

KNR Constructions

Orderbook critically low

KNR constructions Ltd (KNR) reported weak results for 3QFY24 with 250bps YoY decline in EBITDA margins. While revenue growth of 9% YoY was largely in-line with estimates, lower margins resulted in PAT coming in 12.5% below our estimate. We believe the company's current orderbook (Rs67.4bn including recently awarded projects) is critically low and despite company's best efforts, new orders as well as diversification has failed to materialize. Execution in high margin irrigation orders is slow on account of change in government in Telangana and increasing receivables. Given the weak order inflow this year and uncertainty on irrigation execution, we have cut PAT numbers for FY24/FY25 by 3%/15% respectively. We are now building in only 6%/7% CAGR in revenue/PAT for FY23-25. As a result, we downgrade the stock to Sell from Reduce with revised TP of Rs238 (Rs263 earlier).

3QFY24 result highlights

Revenue at Rs9bn increased by 9.1% YoY while it was down 3.8% QoQ. EBITDA came in at Rs1.4bn, down on YoY/QoQ basis by 5.6%/11.4. EBITDA margins at 16.3% contracted by 252bps YoY and 139bps QoQ. PAT came in at Rs855mn, flat YoY and down 14.3% QoQ. Margins were lower as most of the execution was related to HAM projects and contribution from irrigation orders came down. We believe irrigation segment poses greater uncertainty and risk of increasing the debtors given the status of Kaleshwaram lift irrigation project.

Executable orderbook at Rs49.6bn with 30% exposure to irrigation

Current OB stands at Rs49.6bnbn excluding recently awarded projects. 3 HAM projects which were awarded in 4Q23 with EPC value of Rs17.8bn, have received FC and are still awaiting AD. OB including these projects is Rs67.4bn translating to book to bill ratio of just 1.7x. If we adjust the irrigation orders from OB, the book to bill fall to 1.4x. The management is targeting inflows of Rs50+bn in FY25. The company is bidding for projects outside road segment like metros, renewable power, mining and railways but has not received any orders yet.

Margins expected to decline further

KNR has been able to maintain superior margins in the past due to strategic bidding, focus on the South region, and profitable irrigation orders. Execution in irrigation segment is expected to be lower this year (Rs5.7bn in 9MFY24 vs Rs12bn in FY23) and it can be even lower if the receivables from Telangana government doesn't improve. As a result, margins are expected to contract by ~250bps this year. The management is targeting EPC projects across multiple segments as well as EPC of road projects wherein margins are expected to be lower.

Downgrade to Sell with revised TP of Rs238

We have reduced our order inflow and execution estimate for FY24 and also reduced execution rate as well as margin estimate for FY25/FY26. Substantial order accretion is required in near term to improve the revenue visibility. We expect the management to prioritise growth over margins and do not rule out further reduction in margins in FY25/FY26. We have cut our PAT estimates for FY24/FY25 by 3%/15% respectively. We value the stock based on SOTP method wherein we have valued EPC business at 13x Sep25E EPS (unchanged) and add the value of equity investment in BOT/HAM projects at 0.8-1x P/B. We downgrade our rating to Sell from Reduce. Key risk to our negative call include higher order inflows in FY25, recovery of debtors in irrigation segment and new orders from non-road segment.

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	9,054	8,302	9.1	9,415	(3.8)	39,846	41,838	48,052
EBITDA	1,473	1,560	(5.6)	1,663	(11.4)	6,951	6,851	7,817
EBITDA margin (%)	16.3	18.8	(252bps)	17.7	(139bps)	17.4	16.4	16.3
Adj. Net profit	855	855	0.0	999	(14.3)	4,080	4,098	4,873
Adj. EPS (Rs)	3.0	3.0	0.0	3.6	(14.3)	14.5	14.6	17.3
EPS growth (%)						13.1	0.4	18.9
PE (x)						18.7	18.7	15.7
EV/EBITDA (x)						10.5	10.5	8.8
PBV (x)						2.4	2.2	1.9
RoE (%)						13.9	12.3	12.9
RoCE (%)						13.8	12.4	13.0

Source: Company, Centrum Broking

Result Update

India I Infrastructure

12 February, 2024

SELL

Price: Rs272

Target Price: Rs238

Forecast return: -13%

Institutional Research

Market Data

Bloomberg:	KNRC IN
52 week H/L:	306/226
Market cap:	Rs76.5bn
Shares Outstanding:	281.2mn
Free float:	48.9%
Avg. daily vol. 3mth:	13,62,684
Source: Bloomberg	

Changes in the report

Rating:	Sell, changed from Reduce
Target price:	-9%; from Rs263 to Rs238
EPS:	FY24: -2.9%; FY25: -15%

Source: Centrum Broking

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	51.1	51.1	51.1	51.1
FIIIs	7.6	6.6	6.0	5.9
DIIIs	29.3	32.3	33.7	34.4
Public/other	12.0	10.0	9.3	8.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	9,132	9,054	(0.9)
EBITDA	1,626	1,473	(9.4)
EBITDA margin	17.8	16.3	-153bps
Rep. PAT	977	855	(12.5)
Adj. PAT	977	855	(12.5)

Source: Bloomberg, Centrum Broking



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Infrastructure

Thesis Snapshot

Estimate revision

YE Mar (Rsm)	FY24E		% chg	FY25E		% chg
	New	Old		New	Old	
Net Sales	39,846	40,583	(1.8)	41,838	44,612	(6.2)
EBITDA	6,951	7,116	(2.3)	6,851	7,857	(12.8)
EBITDA margin %	17.4	17.5		16.4	17.6	
Adj. PAT	4,080	4,201	(2.9)	4,098	4,822	(15.0)

Source: Centrum Broking

KNRC versus NSE Midcap 100

	1m	6m	1 year
KNRC IN	5.0	12.0	1.8
NSE Midcap 100	4.1	28.5	57.9

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY24E	FY25E
Order backlog (Rsm)	59,464	73,244
Order backlog to revenue (x)	1.5	1.8
Order inflows (Rsm)	10,000	55,000
EBITDA Margins (%)	17.4	16.4
Effective tax rate (%)	25.2	25.2
Net WC days	131	124
Capex (Rsm)	1,250	1,500
Investments (Rsm)	2,562	1,524

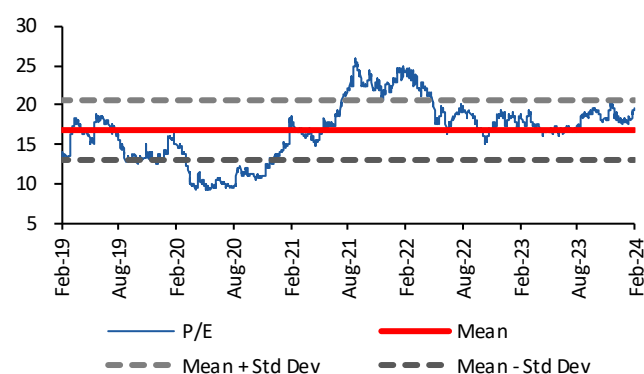
Source: Centrum Broking

Valuations

We value the stock based on SOTP method wherein we have valued EPC business at 13x Sep25E EPS (unchanged) and add the value of equity investment in BOT/HAM projects at 0.8-1x P/B. We downgrade our rating to Sell from Reduce on weak order accretion and uncertainty from irrigation segment.

Particulars	Rs mn
Sep25E Pat of EPC business	4,485
P/E Multiple (x)	13.0
Equity value of EPC business	58,309
Equity investments made in BOT/HAM	5,403
P/B multiple (x)	1.0
Pending equity over next 2 years	4,060
P/B multiple (x)	0.8
Value of BOT/HAM projects	8,651
Total Equity value	66,960
No of shares	281
Target price (Rs)	238

P/E mean and standard deviation

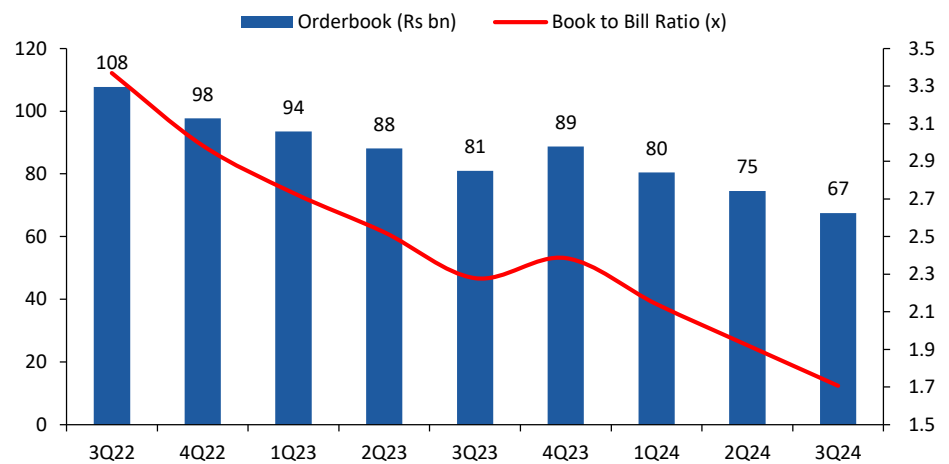


Source: Bloomberg, Centrum Broking

Exhibit 1: Financial Summary

In Rsm	3Q23	4Q23	FY23	1Q24	2Q24	3Q24
Net Sales	8,302	11,756	37,438	9,296	9,415	9,054
EBIDTA	1,560	2,119	7,217	1,733	1,663	1,473
<i>EBIDTA margin (%)</i>	18.8	18.0	19.3	18.6	17.7	16.3
Other income	59	96	321	71	50	60
Depreciation	381	401	1,474	283	311	325
Interest	65	80	393	50	58	72
PBT	1,173	1,735	5,671	1,470	1,344	1,136
Tax	318	449	2,062	367	346	281
<i>Effective tax rate (%)</i>	27.1	25.9	36.4	25.0	25.7	24.7
PAT	855	1,286	3,609	1,103	999	855
Extra-ordinary items	763	-	1,380	-	-	-
Reported PAT	1,618	1,286	4,988	1,103	999	855
EPS	3.0	4.6	12.8	3.9	3.6	3.0
yoy growth(%)						
Net sales	8.3	16.3	14.4	4.4	14.4	9.1
EBITDA	(1.8)	1.9	6.5	5.0	1.3	(5.6)
Other income	(25.0)	(48.3)	(23.0)	(22.1)	(33.8)	2.5
Interest	2.5	32.8	43.1	(27.5)	(31.2)	10.7
Depreciation	6.3	0.5	9.5	(13.3)	(15.2)	(14.6)
PBT	(5.8)	(4.0)	1.7	9.3	6.1	(3.1)
PAT	7.8	14.0	0.1	9.3	9.9	(0.0)
Reported PAT	60.6	14.0	30.7	9.3	(7.2)	(47.1)

Source: Centrum Broking, Company Data

Exhibit 2: Orderbook at Rs 67bn as of Dec 2023

Source: Centrum Broking, Company Data

Exhibit 3: HAM projects portfolio

Project	Magadi - Somwarpet	Oddanchatram - Madathukulam	Ramanattukara - Valanchery	Valanchery - Kappirikkad	Chittor - Thatchur	Mysore- Kushalnagara (Pkg V)	Mysore- Kushalnagara (Pkg IV)	Marripudi to Somvarappadu
State	Karnataka	Tamil Nadu	Kerala	Kerala	Andhra Pradesh	Karnataka	Karnataka	Andhra Pradesh
Client	KSHIP	NHAI	NHAI	NHAI	NHAI	NHAI	NHAI	NHAI
Bid Project Cost (Rs mn)	11,445	9,200	23,675	21,400	10,415	6,903	6,500	6,650
Total Project Cost (Rs mn)	11,276	7,920	21,500	19,594	9,309	7,981	7,387	7,717
Estimated Debt (Rs mn)	2,570	3,170	9,000	8,260	3,846	3,580	3,269	3,470
Appointed Date	12 th Feb. 2020	5 th Oct. 2020	21st Jan. 2022	21st Jan. 2022	25 th Jan. 2023	FC achieved	FC achieved	FC achieved
PCOD / COD	-	2 nd Sept. 2022	-	-	-	-	-	-
% Physical Progress	80.5%	97.0%	59.6%	57.7%	40%	0.00%	0.00%	0.00%
Equity Invested (Rs mn)	1,062	644	1,327	1,251	524	1	1	1
Grant Received (Rs mn)	6,257	4,387	6,048	5,992	1,916	0	0	0
Debt Already Drawn (Rs mn)	1,200	2,450	1,644	2,000	612	-	-	-

Source: Centrum Broking, Company Data

KNR construction - 3QFY24 conference call highlights

Orderbook– Current OB stands at RsRs49.6bn (1.26x TTM revenue) excluding recently awarded projects. 3 new HAM projects with EPC value of Rs17.8bn, have received FC and are awaiting AD (expected by April 2024). OB including these projects is Rs67.4bn (1.7x TTM revenue). Captive HAM projects constitute 42% of OB and road projects including HAM constitute total of 69%. Irrigation segment is 31% of orderbook. The management is targeting inflows of Rs50+bn for next year. Company has bid for irrigation projects worth Rs17bn. Company would look to focus on securing EPC portion of BOT projects by tie up with partners.

Guidance– Rs40bn EPC revenue this year and next year. EBITDA margins expected to hover at 16-16.5%. Irrigation outstanding OB is Rs15.2bn. Irrigation revenue in 3Q was Rs1.2bn.

Asset summary– Total equity requirement for 8 HAM projects is Rs9.9bn, out of which Rs4.8bn has already been invested. Equity requirement for FY25/FY26/FY27 stands at Rs2.9bn/Rs650mn/Rs650mn respectively. For the 3 new HAM projects, equity requirement is Rs2.5bn which will be spent in FY25 and FY26. Bihar project toll collection for 9MFY24 is Rs513mn.

Balance sheet– Consolidated debt stands at Rs10.4bn. Standalone debt/Cash at Rs300mn/400mn. Receivables from Telangana Government stands at Rs6.5bn, out of which unbilled is Rs5.7bn. Capex of Rs0.9-1bn for this year, spent Rs700mn in 9MFY24.

Exhibit 4: Valuation Summary

Particulars	Rs mn
Sep25E Pat of EPC business	4,485
P/E Multiple (x)	13.0
Equity value of EPC business	58,309
Equity investments mad in BOT/HAM	5,403
P/B multiple (x)	1.0
Pending equity over next 2 years	4,060
P/B multiple (x)	0.8
Value of BOT/HAM projects	8,651
Total Equity value	66,960
No of shares	281
Target price (Rs)	238

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	32,726	37,438	39,846	41,838	48,052
Operating Expense	23,876	27,829	30,203	31,964	36,760
Employee cost	1,448	1,710	1,966	2,261	2,601
Others	625	681	725	761	875
EBITDA	6,777	7,217	6,951	6,851	7,817
Depreciation & Amortisation	1,346	1,474	1,498	1,465	1,474
EBIT	5,432	5,743	5,453	5,386	6,343
Interest expenses	274	393	269	274	292
Other income	417	321	268	364	461
PBT	5,574	5,671	5,452	5,476	6,512
Taxes	1,970	2,062	1,372	1,378	1,639
Effective tax rate (%)	35.4	36.4	25.2	25.2	25.2
PAT	3,604	3,609	4,080	4,098	4,873
Minority/Associates	0	0	0	0	0
Recurring PAT	3,604	3,609	4,080	4,098	4,873
Extraordinary items	214	1,380	0	0	0
Reported PAT	3,818	4,988	4,080	4,098	4,873

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	21.1	14.4	6.4	5.0	14.9
EBITDA	26.5	6.5	(3.7)	(1.4)	14.1
Adj. EPS	31.1	0.1	13.1	0.4	18.9
Margins (%)					
Gross	27.0	25.7	24.2	23.6	23.5
EBITDA	20.7	19.3	17.4	16.4	16.3
EBIT	16.6	15.3	13.7	12.9	13.2
Adjusted PAT	11.7	13.3	10.2	9.8	10.1
Returns (%)					
ROE	17.5	14.5	13.9	12.3	12.9
ROCE	17.1	14.6	13.8	12.4	13.0
ROIC	22.2	18.7	18.8	18.6	21.4
Turnover (days)					
Gross block turnover ratio (x)	2.1	2.2	2.2	2.1	2.2
Debtors	96	91	91	88	84
Inventory	29	30	30	30	29
Creditors	41	44	54	58	54
Net working capital	126	156	161	166	172
Solvency (x)					
Net debt-equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Interest coverage ratio	24.7	18.4	25.8	25.0	26.8
Net debt/EBITDA	(0.3)	(0.3)	(0.5)	(0.7)	(0.9)
Per share (Rs)					
Adjusted EPS	12.8	12.8	14.5	14.6	17.3
BVPS	79.7	97.2	111.3	125.4	142.2
CEPS	17.6	18.1	19.8	19.8	22.6
DPS	0.3	0.3	0.4	0.4	0.5
Dividend payout (%)	1.8	1.4	3.0	3.0	3.0
Valuation (x)					
P/E	21.3	19.6	18.7	18.7	15.7
P/BV	3.4	2.6	2.4	2.2	1.9
EV/EBITDA	11.0	9.5	10.5	10.5	8.8
Dividend yield (%)	0.1	0.1	0.2	0.2	0.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	562	562	562	562	562
Reserves & surplus	21,857	26,780	30,738	34,713	39,439
Shareholders fund	22,420	27,343	31,300	35,275	40,002
Minority Interest	0	0	0	0	0
Total debt	0	3	0	0	0
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	22,420	27,345	31,300	35,275	40,002
Gross block	15,729	17,120	18,370	19,870	21,370
Less: acc. Depreciation	(10,833)	(12,307)	(13,805)	(15,269)	(16,743)
Net block	4,896	4,813	4,565	4,600	4,626
Capital WIP	206	25	25	25	25
Net fixed assets	5,102	4,838	4,590	4,625	4,651
Non Current Assets	0	0	0	0	0
Investments	4,828	5,244	7,921	10,363	11,467
Inventories	2,270	2,341	2,549	2,712	3,119
Sundry debtors	8,494	10,130	9,825	10,316	11,848
Cash & Cash Equivalents	1,733	1,998	3,253	4,796	7,360
Loans & advances	132	34	132	132	132
Other current assets	9,552	11,182	14,122	14,255	15,319
Trade payables	2,945	3,760	5,112	5,064	5,823
Other current liab.	7,590	5,630	6,882	7,747	8,907
Provisions	339	261	328	344	395
Net current assets	11,307	16,034	17,560	19,057	22,654
Total assets	22,420	27,345	31,300	35,275	40,002

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	5,788	7,051	5,452	5,476	6,512
Depreciation & Amortisation	1,346	1,474	1,498	1,465	1,474
Net Interest	274	393	269	274	292
Net Change – WC	(2,595)	(4,462)	(201)	46	(1,032)
Direct taxes	(1,661)	(2,062)	(1,372)	(1,378)	(1,639)
Net cash from operations	3,140	2,352	5,646	5,882	5,607
Capital expenditure	(2,374)	(1,209)	(1,250)	(1,500)	(1,500)
Acquisitions, net	0	0	0	0	0
Investments	71	(416)	(2,677)	(2,442)	(1,104)
Others	74	0	0	0	0
Net cash from investing	(2,229)	(1,626)	(3,927)	(3,942)	(2,604)
FCF	912	726	1,720	1,940	3,002
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(7)	3	(3)	0	0
Dividend paid	(70)	(70)	(193)	(123)	(146)
Interest paid	(274)	(393)	(269)	(274)	(292)
Others	0	0	0	0	0
Net cash from financing	(352)	(460)	(465)	(397)	(438)
Net change in Cash	560	265	1,255	1,543	2,564

Source: Company, Centrum Broking

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Source: Bloomberg

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