

# KNR Constructions

Estimate change



TP change



Rating change



**CMP: INR340**

**TP: INR390 (+15%)**

**Buy**

**Execution below estimate; focus on new order inflows via diversification**

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	95.7 / 1.1
52-Week Range (INR)	415 / 237
1, 6, 12 Rel. Per (%)	-5/15/14
12M Avg Val (INR M)	539

## Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	39.6	40.3	46.6
EBITDA	6.9	7.1	8.5
PAT	4.3	4.2	5.3
EBITDA (%)	17.4	17.6	18.3
EPS (INR)	15.2	15.0	18.9
EPS Gr. (%)	3.3	-1.4	25.6
BV/Sh. (INR)	114.7	131.1	149.5

## Ratios

Net D/E	-0.1	-0.1	-0.1
RoE (%)	14.4	12.2	13.5
RoCE (%)	15.6	13.2	14.0
Payout (%)	1.4	3.0	2.6

## Valuations

P/E (x)	22.3	22.6	18.0
P/BV (x)	3.0	2.6	2.3
EV/EBITDA (x)	13.5	12.9	10.7
Div Yield (%)	0.1	0.1	0.1
FCF Yield (%)	1.5	5.6	1.8

## Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	48.8	51.1	51.1
DII	30.8	30.5	33.7
FII	8.2	7.1	6.0
Others	12.3	11.3	9.3

FII Includes depository receipts

- In 1QFY25, KNR Constructions (KNRC) received certain arbitration claims. For like-to-like comparison, we have adjusted the same in revenue, other income, other expenses, and total taxes for 1QFY25 and have shown that the company as an exceptional item.
- KNRC's 1QFY25 revenue declined 12% YoY at ~INR8.2b (12% above our estimate). The execution was primarily driven by the implementation of the road HAM projects. EBITDA stood at INR1.4b (vs. our estimate of INR1.6b) registering a 22% YoY decline. EBITDA margin stood at 16.6% (-210bp YoY) vs. our estimate of 17.4% for 1QFY25. In line with weak operating performance and higher tax outgo, APAT for the quarter de-grew 27% YoY to INR 807m against our estimate of INR946m. KNRC's current order book stands at ~INR61b (incl. L1). The order pipeline looks promising, with expectations of INR60-70b in new project wins in FY25.
- The performance in 1QFY25 was below our estimates. The tender pipeline remains robust, with strong order flows expected in FY25. KNRC is venturing into non-road segments such as metro and water projects to increase its addressable market. Execution is likely to remain flattish in FY25, with growth picking-up in FY26. We expect a 9% revenue CAGR over FY24-26. EBITDA margin is anticipated to be 17-18%. In line with weak operating performance and sluggishness in order awarding by NHAI, we cut our revenue/EBITDA/APAT for FY26 by ~5%/5%/6%. We **reiterate our BUY rating with a revised SoTP-based TP of INR390**. We value the EPC business at a P/E of 18x on FY26E EPS and BOT assets at 1x investment value.

## Key takeaways from the management commentary

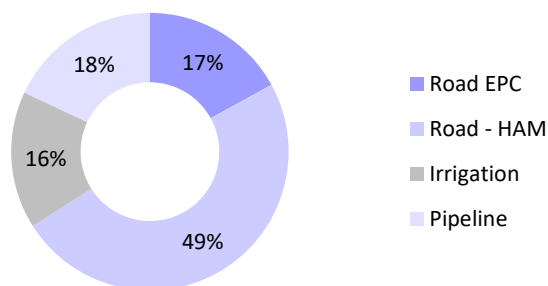
- The current order book stands at ~INR61b, with roads (HAM) making up 49%, roads (Others) at 17%, and irrigation and pipeline projects at 34%. KNRC has a portfolio of eight HAM projects in its current order book.
- The pace of awarding contracts by NHAI has been sluggish in YTD FY25. However, the order pipeline is promising, and KNRC anticipates winning new projects worth INR60-70b in FY25.
- While NHAI awarding has been soft so far, awards are likely to pick up from Sep'24. KNR expects to secure some HAM projects and is also targeting projects in Maharashtra. Further, it is examining mining contracts due to good margins and is keen on entering the mining segment with a JV partner.
- KNR expects 2QFY25 to be disappointing due to heavy rains affecting projects in Kerala. Revenue is expected to be flat in FY25, with management expecting 5-10% revenue growth in FY26.
- Irrigation receivables stood at INR9b at the end of Jun'24.

**Valuation and view**

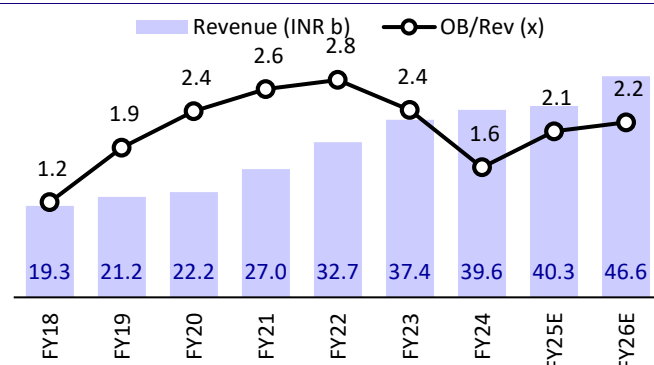
- Given a robust order pipeline and focus on expanding into new segments and markets, KNRC aims to significantly enhance its order book. Further, considering the slow pace of awarding contracts by NHAI, KNRC is exploring partnerships for BOT projects and diversification into non-road segments.
- Due to lower order inflows in FY24 and 1QFY25, KNRC anticipates flattish execution in FY25, with 5-10% revenue growth likely from FY26 onwards.
- In line with weak operating performance in 1Q and sluggishness in order awarding by NHAI, we cut our revenue/EBITDA/APAT for FY26E by ~5%/5%/ 6%. **We reiterate our BUY rating with a revised TP of INR390 (based on SoTP valuation). We value the EPC business at a P/E of 18x on FY26E EPS and BOT assets at 1x investment value.**

**Quarterly performance -Standalone****(INR m)**

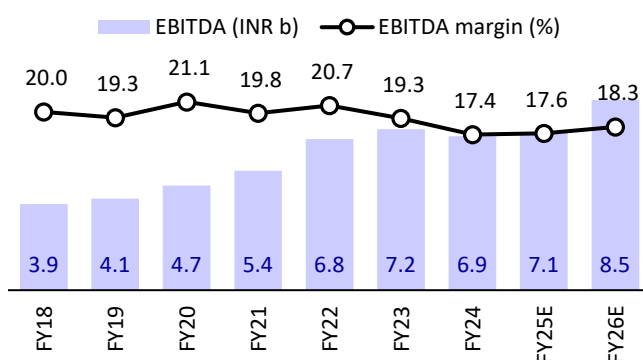
Y/E March	FY24				FY25E				FY24	FY25E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
<b>Net Sales</b>	<b>9,296</b>	<b>9,415</b>	<b>9,054</b>	<b>11,793</b>	<b>8,193</b>	<b>9,681</b>	<b>10,084</b>	<b>12,378</b>	<b>39,558</b>	<b>40,336</b>	<b>9,277</b>	<b>-12</b>
YoY Change (%)	4.4	11.1	9.1	0.3	-11.9	2.8	11.4	5.0	5.7	2.0	-0.2	
<b>EBITDA</b>	<b>1,733</b>	<b>1,663</b>	<b>1,473</b>	<b>2,033</b>	<b>1,356</b>	<b>1,713</b>	<b>1,795</b>	<b>2,235</b>	<b>6,902</b>	<b>7,099</b>	<b>1,614</b>	<b>-16</b>
Margins (%)	18.6	17.7	16.3	17.2	16.6	17.7	17.8	18.1	17.4	17.6	17.4	
Depreciation	283	311	325	326	225	338	340	460	1,245	1,363	330	
Interest	50	58	72	113	41	65	70	107	293	282	80	
Other Income	71	50	60	147	51	65	55	71	328	242	60	
<b>PBT before EO expense</b>	<b>1,470</b>	<b>1,344</b>	<b>1,136</b>	<b>1,741</b>	<b>1,141</b>	<b>1,375</b>	<b>1,440</b>	<b>1,739</b>	<b>5,692</b>	<b>5,695</b>	<b>1,264</b>	
Extra-Ord expense	0	0	0	654	531	0	0	0	654	531	0	
Tax	367	346	281	414	334	346	362	427	1,407	1,469	319	
Rate (%)	25.0	25.7	24.7	23.8	29.2	25.2	25.2	24.6	24.7	25.8	25.2	
<b>Reported PAT</b>	<b>1,103</b>	<b>999</b>	<b>855</b>	<b>1,982</b>	<b>1,339</b>	<b>1,029</b>	<b>1,078</b>	<b>1,311</b>	<b>4,938</b>	<b>4,757</b>	<b>946</b>	
<b>Adj PAT</b>	<b>1,103</b>	<b>999</b>	<b>855</b>	<b>1,328</b>	<b>807</b>	<b>1,029</b>	<b>1,078</b>	<b>1,311</b>	<b>4,284</b>	<b>4,226</b>	<b>946</b>	<b>-15</b>
YoY Change (%)	9.4	-7.2	10.1	3.2	-26.8	3.1	26.0	-1.2	3.3	-1.4	-14.2	
Margins (%)	11.9	10.6	9.4	11.3	9.9	10.6	10.7	10.6	10.8	10.5	10.2	

**Exhibit 1: OB breakup (1QFY25: INR61b)**

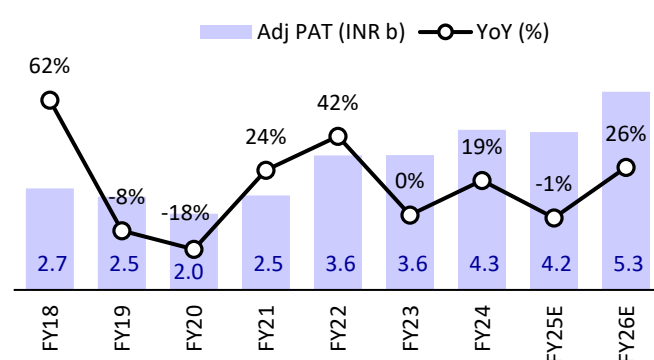
Source: MOFSL, Company

**Exhibit 2: With current OB, revenue likely to clock 9% CAGR over FY24–26E**

Source: MOFSL, Company

**Exhibit 3: EBITDA and EBITDA margin trends**

Source: MOFSL, Company

**Exhibit 4: Adjusted PAT to post 11% CAGR over FY24–26E**

Source: MOFSL, Company



## Highlights from the management commentary

### Arbitration claims

- In Patel-KNRC JV, the company received claims of INR609m, which were included in revenue with INR44.1m in other expenses and INR142m in current tax.
- KNR received INR144.8m as dividend from one of the Associate Company i.e., Patel KNR Infrastructure Ltd which is included in Other Income and resultant tax of INR36.4m.

### Industry opportunity

- The government allocated INR11.1t to the infrastructure sector, signaling a strong focus on infrastructure development.
- The Ministry of Road Transport and Highways (MoRTH) has secured approvals for INR22t investment in a comprehensive highway development plan, covering 30,600km by 2031-32.
- The Cabinet has also approved eight national high-speed road corridor projects with INR500b investments.
- MoRTH plans to award road contracts worth INR 3t over the next three months, aiming to close FY25 with INR5t in contract awards.
- The Telangana government allocated INR1.5t for water and irrigation projects

### Order book and Bidding Pipeline

- The current order book of INR 61b is expected to be executed within 1.5 years. The company is targeting an order inflow of INR 60-70b for FY25.
- The company plans to monetize four HAM projects, with one expected to be completed by FY25 and the remaining three by Sep'25. Valuation discussions are currently underway.
- In the Mysore-Kushlangara area, contracts worth INR12b are pending an appointed date, which the department or NHAI is expected to resolve within a month. The EC meeting is scheduled for the 20th or 22nd, after which work is expected to commence in 3QFY25.
- While NHAI awarding has been soft so far, awards are expected to pick up from September 2024. KNR expects to secure some HAM projects and is also targeting projects in Maharashtra. Additionally, KNR is examining mining contracts due to good margins and is keen on entering the mining segment with a JV partner.
- KNR is also seeking orders in the railway sector.
- KNR is looking to participate in BoT toll projects, with tenders expected by September 2025.
- The high-end engineering projects are currently underway in Kerala, with more such projects expected in the coming months. The MSRDC express highway project in Maharashtra is a high-end engineering project, and KNR is in discussions for that contract. High-end engineering projects currently contribute 60-70% to the order book.
- The standalone cash position as of Jun'24 is INR 330m, with a consolidated cash position of INR 700m as of June 2024. KNR expects a cash flow from operations of INR3b in FY25 if the Telangana receivables are cleared.
- Unbilled revenue in 1QFY25 was INR 7.4b, up from INR 5b in 4QFY24.
- Mobilization advances stood at INR 570m as of June 2024.
- Working capital days stood at 78 days in 1QFY25.
- Depreciation was low due to minimal asset additions, with only INR 180m added last year and INR 100m in 1QFY25. KNR expects depreciation to reach INR 11b by the end of FY25 if the situation remains unchanged.

### Irrigation projects

- KNR is planning to pursue irrigation projects and is likely to qualify for many projects in Madhya Pradesh. The company is also interested in participating in Jal Shakti projects and exploring opportunities in Telangana's irrigation sector.
- The company's receivables from Telangana stand at INR 9b.
- The company expects to generate INR 2-2.5b in revenue from the irrigation segment in FY25.

### Guidance

- KNR expects 2QFY25 to be disappointing due to heavy rains affecting projects in Kerala. Revenue is expected to be flat in FY25, with management expecting 5-10% revenue growth in FY26.
- The company's vision is to grow as an EPC contractor, with an EBITDA margin of 15-16% for FY25.

- Capex in 1QFY25 was INR100m, and KNRC expects to incur INR1b in capex in FY25 based on order inflow.
- As of Jun'24, KNRC has invested INR5.2b out of the INR9.9b equity investment required for eight HAM projects. The remaining INR4.7b will be infused by FY27.
- The MSRDC project is valued at around INR20b, and the Telangana irrigation projects are estimated at INR12-20b. KNRC sees a good chance of winning one of these contracts.
- The Andhra Pradesh government is also grouping contracts for larger sizes, with values ranging from INR8-50b.

**Exhibit 5: Revisions to our earnings estimates**

Earnings Change INR m	Old		New		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	40,336	49,139	40,336	46,597	0.0%	-5.2%
EBITDA	7,139	8,968	7,099	8,527	-0.6%	-4.9%
EBITDA margin	17.7%	18.3%	17.6%	18.3%	-0.1%	0.0%
Adj. PAT	4,292	5,643	4,226	5,310	-1.5%	-5.9%

Source: Company, MOFSL

**Valuation and view**

- KNRC aims to significantly enhance its order book by leveraging a robust pipeline and focusing on new segments and markets. The company is also exploring partnerships for BOT projects and diversifying into non-road segments due to the slow pace of contract awards by NHAI.
- Due to lower order inflows in FY24 and 1QFY25, the company expects flattish execution in FY25. Revenue growth of 5-10% is anticipated from FY26 onwards.
- In line with weak operating performance in 1Q and sluggishness in order awarding by NHAI, we cut our revenue/EBITDA/APAT for FY26E by ~5%/5%/6%. **We reiterate our BUY rating with a revised TP of INR390 (based on SoTP valuation). We value the EPC business at a P/E of 18x on FY26E EPS and BOT assets at 1x investment value.**

**Exhibit 6: Our SoTP-based TP stands at INR390/share**

Particulars	INR m	Per share (INR)
<b>Valuation</b>		
March'26E PAT – 16x P/E	97,910	350
BOT Portfolio valuation	11,120	40
<b>Total</b>	<b>1,09,030</b>	<b>390</b>

sSource: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

	(INR m)					
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Total Income from Operations</b>	<b>27,026</b>	<b>32,726</b>	<b>37,438</b>	<b>39,558</b>	<b>40,336</b>	<b>46,597</b>
Change (%)	21.7	21.1	14.4	5.7	2.0	15.5
<b>EBITDA</b>	<b>5,358</b>	<b>6,777</b>	<b>7,217</b>	<b>6,902</b>	<b>7,099</b>	<b>8,527</b>
Margin (%)	19.8	20.7	19.3	17.4	17.6	18.3
Depreciation	1,444	1,346	1,474	1,245	1,363	1,525
<b>EBIT</b>	<b>3,915</b>	<b>5,431</b>	<b>5,743</b>	<b>5,657</b>	<b>5,736</b>	<b>7,002</b>
Int. and Finance Charges	487	274	393	293	282	280
Other Income	496	417	321	328	242	373
<b>PBT bef. EO Exp.</b>	<b>3,924</b>	<b>5,574</b>	<b>5,671</b>	<b>5,692</b>	<b>5,695</b>	<b>7,096</b>
EO Items	-90	214	1,380	654	531	0
<b>PBT after EO Exp.</b>	<b>3,834</b>	<b>5,788</b>	<b>7,051</b>	<b>6,346</b>	<b>6,226</b>	<b>7,096</b>
Total Tax	1,392	1,970	2,062	1,407	1,469	1,786
Tax Rate (%)	36.3	34.0	29.3	22.2	23.6	25.2
<b>Reported PAT</b>	<b>2,442</b>	<b>3,818</b>	<b>4,988</b>	<b>4,938</b>	<b>4,757</b>	<b>5,310</b>
<b>Adjusted PAT</b>	<b>2,532</b>	<b>3,604</b>	<b>4,148</b>	<b>4,284</b>	<b>4,226</b>	<b>5,310</b>
Change (%)	24.1	42.4	15.1	3.3	-1.4	25.6
Margin (%)	9.4	11.0	11.1	10.8	10.5	11.4

### Standalone Balance Sheet

	(INR m)					
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	562	562	562	562	562	562
Total Reserves	18,116	21,857	26,780	31,694	36,310	41,480
<b>Net Worth</b>	<b>18,678</b>	<b>22,420</b>	<b>27,343</b>	<b>32,257</b>	<b>36,873</b>	<b>42,042</b>
Total Loans	7	0	3	0	0	0
Deferred Tax Liabilities	-1,486	-1,183	-1,229	-1,367	-1,367	-1,367
<b>Capital Employed</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,889</b>	<b>35,506</b>	<b>40,675</b>
Gross Block	13,518	15,471	16,955	17,756	20,256	22,256
Less: Accum. Deprn.	9,482	10,668	12,142	13,387	14,751	16,276
<b>Net Fixed Assets</b>	<b>4,036</b>	<b>4,803</b>	<b>4,813</b>	<b>4,369</b>	<b>5,506</b>	<b>5,981</b>
Capital WIP	24	206	25	22	22	22
<b>Total Investments</b>	<b>4,898</b>	<b>4,828</b>	<b>5,244</b>	<b>6,620</b>	<b>9,620</b>	<b>11,120</b>
<b>Current Assets</b>	<b>18,764</b>	<b>22,275</b>	<b>25,685</b>	<b>29,999</b>	<b>30,678</b>	<b>35,474</b>
Inventory	1,480	2,270	2,341	2,207	2,251	2,600
Account Receivables	8,632	8,494	9,834	13,642	12,101	14,911
Cash and Bank Balance	1,173	1,733	1,998	2,346	4,291	4,058
Other current assets	7,478	9,778	11,512	11,804	12,036	13,904
<b>Current Liability</b>	<b>10,522</b>	<b>10,875</b>	<b>9,651</b>	<b>10,121</b>	<b>10,320</b>	<b>11,922</b>
Account Payables	2,397	2,945	3,760	2,739	2,793	3,226
Other current liabilities	7,780	7,590	5,630	7,236	7,378	8,523
Provisions	345	339	261	146	149	172
<b>Net Current Assets</b>	<b>8,241</b>	<b>11,400</b>	<b>16,034</b>	<b>19,879</b>	<b>20,358</b>	<b>23,552</b>
<b>Appl. of Funds</b>	<b>17,199</b>	<b>21,237</b>	<b>26,116</b>	<b>30,889</b>	<b>35,506</b>	<b>40,675</b>

## Financials and valuations

### Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>						
EPS	9.0	12.8	14.7	15.2	15.0	18.9
Cash EPS	14.1	17.6	20.0	19.7	19.9	24.3
BV/Share	66.4	79.7	97.2	114.7	131.1	149.5
DPS	0.0	0.2	0.2	0.2	0.4	0.4
Payout (%)	0.0	1.8	1.4	1.4	3.0	2.6
<b>Valuation (x)</b>						
P/E	37.8	26.5	23.1	22.3	22.6	18.0
P/BV	5.1	4.3	3.5	3.0	2.6	2.3
EV/EBITDA	17.6	13.9	13.0	13.5	12.9	10.7
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.1	0.1
FCF per share	7.3	1.8	-1.4	5.2	19.1	6.0
<b>Return Ratios (%)</b>						
RoE	14.5	17.5	16.7	14.4	12.2	13.5
RoCE	15.1	18.8	17.2	15.6	13.2	14.0
RoIC	24.4	28.0	24.4	21.6	20.2	22.3
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	2.0	2.1	2.2	2.2	2.0	2.1
Asset Turnover (x)	1.6	1.5	1.4	1.3	1.1	1.1
Inventory (Days)	20	25	23	20	20	20
Debtor (Days)	117	95	96	126	110	117
Creditor (Days)	32	33	37	25	25	25
<b>Leverage Ratio (x)</b>						
Current Ratio	1.8	2.0	2.7	3.0	3.0	3.0
Interest Coverage Ratio	8.0	19.8	14.6	19.3	20.3	25.0
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

### Standalone Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>OP/(Loss) before Tax</b>	<b>3,811</b>	<b>5,788</b>	<b>7,051</b>	<b>6,893</b>	<b>5,695</b>	<b>7,096</b>
Depreciation	1,444	1,346	1,474	1,245	1,363	1,525
Interest and Finance Charges	427	271	363	209	282	280
Direct Taxes Paid	-787	-1,826	-2,117	-2,177	-1,469	-1,786
(Inc.)/Dec. in WC	-2,004	-1,660	-5,235	-4,068	1,465	-3,426
<b>CF from Operations</b>	<b>2,891</b>	<b>3,919</b>	<b>1,536</b>	<b>2,102</b>	<b>7,337</b>	<b>3,688</b>
Others	89	-487	-1,407	75	531	0
<b>CF from Operating incl. EO</b>	<b>2,980</b>	<b>3,432</b>	<b>129</b>	<b>2,178</b>	<b>7,868</b>	<b>3,688</b>
(Inc.)/Dec. in FA	-939	-2,939	-516	-728	-2,500	-2,000
<b>Free Cash Flow</b>	<b>2,041</b>	<b>493</b>	<b>-387</b>	<b>1,450</b>	<b>5,368</b>	<b>1,688</b>
(Pur.)/Sale of Investments	1,424	296	980	-1,912	-3,000	-1,500
Others	127	161	143	1,100	0	0
<b>CF from Investments</b>	<b>612</b>	<b>-2,483</b>	<b>607</b>	<b>-1,540</b>	<b>-5,500</b>	<b>-3,500</b>
Inc./(Dec.) in Debt	-2,290	-7	3	-3	0	0
Interest Paid	-459	-312	-402	-217	-282	-280
Dividend Paid	0	-70	-70	-70	-141	-141
Others	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-2,749</b>	<b>-390</b>	<b>-470</b>	<b>-290</b>	<b>-423</b>	<b>-420</b>
<b>Inc./Dec. in Cash</b>	<b>843</b>	<b>560</b>	<b>265</b>	<b>348</b>	<b>1,945</b>	<b>-232</b>
Opening Balance	331	1,173	1,733	1,998	2,346	4,291
<b>Closing Balance</b>	<b>1,173</b>	<b>1,733</b>	<b>1,998</b>	<b>2,346</b>	<b>4,291</b>	<b>4,058</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

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