Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

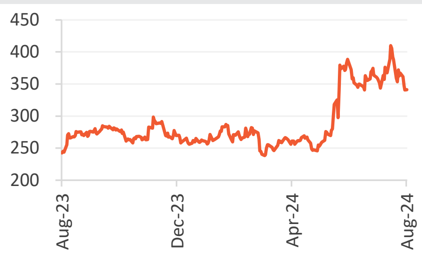
Company details

Market cap:	Rs. 9,599 cr
52-week high/low:	Rs. 415/237
NSE volume: (No of shares)	2.2 lakh
BSE code:	532942
NSE code:	KNRCON
Free float: (No of shares)	14.4 cr

Shareholding (%)

Promoters	48.8
FII	8.2
DII	30.8
Others	12.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	33.8	26.3	40.8
Relative to Sensex	-4.4	24.6	15.3	18.0

Sharekhan Research, Bloomberg

KNR Constructions Ltd

Soft Q1; Order wins continue to remain critical

Infrastructure	Sharekhan code: KNRCON

Reco/View: Hold ↔	CMP: Rs. 341	Price Target: Rs. 370 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- For Q1FY25, adjusting for one-off arbitration claim, standalone revenues were lower than estimates, while OPMs marginally lagged. Higher other income led to marginal miss on standalone net profit.
- Standalone revenue growth guidance for FY2025 stay flattish along with 15-16% OPM. Order book at 1.5x TTM standalone revenues stay critical.
- Order inflow target raised to Rs. 6000-7000 crore from Rs. 5000-6000 crore for FY2025. It is eyeing strategic partnerships for bidding BOT toll projects, metros and irrigation.
- We retain Hold on KNR with a revised PT of Rs. 370, rolling forward our valuation to H1FY2027E earnings and considering unfavourable risk-reward at current valuation due to near term headwinds.

KNR reported lower than expected standalone net revenues of Rs. 819 crore (down 11.9% y-o-y, adjusting for Rs. 60.9 crore arbitration claim). Adjusted standalone OPM (adjusting for arbitration claim in revenues and other expense) at 16.5% (-209bps y-o-y) was marginally below our estimate of 17%. Consequently, adjusted operating profit de-grew by 21.7% y-o-y at Rs. 136 crore. Adjusted standalone net profit (adjusted for arbitration claim revenues, other expense and tax outgo) declined by 16.9% y-o-y at Rs. 133.9 crore (2% below our estimate owing to higher other income) The management retained flat standalone revenues y-o-y for FY2025 along with 15-16% standalone OPM guidance. It upped its order inflow target to Rs. 6000-7000 crore from Rs. 5000-6000 crore for FY2025. Its current order book at Rs. 6122 crore (1.5x TTM standalone revenues) stay weak. Consequently, it is eyeing order wins through strategic partnerships with Cube Highways (for BOT toll projects) and sub-contracting arrangement with Patel Infra (MSRDC projects). It will also be bidding for projects in Railway, Mining sector apart from irrigation projects in Telengana and Andhra Pradesh.

Key positives

- Despite lower than expected execution, standalone OPM at 16.5% missed estimates marginally.
- It upped order inflow guidance to Rs. 6000-7000 crore from Rs. 5000-6000 crore for FY2025.

Key negatives

- Adjusted standalone revenue were down 11.9% y-o-y at Rs. 819 crore, which was 12% lower than our estimate.
- Order book at 1.5x TTM standalone revenues stay critical. Receivables from Telangana remained high at Rs. 900 crore.

Management Commentary

- The management retained flattish standalone revenues guidance and 15-16% OPM guidance for FY2025. Irrigation revenues are expected to be Rs. 200-250 crore in FY2025. However, Q2FY2025 is expected to disappoint on execution front due to floods in Kerala and Mangaluru.
- It upped its order inflow guidance for FY2025 to Rs. 6000-7000 crore from Rs. 5000-6000 crore. If the company is able to achieve the targeted order inflows in FY2025, it expects FY2026 to be better than FY2025 on execution.
- Pending irrigation receivables from the Telangana state government stands at Rs. 900 crore (including certifiable orders of Rs. 600 crore).

Revision in estimates – We have broadly retained our net earnings estimates for FY2025-FY2026.

Our Call

Valuation – Retain Hold with a revised PT of Rs. 370: KNR is expected to benefit from the government's infrastructure spending, especially on roads and highways. However, in the near term, the company faces a highly competitive environment and delays in opening up of bids. It would need to bag projects in the near term to provide revenue growth visibility post FY2025. However, it may need to cut down on OPM in order to win projects. It is also exploring strategic partnerships to bid for BOT-toll projects, metro projects and irrigation projects. The company's outstanding receivables in irrigation segment remain a concern. We introduce our FY2027E earnings in this note. The stock is currently trading at a P/E of 18x/17x its FY2026E/FY2027E earnings, which we believe provide an unfavourable risk-reward considering near-term headwinds. Hence, we retain Hold on the stock with a revised price target (PT) of Rs. 370, as we roll forward our valuation to H1FY2027 earnings.

Key Risks

Delays in execution and a weak macroeconomic environment will lead to a lull in new project awards.

Valuation (Standalone) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	4,091.0	4,026.7	4,784.7	5,289.6
OPM (%)	17.1	17.3	17.6	17.6
Adjusted PAT	493.8	407.7	522.3	582.3
% YoY growth	36.8	(17.5)	28.1	11.5
Adjusted EPS (Rs.)	17.6	14.5	18.6	20.7
P/E (x)	19.4	23.5	18.4	16.5
P/B (x)	2.9	2.6	2.3	2.0
EV/EBITDA (x)	13.0	13.1	10.8	9.8
RoNW (%)	16.6	11.9	13.5	13.2
RoCE (%)	17.3	12.5	14.1	13.7

Source: Company; Sharekhan estimates

Key conference call takeaways

- **Guidance:** The management retained flattish standalone revenues guidance and 15-16% OPM guidance for FY2025. Irrigation revenues are expected to be Rs. 200-250 crore in FY2025. However, Q2FY2025 is expected to disappoint on execution front due to floods in Kerala and Mangaluru. It upped its order inflow guidance for FY2025 to Rs. 6000-7000 crore from Rs. 5000-6000 crore. If the company is able to achieve the targeted order inflows in FY2025, it expects FY2026 to be better than FY2025 on execution.
- **Sector highlights:** The government has allocated Rs. 11.11 lakh crore for infrastructure in the budget. MoRTH has sought Cabinet approval for an investment of Rs. 22 lakh crore aimed at constructing ~30,600 kms by 2031-32. The Cabinet Committee on Economic Affairs has approved the development of 8 National High Speed Corridor projects with a Length of 936 km at a cost of Rs. 50,655 crore. MoRTH plans to award road contracts worth Rs. 3 lakh crore over next three months aiming to close FY2025 with Rs. 5 lakh crore awards. The phase I of Bharatmala Pariyojana is expected to be completed by 2027-28. Budget has allocated Rs. 15000 crore for A.P. capital city development. Telangana state government announced investment of Rs. 1.5 lakh crore for Musi riverfront development.
- **Equity requirement:** It has invested Rs. 518 crore out of Rs. 992 crore equity required in eight HAM projects. The balance Rs. 474 crore will be invested at follows Rs. 335 crore in 9MFY2025, Rs. 72 crore in FY2026 and Rs. 67 crore in FY2027.
- **Order book:** The company's order book as on Q1FY2025 stands at Rs. 4922 crore of which 58% comprise EPC road and HAM projects, 20% Irrigation projects and 22% Pipeline projects. About 63% order comprise Third party contracts and 37% captive. Including the two HAM projects worth Rs. 1200 crore which are yet to receive appointed dates, its order book would be Rs. 6122 crore.
- **Q1FY2025 highlights:** Q1FY2025 includes arbitration claims received from Patel KNR JV which are accounted as follows: Revenues Rs. 60.88 crore, other expense Rs. 4.41 crore and current tax Rs. 14.21 crore. Standalone revenues for Q1FY2025 stood at Rs. 880 crore, EBITDA was up 11% y-o-y at Rs. 192 crore, EBITDA margin of 21.8%, net profit was up 20% y-o-y at Rs. 134 crore. Consolidated revenues stayed flat y-o-y at Rs. 985 crore, EBITDA stood at Rs. 229 crore, EBITDA margin at 28.3% and PAT was up 25% y-o-y at Rs. 166 crore. Standalone working capital days stood at 78 days. Consolidated debt stands at Rs. 1532 crore as against Rs. 1220 crore as on March 2024. Consolidated net debt to equity stands at 0.41x. Standalone and consolidated cash stands at Rs. 33 crore and Rs. 70 crore respectively.
- **Strategic partnerships:** It is eyeing sub-contracting work of Rs. 2000 crore for MSRDC projects with back-to-back arrangement with Patel Infra. It is planning to go for Irrigation projects in M.P. and Chattisgarh apart from JJM projects. It is eyes Telangana irrigation projects. A.P. tenders for highways and irrigation projects are expected to come out. It is looking for Mining contracts through JV. It wants to participate in Railway projects but bids are aggressive. It is in discussions with Cube Highways for partnership in projects where it may hold 26% minority stake in project and undertake EPC work.
- **Receivables:** Pending irrigation receivables from the Telangana state government stands at Rs. 900 crore (including certifiable orders of Rs. 600 crore). It had last received Rs. 150 crore from Telangana in February 2024.
- **Capex:** The capex for Q1FY2025 stood at Rs. 10 crore. It would incur Rs. 80-100 crore capex in FY2025.

Results (Standalone) Rs cr

Particulars	Q1FY2025*	Q1FY2024	y-o-y%	Q4FY2024	q-o-q%
Net revenue	**819.3**	**929.6**	**-11.9%**	**1314.5**	**-37.7%**
Other income	19.6	7.1	177.0%	124.1	-84.2%
Total income	**838.9**	**936.7**	**-10.4%**	**1438.6**	**-41.7%**
Total expenses	683.7	756.3	-9.6%	1100.4	-37.9%
Operating profit	**135.6**	**173.3**	**-21.7%**	**214.1**	**-36.7%**
Depreciation	22.5	28.3	-20.5%	32.6	-30.8%
Interest	4.1	5.0	-19.1%	11.3	-64.0%
Exceptional items	-42.3	0.0		0.0	
Profit Before Tax	**170.9**	**147.0**	**16.3%**	**294.3**	**-42.0%**
Taxes	37.0	36.7	0.7%	96.1	-61.6%
PAT	133.9	110.3	21.4%	198.2	-32.4%
Adjusted PAT	**91.6**	**110.3**	**-16.9%**	**198.2**	**-53.8%**
EPS (Rs.)	3.3	3.9	-16.9%	7.0	-53.8%
			BPS		**BPS**
OPM (%)	16.5%	18.6%	-209	16.3%	26
NPM (%)	11.2%	11.9%	-68	15.1%	-389
Tax rate (%)	21.6%	25.0%	-334	32.7%	-1103

Source: Company Data, Sharekhan Research *Adjusted for arbitration claim

Outlook and Valuation

■ Sector view - Roads to remain one of the key focus areas in the government's infrastructure spending

The government's infrastructure investment is pegged at Rs. 111 lakh crore over FY2020-FY2025. The road sector is expected to see Rs. 20 lakh crore in investments during the same period. Huge investments and favourable government policies are expected to provide strong growth opportunities for players. The roads sector is recovering with near pre-COVID level manpower strength and availability of materials after easing of restrictions post COVID-19 led lockdowns. The industry expects strong order inflows and improved execution run-rate from Q3FY2021. Proactive payments from the NHAI have handled working capital issues of the companies.

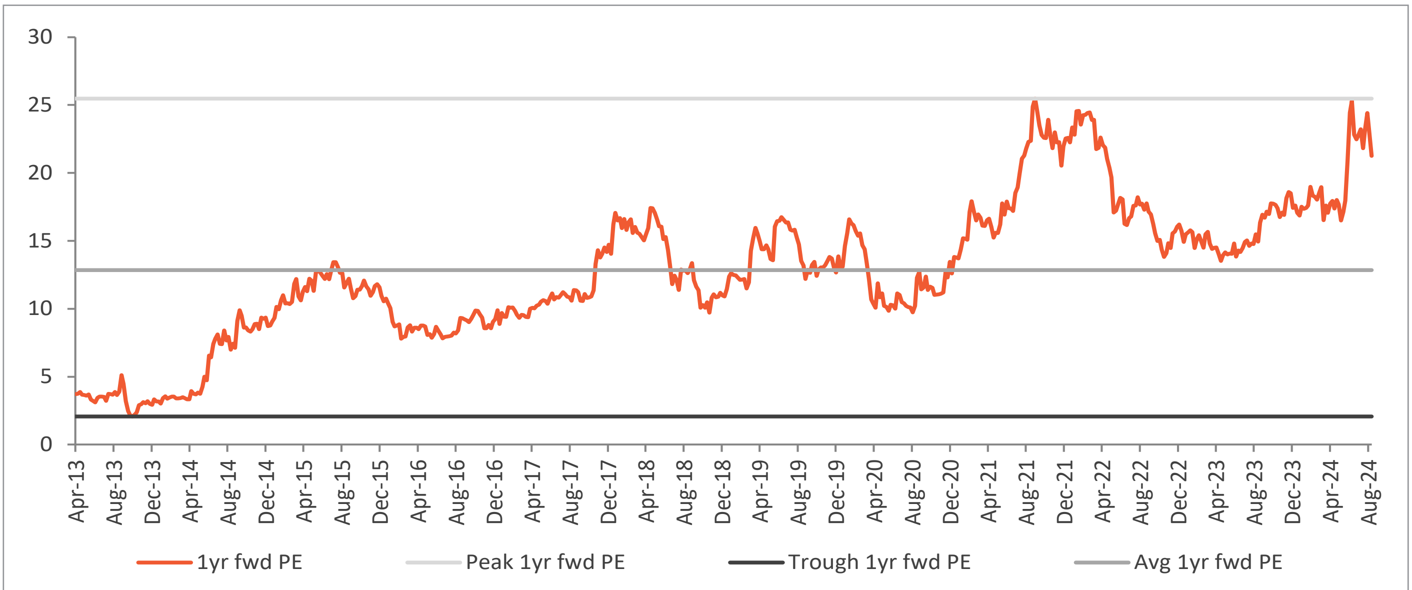
■ Company outlook - Order wins become critical for growth

KNR is targeting Rs. 6,000-7,000 crore of order inflows over the next one year amidst cutthroat competition in NHAI bidding. Consequently, it is looking at bidding for BOT-toll projects (through investment partners), state highway projects, irrigation, urban infra, railways and metros, which can provide growth. The company targets to achieve flat standalone revenues for FY2025 while OPMs are expected to be under marginal pressure. The company's order backlog at 1.7x its TTM standalone revenue stay weak, and hence new order wins become critical to provide revenue growth visibility post FY2025. Its irrigation segment's receivables provide remain a key concern for the near term.

■ Valuation - Retain Hold with a revised PT of Rs. 370

KNR is expected to benefit from the government's infrastructure spending, especially on roads and highways. However, in the near term, the company faces a highly competitive environment and delays in opening up of bids. It would need to bag projects in the near term to provide revenue growth visibility post FY2025. However, it may need to cut down on OPM in order to win projects. It is also exploring strategic partnerships to bid for BOT-toll projects, metro projects and irrigation projects. The company's outstanding receivables in irrigation segment remain a concern. We introduce our FY2027E earnings in this note. The stock is currently trading at a P/E of 18x/17x its FY2026E/FY2027E earnings, which we believe provide an unfavourable risk-reward considering near-term headwinds. Hence, we retain Hold on the stock with a revised price target (PT) of Rs. 370, as we roll forward our valuation to H1FY2027 earnings.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
PNC Infratech	20.2	18.1	13.5	11.8	2.1	1.9	11.2	10.9
KNR Constructions	23.5	18.4	13.1	10.8	2.6	2.3	11.9	13.5

Source: Sharekhan Research, Standalone financials

About company

Incorporated in 1995, KNR has over two decades of experience in project execution. The company is one of the leading companies providing engineering, procurement, and construction (EPC) services, majorly concentrated in the roads and highways segment. The company also has a minor presence in the irrigation and urban water infrastructure management segments. To date, KNR has successfully executed more than 6,000 lane km of road projects across 12 states in India.

Investment theme

KNR is one of the best-managed road construction companies with more than two decades of experience executing over 6,000 lane km road projects across 12 states in India. KNR has in-house construction capabilities, which ensure on-schedule project completion (history of receiving early completion bonuses). KNR entered into a complete stake sale agreement with Cube Highways for four of its hybrid annuity projects, which will aid in lower equity requirements and booking of EPC work with the possibility of receiving an early completion bonus.

Key Risks

- Delay in project execution of hybrid annuity projects.
- Slowdown in the macro economy, leading to muted road project awards from NHAI and the Ministry of Road Transport.

Additional Data

Key management personnel

Mr. K. Narasimha Reddy	Founder Promoter and Managing Director
Mr. K. Jalandhar Reddy	Promoter and Executive Director
Mr. M.V. Venkata Rao	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Reddy Kamidi Narasimha	32.53
2	Reddy Kamidi Jalandhar	13.96
3	ICICI Prudential Asset Management	7.38
4	DSP Investment Managers Pvt. Ltd.	6.85
5	HDFC Asset Management Co. Ltd.	6.4
6	YASHODA KAMIDI	4.27
7	Reddy Mereddy Rajesh	4.27
8	UTI Asset Management Co. Ltd.	2.21
9	Franklin Resources Inc.	2.00
10	Invesco Asset Management India Pvt. Ltd.	1.91

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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