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Weak Quarter; Order inflows key for growth recovery

About the stock: KNR Constructions is a leading company in the highways sector having executed 6,000+ lane km of projects across 12 states, along with established presence in irrigation and urban water infrastructure management.

- Reported ~14% revenue CAGR over FY19-24 and has consistently delivered industry-leading operating margin

Q3FY25 Performance: The reported standalone revenue at ₹743 crore was down 17.9% YoY. On adjusted basis, revenue stood at ₹ 708 crore, down 21.8% YoY, given the modest order book. Reported EBITDA margin stood at 20.4%. However, adjusted margin at 16.6% was up 30 bps YoY. At net level, reported PAT stood at ₹182 crore, up 113% YoY, owing to one-off gain. On Adjusted basis, PAT stood at ₹79 crore, down 7.6% YoY.

Investment Rationale:

- Muted inflows for FY25; Awarding activity poised to pick up in FY26:** KNR's orderbook stood at ₹5517 crore, 1.5x book to bill. It anticipates to capitalise on the accelerated tendering process, guiding for order inflows to the tune of ₹8000 crore over the next 5-6 months. We highlight that order inflows were muted, given that it lost out on major bids submitted under Railway and Metro segments. With no major orders expected in FY25 and delayed payments (irrigation projects), it expects topline de-growth of 10-15% for FY25 and ₹ 3500-4000 crore revenues in FY26 with margins maintained at 15%+. Consequently, we bake in ~3% CAGR over FY24-27E at ₹ 4512 crore, with major recovery in FY27.
- Enjoys a healthy standalone balance sheet:** KNR enjoys a healthy standalone balance sheet with debt/cash of ₹27 crore and ₹19 crore as of Q3FY25. We highlight that it has targeted to monetize 4 HAM projects by FY26. It has invested approx. ₹589 crore across all its HAM assets and has an overall equity requirement of ₹900 crore. The additional equity requirement of ₹401 crore is to be infused over next ~2 years. We expect its debt to remain at minimal to zero levels with operating cash flow generation to fund for HAM equity infusion.

Rating and Target Price

- We like KNR as it enjoys a strong execution track record, completing projects on time/ahead of the schedule. The company also enjoys healthy balance sheet and strong return ratio. Only missing piece is order inflows, post which KNR could witness sharp improvement in growth visibility from FY27 onwards.
- We maintain BUY and value on SoTP basis at target price of ₹ 280/share



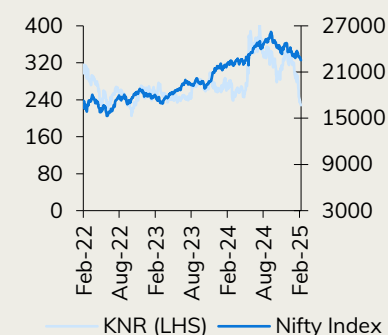
Particulars

Particulars	Amount (₹ crore)
Market Cap	6,412
Total Debt (FY24)	0.0
Cash (FY24)	235
EV	6,178
52 week H/L (₹)	415/ 226
Equity capital	56.2
Face value (₹)	2

Shareholding pattern

	Mar-24	Jun-24	Sep-24	Dec-24
Promoters	51.1	48.8	48.8	48.8
DII	30.5	30.8	30.5	29.7
FII	7.1	8.2	6.7	7.0
Other	11.3	12.3	14.1	14.5

Price Chart



Key risks

- Delay in any major projects' execution
- Lower order inflows

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Key Financial Summary

₹ crore	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr CAGR (FY25-27E)
Net Sales	3,272.6	3,743.8	4,091.0	13.9%	3,472.9	3,689.4	4,511.9	3.3%
EBITDA	677.7	721.7	701.0	10.4%	588.9	588.7	765.1	3.0%
EBITDA Margin (%)	20.7	19.3	17.1		17.0	16.0	17.0	
Adj. PAT	367.7	401.2	441.0	10.9%	297.7	352.9	486.1	3.3%
Adj. EPS (₹)	13.1	14.3	15.7		10.6	12.5	17.3	
P/E (x)	16.8	12.9	13.0		9.6	18.2	13.2	
EV/EBITDA (x)	9.0	8.6	8.8		9.5	9.3	7.1	
RoNW (%)	16.4	14.7	13.7		7.7	8.3	10.3	
RoCE (%)	25.8	21.9	22.1		23.5	11.6	14.2	

Performance highlights and outlook

- Q3 Performance** - KNR Q3 performance had certain arbitration claims and interest which aided topline and other income. The reported standalone revenue at ₹743 crore was down 17.9% YoY. On adjusted basis, revenue stood at ₹ 708 crore, down 21.8% YoY, given the modest order book. Reported EBITDA margin stood at 20.4%. However, adjusted margin at 16.6% was up 30 bps YoY. At net level, reported PAT stood at ₹182 crore, up 113% YoY, owing to one-off gain. On Adjusted basis, PAT stood at ₹79 crore, down 7.6% YoY.
- Guidance** – The company has guided for topline de-growth of 10-15% for FY25. For FY26, the management expects flat growth, with revenues projected at around ₹3500-4000 crore for the year. On margins front, the management expects to maintain EBITDA margins at around 15% for FY26.
- Order-book position** – As of Q3 FY25, the orderbook stands at ₹5517 crore, 1.5x book to bill. The orderbook can be bifurcated as 46% EPC Road and HAM projects, 26% irrigation projects and remaining 28% towards pipeline projects. The orderbook also has two HAM projects totalling ₹1200 crore wherein appointed date for the same is yet to be received. Order inflows as of 9M FY25 remained at around ₹4900 crore, with no significant order inflows expected for the remainder of FY25. However, the company is anticipating order inflows of approximately ₹8000-10000 crore by end of September 2025.
- Equity Requirement** - As of Q3 FY25, the company has already invested ₹589 crore out of the ₹900 crore revised equity requirement for all the HAM projects. The additional equity requirement of ₹401 crore is to be infused as ₹108 crore in 2025, ₹205 crore in FY26 and ₹88 crore in FY27.
- Progress on HAM projects** - HAM project completion status is as follows - Magadi to Somwarpet approximately 88% completed, Ramanattukara to Valanchery approximately 90% completed, Valanchery to Kappirikkad approximately 86%, Chittor to Thatchur approximately 84% and Marripudi to Somvarappadu is 23% complete.
- Claims and receipts** – The company received an arbitration grant from its associate firm Patel KNR heavy infrastructure which amounts to ₹35.6 crore recorded under revenue from operations and ₹35.6 crore as interest on such claim reflecting in other income. The resultant tax from such claim amounts to ₹34.6 crore which is accounted under current tax.
- Telangana projects** – Recently, the company has received LOA for two irrigation projects in the state of Telangana. The projects together account for ₹429 crore of the company's share of revenue. However, work on irrigation projects is progressing at a slow pace owing to delay in receiving payments post state elections in Telangana. The current certified receivables from the irrigation segment stand at ₹577 crore and additional ₹600 crore of uncertified receivables are still pending. The company has approached the courts to recover the pending amount along with interest.
- Monetisation of HAM assets** – The monetization of assets is in progress; the company expects to sign the SPA for four HAM assets by the end of Q1 FY26. It has already received the PCOD for KNR Palani project. The NHAI and lenders approval is expected post PCOD. The company expects to monetize KNR Palani by the end of June, while the remaining three assets are expected to achieve PCOD by December 2025/March 2026.
- Working capital, Cash and debt** – The working capital stood at 69 days vs 71 days in Q3 FY24. The standalone debt and cash amount to ₹27 crore and ₹19 crore respectively.

- **Capex** – The capex as of 9M FY25 stood at ₹20 crore. Given the current orderbook position, the management indicated it wouldn't need to incur capex. It also indicated that it would work out additional capex requirement based on the receipt of LOA's and mobilisation as it targets to achieve ₹8000-10000 crore order inflows over the course next 5-6 months.

Exhibit 1: Quarter Performance

Particulars	Q3FY25 Adj	Q3FY24	YoY (%)	Q2FY25 Adj	QoQ (%)	Comments
Total Operating Income	707.9	905.4	-21.8	856.0	-17.3	
Other Income	13.0	6.0	116.1	57.5	-77.4	
Consumption of raw materials	338.9	376.4	-10.0	378.9	-10.6	
Employee benefit expenses	41.3	49.4	-16.3	52.6	-21.3	
Other Expenses	81.9	75.2	8.8	71.2	14.9	
EBITDA	117.3	147.3	-20.4	147.0	-20.2	
EBITDA Margin(%)	16.6	16.3	30 bps	17.2	-60 bps	
Depreciation	22.9	32.5	-29.7	22.6	1.1	
Interest	3.1	7.2	-57.3	2.0	51.0	
PBT	104.4	113.6	-8.1	179.8	-41.9	
Exceptional Item	0.0	0.0	NM	-15.0	NM	
Taxes	25.3	28.1	-9.9	34.4	-26.4	
Adj PAT	79.1	85.5	-7.6	115.4	-31.5	

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business	7292	259	15x FY27E P/E
HAM Projects Investment	689	24	
Total Equity Investment	7981	284	1x Equity investment as on FY25
SoTP Value	7981	284	
Rounded-off target price		280	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Net Sales	4,091.0	3,472.9	3,689.4	4,511.9
Other operating income	-	-	-	-
Total Revenues	4,091.0	3,472.9	3,689.4	4,511.9
Raw Material Expense	1,660.2	1,389.2	1,475.7	1,804.7
Other Construction Exp	1,089.4	972.4	1,088.4	1,331.0
Employee benefit expense	173.5	147.3	156.5	191.4
Other Expenses	467.0	375.1	380.0	419.6
Total Operating Exp	3,390.0	2,884.0	3,100.6	3,746.8
EBITDA	701.0	588.9	588.7	765.1
Other Income	142.2	450.0	41.6	52.4
Interest	29.3	26.2	22.2	22.2
Depreciation	124.5	120.1	136.3	145.5
PBT	689.3	892.6	471.8	649.9
Total Tax	195.5	224.9	118.9	163.8
Reported PAT	493.8	667.7	352.9	486.1
Adjusted PAT	441.0	297.7	352.9	486.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit before Tax	689	893	472	650
Depreciation	125	120	136	145
Interest Paid	29	26	22	22
Others	(1)	(450)	(42)	(52)
CF before WC changes	842	589	589	765
Net Increase in CA	(467)	186	(253)	(511)
Net Increase in CL	60	(152)	52	199
Taxes paid	(218)	(225)	(119)	(164)
Net CF from Op Activities	218	398	269	289
(Purchase)/Sale of FA	(73)	(120)	(100)	(100)
Loans and Inv in JV/SPV	(193)	(102)	(48)	(181)
Others	112	450	42	52
Net CF from Inv. Activities	(154)	228	(106)	(229)
Debt Proceeds/Repayment	(0)	-	-	-
Interest Paid	(22)	(26)	(22)	(22)
Others	(7)	(7)	(7)	(7)
Net CF from Fin. Activities	(29)	(33)	(29)	(29)
Net Cash flow	35	593	133	31
Opening Cash/ Cash Equiv.	200	235	827	961
Closing Cash/ Cash Equiv.	235	827	961	992

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Liabilities				
Share Capital	56.2	56.2	56.2	56.2
Reserves & Surplus	3,169.4	3,830.1	4,176.0	4,655.0
Networth	3,225.7	3,886.3	4,232.2	4,711.3
Secured Loan	-	-	-	-
Unsecured Loan	-	-	-	-
Total Debt	-	-	-	-
Deferred Tax Liability	-	-	-	-
Total Liabilities	3,247	3,908	4,254	4,733
Assets				
Gross Block	1,672.7	1,792.7	1,892.7	1,992.7
Net Block	366.0	365.9	329.6	284.1
Capital WIP	2.2	2.2	2.2	2.2
Non-current Investment	728.3	830.4	878.0	1,059.0
Current Assets				
Inventories	220.7	333.0	323.5	395.6
Sundry Debtors	1,405.9	903.9	960.2	1,174.3
Loans and Advances	6.1	5.8	5.9	6.3
Other Current Assets	1,037.0	1,237.0	1,437.0	1,637.0
Cash	234.6	827.4	960.9	991.9
Total Current Assets	2,669.7	2,479.7	2,726.6	3,213.2
Creditors	273.9	232.5	247.0	302.1
Provisions	8.0	6.8	7.2	8.8
Other Current Liabilities	708.6	599.4	636.8	778.8
Other Long Term Liabilities	14.9	14.9	14.9	14.9
Total Current Liabilities	990.5	838.7	891.0	1,089.6
Net Current Assets	1,909.6	2,464.2	2,792.3	3,111.2
Total Assets	3,247	3,908	4,254	4,733

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY24E	FY25E	FY26E	FY27E
Per Share Data				
EPS (Fully Diluted)	17.6	23.7	12.5	17.3
Adjusted EPS	15.7	10.6	12.5	17.3
BV	114.7	138.2	150.5	167.5
Operating Ratios				
EBITDA / Net Sales	17.1	17.0	16.0	17.0
PAT / Net Sales	10.8	8.6	9.6	10.8
Inventory Days	20	35	32	32
Debtor Days	125	95	95	95
Creditor Days	24	24	24	24
Return Ratios				
RoE	13.7	7.7	8.3	10.3
RoCE	22.1	23.5	11.6	14.2
RoIC	25.3	20.9	18.8	23.1
Valuation Ratios				
EV / EBITDA	8.8	9.5	9.3	7.1
P/E	13.0	9.6	18.2	13.2
EV / Net Sales	1.5	1.6	1.5	1.2
Market Cap / Sales	1.6	1.8	1.7	1.4
Price to Book Value	2.0	1.6	1.5	1.4
Turnover Ratios				
Gross Block Turnover	2.4	1.9	1.9	2.3
Solvency Ratios				
Debt / Equity	-	-	-	-
Current Ratio	2.7	3.0	3.1	2.9
Debt / EBITDA	-	-	-	-
Quick Ratio	2.5	2.6	2.7	2.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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