

# KNR Constructions

Estimate change 

TP change

Rating change 

**CMP: INR250**

**TP: INR300 (+20%)**

**Buy**

## Miss on execution; focusing on new order inflows from the non-road segments

Bloomberg	KNRC IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	73.3 / 0.8
52-Week Range (INR)	415 / 237
1, 6, 12 Rel. Per (%)	-17/-20/-6
12M Avg Val (INR M)	577

### Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	34.5	40.8	48.2
EBITDA	5.7	6.8	8.2
PAT	4.2	4.8	5.7
EBITDA (%)	16.6	16.7	17.0
EPS (INR)	14.9	17.0	20.4
EPS Gr. (%)	-1.9	13.6	20.0
BV/Sh. (INR)	140.9	157.4	177.3

### Ratios

Net D/E	-0.2	-0.2	-0.1
RoE (%)	11.7	11.4	12.2
RoCE (%)	13.4	11.7	12.4
Payout (%)	1.9	2.9	2.5

### Valuations

P/E (x)	16.7	14.7	12.3
P/BV (x)	1.8	1.6	1.4
EV/EBITDA (x)	10.7	9.2	7.8
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	14.0	1.0	1.4

### Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	48.8	48.8	51.1
DII	29.7	30.5	29.3
FII	7.0	6.7	7.6
Others	14.5	14.1	12.0

FII Includes depository receipts

- In 3QFY25, KNR Constructions (KNRC) received certain arbitration claims. For a like-to-like comparison, we have adjusted the same in revenue, other income, other expenses, and total taxes for 3QFY25 and have shown them as exceptional items.
- KNRC's 3Q revenue declined 22% YoY to ~INR7.1b (20% below our estimate). EBITDA declined 20% YoY to INR1.2b (our est. INR1.5b). EBITDA margin stood at 16.6% (+30bp YoY) vs. our estimate of 16.5%. The impact of weak execution was offset by higher other income and lower depreciation & interest expenses, which resulted in an APAT of INR903m (in line).
- During 9MFY25, revenue/EBITDA declined 14%/20% YoY, while APAT grew 8%. KNRC's current order book stands at ~INR55b (incl. L1). The order pipeline looks promising, with expectations of INR80-100b in new project wins over the next 3-4 months.
- The operating performance for 3QFY25 was below our estimates due to muted execution. The tender pipeline remains robust, with strong order flows expected in FY26. The company is actively bidding for new projects across highways, irrigation, and urban infrastructure, with a strong presence in Tamil Nadu, Karnataka, Telangana, and Andhra Pradesh. KNR is also expanding into new segments like mine development and BOT toll projects in collaboration with Adani and Cube Highways.
- Factoring in weaker execution in 3QFY25 and a soft order book, we expect a 7% revenue CAGR over FY24-27. In line with lower EBITDA margin guidance by KNRC, we cut our EBITDA margin estimates to 16-17% over FY24-27 (from 17-18% earlier). Further, considering the sluggishness in order awarding by NHA, we cut our revenue/EBITDA estimates by ~6% each for FY25. We also cut our revenue/EBITDA estimates for FY26 by 2%/11% and for FY27 by 6%/14%. **We reiterate our BUY rating with a revised SoTP-based TP of INR300. We value the EPC business at a P/E of 14x on Sep'26E EPS and BOT assets at 1x investment value.**

### Key takeaways from the management commentary

- KNRC has a total order book of INR55.17b, with 46% in EPC and HAM road projects, 26% in irrigation, and 28% in pipeline projects. The company is actively bidding for new projects across highways, irrigation, and urban infrastructure, with a strong presence in Tamil Nadu, Karnataka, Telangana, and Andhra Pradesh.
- KNRC is also expanding into new segments like mine development and BOT toll projects in collaboration with Adani and Cube Highways.
- KNRC is awaiting INR5.8b in certified payments and INR4.0b in unbilled receivables from Telangana's irrigation projects, for which legal action has been initiated.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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- Due to a lower order book and payment delays, KNRC expects a revenue decline of 10-15% in FY25. However, it anticipates revenue to recover to INR35-40b in FY26, with further growth in FY27.
- KNRC aims to secure INR80-100b in new orders in the next 3-4 months and is likely to monetize four HAM assets, with the first expected to be sold by Jun'25 and the remaining by Dec'25.

#### Valuation and view

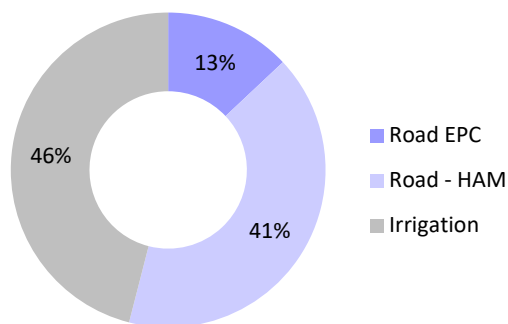
- With a strong order pipeline and a strategic focus on expanding into new segments and markets, KNRC aims to substantially grow its order book. Additionally, given the slow pace of contract awards by NHAI, KNRC is exploring partnerships for BOT projects and diversifying into non-road segments.
- Due to lower order inflows in 9MFY25, KNRC anticipates 10-15% decline in revenue in FY25, with revenue of INR34-40b in FY26.
- In line with the weakened outlook on execution and margins, we reduce our estimates. We cut our revenue/EBITDA estimates by ~6% each for FY25. We also cut our revenue/EBITDA estimates for FY26 by 2%/11% and for FY27 by 6%/14%. **We reiterate our BUY rating with a revised SoTP-based TP of INR300. We value the EPC business at a P/E of 14x on Sep'26E EPS and BOT assets at 1x investment value.**

#### Quarterly performance – Standalone

(INR m)

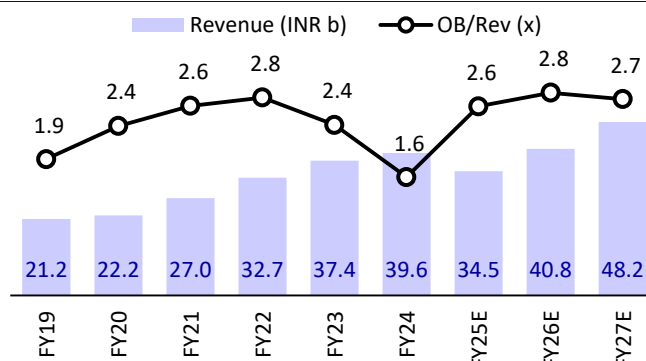
Y/E March	FY24				FY25E				FY24	FY25E	MOSL	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>9,296</b>	<b>9,415</b>	<b>9,054</b>	<b>11,793</b>	<b>8,193</b>	<b>8,561</b>	<b>7,079</b>	<b>10,648</b>	<b>39,558</b>	<b>34,481</b>	<b>8,848</b>	<b>-20</b>
YoY Change (%)	4.4	11.1	9.1	0.3	-11.9	-9.1	-21.8	-9.7	5.7	-12.8	-2.3	
<b>EBITDA</b>	<b>1,733</b>	<b>1,663</b>	<b>1,473</b>	<b>2,033</b>	<b>1,356</b>	<b>1,380</b>	<b>1,173</b>	<b>1,814</b>	<b>6,902</b>	<b>5,724</b>	<b>1,460</b>	<b>-20</b>
Margins (%)	18.6	17.7	16.3	17.2	16.6	16.1	16.6	17.0	17.4	16.6	16.5	
Depreciation	283	311	325	326	225	226	229	232	1,245	912	250	
Interest	50	58	72	113	41	20	31	29	293	121	40	
Other Income	71	50	60	147	51	575	130	106	328	862	55	
<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>1,709</b>	<b>1,044</b>	<b>1,659</b>	<b>5,692</b>	<b>5,553</b>	<b>1,225</b>	
Extra-Ord expense	0	0	0	654	531	1,867	919	0	654	3,317	0	
Tax	367	346	281	414	334	344	253	418	1,407	1,349	343	
Rate (%)	25.0	25.7	24.7	23.8	29.2	20.1	24.3	25.2	24.7	24.3	28.0	
<b>Reported PAT</b>	<b>1,103</b>	<b>999</b>	<b>855</b>	<b>1,982</b>	<b>1,339</b>	<b>3,344</b>	<b>1,822</b>	<b>1,241</b>	<b>4,938</b>	<b>7,745</b>	<b>882</b>	
<b>Adj PAT</b>	<b>1,103</b>	<b>999</b>	<b>855</b>	<b>1,328</b>	<b>807</b>	<b>1,477</b>	<b>903</b>	<b>1,241</b>	<b>4,284</b>	<b>4,428</b>	<b>882</b>	<b>2</b>
YoY Change (%)	9.4	-7.2	10.1	3.2	-26.8	47.9	5.6	-6.5	3.3	3.4	3.1	
Margins (%)	11.9	10.6	9.4	11.3	9.9	17.3	12.8	11.7	10.8	12.8	10.0	

**Exhibit 1: OB breakup (3QFY25: INR55b)**



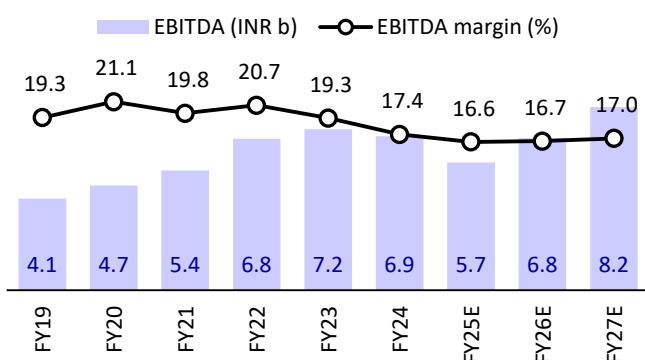
Source: MOFSL, Company

**Exhibit 2: With current OB, revenue is likely to clock 7% CAGR over FY24–27E**



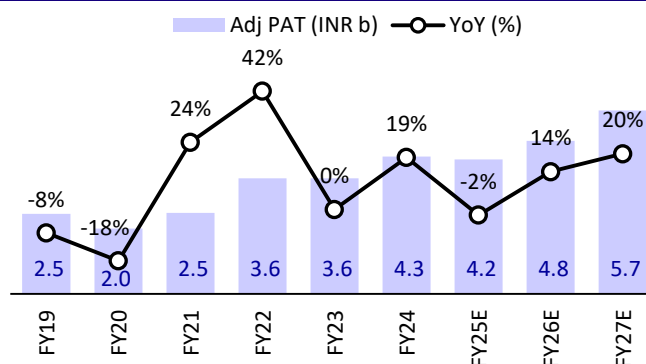
Source: MOFSL, Company

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



Source: MOFSL, Company

**Exhibit 4: Adjusted PAT to post 10% CAGR over FY24–27E**



Source: MOFSL, Company

### Highlights from the management commentary

#### Arbitration claims

- In Patel KNR Heavy Infrastructures Ltd, KNR received claims of INR355m which were included in revenue, and INR1b towards interest on such claim which was included in other income.
- Further, expenses related to such claims of INR12.9m were included in other expenses and INR347m was included in the current tax.

#### Industry opportunity

- The road construction sector has seen aggressive bidding, with some NHAI tenders awarded at discounts of 20–25%.
- Additionally, slow disbursement of funds for irrigation projects continues to be a challenge.
- After a slowdown in project awards due to elections, a significant project bidding pipeline of around INR1.1t has emerged, largely comprising HAM and EPC projects.

#### Order book and bidding pipeline

- As of Dec'24, KNRC's order book was worth INR38.8b. This excluded two HAM projects valued at INR12b and two irrigation projects totaling INR4.4b. Including these, the total order book rose to INR55b, which is set to be executed over the next 1.5 to 2 years.

- The order book composition includes 46% EPC and HAM road projects, 26% irrigation projects, and 28% pipeline projects. ~71% of the order book consists of third-party projects, with 58% from state government contracts, 10% from central government projects, and 3% from private clients. The remaining 29% comprises captive HAM projects.
- Several key projects are progressing well. The Magadi to Somwarpet HAM project is 88% complete, while the Ramanattukara to Valanchery project has reached 90% completion. The Valanchery to Kappirikkad project is 86% complete, the Chittor to Thatchur project stands at 84%, and the Marrisudi to Somvarappadu project has reached 23% completion.
- KNRC is actively bidding for projects across highways, irrigation, and urban infrastructure. In Tamil Nadu, it is preparing bids for the INR19b highway flyover, the INR9b highway project, and the INR6b flyover in Coimbatore.
- In Karnataka, KNRC is targeting two state government projects worth INR6b and INR18b. In Telangana, the company is focusing on two flyover projects valued at INR990m and INR9b, respectively. Additionally, KNRC is exploring irrigation projects in Rajasthan under the HAM model, with values ranging from INR5b to INR50b.
- KNRC is expanding into new segments, including mine development and operation (MDO) contracts. While this segment offers lower margins than roads and irrigation, the company expects it to provide steady revenue. KNRC is also collaborating with Adani and Cube Highways for large BOT toll projects. It has already submitted an EPC bid for Adani's Agra-Gwalior BOT toll project, valued at INR34b.
- As of Dec'24, KNCR had a net debt-to-equity ratio of 0.33x, up from 0.3x in Mar'24.
- The company's working capital includes INR12.2b in receivables, INR11.1b in unbilled revenue, INR3b in retention money, and INR300m in mobilization advances. Inventory stood at INR1.96b, while creditors totaled INR3.32b.

#### **Irrigation projects**

- KNRC is pursuing pending payments from the Telangana government. As of Dec'24, the company is awaiting INR5.8b in certified payments and INR4b in unbilled receivables. Legal action has been initiated to expedite these settlements.
- KNRC is also interested in participating in Jal Shakti projects and exploring opportunities in Telangana's irrigation sector.

#### **Guidance**

- KNRC has provided cautious guidance in the near to medium term. The company expects a 10–15% revenue decline in FY25 due to a lower order book and delays in irrigation project payments.
- For FY26, revenue is projected to be in the INR35b-40b. Growth is expected to pick up in FY27 as new projects progress. EBITDA margin is anticipated to remain within 15.0-16.5%.
- The company aims to secure INR80-100b of new orders within the next 3–4 months.

- As of Dec'24, KNRC had invested INR5.9b in its HAM projects out of the revised equity requirement of INR9b. The remaining INR4b will be infused in phases – INR1b in FY25, INR2b in FY26, and INR880m in FY27.
- KNRC is in the process of monetizing four of its mature HAM assets. The sale of the Palani project is expected to be completed by Jun'25, while the remaining three assets are likely to be monetized by Dec'25.

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

Earnings Change INR m	Old			New			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	36,563	41,593	51,475	34,481	40,760	48,223	-5.7%	-2.0%	-6.3%
EBITDA	6,106	7,611	9,523	5,724	6,807	8,198	-6.3%	-10.6%	-13.9%
EBITDA margin	16.7%	18.3%	18.5%	16.6%	16.7%	17.0%	-0.1%	-1.6%	-1.5%
Adj. PAT	4,177	4,804	6,136	4,203	4,776	5,733	0.6%	-0.6%	-6.6%

Source: Company, MOFSL

#### Valuation and view

- With a strong order pipeline and a strategic focus on expanding into new segments and markets, KNRC aims to substantially grow its order book. Additionally, given the slow pace of contract awards by NHAI, KNRC is exploring partnerships for BOT projects and diversifying into non-road segments.
- Due to lower order inflows in 9MFY25, KNRC anticipates 10-15% decline in revenue in FY25, with revenue of INR34-40b in FY26.
- Factoring in weaker execution in 3QFY25 and a soft order book, we expect a 7% revenue CAGR over FY24-27. In line with lower EBITDA margin guidance by KNRC, we cut our EBITDA margin estimates to 16-17% over FY24-27 (from 17-18% earlier). Further, considering the sluggishness in order awarding by NHAI, we cut our revenue/EBITDA estimates by ~6% each for FY25. We also cut our revenue/EBITDA estimates for FY26 by 2%/11% and for FY27 by 6%/14%. **We reiterate our BUY rating with a revised SoTP-based TP of INR300. We value the EPC business at a P/E of 14x on Sep'26E EPS and BOT assets at 1x investment value.**

#### Exhibit 6: Our SoTP-based TP stands at INR300

Particulars	INR m	Per share (INR)
<b>Valuation</b>		
Sep'26E PAT – 14x P/E	73,565	257
BOT Portfolio valuation	12,120	43
<b>Total</b>	<b>85,685</b>	<b>300</b>

Source: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Total Income from Operations</b>	<b>32,726</b>	<b>37,438</b>	<b>39,558</b>	<b>34,481</b>	<b>40,760</b>	<b>48,223</b>
Change (%)	21.1	14.4	5.7	-12.8	18.2	18.3
<b>EBITDA</b>	<b>6,777</b>	<b>7,217</b>	<b>6,902</b>	<b>5,724</b>	<b>6,807</b>	<b>8,198</b>
Margin (%)	20.7	19.3	17.4	16.6	16.7	17.0
Depreciation	1,346	1,474	1,245	912	1,084	1,188
<b>EBIT</b>	<b>5,431</b>	<b>5,743</b>	<b>5,657</b>	<b>4,811</b>	<b>5,723</b>	<b>7,010</b>
Int. and Finance Charges	274	393	293	121	155	169
Other Income	417	321	328	862	815	820
<b>PBT bef. EO Exp.</b>	<b>5,574</b>	<b>5,671</b>	<b>5,692</b>	<b>5,553</b>	<b>6,383</b>	<b>7,661</b>
EO Items	214	1,380	654	3,317	0	0
<b>PBT after EO Exp.</b>	<b>5,788</b>	<b>7,051</b>	<b>6,346</b>	<b>8,870</b>	<b>6,383</b>	<b>7,661</b>
Total Tax	1,970	2,062	1,407	1,349	1,607	1,928
Tax Rate (%)	34.0	29.3	22.2	15.2	25.2	25.2
<b>Reported PAT</b>	<b>3,818</b>	<b>4,988</b>	<b>4,938</b>	<b>7,520</b>	<b>4,776</b>	<b>5,733</b>
<b>Adjusted PAT</b>	<b>3,604</b>	<b>4,148</b>	<b>4,284</b>	<b>4,203</b>	<b>4,776</b>	<b>5,733</b>
Change (%)	42.4	15.1	3.3	-1.9	13.6	20.0
Margin (%)	11.0	11.1	10.8	12.2	11.7	11.9

### Standalone Balance Sheet

(INR m)

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	562	562	562	562	562	562
Total Reserves	21,857	26,780	31,694	39,074	43,710	49,302
<b>Net Worth</b>	<b>22,420</b>	<b>27,343</b>	<b>32,257</b>	<b>39,636</b>	<b>44,272</b>	<b>49,865</b>
Total Loans	0	3	0	0	0	0
Deferred Tax Liabilities	-1,183	-1,229	-1,367	-1,367	-1,367	-1,367
<b>Capital Employed</b>	<b>21,237</b>	<b>26,116</b>	<b>30,889</b>	<b>38,269</b>	<b>42,905</b>	<b>48,497</b>
Gross Block	15,471	16,955	17,756	20,256	22,256	25,256
Less: Accum. Deprn.	10,668	12,142	13,387	14,300	15,384	16,572
<b>Net Fixed Assets</b>	<b>4,803</b>	<b>4,813</b>	<b>4,369</b>	<b>5,957</b>	<b>6,873</b>	<b>8,685</b>
Capital WIP	206	25	22	22	22	22
<b>Total Investments</b>	<b>4,828</b>	<b>5,244</b>	<b>6,620</b>	<b>9,620</b>	<b>11,120</b>	<b>13,120</b>
<b>Current Assets</b>	<b>22,275</b>	<b>25,685</b>	<b>29,999</b>	<b>31,492</b>	<b>35,319</b>	<b>39,008</b>
Inventory	2,270	2,341	2,207	1,924	2,274	2,691
Account Receivables	8,494	9,834	13,642	10,344	13,043	15,431
Cash and Bank Balance	1,733	1,998	2,346	8,935	7,839	6,497
Other current assets	9,778	11,512	11,804	10,289	12,162	14,389
<b>Current Liability</b>	<b>10,875</b>	<b>9,651</b>	<b>10,121</b>	<b>8,822</b>	<b>10,428</b>	<b>12,338</b>
Account Payables	2,945	3,760	2,739	2,387	2,822	3,339
Other current liabilities	7,590	5,630	7,236	6,307	7,456	8,821
Provisions	339	261	146	128	151	178
<b>Net Current Assets</b>	<b>11,400</b>	<b>16,034</b>	<b>19,879</b>	<b>22,671</b>	<b>24,891</b>	<b>26,671</b>
<b>Appl. of Funds</b>	<b>21,237</b>	<b>26,116</b>	<b>30,889</b>	<b>38,269</b>	<b>42,905</b>	<b>48,497</b>

## Financials and valuations

### Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>						
EPS	12.8	14.7	15.2	14.9	17.0	20.4
Cash EPS	17.6	20.0	19.7	18.2	20.8	24.6
BV/Share	79.7	97.2	114.7	140.9	157.4	177.3
DPS	0.2	0.2	0.2	0.4	0.4	0.4
Payout (%)	1.8	1.4	1.4	1.9	2.9	2.5
<b>Valuation (x)</b>						
P/E	19.5	17.0	16.4	16.7	14.7	12.3
P/BV	3.1	2.6	2.2	1.8	1.6	1.4
EV/EBITDA	10.1	9.5	9.8	10.7	9.2	7.8
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.2
FCF per share	1.8	-1.4	5.2	35.0	2.5	3.4
<b>Return Ratios (%)</b>						
RoE	17.5	16.7	14.4	11.7	11.4	12.2
RoCE	18.8	17.2	15.6	13.4	11.7	12.4
RoIC	28.0	24.4	21.6	19.6	19.6	19.9
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	2.1	2.2	2.2	1.7	1.8	1.9
Asset Turnover (x)	1.5	1.4	1.3	0.9	1.0	1.0
Inventory (Days)	25	23	20	20	20	20
Debtor (Days)	95	96	126	110	117	117
Creditor (Days)	33	37	25	25	25	25
<b>Leverage Ratio (x)</b>						
Current Ratio	2.0	2.7	3.0	3.6	3.4	3.2
Interest Coverage Ratio	19.8	14.6	19.3	39.9	36.9	41.5
Net Debt/Equity	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1

### Standalone Cash Flow Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>OP/(Loss) before Tax</b>	<b>5,788</b>	<b>7,051</b>	<b>6,893</b>	<b>5,553</b>	<b>6,383</b>	<b>7,661</b>
Depreciation	1,346	1,474	1,245	912	1,084	1,188
Interest and Finance Charges	271	363	209	121	155	169
Direct Taxes Paid	-1,826	-2,117	-2,177	-1,349	-1,607	-1,928
(Inc.)/Dec. in WC	-1,660	-5,235	-4,068	3,797	-3,316	-3,122
<b>CF from Operations</b>	<b>3,919</b>	<b>1,536</b>	<b>2,102</b>	<b>9,034</b>	<b>2,699</b>	<b>3,967</b>
Others	-487	-1,407	75	3,317	0	0
<b>CF from Operating incl. EO</b>	<b>3,432</b>	<b>129</b>	<b>2,178</b>	<b>12,351</b>	<b>2,699</b>	<b>3,967</b>
(Inc.)/Dec. in FA	-2,939	-516	-728	-2,500	-2,000	-3,000
<b>Free Cash Flow</b>	<b>493</b>	<b>-387</b>	<b>1,450</b>	<b>9,851</b>	<b>699</b>	<b>967</b>
(Pur.)/Sale of Investments	296	980	-1,912	-3,000	-1,500	-2,000
Others	161	143	1,100	0	0	0
<b>CF from Investments</b>	<b>-2,483</b>	<b>607</b>	<b>-1,540</b>	<b>-5,500</b>	<b>-3,500</b>	<b>-5,000</b>
Inc./Dec. in Debt	-7	3	-3	0	0	0
Interest Paid	-312	-402	-217	-121	-155	-169
Dividend Paid	-70	-70	-70	-141	-141	-141
Others	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-390</b>	<b>-470</b>	<b>-290</b>	<b>-261</b>	<b>-296</b>	<b>-309</b>
<b>Inc./Dec. in Cash</b>	<b>560</b>	<b>265</b>	<b>348</b>	<b>6,589</b>	<b>-1,096</b>	<b>-1,342</b>
Opening Balance	1,173	1,733	1,998	2,346	8,935	7,839
<b>Closing Balance</b>	<b>1,733</b>	<b>1,998</b>	<b>2,346</b>	<b>8,935</b>	<b>7,839</b>	<b>6,497</b>

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NOTES



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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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