

India

REDUCE (no change)

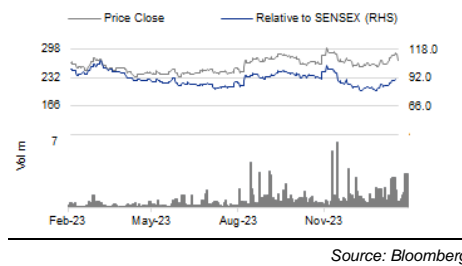
Consensus ratings*: Buy 16 Hold 4 Sell 3

Current price:	Rs272
Target price:	Rs222
Previous target:	Rs235
Up/downside:	-18.4%
InCred Research / Consensus:	-22.6%
Reuters:	KNRL.NS
Bloomberg:	KNRC IN
Market cap:	US\$922m
	Rs76,538m
Average daily turnover:	US\$3.9m
	Rs324.5m
Current shares o/s:	281.2m
Free float:	48.5%

*Source: Bloomberg

Key changes in this note

- Reduce FY25F EBITDA by 4%.
- Introduce FY26F estimates.
- Roll forward our target price to Mar 2025F.



Price performance	1M	3M	12M
Absolute (%)	5.0	3.4	1.8
Relative (%)	6.4	(5.7)	(13.8)

Major shareholders	% held
Promoter and Promoter group	51.5
DSP Equity Fund	6.4
HDFC Trustee Company Ltd	6.4

Research Analyst(s)



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KNR Constructions Ltd

Weak order book is key area of concern

- EPC sales rose 9% yoy but EBITDA declined by 6% yoy in 3QFY24. The EBITDA margin was at 16.3%, lower than its three-year average of 20%.
- The order book or OB-to-sales ratio is 1.7x and we expect it to decline to 1.5x in Mar 2024F. We forecast flat EPC sales over FY24F-26F.
- We roll forward our target price to Mar 2025F. Maintain REDUCE rating.

Steady execution but weak EBITDA margin

EPC sales (Rs9.1bn) of KNR Constructions (KNR) rose by 9% yoy but EBITDA (Rs1.5bn) declined by 6% yoy in 3QFY24. Sales/ EBITDA were 4%/ 16% below our estimates, respectively. The EBITDA margin was at 16.3%, lower than its three-year average of 20%. Net working capital (NWC) days increased yoy, rising from 53 to 61 days.

Low OB-to-sales; concern over likely low orders over next 6 months

The order book (OB)-to-sales ratio declined from 2.8x in Mar 2022 to 1.3x in Dec 2023. The entire OB is from South India. KNR had won three HAM projects of Rs17.8bn construction value in Feb-Mar 2023. These are not included in the Dec 2023 OB as the appointed dates are still awaited. Including these, the OB-to-sales ratio is 1.7x and we expect it to decline to 1.5x in Mar 2024F. HAM projects stood at 57% of the OB and thus, KNR must fund 35% of its OB of Rs67bn (equity requirement of Rs5bn). Orders won in 9MFY24 account for 10% of its OB. Over FY19-24F the average OB/sales ratio was at 2.2x and sales grew at a CAGR of 14%. We forecast flat EPC sales over FY24F-26F considering (a) the weak OB-to-sales ratio, and (b) a likely weak industry order flow in the next two quarters. We factor in an 18.5% EBITDA margin in FY25F-26F.

Roll forward our target price to Mar 2025F; maintain REDUCE rating

We maintain our FY24F EBITDA estimate, reduce our FY25F EBITDA estimate by 4% and introduce FY26F estimate. We roll forward our valuation to Mar 2025F, valuing the EPC business at 6x FY26F EV/EBITDA (vs. 7x earlier), lower than the last six-year median (8.2x). We believe the discount is warranted due to the low OB-to-sales ratio and the likely weak order placement environment for the industry over the next two quarters. The stock trades at an expensive valuation of 8.8x FY25F EV/EBITDA. We reduce our target price on it to Rs222 (Rs235 earlier) and maintain REDUCE rating. Upside risk: Strong order wins in FY25F (vs. our estimate of Rs52bn).

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	36,058	40,624	44,847	40,769	44,458
Operating EBITDA (Rsm)	7,987	9,173	9,822	9,471	10,152
Net Profit (Rsm)	3,664	4,580	5,507	5,265	5,807
Core EPS (Rs)	12.3	14.1	19.6	18.7	20.6
Core EPS Growth	15.9%	14.8%	39.0%	(4.4%)	10.3%
FD Core P/E (x)	22.19	19.32	13.90	14.54	13.18
DPS (Rs)	0.3	0.3	0.5	0.5	0.5
Dividend Yield	0.11%	0.11%	0.23%	0.23%	0.23%
EV/EBITDA (x)	11.53	8.76	14.79	15.03	12.46
P/FCFE (x)	(76.20)	31.82	14.28	8.42	3.46
Net Gearing	70.1%	16.5%	209.5%	174.1%	115.5%
P/BV (x)	3.29	2.75	2.31	2.00	1.75
ROE	16.1%	15.5%	18.1%	14.8%	14.2%
% Change In Core EPS Estimates			3.51%		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak order book is key area of concern

Figure 1: Standalone financials

(Rs. m)	Quarter ended				
	Dec-23	Dec-22	% Chg	Sep-23	% Chg
Net Sales	9,054	8,302	9	9,415	(4)
EBITDA	1,473	1,561	(6)	1,663	(11)
Other income	60	59	3	50	20
Depreciation	325	381	(15)	311	5
Interest	72	65	12	58	25
Tax	281	318	(12)	346	(19)
Adjusted PAT	855	856	(0)	999	(14)
Extraordinary income	0	763		0	
Reported PAT	855	1,619	(47)	999	(14)
EBITDA margin (%)	16.3	18.8		17.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metrics

	Dec-22	Sep-23	Dec-23	Dec 23 including orders not yet in OB
Order Book (Rs bn)	81	57	50	67
Road HAM as % OB	49	45	42	57
Road EPC as % OB	28	27	27	20
Irrigation as % OB	23	28	31	23
OB/ TTM Sales (x)	2.3	1.5	1.3	1.7
NWC days	53	65	61	
Inventory days	20	25	28	
Debtor days	67	85	78	
Creditor days	34	45	45	
State-wise OB (%)				
AP and Telangana	37	41	43	
Tamil Nadu	13	12	12	
Karnataka	15	16	17	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key financials

(Rs bn)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Closing Order book	71	90	71	61	77	88
Order flow	46	52	18	31	52	52
Sales	27	33	37	41	37	40
yoy growth %	20	21	13	10	(10)	10
OB/ TTM Sales (x)	2.6	2.8	1.9	1.5	2.1	2.2
% of OB from HAM	26	45	50			
% of OB from Road - EPC	31	30	27			
% of OB from Irrigation	44	25	23			
EBITDA margin %	19.8	20.7	18.6	17.5	18.5	18.5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: HAM projects are not a part of Dec 2023 OB – while KNR received the letter of award in Feb-Mar 2023, the appointed date is still awaited

Industry	EPC value (Rs bn)	Client	Duration	State	Particulars
Road	5.8	NHAI	24 months	Andhra Pradesh	6-Lane
Road	5.7	NHAI	24 months	Karnataka	4-Lane
Road	6.2	NHAI	24 months	Karnataka	4-Lane

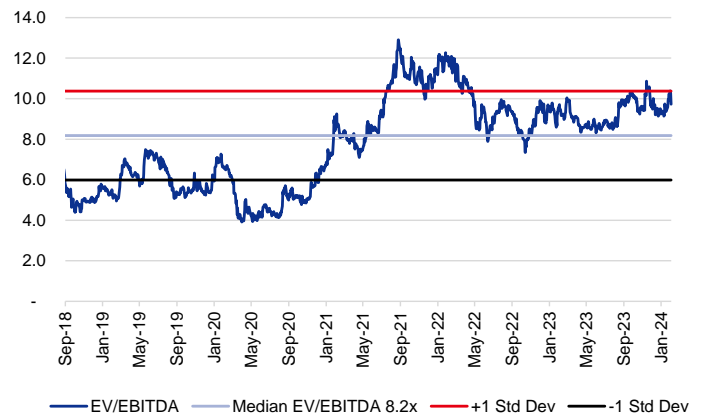
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

(Rs m)	FY24F		FY25F		FY26F
	Old	New	Old	New	
Sales	43,679	44,847	43,692	40,769	44,458
% change		3		-7	
EBITDA	9,908	9,822	9,909	9,471	10,152
% change		-1		-4	
PAT	5,594	5,507	5,497	5,265	5,807
% change		-2		-4	

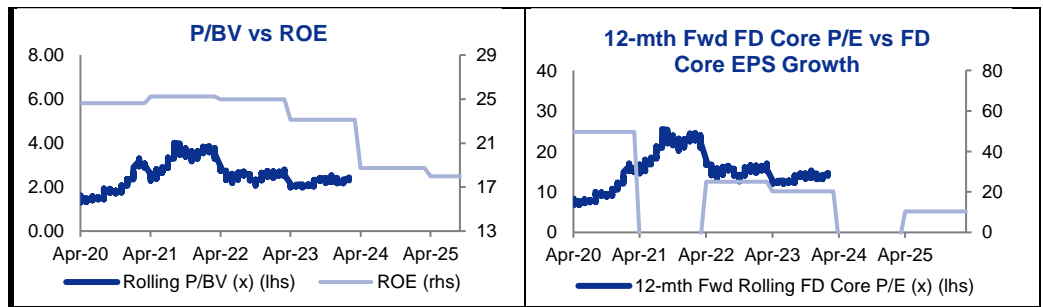
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: KNR's six-year median EV/EBITDA is 8.2x



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	36,058	40,624	44,847	40,769	44,458
Gross Profit	11,547	11,964	15,696	14,269	15,560
Operating EBITDA	7,987	9,173	9,822	9,471	10,152
Depreciation And Amortisation	(1,649)	(1,807)	(1,771)	(1,771)	(1,918)
Operating EBIT	6,337	7,366	8,051	7,700	8,234
Financial Income/(Expense)	(1,481)	(1,531)	(1,367)	(1,342)	(1,146)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	449	367	367	367	367
Profit Before Tax (pre-EI)	5,305	6,202	7,050	6,725	7,455
Exceptional Items					
Pre-tax Profit	5,305	6,202	7,050	6,725	7,455
Taxation	(1,970)	(2,418)	(1,536)	(1,419)	(1,572)
Exceptional Income - post-tax	214	618			
Profit After Tax	3,549	4,402	5,514	5,305	5,883
Minority Interests	115	178	(8)	(41)	(76)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,664	4,580	5,507	5,265	5,807
Recurring Net Profit	3,450	3,962	5,507	5,265	5,807
Fully Diluted Recurring Net Profit	3,450	3,962	5,507	5,265	5,807

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	7,987	9,173	9,822	9,471	10,152
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,437)	7,033	(69,924)	(2,487)	9,832
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,481)	(1,531)	(1,367)	(1,342)	(1,146)
Tax Paid	(1,970)	(2,418)	(1,536)	(1,419)	(1,572)
Cashflow From Operations	(4,902)	12,257	(63,005)	4,222	17,266
Capex	(2,811)	(1,351)	(2,000)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(116)	10			
Other Investing Cashflow	663	985	367	367	367
Cash Flow From Investing	(2,264)	(357)	(1,633)	(1,133)	(1,133)
Debt Raised/(repaid)	6,161	(9,495)	70,000	6,000	6,000
Proceeds From Issue Of Shares	2,244	(2,612)			
Shares Repurchased					
Dividends Paid	(81)	(81)	(176)	(176)	(176)
Preferred Dividends					
Other Financing Cashflow	(45)	(102)	(10)	(41)	(76)
Cash Flow From Financing	8,279	(12,290)	69,814	5,784	5,748
Total Cash Generated	1,114	(390)	5,175	8,872	21,881
Free Cashflow To Equity	(1,004)	2,405	5,361	9,089	22,133
Free Cashflow To Firm	(5,684)	13,431	(63,271)	4,430	17,279

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	2,592	2,202	7,377	16,250	38,131
Total Debtors	5,984	6,229	7,011	5,949	6,905
Inventories	2,274	2,342	2,859	2,574	2,831
Total Other Current Assets	32,015	22,698	104,350	112,587	94,869
Total Current Assets	42,865	33,471	121,598	137,360	142,736
Fixed Assets	5,782	5,902	6,428	6,454	6,332
Total Investments	733	723	723	723	723
Intangible Assets	3,323	3,028	2,733	2,437	2,140
Total Other Non-Current Assets					
Total Non-current Assets	9,838	9,653	9,884	9,614	9,195
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	10,524	8,553	21,581	25,983	19,309
Total Current Liabilities	10,524	8,553	21,581	25,983	19,309
Total Long-term Debt	18,902	6,779	76,779	82,779	88,779
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	18,902	6,779	76,779	82,779	88,779
Total Provisions					
Total Liabilities	29,426	15,332	98,360	108,761	108,088
Shareholders Equity	23,277	27,792	33,123	38,212	43,843
Minority Interests					
Total Equity	23,277	27,792	33,123	38,212	43,843

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	24.2%	12.7%	10.4%	(9.1%)	9.0%
Operating EBITDA Growth	14.7%	14.9%	7.1%	(3.6%)	7.2%
Operating EBITDA Margin	22.1%	22.6%	21.9%	23.2%	22.8%
Net Cash Per Share (Rs)	(57.99)	(16.27)	(246.77)	(236.56)	(180.09)
BVPS (Rs)	82.77	98.82	117.78	135.87	155.89
Gross Interest Cover	4.28	4.81	5.89	5.74	7.18
Effective Tax Rate	37.1%	39.0%	21.8%	21.1%	21.1%
Net Dividend Payout Ratio	1.5%	1.3%	2.5%	2.6%	2.4%
Accounts Receivables Days	47.13	54.87	53.88	58.02	52.77
Inventory Days	27.95	29.40	32.57	37.42	34.13
Accounts Payables Days					
ROIC (%)	22.6%	19.0%	25.4%	7.6%	7.9%
ROCE (%)	17.5%	19.2%	11.1%	6.7%	6.5%
Return On Average Assets	14.6%	16.1%	9.6%	5.8%	5.8%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Outstanding Orderbook (Rs m)	90,008	70,921	60,890	76,502	88,439
Orderbook Replenishment (Rs m)	51,555	18,032	30,800	52,360	52,360

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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