0.0	0.0
RoE (%)	15.1	15.1	14.6
RoCE (%)	15.7	15.8	15.1
Payout (%)	3.2	2.7	2.4

Valuations

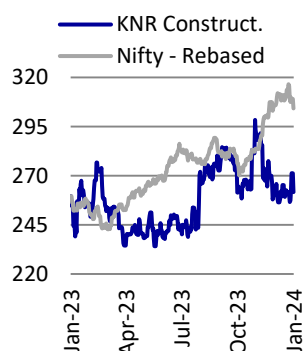
P/E (x)	16.5	14.3	12.8
P/BV (x)	2.3	2.0	1.7
EV/EBITDA (x)	9.8	8.7	7.9
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	4.1	1.6	4.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.1	51.1	51.1
DII	29.3	32.3	34.9
FII	7.6	6.6	5.8
Others	12.0	9.3	8.2

FII Includes depository receipts

Stock's performance (one-year)



KNR Constructions

CMP: INR262

TP: INR325 (+24%)

Buy

Order inflows remains muted YTD FY24

- In 3QFY24, KNRC did not secure any major orders. As of Dec'23, the order book stands at ~INR66b (considering order inflows post 2QFY24 and expected execution in 3QFY24). KNRC is expecting INR20-30b in new project wins in FY24 (earlier guidance of INR40-50b) as order inflows may be slower than initially expected due to upcoming elections.
- KNRC is exploring opportunities in various states for project bidding and is also considering selective bidding across infrastructure verticals. The company expects improvements in project execution within the irrigation order book in the coming months. Despite facing challenges in the execution of irrigation projects, KNRC foresees a potential improvement in project execution in the upcoming months.
- Management is expecting improved execution in 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%.
- The order inflows have been weak so far in FY24; however, the tender pipeline remains robust and KNRC expects some order inflows to materialize soon. In line with muted awarding activity by NHAI in YTD FY24, KNRC has reduced its order inflow guidance for FY24 to INR20-30b. With the existing order book of ~INR66b, we expect a 10% revenue CAGR over FY23-26. EBITDA margin is expected to be ~18-19%. We reiterate our BUY rating with a TP of INR325 (SoTP-based valuation). We value the EPC business at P/E of 14x on FY26E EPS and BOT assets at 1x Investment value.

YTD FY24 seems to be a washout in terms of order inflows; last quarter critical to bag some orders

- The muted awarding activity by NHAI (702kms awarded till Jan'24) and fierce competition in NHAI projects from new and inexperienced players have adversely affected order inflows for large players. KNRC has its hopes pinned on 4QFY24 to bag some orders.
- KNRC is also looking to diversify geographically and is actively bidding in the Western and the Central regions, such as Maharashtra and Madhya Pradesh. It is also looking at bidding for tunneling projects for railways. KNRC plans to bid for railway projects for INR30b. KNRC is also examining metro projects.
- Further, KNRC has successfully bid for mining projects in Jharkhand worth INR12b. It is also exploring irrigation projects in Maharashtra, MP, UP, and plans to bid for irrigation projects in Orissa.

A robust balance sheet instills confidence in project execution, with a continued emphasis on asset monetization

- KNRC has adhered to a financially prudent strategy, prioritizing an asset-light business model and efficient working capital management.
- As of Sep'23, KNRC has a net debt-equity of 0.02x. 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 successfully paid off its debt, resulting in an almost debt-free balance sheet.

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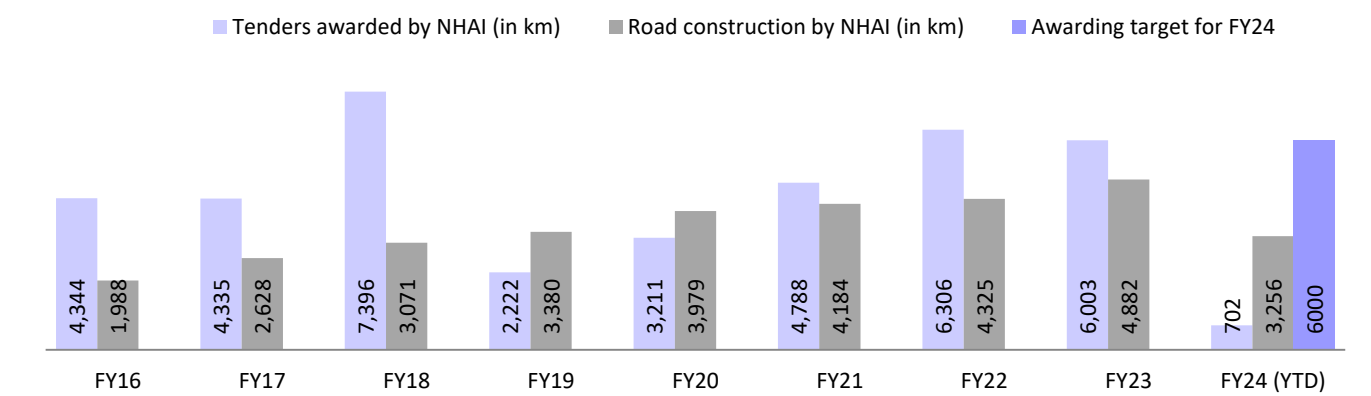
- In 2QFY24, the company acquired some working capital debt, and the gross debt position stands at INR 761m as at the end of 3QFY24. Looking ahead, KNRC anticipates an overall equity requirement of INR5.8b for its HAM projects. The equity requirement of new HAM projects is INR2.6b, which is set to commence in FY25.

Strong execution and steady margins to brighten outlook; maintain BUY

- While KNRC's order inflows have been muted till date in FY24, the tender pipeline appears to be strong, which should ensure decent order wins in 4QFY24 and beyond.
- We anticipate robust execution, particularly in 2HFY24. We forecast stable margins, driven by a reduction in input costs and the execution of high-margin irrigation projects.
- We expect KNRC to report a revenue/EBITDA/PAT CAGR of 10%/8%/12% over FY23-26E along with stable margins. **We reiterate our BUY rating on the stock with an SoTP-based TP of INR325.**

Awarding and construction activities by NHAI

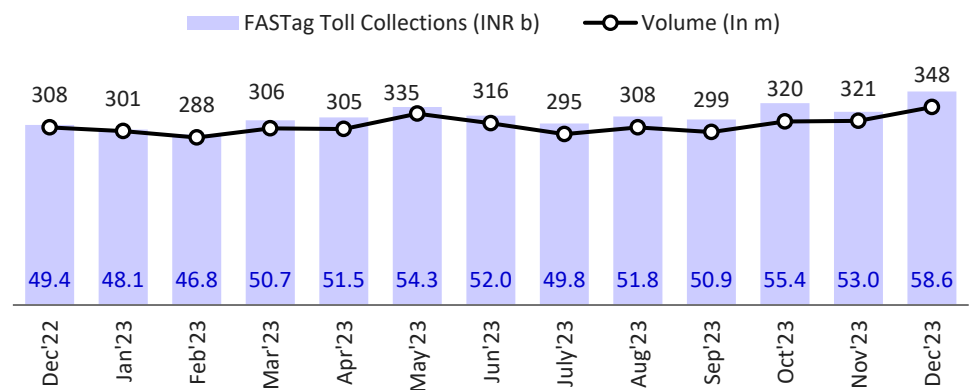
Exhibit 1: NHAI's awarding and construction trend (in km)



Sources: NHAI, MOFSL

Project awarding remains muted YTD FY24; construction activity stable

- Project awarding has been muted so far in FY24 with 702km of projects being awarded to date (Apr'23-Jan'24) by NHAI. Many road construction companies have reduced their order inflow guidance by as much as 50-60% for FY24 in light of the muted project awarding by NHAI. KNR has revised its order inflow guidance for FY24 to INR 20b-30b from INR40-50b.
- Industry reports and data from the Ministry of Roads Transport and Highways (MoRTH) revealed that highway construction has faced challenges, due to the impact of extended monsoon and disrupted construction activity in 1HFY24. Nevertheless, construction activity is expected to pick up in 2HFY24.

Exhibit 2: FASTag toll collections continue to improve

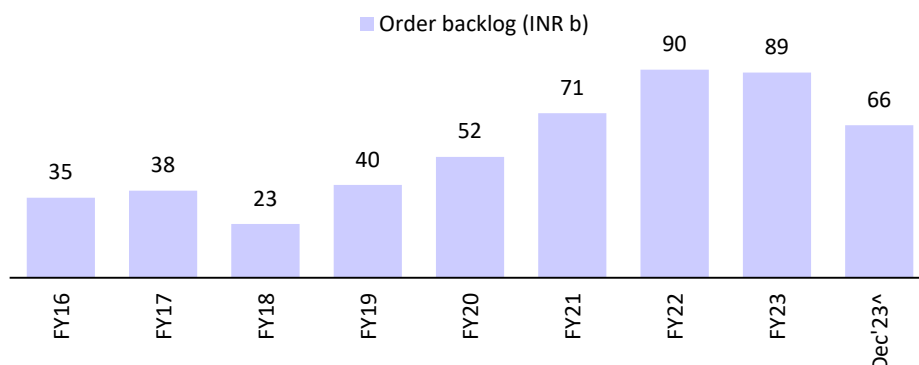
Sources: NPCI, RBI, MOFSL

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 9MFY24 (INR 1.74b on a daily average basis). Average daily volumes rose ~14% YoY in 9MFY24.
- 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

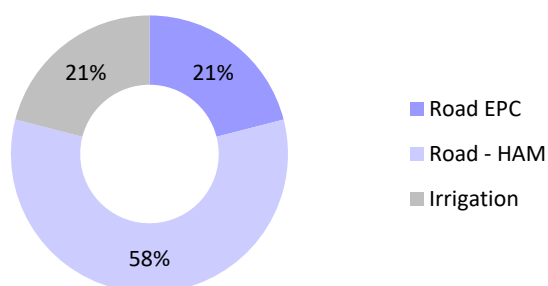
Exhibit 3: Order backlog stable with robust order pipeline



Note: ^Order backlog in Dec'23 is after considering order inflows post 2QFY24 and expected execution in 3QFY24

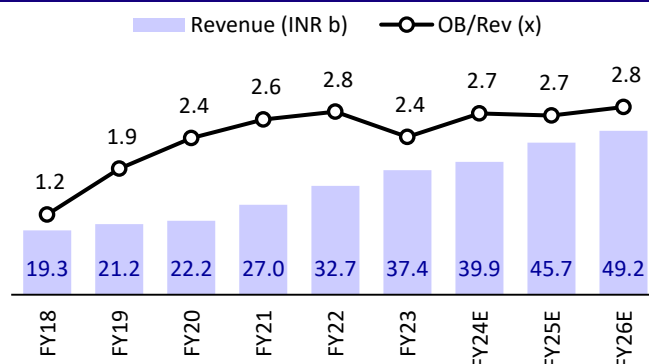
Sources: Company, MOFSL

Exhibit 4: Order book breakup (2QFY24: INR75b)



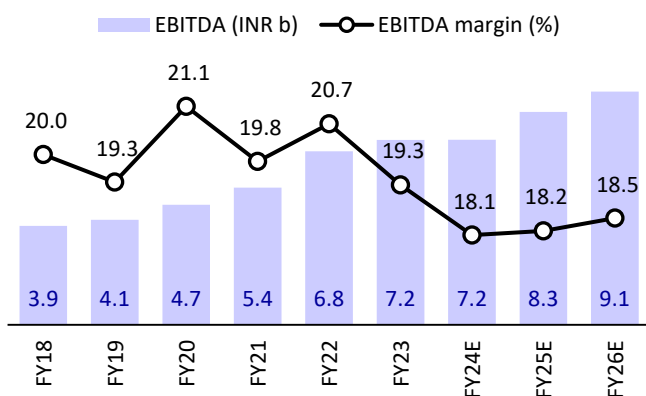
Source: MOFSL, Company

Exhibit 5: Current order book provides strong revenue visibility, with 10% CAGR expected over FY23–26



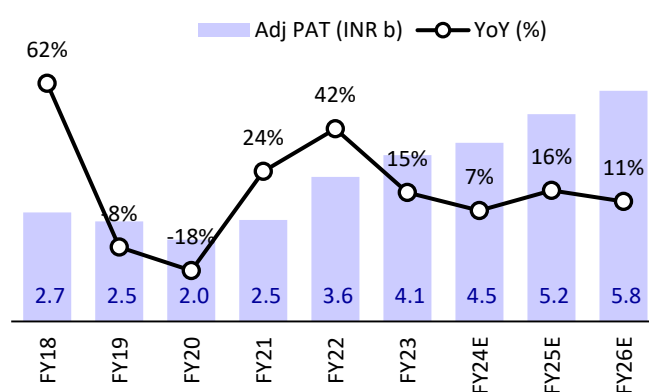
Source: MOFSL, Company

Exhibit 6: EBITDA and EBITDA margin trends

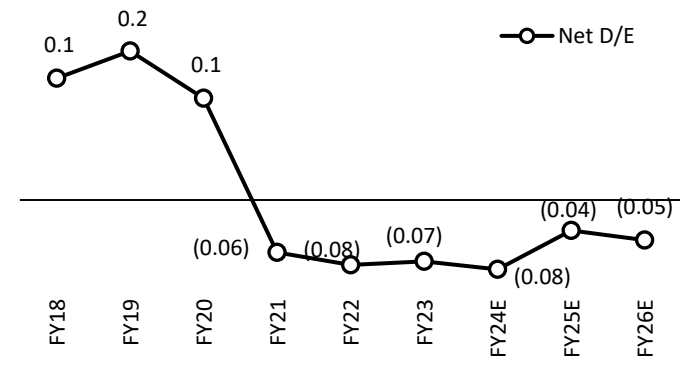


Source: MOFSL, Company

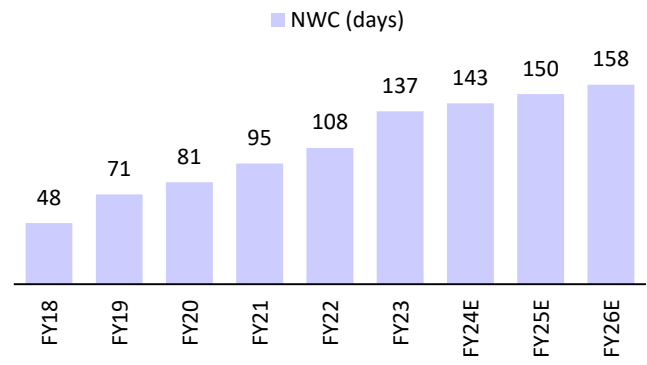
Exhibit 7: Adjusted PAT to clock 12% CAGR over FY23–26



Source: MOFSL, Company

Exhibit 8: Net Debt/Equity to remain negative

Source: MOFSL, Company

Exhibit 9: Working capital days to increase marginally

Source: MOFSL, Company

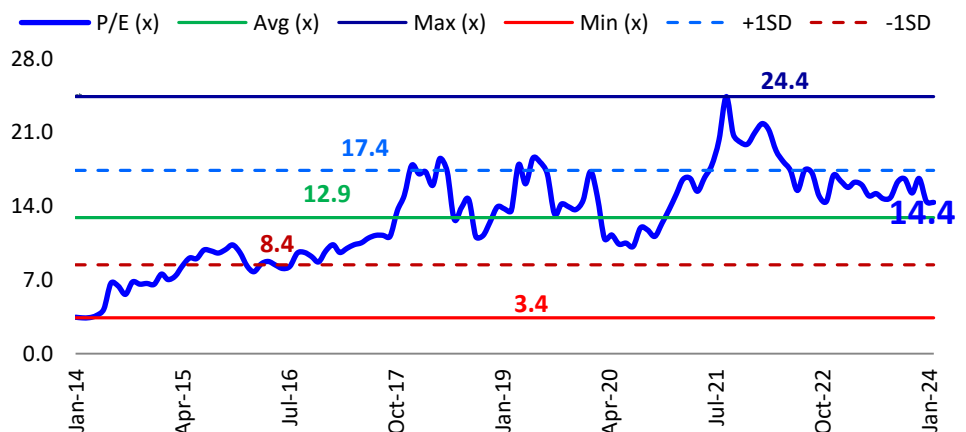
Few order wins can improve growth trajectory; reiterate BUY

- KNRC experienced limited order inflows till date in FY24. The company is concentrating on boosting order inflows, leveraging a robust order pipeline and diversifying into other infrastructure segments.
- Based on the existing order book of ~INR66b as of Dec'23, we expect KNRC to achieve a revenue CAGR of 10% over FY23-26, with an EBITDA margin ranging between 18% and 19%. We reiterate our BUY rating on the stock with an SoTP-based TP of INR325.

Exhibit 10: SoTP-based TP stands at INR325

Particulars	INR m	Per share (INR)
Valuation		
March'26E PAT – 14x P/E	80,506	285
BOT Portfolio valuation	11,244	40
Total	91,750	325

Source: MOFSL, Company

Exhibit 11: One-year forward P/E (x)

Sources: Company, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	27,026	32,726	37,438	39,924	45,695	49,241
Change (%)	21.7	21.1	14.4	6.6	14.5	7.8
EBITDA	5,358	6,777	7,217	7,226	8,316	9,110
Margin (%)	19.8	20.7	19.3	18.1	18.2	18.5
Depreciation	1,444	1,346	1,474	1,232	1,365	1,523
EBIT	3,915	5,431	5,743	5,994	6,951	7,587
Int. and Finance Charges	487	274	393	240	320	296
Other Income	496	417	321	240	274	394
PBT bef. EO Exp.	3,924	5,574	5,671	5,993	6,905	7,685
EO Items	-90	214	1,380	0	0	0
PBT after EO Exp.	3,834	5,788	7,051	5,993	6,905	7,685
Total Tax	1,392	1,970	2,062	1,540	1,738	1,934
Tax Rate (%)	36.3	34.0	29.3	25.7	25.2	25.2
Reported PAT	2,442	3,818	4,988	4,453	5,167	5,750
Adjusted PAT	2,532	3,604	4,148	4,453	5,167	5,750
Change (%)	24.1	42.4	15.1	7.4	16.0	11.3
Margin (%)	9.4	11.0	11.1	11.2	11.3	11.7

Standalone Balance Sheet

(INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	562	562	562	562	562	562
Total Reserves	18,116	21,857	26,780	31,093	36,119	41,729
Net Worth	18,678	22,420	27,343	31,655	36,682	42,291
Total Loans	7	0	3	3	3	3
Deferred Tax Liabilities	-1,486	-1,183	-1,229	-1,229	-1,229	-1,229
Capital Employed	17,199	21,237	26,116	30,428	35,455	41,065
Gross Block	13,518	15,471	16,955	18,255	20,755	22,755
Less: Accum. Deprn.	9,482	10,668	12,142	13,375	14,740	16,263
Net Fixed Assets	4,036	4,803	4,813	4,880	6,015	6,492
Capital WIP	24	206	25	25	25	25
Total Investments	4,898	4,828	5,244	7,244	9,244	11,244
Current Assets	18,764	22,275	25,685	28,571	31,950	35,997
Inventory	1,480	2,270	2,341	2,496	2,857	3,079
Account Receivables	8,632	8,494	9,834	11,179	13,708	15,757
Cash and Bank Balance	1,173	1,733	1,998	2,620	1,334	2,020
Other current assets	7,478	9,778	11,512	12,276	14,050	15,141
Current Liability	10,522	10,875	9,651	10,292	11,779	12,694
Account Payables	2,397	2,945	3,760	4,010	4,590	4,946
Other current liabilities	7,780	7,590	5,630	6,004	6,871	7,405
Provisions	345	339	261	278	318	343
Net Current Assets	8,241	11,400	16,034	18,279	20,171	23,304
Appl. of Funds	17,199	21,237	26,116	30,428	35,455	41,065

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)						
EPS	9.0	12.8	14.7	15.8	18.4	20.4
Cash EPS	14.1	17.6	20.0	20.2	23.2	25.9
BV/Share	66.4	79.7	97.2	112.6	130.4	150.4
DPS	0.0	0.2	0.2	0.4	0.4	0.4
Payout (%)	0.0	1.8	1.4	3.2	2.7	2.4
Valuation (x)						
P/E	29.5	36.1	29.1	20.4	17.8	16.5
P/BV	5.2	4.5	3.9	3.3	2.7	2.3
EV/EBITDA	18.6	16.1	13.5	10.6	9.9	9.8
Dividend Yield (%)	0.1	0.2	0.0	0.1	0.1	0.2
FCF per share	1.6	6.8	7.3	1.8	-1.4	10.7
Return Ratios (%)						
RoE	14.5	17.5	16.7	15.1	15.1	14.6
RoCE	15.1	18.8	17.2	15.7	15.8	15.1
RoIC	24.4	28.0	24.4	22.6	22.9	21.6
Working Capital Ratios						
Fixed Asset Turnover (x)	2.0	2.1	2.2	2.2	2.2	2.2
Asset Turnover (x)	1.6	1.5	1.4	1.3	1.3	1.2
Inventory (Days)	20	25	23	23	23	23
Debtor (Days)	117	95	96	102	110	117
Creditor (Days)	32	33	37	37	37	37
Leverage Ratio (x)						
Current Ratio	1.8	2.0	2.7	2.8	2.7	2.8
Interest Coverage Ratio	8.0	19.8	14.6	25.0	21.7	25.6
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	0.0	0.0

Standalone Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	3,811	5,788	7,051	5,993	6,905	7,685
Depreciation	1,444	1,346	1,474	1,232	1,365	1,523
Interest and Finance Charges	427	271	363	240	320	296
Direct Taxes Paid	-787	-1,826	-2,117	-1,540	-1,738	-1,934
(Inc.)/Dec. in WC	-2,004	-1,660	-5,235	-1,623	-3,177	-2,447
CF from Operations	2,891	3,919	1,536	4,302	3,676	5,123
Others	89	-487	-1,407	0	0	0
CF from Operating incl. EO	2,980	3,432	129	4,302	3,676	5,123
(Inc.)/Dec. in FA	-939	-2,939	-516	-1,300	-2,500	-2,000
Free Cash Flow	2,041	493	-387	3,002	1,176	3,123
(Pur.)/Sale of Investments	1,424	296	980	-2,000	-2,000	-2,000
Others	127	161	143	0	0	0
CF from Investments	612	-2,483	607	-3,300	-4,500	-4,000
Inc./(Dec.) in Debt	-2,290	-7	3	0	0	0
Interest Paid	-459	-312	-402	-240	-320	-296
Dividend Paid	0	-70	-70	-141	-141	-141
Others	0	0	0	0	0	0
CF from Fin. Activity	-2,749	-390	-470	-381	-461	-437
Inc./Dec. in Cash	843	560	265	621	-1,285	686
Opening Balance	331	1,173	1,733	1,998	2,620	1,334
Closing Balance	1,173	1,733	1,998	2,620	1,334	2,020

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

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