

CMP: ₹ 326

Target: ₹ 390 (20%)

Target Period: 12 months

BUY

November 29, 2024

## Order inflows key for growth recovery ...

**About the stock:** KNR Constructions is a leading company in the highways sector having executed 6,000+ lane km of projects across 12 states, alongwith established presence in irrigation and urban water infrastructure management.

- Reported ~14% revenue CAGR over FY19-24 and has consistently delivered industry-leading operating margin

**Q2FY25 Performance:** Reported standalone revenue at ₹883.8 crore was down 6% YoY. On adjusted basis, revenue stood at ₹ 856 crore, down 9.1% YoY. Reported EBITDA margin stood at 18.6%, up 99 bps YoY. However, adjusted margin at 17.2% was down 49 bps YoY. Reported PAT stood at ₹334.4 crore, up 235% YoY, owing to one-off gain. On Adjusted basis, PAT stood at ₹115.4 crore, up 12.6% YoY.

### Investment Rationale:

- Awarding activity poised to pick up in H2:** KNR's orderbook stood at ₹5606 crore, 1.4x book to bill. It anticipates to capitalise on the accelerated tendering process, guiding for order inflows to the tune of ₹5000-6000 crore from here on and identified 80-85 tenders (ticket size of ₹ 600-1800 crore) to be awarded by NHAI. It also plans to capitalise on the AP and Telangana development projects with ~₹20,000 crore worth of contracts to come up for bidding in H2. We bake in revenues of ₹ 3592 crore in FY25, decline of ~12% on reported basis, largely on lines of management expectations. However, we expect a sharp jump in FY26 & FY27 revenues, resulting in ~9.6% CAGR over FY24-27E at ₹ 5383 crore.
- Enjoys a debt free standalone balance sheet:** KNR enjoys a debt free standalone balance sheet with cash of ₹247 crore as of Q2FY25. We highlight that it has targeted to monetize 4 HAM projects by September 2025. It has invested approx. ₹500-550 crore in the 4 HAM assets. It has an overall equity requirement of ₹992 crore for the 8 existing HAM projects and has already infused ₹556 crore. The additional equity requirement of ₹436 crore is to be infused over next ~2.5 years. 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, completing projects on time/ahead of the schedule. The company also enjoys healthy balance sheet and strong return ratio. We believe that KNR could capitalise on the accelerated ordering process during H2 which could drive order inflows and sharply improve growth visibility.
- We maintain BUY and value on SoTP basis at target price of ₹ 390/share

### Key Financial Summary

₹ crore	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr
Net Sales	3,743.8	4,091.0	13.9%	3,592.2	4,506.1	5,382.9	
EBITDA	721.7	701.0	10.4%	609.2	809.2	966.7	
EBITDA Margin (%)	19.3	17.1		17.0	18.0	18.0	
Adj. PAT	401.2	441.0	10.9%	329.3	515.6	631.2	
Adj. EPS (₹)	14.3	15.7		11.7	18.3	22.4	
P/E (x)	18.4	18.5		23.9	17.8	14.5	
EV/EBITDA (x)	12.4	12.7		13.9	10.3	8.4	
RoNW (%)	14.7	13.7		9.1	12.5	13.3	
RoCE (%)	21.9	22.1		14.8	17.2	18.2	



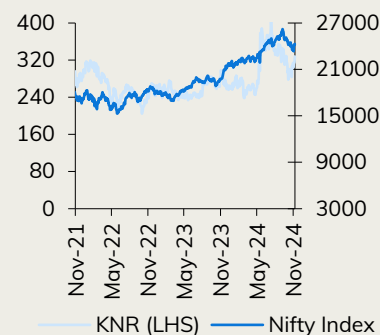
### Particulars

Particular	(₹ crore)
Market Capitalization	9,157
Total Debt (FY24)	0.0
Cash (FY24)	235
EV	8,922
52 week H/L (₹)	415/ 237
Equity capital	56.2
Face value (₹)	2

### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	51.1	51.1	48.8	48.8
DII	29.3	30.5	30.8	30.5
FII	7.6	7.1	8.2	6.7
Other	12.0	11.3	12.3	14.1

### Price Chart



### Key risks

- Delay in any major projects' execution
- Lower order inflows

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

Hammaad Ahmed Ulde  
hammaad.ulde@icicisecurities.com

## Performance highlights and outlook

- Q2 Performance** - KNR Q2 performance had certain arbitration claims, dividend and interest which aided topline and other income. The reported standalone revenue at ₹883.8 crore was down 6% YoY. On adjusted basis, revenue stood at ₹ 856 crore, down 9.1% YoY. Reported EBITDA margin stood at 18.6%, up 99 bps YoY. However, adjusted margin at 17.2% was down 49 bps YoY. At net level, reported PAT stood at ₹334.4 crore, up 235% YoY, owing to one-off gain. On Adjusted basis, PAT stood at ₹115.4 crore, up 12.6% YoY.
- Guidance** – Due to slow execution, the management expects a decline in turnover by 6-7% For FY25 (vs. flat earlier), the revenue guidance is in the range of ₹3500-₹3600 crore as against ₹4000 crore in FY24. The margin guidance has been maintained at 15-16% for FY25. The management mentioned that Q2 FY25 execution has been poor due to heavy monsoon, however it expects Q3FY25 and Q4FY25 to fairly better.
- Order-book position** – KNR's orderbook stood at ₹4406 crore as of Q2 FY25, which can be bifurcated as 52% EPC road and HAM projects, 23% irrigation and balance 25% towards pipeline projects. Upon including contracts aggregating to ₹1200 crore (for which appointed date is yet to be received for the two HAM projects) the order book increases to ₹5606 crore. The order book is to be executed over a period of 1.5-2 years. The company anticipates an increase in order-booking during H2, having guided for order inflows to the tune of ₹6000-8000 crore for next year.
- Equity Requirement** - As of 30<sup>th</sup> Sept 2024, the company has already invested ₹556 crore out of ₹992 crore, revised equity requirements for the eight existing HAM projects. The additional equity requirement of ₹436 crore is to be infused as ₹200 crore ₹120 crore and ₹116 crore for H2 FY '25, FY '26 and FY '27 respectively.
- Progress on HAM projects** - HAM project completion status is as follows - Magadi to Somwarpet approximately 87% completed, Oddanchatram to Madathukulam 100% completed final COD of the project is awaited (applied for), Ramanattukara to Valanchery approximately 82%, Valanchery to Kappirikkad approximately 84%, Chittor to Thatchur is 77% and Marrisudi to Somvarappadu is 12%.
- Settlement Agreement** – The company signed a settlement agreement with NHAI for which it received ₹317.7 crore, including ₹142 crore of the interest on unsecured loan from the SPV. Additionally, the SPV has repaid its entire debt obligation to the lenders and the project will be foreclosed. The toll collection of Muzaffarpur Barauni toll project was taken over by NHAI with effect from 1st November 2024.
- Claims and receipts** – The company received arbitration claims of ₹28 crore from its Orissa project and it also received ₹43 crore towards interest on such claim. It is also expecting claims worth ₹130 crore which are pending with NHAI and other authorities.
- Delay in tenders** – The company has identified 80-85 tenders that are to be awarded by NHAI which have been delayed. The ticket size of the said projects is pegged at around ₹600-₹1800 crore. However, with awarding activity poised to pick in H2, the management anticipates Q4 to be flooding with tenders with awarding partially starting from January and peaking in March. It anticipates to capitalise on the accelerated tendering process, guiding for order inflows to the tune of ₹5000-6000 crore from here on.
- MSRDC and Patel MoU** – The company is under discussion with Navayuga constructions having identified three packages in Pune, of which one has been offered to it. The project is worth approximately

₹2000 crore. It has also executed an MoU with Patel Infra for MSRDC projects targeting around ₹2000 crore.

- **Irrigation and HAM project payment** – The total receivables for the irrigation project amount to ₹900 crore, of which around ₹600 crore receivables are overdue. The management has now indicated it expects ₹600 crore in the next two months having recently undergone discussions with the concerned ministry. The receivables from the HAM project amount to ₹435 crore.
- **Monetisation of HAM assets** – KNR has targeted to monetize 1 HAM project in FY25 i.e. KNR Palani for which PCOD has already been received. The remaining 3 HAM projects are expected to be monetized by September 2025, with PCOD expected for Chittor-Thatchur, Ramanattukara-Valanchery and Valanchery-Kappirikkad by March 2025. It has invested ~ ₹500-550 crore in the four HAM projects.
- **Andhra Pradesh projects** – The management has indicated plans to capitalize on the AP and Telangana development projects. It expects around ₹20,000 crore worth of contracts to come up for bidding in a few months mostly likely by March-end.
- **Working capital, Cash and debt** – Working capital stood at 71 days as of Q2 FY25 vs 78 days in Q2 FY24. The company’s standalone cash and debt stood at ₹247 crore and ₹3 crore respectively as of Q2 FY25
- **Capex** – KNR has incurred a capex of ₹4 crore in Q2 and ₹13 crore for H1 FY25. Management also indicated that it would incur additional capex if it were to receive new projects in Q4 FY25, otherwise, based on the current orderbook position it wouldn’t need to incur capex.

**Exhibit 1: Quarter Performance**

Particulars	Q2FY25 Adj	Q2FY24	YoY (%)	Q1FY25 Adj	QoQ (%)	Comments
Total Operating Income	856.0	941.5	-9.1	819.3	4.5	
Other Income	57.5	7.6	659.0	5.1	1025.5	
Consumption of raw materials	378.9	378.8	0.0	365.5	3.7	
Employee benefit expenses	52.6	41.6	26.2	41.9	25.4	
Other Expenses	71.2	102.8	-30.7	80.5	-11.5	
EBITDA	147.0	166.3	-11.6	135.6	8.4	
EBITDA Margin(%)	17.2	17.7	-49 bps	16.5	62 bps	
Depreciation	22.6	31.1	-27.2	22.5	0.4	
Interest	2.0	5.8	-64.7	4.1	-49.7	
PBT	179.8	137.0	31.3	114.1	57.6	
Exceptional Item	-15.0	0.0	NM	0.0	NM	
Taxes	34.4	34.6	-0.4	33.3	3.3	
Adj PAT	115.4	102.4	12.6	80.8	42.8	

Source: Company, ICICI Direct Research

**Exhibit 2: SoTP Valuation**

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business	10099	359	16x FY27E P/E
HAM Projects Investment (E)	756	27	
<b>Total Equity Investment</b>	<b>10855</b>	<b>386</b>	1x Equity investment as on FY25
<b>SoTP Value</b>	<b>10855</b>	<b>386</b>	
<b>Rounded-off target price</b>		<b>390</b>	

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Net Sales	4,091.0	3,592.2	4,506.1	5,382.9
Other operating income	-	-	-	-
<b>Total Revenues</b>	<b>4,091.0</b>	<b>3,592.2</b>	<b>4,506.1</b>	<b>5,382.9</b>
Raw Material Expense	1,660.2	1,436.9	1,802.4	2,153.2
Other Construction Exp	1,089.4	1,005.8	1,306.8	1,561.0
Employee benefit expense	173.5	152.4	191.2	228.4
Other Expenses	467.0	388.0	396.5	473.7
<b>Total Operating Exp</b>	<b>3,390.0</b>	<b>2,983.0</b>	<b>3,696.9</b>	<b>4,416.3</b>
EBITDA	<b>701.0</b>	<b>609.2</b>	<b>809.2</b>	<b>966.7</b>
Other Income	142.2	48.3	38.6	44.8
Interest	29.3	26.2	22.2	22.2
Depreciation	124.5	120.1	136.3	145.5
<b>PBT</b>	<b>689.3</b>	<b>511.2</b>	<b>689.3</b>	<b>843.8</b>
Total Tax	195.5	128.8	173.7	212.6
<b>Reported PAT</b>	<b>493.8</b>	<b>382.4</b>	<b>515.6</b>	<b>631.2</b>
<b>Adjusted PAT</b>	<b>441.0</b>	<b>329.3</b>	<b>515.6</b>	<b>631.2</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
<b>Profit before Tax</b>	<b>689.3</b>	<b>511.2</b>	<b>689.3</b>	<b>843.8</b>
Depreciation	124.5	120.1	136.3	145.5
Interest Paid	29.3	26.2	22.2	22.2
Others	(0.8)	(48.3)	(38.6)	(44.8)
<b>CF before WC changes</b>	<b>842.3</b>	<b>609.2</b>	<b>809.2</b>	<b>966.7</b>
Net Increase in CA	(467.1)	277.9	(503.3)	(490.2)
Net Increase in CL	60.2	(123.0)	220.7	211.8
Taxes paid	(217.7)	(128.8)	(173.7)	(212.6)
<b>Net CF from Op Activities</b>	<b>217.8</b>	<b>635.3</b>	<b>352.9</b>	<b>475.6</b>
(Purchase)/Sale of FA	(72.8)	(120.0)	(100.0)	(100.0)
Loans and Inv in JV/SPV	(192.9)	(56.5)	(182.8)	(175.4)
Others	111.7	48.3	38.6	44.8
<b>Net CF from Inv. Activities</b>	<b>(154.0)</b>	<b>(128.1)</b>	<b>(244.2)</b>	<b>(230.5)</b>
Debt Proceeds/Repayment	(0.3)	-	-	-
Interest Paid	(21.7)	(26.2)	(22.2)	(22.2)
Others	(7.0)	(7.0)	(7.0)	(7.0)
<b>Net CF from Fin. Activities</b>	<b>(29.0)</b>	<b>(33.2)</b>	<b>(29.2)</b>	<b>(29.2)</b>
<b>Net Cash flow</b>	<b>34.8</b>	<b>473.9</b>	<b>79.5</b>	<b>215.8</b>
Opening Cash/ Cash Equiv.	199.8	234.6	708.5	788.0
<b>Closing Cash/ Cash Equiv.</b>	<b>234.6</b>	<b>708.5</b>	<b>788.0</b>	<b>1,004</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
<b>Liabilities</b>				
Share Capital	56.2	56.2	56.2	56.2
Reserves & Surplus	3,169.4	3,544.8	4,053.3	4,677.5
<b>Networth</b>	<b>3,225.7</b>	<b>3,601.0</b>	<b>4,109.6</b>	<b>4,733.7</b>
Secured Loan	-	-	-	-
Unsecured Loan	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Tax Liability	-	-	-	-
<b>Total Liabilities</b>	<b>3,247</b>	<b>3,623</b>	<b>4,131</b>	<b>4,755</b>
<b>Assets</b>				
Gross Block	1,672.7	1,792.7	1,892.7	1,992.7
Net Block	366.0	365.9	329.6	284.1
Capital WIP	2.2	2.2	2.2	2.2
Non-current Investment	728.3	784.8	967.6	1,142.9
<b>Current Assets</b>				
Inventories	220.7	226.4	283.9	339.2
Sundry Debtors	1,405.9	935.0	1,172.8	1,401.0
Loans and Advances	6.1	5.8	6.3	6.7
Other Current Assets	1,037.0	1,217.0	1,397.0	1,577.0
Cash	234.6	708.5	788.0	1,003.9
<b>Total Current Assets</b>	<b>2,669.7</b>	<b>2,384.2</b>	<b>2,860.0</b>	<b>3,323.9</b>
Creditors	273.9	240.5	301.7	360.4
Provisions	8.0	7.0	8.8	10.5
Other Current Liabilities	708.6	620.0	777.8	929.1
Other Long Term Liabilities	14.9	14.9	14.9	14.9
<b>Total Current Liabilities</b>	<b>990.5</b>	<b>867.5</b>	<b>1,088.3</b>	<b>1,300.0</b>
<b>Net Current Assets</b>	<b>1,909.6</b>	<b>2,220.9</b>	<b>2,555.6</b>	<b>3,023.5</b>
<b>Total Assets</b>	<b>3,247</b>	<b>3,623</b>	<b>4,131</b>	<b>4,755</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY24E	FY25E	FY26E	FY27E
<b>Per Share Data</b>				
EPS (Fully Diluted)	17.6	13.6	18.3	22.4
Adjusted EPS	15.7	11.7	18.3	22.4
BV	114.7	128.0	146.1	168.3
<b>Operating Ratios</b>				
EBITDA / Net Sales	17.1	17.0	18.0	18.0
PAT / Net Sales	10.8	9.2	11.4	11.7
Inventory Days	20	23	23	23
Debtor Days	125	95	95	95
Creditor Days	24	24	24	24
<b>Return Ratios</b>				
RoE	13.7	9.1	12.5	13.3
RoCE	22.1	14.8	17.2	18.2
RoIC	25.3	23.0	28.4	31.5
<b>Valuation Ratios</b>				
EV / EBITDA	12.8	13.9	10.4	8.5
P/E	18.6	24.1	17.8	14.6
EV / Net Sales	2.2	2.4	1.9	1.5
Market Cap / Sales	2.2	2.6	2.0	1.7
Price to Book Value	2.9	2.6	2.2	1.9
<b>Turnover Ratios</b>				
Gross Block Turnover	2.4	2.0	2.4	2.7
<b>Solvency Ratios</b>				
Debt / Equity	-	-	-	-
Current Ratio	2.7	2.7	2.6	2.6
Debt / EBITDA	-	-	-	-
<b>Quick Ratio</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

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