KNR Constructions Accumulate

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Infra & Construction | Q2FY24 Result Update

Result Update

Muted quarter; Order inflow must

- **KNRC posted Results above estimates, however EBITDA margin was in line.**
- **KNRC reported +11.1%/ -11.9%/ +0.1% YoY in revenue/ EBITDA/ APAT to Rs9.4 bn/ Rs1.7 bn/ Rs1 bn in Q2FY24. Reported EBITDA margin/ Core EBITDA margin down by 462 bps/ 211 bps YoY to 17.7% primarily due to higher spreading and assortment expenses, material cost and other expenses, which was partially offset by lower sub-contract cost and employee cost.**
- **We expect revenue/ APAT CAGR of 6.8%/ 4% over FY23-26E, with EBITDA margin of 18.7%/ 18.2%/ 17.5% for FY24E/ FY25E/ FY26E.**
- **We increase EPS by 7.6% for FY24E factoring higher EBITDA margin and lower depreciation. However, maintain EPS for FY25E. We introduce FY26E. CMP leaves limited upside. Thus, we maintain Accumulate with a SOTP-based revised TP of Rs291 (14x FY26E EPS and 1.2x P/B for HAM investment).**

Order book of Rs81.9 bn at 2.1x TTM revenue

KNRC won orders worth Rs8 bn/ Nil during FY23/ YTDFY24, taking order book to Rs56.7 bn (1.4x TTM revenue) in Q2FY24. Considering 3 HAM (EPC Rs17.8 bn) where AD is yet to come and Rs7.4 bn L1, total order book stands at Rs81.9 bn (2.1x TTM revenue). We expect order inflow of Rs55.2 bn (Rs30 bn fresh) vs. earlier Rs67.8 bn/ Rs60 bn/ Rs70 bn in FY24E/ FY25E/ FY26E. Fresh inflow is must to sustain the growth.

HAM Equity Investment

KNRC has invested Rs4.6 bn (incl. Rs2.6 bn in 3 new HAM) till Q2FY24 in 8 HAM projects. The incremental equity requirement of Rs5.35 bn to be infused as Rs950 mn/ Rs3.11 bn/ Rs650 mn/ Rs640 mn in H2FY24/ FY25/ FY26/ FY27.

Outlook and Valuation

We factor healthy return ratios, a well-managed balance sheet, comfortable working capital, low D:E, quality management. However, CMP leaves limited upside. Thus, we maintain Accumulate with a SOTP-based revised TP of Rs291 (14x FY26E EPS and 1.2x P/B for HAM investment).

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	9,415	8,474	11.1	9,296	1.3
Total Expense	7,752	6,586	17.7	7,563	2.5
EBITDA	1,663	1,888	(11.9)	1,733	(4.0)
Depreciation	311	366	(15.2)	283	9.6
EBIT	1,352	1,521	(11.1)	1,449	(6.7)
Other Income	50	76	(33.8)	71	(29.1)
Interest	58	84	(31.2)	50	15.2
EBT	1,344	1,513	(11.2)	1,470	(8.5)
Tax	346	438	(21.0)	367	(5.8)
RPAT	999	1,076	(7.2)	1,103	(9.4)
APAT	999	997	0.1	1,103	(9.4)
			(bps)		(bps)
Gross Margin (%)	33.0	34.2	(118)	29.5	351
EBITDA Margin (%)	17.7	22.3	(462)	18.6	(98)
NPM (%)	10.6	11.8	(116)	11.9	(125)
Tax Rate (%)	25.7	28.9	(321)	25.0	74
EBIT Margin (%)	14.4	18.0	(359)	15.6	(123)

CMP	Rs 263
Target / Upside	Rs 291 / 11%
NIFTY	19,676

Scrip Details

Equity / FV	Rs 562mn / Rs 2
Market Cap	Rs 74bn
	USD 901.0mn
52-week High/Low	Rs 291/ 226
Avg. Volume (no)	9,08,618
Bloom Code	KNRC IN

Price Performance	1M	3M	12M
Absolute (%)	(6)	5	10
Rel to NIFTY (%)		3	3

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	51.1	51.1	51.1
MF/Banks/FIs	32.9	33.0	31.8
FIIs	5.9	6.0	6.6
Public / Others	10.1	9.9	10.5

Valuation (x)

	FY24E	FY25E	FY26E
P/E	15.8	15.0	15.6
EV/EBITDA	9.6	9.0	9.0
ROE (%)	16.0	14.3	12.1
RoACE (%)	17.6	15.7	13.2

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	40.8	44.7	45.6
EBITDA	7.6	8.2	8.0
PAT	4.7	4.9	4.7
EPS (Rs.)	16.7	17.5	16.9

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Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars (Rs mn)	Actual	DART Est	% Variance	Comments
Revenue	9,415	8,857	6.3	Higher execution vs. estimated
EBITDA	1,663	1,567	6.1	-
EBITDA (%)	17.7	17.7	(3 bps)	In line
APAT	999	909	9.8	Better execution vs. estimated

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E			FY26E
	New	Old	Chg. (%)	New	Old	Chg. (%)	Introduced
Net revenues	40,780	40,259	1.3	44,721	45,961	(2.7)	45,605
EBIDTA	7,646	7,278	5.1	8,155	8,226	(0.9)	7,998
EBIDTA margin (%)	18.7	18.1	67 bps	18.2	17.9	34 bps	17.5
Adj. Net Profit	4,693	4,360	7.6	4,934	4,987	(1.1)	4,739
EPS (Rs)	16.7	15.5	7.6	17.5	17.7	(1.1)	16.9

Source: DART, Company

We maintain our revenue estimates for FY24E. However, increase EBITDA/ APAT estimates by 5.1%/ 7.6% for FY24E factoring higher EBITDA margin and lower depreciation. For FY25, we decrease our revenue by 2.7% factoring decrease in order inflow for FY24E. But, maintain EBITDA/ APAT estimates for FY25E as we factor higher EBITDA margin and lower depreciation. We introduce FY26E.

Earnings Call KTAs

- **Guidance –** KNRC maintains its revenue guidance of >Rs40 bn (can achieve Rs41-41.5 bn) for FY24. Considering other expenses to normalize, it expects an EBITDA margin of 18-19% for FY24. However company mentioned newer projects to have lesser margins. It targets an order inflow of Rs30-40 bn (vs. earlier guidance of Rs40-50 bn) in FY24. For FY25, it expects revenue growth of ~15% YoY factoring some addition to the order inflow.
- **Bid pipeline –** NHAI is expected to award new projects worth >Rs1.5 tr in H2FY24 and has a robust tender pipeline of Rs900 bn. Company will be targeting for projects >Rs8-10 bn ticket size as competition will be less intense; expects to win some chunk out of this. It also targets to bid for Railway projects worth Rs30 bn under JV; includes railway projects in Odisha worth Rs10.5-11.5 bn. It plans to bid for 2 railway tunneling/ structure projects (forming structures) worth Rs23 bn (Rs13.5 bn/ Rs9.5 bn) in AP. Company is also qualified to bid for mining projects on standalone basis (if required can bid in JV); expects to bid worth Rs120 bn having tenure of 12 years. It is also looking irrigation projects in Maharashtra, Karnataka, UP, MP, Bihar, Jharkhand and Odisha.
- **Order book and inflow –** Order book stood at Rs74.5 bn (1.9x TTM revenue) as on Sep'23 with Roads HAM/ Roads others/ Irrigation at 58%/ 21%/ 21%. On order book breakup front, Captive (HAM projects)/ State Govt./ Central Govt./ Others accounted for 58%/ 31%/ 9%/ 2% as on Sep'23. Order book includes 3 HAM projects worth Rs17.8 bn for which AD is still pending. Company has also been declared as L1 for 2 irrigation projects worth Rs7.40 bn in Telangana; will declare once it receive LOA.
- **HAM equity requirement –** Of the total revised equity investment of Rs9.93 bn, company has already invested Rs4.57 bn till H1FY24. The incremental equity requirement of Rs5.35 bn to be infused as Rs950 mn/ Rs3.11 bn/ Rs650 mn/ Rs640 mn in H2FY24/ FY25/ FY26/ FY27. For new 3 HAM projects, company expects equity investment of Rs2.58 bn; Rs1.3 bn/ Rs650 mn/ Rs640 mn in FY25/ FY26/ FY27.
- **Monetization –** KNRC is looking to monetize 4 HAM projects and is in the final discussion stage with Cube Highways. Post the deal, entire cash to be received in FY25 and some in FY24.

- **HAM project % Completion –** 1) Magadi to Somwarpeth at 77.8%, 2) Oddanchatram to Madathukulam at 97.0%, 3) Ramanattukara to Valanchery bypass at 45.4%, 4) Valanchery to Kappirikkad at 48.8%, 5) Chittor to Thatchur at 30.0%, 6) Mysore to Kushalnagara (Pkg-V) at 0%, 7) Mysore to Kushalnagara (Pkg-IV) at 0% and 8) Marripudi to Somvarappadu at 0%.
- KNRC has received FC for Mysore to Kushalnagara (Pkg-V)/ Mysore to Kushalnagara (Pkg-IV)/ Marripudi to Somvarappadu on 27 Sep'23/ 21 Sep'23/ 15 Sep'23. It has also received provisional certificate of completion of Magadi–Somwarpet on 27 Jun'23.
- **Irrigation –** Irrigation debtors (billed + unbilled revenue) stood at Rs6.5 bn till date. Post Sep'23, company has received Rs1.2 bn but has also done a billing of Rs1.3 bn in Oct'23. Outstanding order book for irrigation projects stands at Rs16 bn; expects to execute Rs4-4.5 bn/ ~Rs12 bn in H2FY24/ FY25.
- For 2 HAM projects in Kerala, outstanding order book stands at ~Rs17.73 bn. Company expects to execute ~Rs8 bn (50%) in H2FY24 and remaining in FY25.
- **Toll revenue from Muzaffarpur Barauni toll road** stood at Rs94.3 mn/ Rs211.2 mn in Q2FY24/ H1FY24 vs. Rs116.3 mn in Q1FY24.
- **Competition intensity –** KNRC expects competition intensity to be higher for projects worth ticket size <Rs8 bn. Company targets projects worth >Rs8 bn where intensity is expected to be lower.
- KNRC incurred **capex** of Rs600 mn in H1FY24 and expect capex of Rs1-1.2 bn each for FY24 and FY25.
- **Debt –** Standalone gross debt stood at Rs761 mn in Q2FY24 vs. Nil/ Rs2.5 mn/ Rs2 bn in Q1FY24/ Q4FY23/ Q2FY23. Standalone cash stood at Rs289 mn in Q2FY24 vs. Rs850 mn/ Rs2.0 bn/ Rs660 mn in Q1FY24/ Q4FY23/ Q2FY23. Standalone net debt/(cash) stood at Rs472 mn in Q2FY24 vs. -Rs850 mn/ -Rs2.0 bn/ Rs1.3 bn in Q1FY24/ Q4FY23/ Q2FY23. On Consolidated basis, gross debt stood at Rs7.7 bn in Q2FY24 vs. Rs5.8 bn/ Rs6.5 bn/ Rs18.6 bn in Q1FY24/ Q4FY23/ Q2FY23. Consolidated cash stood at Rs777 mn in Q2FY24 vs. Rs1 bn/ Rs2.2 bn/ Rs2.5 bn in Q1FY24/ Q4FY23/ Q2FY23. Consolidated net debt stood at Rs6.9 bn in Q2FY24 vs. Rs4.8 bn/ Rs4.3 bn/ Rs16.1 bn in Q1FY24/ Q4FY23/ Q2FY23.
- **Inventory/ Debtor/ Creditor days** stood at 24 days/ 78 days/ 23 days in Q2FY24 vs. 25 days/ 85 days/ 28 days in Q1FY24 vs. 23 days/ 96 days/ 37 days in Q4FY23 vs. 19 days/ 69 days/ 23 days in Q2FY23. Cash conversion days stood at 79 days in Q2FY24 vs. 82 days/ 82 days/ 65 days in Q1FY24/ Q4FY23/ Q2FY23.
- **Retention money/ Mobilization advance/ Unbilled revenue** stood at Rs2.1 bn/ Rs1.0 bn/ Rs6.6 bn in Q2FY24 vs. Rs2.3 bn/ Rs930 mn/ Rs5.8 bn in Q1FY24 vs. Rs2.1 bn/ Rs627 mn/ Rs4.7 bn in Q2FY23.

Exhibit 3: Q2FY24 Performance (Standalone)

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	**9,415**	**8,474**	**11.1**	**9,296**	**1.3**	**18,711**	**17,380**	**7.7**
Material consumed	3,788	3,154	20.1	3,900	(2.9)	7,689	7,485	2.7
Sub-contractors work bills	475	978	(51.4)	546	(12.9)	1,021	1,469	(30.5)
Spreading & Assortment	2,044	1,445	41.4	2,108	(3.0)	4,152	3,014	37.8
Employees cost	416	469	(11.3)	393	6.0	809	855	(5.4)
Other expenditure	1,028	540	90.5	617	66.7	1,645	1,019	61.3
Total expenditure	**7,752**	**6,586**	**17.7**	**7,563**	**2.5**	**15,315**	**13,843**	**10.6**
EBITDA	**1,663**	**1,888**	**(11.9)**	**1,733**	**(4.0)**	**3,395**	**3,537**	**(4.0)**
Depreciation	311	366	(15.2)	283	9.6	594	693	(14.3)
Operating profit	**1,352**	**1,521**	**(11.1)**	**1,449**	**(6.7)**	**2,801**	**2,845**	**(1.5)**
Other income	50	76	(33.8)	71	(29.1)	121	166	(27.4)
EBIT	**1,402**	**1,597**	**(12.2)**	**1,520**	**(7.7)**	**2,922**	**3,011**	**(3.0)**
Interest	58	84	(31.2)	50	15.2	108	153	(29.5)
Exceptional item	0	0	-	0	-	0	0	-
EBT	**1,344**	**1,513**	**(11.2)**	**1,470**	**(8.5)**	**2,814**	**2,858**	**(1.5)**
Provision for taxation	346	438	(21.0)	367	(5.8)	713	774	(7.9)
Net income	**999**	**1,076**	**(7.2)**	**1,103**	**(9.4)**	**2,101**	**2,084**	**0.8**
Adjustments	0	(78)	-	0	-	0	(78)	-
Adjusted net income	**999**	**997**	**0.1**	**1,103**	**(9.4)**	**2,101**	**2,006**	**4.8**
EPS (Rs)	**3.6**	**3.5**	**0.1**	**3.9**	**(9.4)**	**7.5**	**7.1**	**4.8**
			bps		**bps**			**bps**
EBIDTA Margin (Excl. O.I.)	17.7	22.3	(462)	18.6	(98)	18.1	20.4	(221)
EBIDTA Margin (Incl. O.I.)	18.2	23.2	(498)	19.4	(121)	18.8	21.3	(252)
NPM (%)	10.6	11.7	(111)	11.8	(122)	11.2	11.4	(27)
Tax/PBT (%)	25.7	28.9	(321)	25.0	74	25.3	27.1	(175)
Construction/Revenue (%)	67.0	65.8	118	70.5	(351)	68.7	68.9	(12)

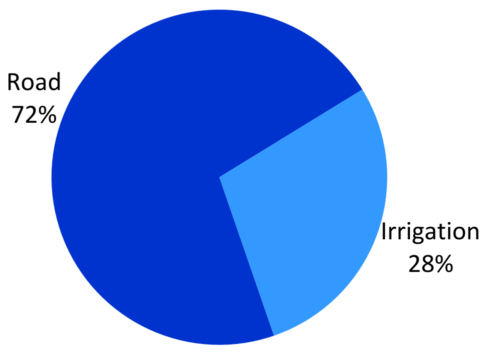
Source: Company, DART

Exhibit 4: SOTP Valuation

Component	Valuation Method	Rs/sh	%
Standalone cons business	14x FY26E EPS	236	81.1
HAM equity investments (FY26E)	1.2x BV	55	18.9
Total		**291**	**100.0**
CMP		**263**	
Potential upside (%)		10.6	

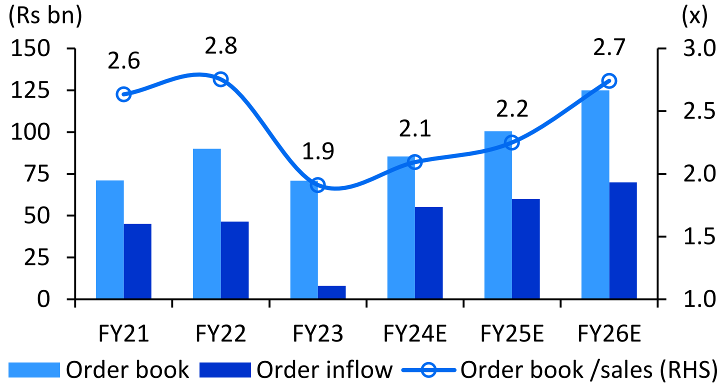
Source: Company, DART

Exhibit 5: Rs81.9 bn order book break up



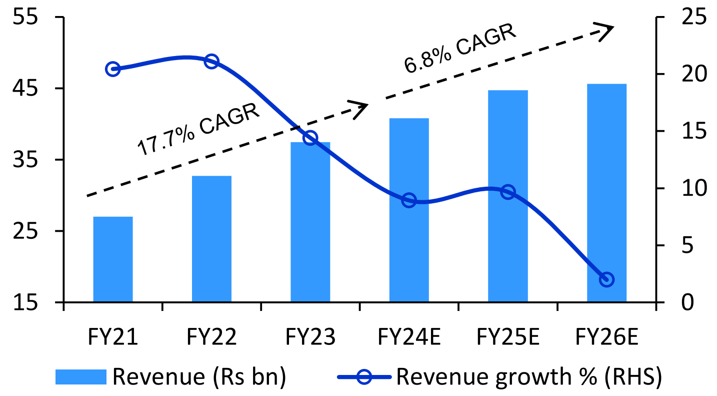
Source: Company, DART

Exhibit 6: Order book trend



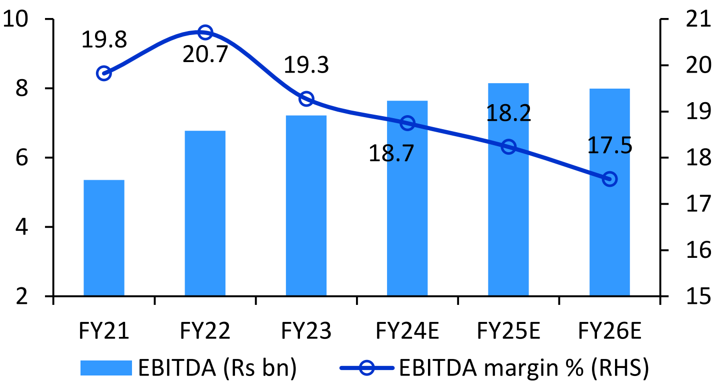
Source: Company, DART

Exhibit 7: 6.8% Revenue CAGR over FY23-26E



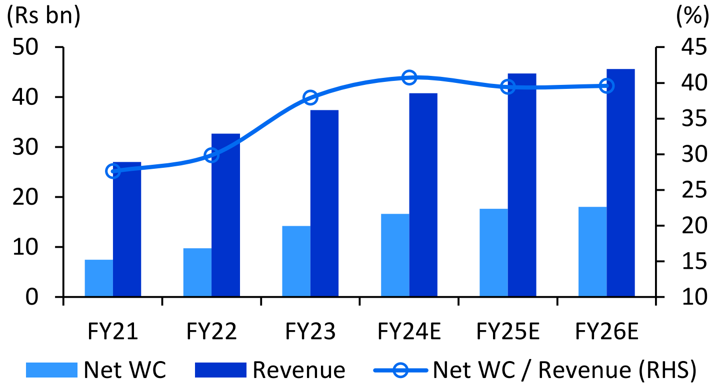
Source: Company, DART

Exhibit 8: 3.5% EBITDA CAGR over FY23-26E



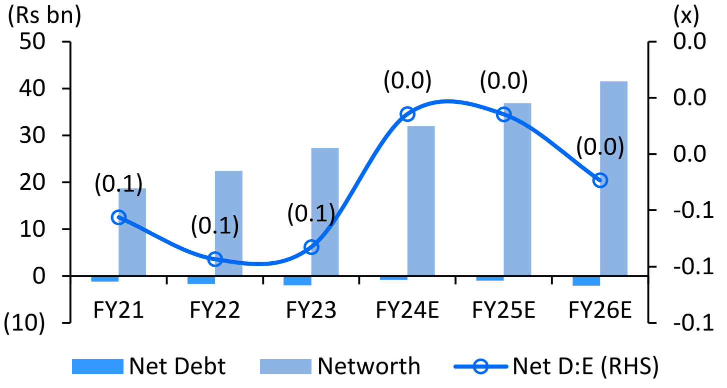
Source: Company, DART

Exhibit 9: Efficient working capital management



Source: Company, DART

Exhibit 10: One of the lowest net D:E in the sector



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	**37,438**	**40,780**	**44,721**	**45,605**
Total Expense	**30,221**	**33,134**	**36,566**	**37,606**
COGS	25,795	28,016	31,618	32,457
Employees Cost	1,710	1,693	1,862	2,048
Other expenses	2,715	3,425	3,086	3,101
EBIDTA	**7,217**	**7,646**	**8,155**	**7,998**
Depreciation	1,474	1,368	1,538	1,666
EBIT	**5,743**	**6,278**	**6,617**	**6,333**
Interest	393	230	220	220
Other Income	321	257	231	254
Exc. / E.O. items	1,380	0	0	0
EBT	**7,051**	**6,304**	**6,628**	**6,367**
Tax	2,062	1,611	1,694	1,627
RPAT	4,988	4,693	4,934	4,739
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**4,213**	**4,693**	**4,934**	**4,739**

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	562	562	562	562
Minority Interest	0	0	0	0
Reserves & Surplus	26,780	31,403	36,267	40,936
Net Worth	**27,343**	**31,965**	**36,829**	**41,498**
Total Debt	3	0	0	0
Net Deferred Tax Liability	(1,229)	(1,408)	(1,597)	(1,777)
Total Capital Employed	**26,116**	**30,557**	**35,233**	**39,721**
Applications of Funds				
Net Block	**4,813**	**4,770**	**4,731**	**4,566**
CWIP	25	0	0	0
Investments	5,244	8,504	12,071	15,206
Current Assets, Loans & Advances	**25,685**	**26,747**	**28,761**	**30,554**
Inventories	2,341	2,651	2,925	3,009
Receivables	9,834	9,787	10,733	10,945
Cash and Bank Balances	1,998	824	952	2,046
Loans and Advances	34	66	73	75
Other Current Assets	11,478	13,419	14,078	14,478
Less: Current Liabilities & Provisions	**9,651**	**9,463**	**10,331**	**10,604**
Payables	3,760	3,645	4,022	4,137
Other Current Liabilities	5,891	5,819	6,309	6,468
sub total				
Net Current Assets	16,034	17,284	18,430	19,949
Total Assets	**26,116**	**30,557**	**35,233**	**39,721**

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	31.1	31.3	29.3	28.8
EBIDTA Margin	19.3	18.7	18.2	17.5
EBIT Margin	15.3	15.4	14.8	13.9
Tax rate	29.3	25.6	25.6	25.6
Net Profit Margin	11.3	11.5	11.0	10.4
(B) As Percentage of Net Sales (%)				
COGS	68.9	68.7	70.7	71.2
Employee	4.6	4.2	4.2	4.5
Other	7.3	8.4	6.9	6.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	14.6	27.3	30.1	28.8
Inventory days	23	24	24	24
Debtors days	96	88	88	88
Average Cost of Debt	30856.2	18074.7		
Payable days	37	33	33	33
Working Capital days	156	155	150	160
FA T/O	7.8	8.6	9.5	10.0
(D) Measures of Investment				
AEPS (Rs)	15.0	16.7	17.5	16.9
CEPS (Rs)	20.2	21.6	23.0	22.8
DPS (Rs)	0.3	0.3	0.3	0.3
Dividend Payout (%)	1.7	1.5	1.4	1.5
BVPS (Rs)	97.2	113.7	131.0	147.6
RoANW (%)	17.3	16.0	14.3	12.1
RoACE (%)	17.2	17.6	15.7	13.2
RoAIC (%)	18.8	18.6	16.1	13.8
(E) Valuation Ratios				
CMP (Rs)	263	263	263	263
P/E	17.6	15.8	15.0	15.6
Mcap (Rs Mn)	74,035	74,035	74,035	74,035
MCap/ Sales	2.0	1.8	1.7	1.6
EV	72,039	73,211	73,083	71,989
EV/Sales	1.9	1.8	1.6	1.6
EV/EBITDA	10.0	9.6	9.0	9.0
P/BV	2.7	2.3	2.0	1.8
Dividend Yield (%)	0.1	0.1	0.1	0.1
(F) Growth Rate (%)				
Revenue	14.4	8.9	9.7	2.0
EBITDA	6.5	5.9	6.7	(1.9)
EBIT	5.7	9.3	5.4	(4.3)
PBT	21.8	(10.6)	5.1	(3.9)
APAT	15.5	11.4	5.1	(3.9)
EPS	15.5	11.4	5.1	(3.9)

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	**7,051**	**6,304**	**6,628**	**6,367**
Depreciation & w.o.	1,474	1,368	1,538	1,666
Net Interest Exp	373	(27)	(11)	(34)
Direct taxes paid	(2,117)	(1,790)	(1,882)	(1,808)
Change in Working Capital	(5,235)	(2,157)	(829)	(368)
Non Cash	(1,417)	0	0	0
(A) CF from Operating Activities	**129**	**3,699**	**5,444**	**5,823**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(516)	(1,300)	(1,500)	(1,500)
Free Cash Flow	**(387)**	**2,399**	**3,944**	**4,323**
(Inc)./ Dec. in Investments	980	(3,260)	(3,568)	(3,135)
Other	143	(11)	42	197
(B) CF from Investing Activities	**607**	**(4,571)**	**(5,026)**	**(4,438)**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	3	(3)	0	0
Interest exp net	(402)	(230)	(220)	(220)
Dividend Paid (Incl. Tax)	(70)	(70)	(70)	(70)
Other	0	0	0	0
(C) CF from Financing	**(470)**	**(303)**	**(290)**	**(290)**
Net Change in Cash	265	(1,175)	128	1,094
Opening Cash balances	**1,733**	**1,998**	**824**	**952**
Closing Cash balances	**1,998**	**824**	**952**	**2,046**

E – Estimates

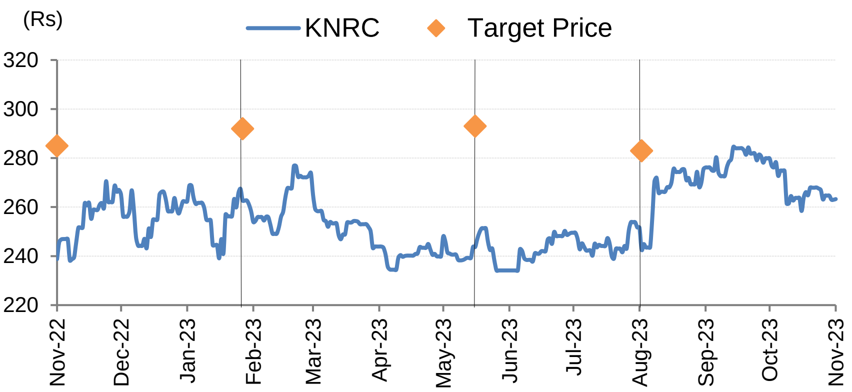
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-22	Accumulate	285	239
Feb-23	Accumulate	292	263
May-23	BUY	293	244
Aug-23	Accumulate	283	243

*Price as on recommendation date

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