

Shubh Nivesh



Diversification to boost growth visibility

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). It has a prudent management, robust return ratios (RoCE: 20%+)

Investment Rationale

- Diversification to boost inflows and growth visibility:** KNR's orderbook as of Q1FY24 stood at ₹ 8045 crore, 2.2x TTM book to bill. We highlight that KNR's conservative approach - focussing on margins, lesser segments as well as South India, has restricted its order inflow (won ~₹ 2000 crore of inflows in FY23), compared to peers. KNR is looking at order inflows of ₹ 4000-5000 crore in FY24. Most importantly, the company is now looking at diversifying geographically as well as segment wise (looking at water orders in states like Rajasthan, MP as well as tunning orders in North East). And they intend to expand it by tying up with peers like NCC, SEW and Patel Engineering to capitalise on their geographical as well as segment strengths. This could boost growth visibility meaningfully ahead. We have conservatively baked ~11% revenue CAGR over FY23-25E and strong order wins could lead to upgrade in the same.
- Enjoys a debt free standalone balance sheet:** KNR enjoys a debt free standalone balance sheet and has cash of ~₹ 85 crore as of Q1FY24. We highlight that it has already monetised 5 of its HAM projects to Cube Highways. Moreover, it continues to look at potential monetisation its existing HAM projects when they finish construction. It has an over all equity requirement of ₹ 958 crore (including new projects) and has already infused ₹ 404 crore. Remaining equity will be funded through internal accruals. We expect its debt to remain at minimal to zero levels with healthy operating cash flow generation and better cash flow management.

Rating and Target price

- We like KNR as it 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 (debt free and equity requirement for HAM to be funded through internal accruals) and strong return ratio. We believe that KNR's focus on diversifying geographically as we well as segment wise, could drive accelerated order inflows and sharply improve growth visibility.
- We assign **BUY** on the company. We value KNR at **SoTP basis to arrive at target price as ₹ 340/share** (Construction business at 18x FY25 P/E) and 1x P/B for HAM assets
- This is our high conviction Smallcap Idea**



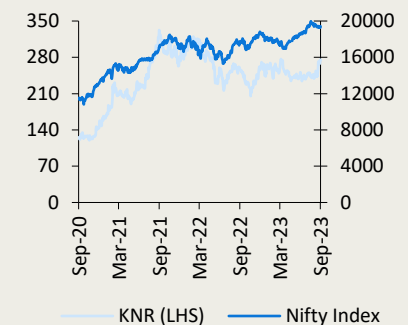
Particulars

Particular	Amount (₹ crore)
Market	7,668
Total Debt (FY23)	0.3
Cash (FY23)	200
EV	7,468
52 week H/L (₹)	287/ 203
Equity capital	56.2
Face value (₹)	2

Shareholding pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoters	43.8	43.8	43.8	43.8
DII	24.6	24.6	24.6	25.5
FII	13.4	14.2	14.3	13.7
Other	18.1	17.4	17.3	17.1

Price Chart



Key risks

- Delay in execution;
- Lower order inflows

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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	4,587.5	10.7%
EBITDA	487.1	535.8	677.7	721.7	13.3%	704.6	825.8	7.0%
EBITDA Margin (%)	21.7	19.8	20.7	19.3		17.5	18.0	
Adj. PAT	233.4	251.4	367.7	401.2	8.1%	412.6	496.3	11.2%
Adj. EPS (₹)	8.3	8.9	13.1	14.3		14.7	17.6	
P/E (x)	17.0	31.4	20.1	15.4		18.6	15.4	
EV/EBITDA (x)	16.1	14.1	10.8	10.3		10.4	8.6	
RoNW (%)	14.4	13.5	16.4	14.7		13.1	13.7	
RoCE (%)	19.0	23.4	25.8	21.9		18.3	18.9	

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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