

Retail Equity Research

KNR Constructions Ltd

Construction & Engineering

BSE CODE : 532942 NSE CODE: KNRCON
BLOOMBERG CODE: KNRC:IN SENSEX : 65,970

Accumulate

12Months Investment Period

Rating as per Small Cap

CMP Rs 288 TARGET Rs 330 RETURN 15% ↑
(Closing: 24-11-2023)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Order book diversification to aid margins...

KNR Constructions Ltd (KNR) is a leading EPC player, largely focusing on national and state highway projects. KNR has successfully executed ~7,500 lane km of road projects across 12 states in India.

- KNR's order book looks robust at Rs 7,453cr (including recently won 3 projects), which is 2x TTM revenue and provides revenue visibility for the next two years.
- In Q2FY24, revenue grew by 11% YoY, led by a pick up in execution of road projects.
- Gross margin improved by 347bps YoY to 54.7%, led by benign raw material prices and a drop in sub-contracting expenses. However, the EBITDA margin declined by 462bps YoY to 17.7% due to higher other expenses.
- The company guided FY24 revenue at Rs 4,000cr + with an EBITDA margin of 18%-19%. KNR is looking for diversification of the order book for tunnelling projects of railway and metro projects to aid margin visibility.
- We remain positive on a long term basis, given its strong order book, debt-free on standalone level (Consol. D/E 0.3x) and strong execution track record. We maintain Accumulate rating and value the core business at a P/E of 17x on FY25E EPS and BOT/HAM projects at 0.7xP/B to arrive at SOTP target price of Rs330.

Looking to diversify order book...

The company's total order book stands at Rs7,453cr including recently won three projects of Rs1,780cr which is 2x Trailing Twelve Months revenue and provides strong revenue visibility for the next two years. We expect order inflow to gain momentum in H2FY24, led by a robust order pipeline of Rs 90,000cr from NHAI. Further, the company is looking to diversify its order book to include railway tunnelling projects, mining projects, and urban infra projects to keep revenue visibility intact. The management has guided FY24 order inflows of Rs 4500cr, despite recently won HAM projects of Rs 2,000cr. Currently, the company has eight HAM projects, of which five projects are under construction and three HAM projects receive appointed date and are financial closure in Q3FY24. We expect healthy order wins to remain the key catalyst for further re-rating.

Execution to pick up...

Q2FY24 revenue grew by 11.1% YoY to Rs 941 crore; considering the monsoon-led quarter, the execution was healthy. The project executions are picking up pace; the top five projects contributed 50% of the topline during this quarter. The management stated that execution will pick up further and expects a revenue target of Rs4,000cr+ in FY24. Gross margin improved by 347bps YoY to 54.7%, led by benign raw material prices and a contraction in subcontracting expenses of 51.4% YoY. However, the EBITDA margin declined by 462bps YoY to 17.7% due to higher other expenses. Adj. PAT came in at Rs100cr in Q2FY24, registering a de-growth of -7% YoY.

Key con-call highlights...

- KNR is L1 in two irrigation projects in Telangana worth Rs3,000cr and the award is expected only after new government takes charge.
- KNR has incurred a capex of Rs60cr in H1FY24 and has guided for ~Rs120cr capex in FY24.

Valuations

We remain positive on long term basis, given its strong order book, debt-free on standalone level (Consol. D/E 0.2x) and strong execution track record. We maintain Accumulate rating and value the core business at a P/E of 17x on FY25E EPS and BOT/HAM projects at 0.7xP/B to arrive at SOTP target price of Rs330.

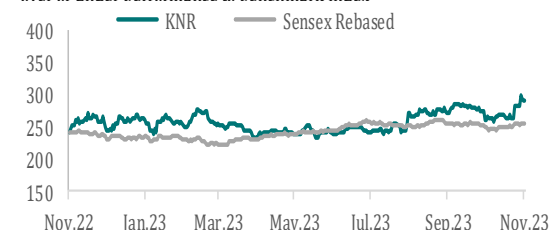
Company Data

Market Cap (cr)	₹ 8,105
Enterprise Value (cr)	₹ 8,202
Outstanding Shares (cr)	21.1
Free Float	48.9%
Dividend Yield	0.1%
52 week high	₹ 305
52 week low	₹ 226
6m average volume (cr)	0.25
Beta	0.66
Face value	₹ 2

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	51.1	51.1	51.1
FII's	5.9	6.0	6.6
MFs/Insti	34.4	33.7	32.3
Public	8.6	9.3	10.0
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9%	22%	21%
Absolute Sensex	2%	6%	7%
Relative Return*	8%	16%	14%

*over or under performance in benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	3,744	4,173	4,657
Growth (%)	14.4	11.5	11.6
EBITDA	722	764	857
EBITDA Margin(%)	19.3	18.3	18.4
PAT Adj.	361	465	524
Growth (%)	0.1	28.9	12.6
Adj.EPS	12.8	16.5	18.6
Growth (%)	0.1	28.9	12.6
P/E	22.5	17.4	15.5
P/B	1.5	1.3	1.1
EV/EBITDA	11.2	10.6	9.5
ROE (%)	14.5	15.7	15.2
D/E	0.0	0.0	0.0

Antu Eapan Thomas

Research Analyst

SOTP Valuation

Particulars	Invested Equity (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		317	P/E17x FY25E EPS
BOT Projects	90	3	1x P/BV
HAM	457	11	0.7x P/BV
Total Value per share		330	

Quarterly Financials (Standalone)

Profit & Loss

Rs (cr)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
Sales	941	847	11.1	930	1.3	1,871	1,738	7.7
EBITDA	166	189	-11.9	173	-4.0	340	354	-4.0
EBITDA margins %	17.7	22.3	-462bps	18.6	-98bps	18.1	20.4	-221bps
Depreciation	3,106	3,661	-15.2	2,834	9.6	5,941	6,929	-14.3
EBIT	135	152	-11.1	145	-6.7	280	284	-1.5
Interest	6	8	-31.2	5	15.2	11	15	-29.5
Other Income	5	8	-33.8	7	-29.1	12	17	-27.4
Exceptional Items	-	-	-	0	-	0	0	-
PBT	134	151	-11.2	147	-8.5	281	286	-1.5
Tax	35	44	-21.0	37	-5.8	71	77	-7.9
Reported PAT	100	108	-7.2	110	-9.4	210	208	1
Adjustments	-	-	-	0	-	0.0	0.0	0.0
Adj PAT	100	108	-7.2	110	-9.4	210	208	1
No. of Shares	28	28	-	28	-	28	28	-
EPS (Rs)	7	8	-7.2	8	-9.4	15	15	0.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	4,173	4,657	4,173	4,657	0.0	0.0
EBITDA	810	866	764	857	-5.7	-1.1
Margins (%)	19.4	18.6	18.3	18.4	-110bps	-20bps
Adj. PAT	472	504	465	524	-1.5	3.9
EPS	16.8	17.9	16.5	18.6	-1.5	3.9

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	2,703	3,273	3,744	4,173	4,657
% change	20.4	21.1	14.4	11.5	11.6
EBITDA	536	678	722	764	857
% change	10	26	6	6	12
Depreciation	144	135	147	131	145
EBIT	391	543	574	633	712
Interest	49	27	39	26	30
Other Income	50	42	32	30	35
PBT	381	579	705	637	717
% change	29.8	51.9	21.8	-9.6	12.6
Tax	137	197	206	172	194
Tax Rate (%)	35.9	34.0	29.3	27.0	27.0
Reported PAT	244	382	499	465	524
Adj*	11	-21	-138	0	0
Adj PAT	255	360	361	465	524
% change	8.3	41.1	0.1	28.9	12.6
No. of shares (cr)	28	28	28	28	28
Adj EPS (Rs.)	9.1	12.8	12.8	16.5	18.6
% change	0	0	0	0	0
DPS (Rs.)	0.3	0.3	0.3	0.3	0.3

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	526	713	853	768	862
Non-cash adj.	-81	-162	-157	-144	-169
Changes in W.C	-266	-157	-527	-192	-169
C.F. Operation	191	425	164	410	499
Capital exp.	-92	-118	-282	-200	-200
Change in inv.	225	7	-42	-89	-102
Other invest.CF	-7	-8	-10	-2	5
C.F - Investment	126	-119	-333	-291	-297
Issue of equity	0	0	0	0	0
Issue/repay debt	-181	-96	80	-79	0
Dividends paid	-8	-10	-10	-10	-10
Other finance.CF	-49	-27	-39	-27	-30
C.F - Finance	-232	-250	193	-112	-40
Chg. in cash	84	56	23	6	162
Closing cash	117	173	197	203	366

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	117	173	200	203	366
Accounts Receivable	863	849	1,013	1,143	1,276
Inventories	148	227	234	273	309
Other Cur. Assets	690	817	1,050	1,147	1,280
Investments	556	549	590	679	781
Gross Fixed Assets	1,366	1,466	1,766	1,966	2,166
Net Fixed Assets	339	424	415	484	540
CWIP	2	21	3	3	3
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	149	118	123	145	169
Other Assets	56	151	71	150	150
Total Assets	2,921	3,329	3,700	4,227	4,872
Current Liabilities	1,007	1,043	928	999	1,127
Provisions	34	34	26	29	32
Debt Funds	1	-	0	0	0
Other Liabilities	11	11	11	10	10
Equity Capital	56	56	56	56	56
Reserves & Surplus	1,812	2,186	2,678	3,133	3,647
Shareholder's Fund	1,868	2,242	2,734	3,189	3,703
Total Liabilities	2,921	3,329	3,700	4,227	4,872
BVPS (Rs.)	133	159	194	227	263

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	19.8	20.7	19.3	18.3	18.4
EBIT margin (%)	14.5	16.6	15.3	15.2	15.3
Net profit mgn.(%)	9.5	11.0	9.6	11.1	11.2
ROE (%)	14.5	17.5	14.5	15.7	15.2
ROCE (%)	15.2	18.2	15.6	16.3	15.8
W.C & Liquidity					
Receivables (days)	90.4	95.5	90.8	94.3	94.8
Inventory (days)	44.4	45.0	46.0	48.3	49.0
Payables (days)	80.3	64.1	66.9	64.3	50.6
Current ratio (x)	1.7	1.9	2.6	2.7	2.8
Quick ratio (x)	1.0	1.0	1.3	1.3	1.5
Turnover & Leverage					
Gross asset T.O (x)	2.1	2.3	2.3	2.2	2.3
Total asset T.O (x)	1.0	1.0	1.1	1.1	1.0
Int. coverage ratio (x)	8.0	19.8	14.6	24.3	23.7
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.9	2.4	2.2	1.9	1.7
EV/EBITDA (x)	14.8	11.7	11.2	10.6	9.5
P/E (x)	31.7	22.5	22.5	17.4	15.5
P/BV (x)	2.2	1.8	1.5	1.3	1.1

Recommendation Summary (Last 3 years)



Dates	Rating	Target
17-November-20	Buy	147
25-February-21	Buy	259
24-May-21	Buy	281
18-Aug-2021	Accumulate	341
17-Feb-22	Accumulate	354
08-Jun-22	Buy	309
09-Jun-23	Accumulate	276
28-Nov-23	Accumulate	330

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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