

Modest growth outlook ahead...

About the stock: KNR Constructions is one of the leading companies in the roads and highways sector having executed 6,000+ lane km of projects across 12 states in India. The company also has an established presence in irrigation and urban water infrastructure management.

- Reported 14.2% revenue CAGR over FY18-23 and has consistently delivered industry-leading operating margin of ~20% (average in last five years)
- Prudent management, robust return ratios (RoCE: 20%+)

Q4FY23 Results: Reported better than expected execution.

- Standalone revenue improved 16.3% YoY to ₹ 1175.6 crore, aided by execution of back-to-back contracts during the quarter
- EBITDA margin was at 18% (down 255 bps) owing to revenue mix. Effectively, EBITDA at ₹ 212 crore, was up ~2% YoY
- At the net level, reported PAT was at ₹ 128.6 crore, up 14% YoY

What should investors do? KNR's share price has grown at ~12% CAGR over the past five years (from ~₹ 140 in May 2018 to ~₹ 247 levels currently).

- The execution is likely to be modest in FY23 with moderation in margins. Order inflow will be the key near-term catalyst. Thus, we downgrade from BUY to HOLD

Target Price and Valuation: We value KNR at ₹ 280/share.

Key triggers for future price performance:

- KNR is one of the prime beneficiaries of the roads & water segment
- We expect the company to report ~9% CAGR during FY23-25E with margin to moderate to ~17-18%, given the modest growth outlook by the company
- A key trigger for the company would be order inflows, which will improve execution visibility ahead

Alternate Stock Idea: Besides KNR, we like HG Infra in the EPC space.

- Strong execution, lean balance sheet and healthy order book
- BUY with a target price of ₹ 1140/share



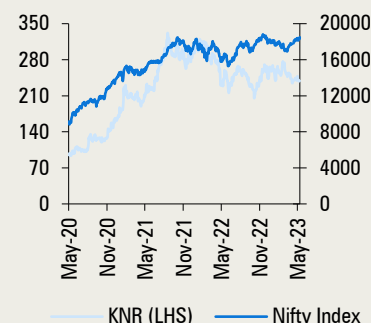
Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,947
Total Debt (FY23)	0.3
Cash (FY23)	200
EV	6,747
52 week H/L (₹)	280/ 203
Equity capital	56.2
Face value (₹)	2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	51.6	51.1	51.1	51.1
DII	33.1	34.4	34.9	34.4
FII	5.7	5.7	5.8	5.9
Other	9.5	8.7	8.2	8.6

Price Chart



Key Risks

Key Risk: (i) Delay in new order inflows; (ii) Better than expected execution/margins

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Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales	2,244.2	2,702.6	3,272.6	3,743.8	14.2%	4,026.3	4,430.6	8.8%
EBITDA	487.1	535.8	677.7	721.7	13.3%	684.5	797.5	5.1%
EBITDA Margin (%)	21.7	19.8	20.7	19.3		17.0	18.0	
Adj. PAT	233.4	251.4	367.7	401.2	8.1%	395.5	470.6	8.3%
EPS (₹)	16.0	8.7	13.6	17.7		14.1	16.7	
P/E (x)	15.4	28.4	18.2	13.9		17.6	14.8	
EV/EBITDA (x)	14.6	12.7	9.8	9.3		9.5	7.9	
RoNW (%)	14.4	13.5	16.4	14.7		12.7	13.1	
RoCE (%)	19.0	23.4	25.8	21.9		17.7	18.2	

Key business highlight and outlook

Modest growth outlook

KNR's order book at the end of Q4FY23 (excluding new orders) was at ₹ 7092 crore, majorly contributed by roads - HAM (50%), roads - EPC (27%) and irrigation (23%) segments. Including the recently won HAM projects (EPC value of ₹ 17800 crore), the order book was at ₹ 8872 crore, 2.4x book to bill. Going forward, the company is targeting order inflows of ~₹ 4,000-5,000 crore during FY24 (including new HAM orders for which LoA was received in April/May, 2023), largely in the roads segment. The company expects revenues to hover at ~₹ 4000+ crore in FY24 (with ~900-1000 crore from water segment and remaining being roads) while conservatively guiding for ~15-16% EBITDA margins. **In line with these, we expect the company to report ~9% CAGR during FY23-25E with margins to hover at ~17-18%.**

Healthy balance sheet...

KNR largely maintains a lean balance sheet structure (cash balance of ~₹ 200 crore in FY23) backed by its prudent strategy to mainly focus on an asset light business model and efficient manage working capital. With receipt from the Cube deal and improved irrigation collection, it is debt free. Going forward, it has total equity requirement of ₹ 732 crore (₹ 296 crore already invested till Q4FY23, ₹ 260, ₹ 160 crore to be invested in FY24, FY25, respectively, and balance ₹ 17 crore in FY26) towards under construction HAM projects. Additionally, new HAM projects would entail total equity requirement of ₹ 240 crore cumulatively. **Despite these, we expect its debt to remain at minimal to zero levels with healthy operating cash flow generation arising from improved profitability, and better cash flow management.** Further, **its net working capital at the end of FY23 was largely stable at 67 days (vs. 63 days in FY22).**

Key conference call takeaways

- **Bid pipeline:** The company informed that five to six tenders from NHAI, which it was targeting in FY23, got postponed. Going ahead, 26 projects are in bid from the Maharashtra government (such as Pune ring road, Nagpur) and Bihar for road projects. Furthermore, Telangana is also coming up with irrigation (four to five projects) along with Maharashtra. Additionally, city flyover in Karnataka is also coming up. KNR expects ordering to pick up from June onwards
- **Competitive intensity & margins:** As per the management, competition in roads is expected to remain high and the success ratio will be low with the company's focus on margin protection. However, ~30 projects have failed to achieve project completion at the industry level. Thus, if NHAI considers such situations, the authority may revert back to stringent norms. Nonetheless, NHAI has extended the Atmanirbhar scheme to March, 2024. Hence, chances of competition going down is less for the next one year. The company acknowledged that margins in the newer targeted segments could be less than its historical margins. Nonetheless, with higher competition on roads, the margins in road also contracted
- **Diversification:** The company is looking for opportunities in urban infra development such as flyover and metros to diversity itself. Furthermore, irrigation and railways opportunities are also under consideration. Geographically, the company is looking for opportunities in the western and central region (includes package of Maharashtra). Overall, ~10-20% will be contributed from newer segments over the medium term
- **Monetisation:** The company has initiated process to monetise Oddanchatram-Madathukulam HAM project and Cube Highways has given its quotation while dialogues are on for further process. For KNR Muzaffarpur Barauni BOT (toll project), toll revenues are not as per expectations and there has been no progress on monetisation. However, the company is trying to monetise that project as well

- **Under-construction HAM projects:** As on Q4FY23-end, the physical progress on KNR's five under-construction HAM projects were at: a) Ramanattukara-Valanchery: 24.5%, b) Valanchery- Kappirikkad: 26.4%, c) Chittor-Thatchur: less than 10%, d) Magadi-Somwarpeth: 72.2% and e) Oddanchatram-Madathukulam: 90.1%
- **New HAM projects:** The company has highlighted that all three projects are greenfield projects. 3D has been published. Now, the land is likely to go for further stage of acquisition. However, the appointed date timeline cannot be predicted, currently. In terms of equity requirement, ~₹ 240 crore is likely to get infused in these projects
- **Irrigation projects:** KNR's FY23 **outstanding dues were at: ~₹ 502 crore vs. ₹ 650 crore in Q3).** Revenue from the segment during Q4FY23 was at ~₹ 300 crore. As pf date, the outstanding was ₹ 650 crore but the company is confident of regular receipt of dues
- **Capex:** KNR has incurred capex of ~₹ 140 crore during FY23. The management has guided for overall capex to the tune of ₹ 130-140 crore in FY24

Exhibit 1: Variance analysis

Particulars	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	1175.6	1020.0	1010.7	16.3	830.2	41.6	Topline beat led by superior execution
Other Income	9.6	8.0	18.5	-48.3	5.9	62.9	
Consumption of raw materials	410.0	400.0	306.7	33.7	336.2	21.9	
Employee benefit expenses	41.0	46.0	41.0	0.1	44.5	-7.7	
Other Expenses	105.1	115.0	56.8	85.0	64.5	63.0	
EBITDA	211.9	189.0	208.0	1.9	156.0	35.8	
EBITDA Margin(%)	18.0	18.5	20.6	-255 bps	18.8	-77 bps	YoY Margin decline as base quarter had higher irrigation order
Depreciation	40.1	38.0	39.9	0.5	38.1	5.1	
Interest	8.0	9.0	6.0	32.8	16.0	-50.1	
PBT	173.5	150.0	180.6	-4.0	107.9	60.8	
Exceptional Item	0.0	0.0	0.0	NM	138.0	NM	
Taxes	44.9	37.0	67.9	-33.9	84.0	-46.6	
PAT	128.6	113.0	112.8	14.0	161.8	-20.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,036	4,026	-0.2	4,593	4,431	-3.5	Realign estimates
EBITDA	747	684	-8.3	850	798	-6.1	
EBITDA Margin (%)	18.5	17.0	-150 bps	18.5	18.0	-50 bps	
PAT	445	395	-11.1	513	471	-8.2	
Diluted EPS (₹)	15.8	14.1	-11.1	18.2	16.7	-8.2	

Source: Company, ICICI Direct Research

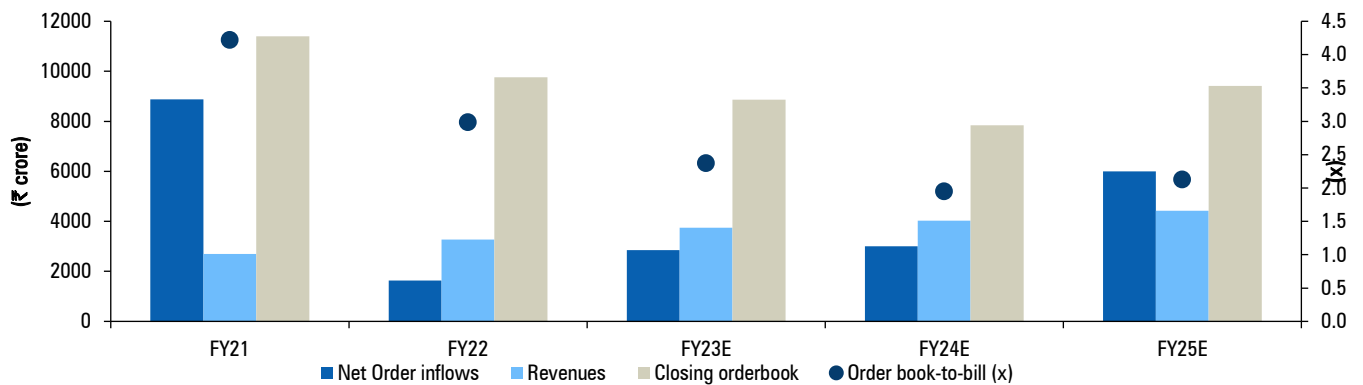
Company Analysis

Exhibit 3: Order book update

Key Projects	(₹ crore)
Ramanattukara to Valanchery bypass project (HAM)	1,317
Valanchery Bypass to Kappirikkad project (HAM)	1,173
Development of Six lane Chittoor-Thatchur Highway (HAM)	765
Bangalore-Mangalore Project (Periya Shanthi to Bntwal) (EPC)	719
Elevated Highway along Avinashi Road in Coimbatore City (EPC)	643
Top Five projects	4,617
Other Road projects	882
Irrigation projects	1,592
Total	7,092

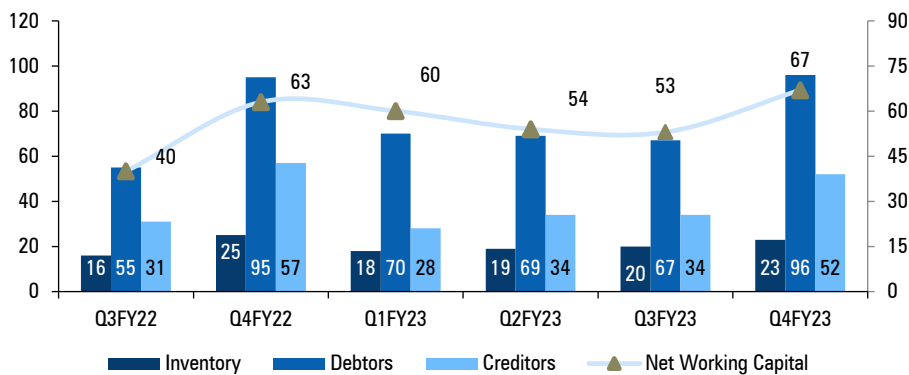
Source: Company, ICICI Direct Research

Exhibit 4: Healthy order book position



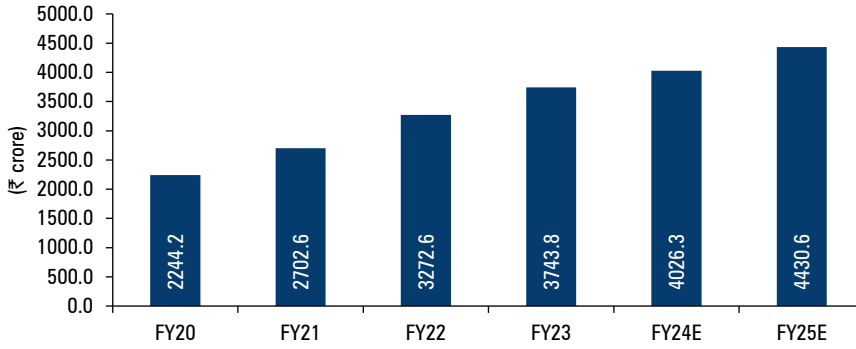
Source: Company, ICICI Direct Research

Exhibit 5: Net working capital days trend



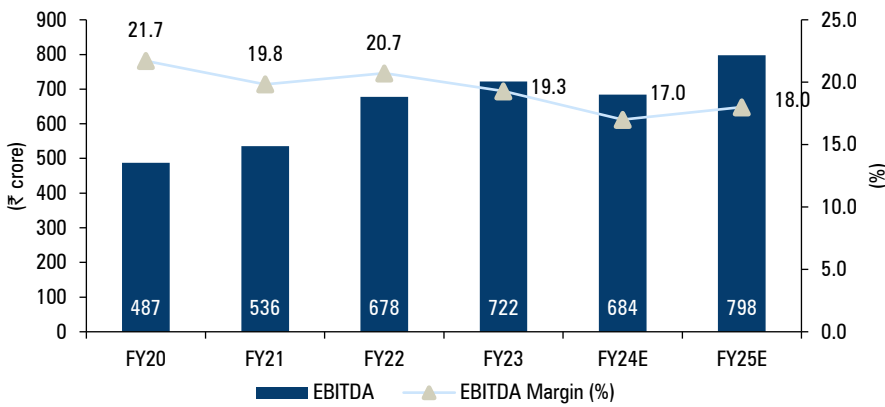
Source: Company, ICICI Direct Research

Exhibit 6: Healthy revenue growth ahead



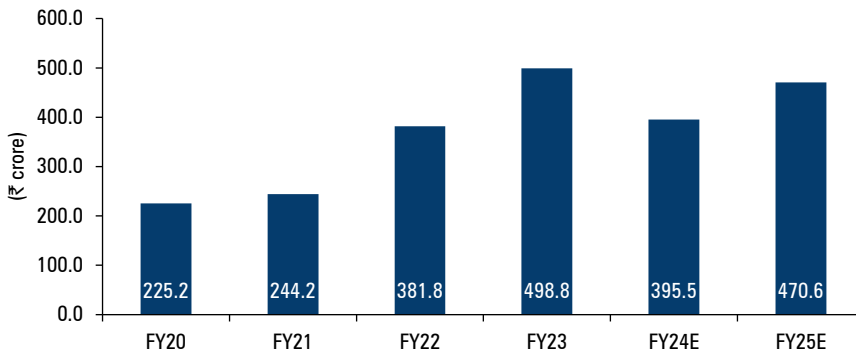
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA & EBITDA margin trend



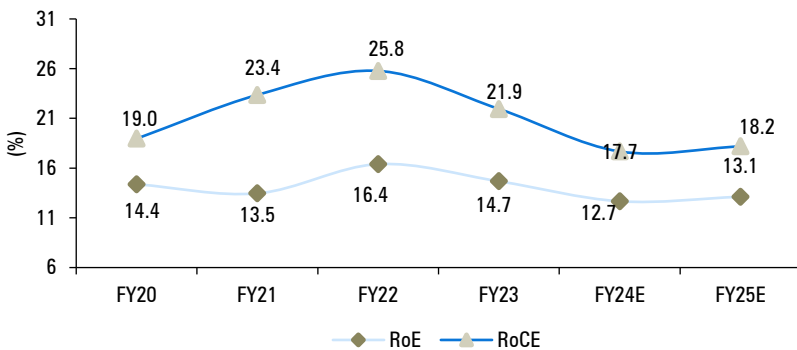
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

Valuation & Outlook

KNR is a focused road-based EPC player that enjoys a strong execution track record with the reputation of completing projects on time/ahead of the schedule. The company also enjoys healthy balance sheet and strong return ratio. Also, its equity commitment is likely to be supported by internal cash generation.

The execution is likely to be modest in FY24 with some moderation in margins also. Order inflow will be key near-term catalyst. Thus, we downgrade from BUY to HOLD.

Exhibit 10: SoTP valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business (A)	7529	268	16x FY25E P/E
Total Equity Investment (F=B+E)	386	14	1x Equity invested
SoTP Value (A+F-G)	7915	281	
Rounded-off target price		280	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	3,272.6	3,743.8	4,026.3	4,430.6
Other operating income	-	-	-	-
Total Revenues	3,272.6	3,743.8	4,026.3	4,430.6
Raw Material Expense	1,180.7	1,494.7	1,610.5	1,727.9
Other Construction Exp.	1,016.5	1,084.8	1,167.6	1,284.9
Employee benefit expenses	144.8	171.0	201.3	221.5
Other Expenses	252.9	271.5	362.4	398.8
Total Operating Exp	2,594.9	3,022.1	3,341.8	3,633.1
EBITDA	677.7	721.7	684.5	797.5
Other Income	41.7	32.1	33.8	36.4
Interest	27.4	39.3	28.2	28.2
Depreciation	134.6	147.4	161.3	176.6
PBT	578.8	705.1	528.7	629.1
Total Tax	197.0	206.2	133.2	158.5
Reported PAT	381.8	498.8	395.5	470.6
Adjusted PAT	367.7	401.2	395.5	470.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

₹ crore	FY22	FY23	FY24E	FY25E
Profit before Tax	578.8	705.1	528.7	629.1
Depreciation	134.6	147.4	161.3	176.6
Interest Paid	27.4	39.3	28.2	28.2
Others	(49.0)	(143.7)	(33.8)	(36.4)
Cash Flow before WC changes	691.8	748.1	684.5	797.5
Net Increase in Current Assets	(224.5)	(408.5)	25.5	(295.2)
Net Increase in Current Liabilities	58.6	(115.0)	145.3	108.7
Taxes paid	(182.6)	(211.7)	(133.2)	(158.5)
Net CF from Operating Activities	343.2	12.9	722.0	452.5
(Purchase)/Sale of Fixed Assets	(293.9)	(51.6)	(170.0)	(170.0)
Loans and Inv in JV/SPV	29.3	110.5	(280.9)	(80.9)
Others	16.3	1.8	33.8	36.4
Net CF from Investing Activities	(248.3)	60.7	(417.1)	(214.4)
Debt Proceeds/Repayment	(0.7)	0.3	(0.3)	-
Interest Paid	(31.2)	(40.2)	(28.2)	(28.2)
Others	(7.0)	(7.0)	(7.0)	(7.0)
Net CF from Financing Activities	(39.0)	(47.0)	(35.5)	(35.2)
Net Cash flow	56.0	26.5	269.4	202.8
Opening Cash/ Cash Equivalent	117.3	173.3	199.8	469.3
Closing Cash/ Cash Equivalent	173.3	199.8	469.3	672.1

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Share Capital	56.2	56.2	56.2	56.2
Reserves & Surplus	2,185.7	2,678.0	3,066.5	3,530.0
Networth	2,242.0	2,734.3	3,122.7	3,586.3
Secured Loan	-	-	-	-
Unsecured Loan	-	0.3	-	-
Total Debt	-	0.3	-	-
Deferred Tax Liability	-	-	-	-
Total Liabilities	2,269	2,763	3,151	3,615
Assets				
Gross Block	1,481.2	1,622.6	1,792.6	1,962.6
Net Block	414.4	408.4	417.1	410.4
Capital WIP	20.6	2.5	2.5	2.5
Non-current Investments	407.2	590.3	871.1	952.0
Current Assets				
Inventories	227.0	234.1	253.7	279.2
Sundry Debtors	849.4	1,013.0	772.2	849.7
Loans and Advances	38.4	31.2	31.2	31.2
Other Current Assets	753.0	992.3	1,172.3	1,352.3
Cash	173.3	199.8	469.3	672.1
Total Current Assets	1,867.9	2,270.5	2,229.3	2,512.4
Creditors	294.5	376.0	404.4	445.0
Provisions	24.0	14.6	15.7	17.3
Other Current Liabilities	742.0	546.0	661.9	728.3
Other Long Term Liabilities	17.0	16.9	16.9	16.9
Total Current Liabilities	1,060.5	936.7	1,081.9	1,190.6
Net Current Assets	1,093.8	1,502.6	1,585.6	1,962.8
Total Assets	2,269	2,763	3,151	3,615

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Data				
EPS (Fully Diluted)	13.6	17.7	14.1	16.7
Adjusted EPS	13.1	14.3	14.1	16.7
BV	79.7	97.2	111.0	127.5
Operating Ratios				
EBITDA / Net Sales	20.7	19.3	17.0	18.0
PAT / Net Sales	11.2	10.7	9.8	10.6
Inventory Days	25	23	23	23
Debtor Days	95	99	70	70
Creditor Days	33	37	37	37
Return Ratios				
RoE	16.4	14.7	12.7	13.1
RoCE	25.8	21.9	17.7	18.2
RoIC	35.6	29.1	28.9	31.2
Valuation Ratios				
EV / EBITDA	9.8	9.4	9.5	7.9
P/E	18.3	14.0	17.6	14.8
EV / Net Sales	2.0	1.8	1.6	1.4
Market Cap / Sales	2.1	1.9	1.7	1.6
Price to Book Value	3.1	2.6	2.2	1.9
Turnover Ratios				
Gross Block Turnover	2.2	2.3	2.2	2.3
Solvency Ratios				
Debt / Equity	-	0.0	-	-
Current Ratio	1.8	2.4	2.1	2.1
Debt / EBITDA	-	0.0	-	-
Quick Ratio	1.5	2.2	1.8	1.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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