

# KNR CONSTRUCTIONS

## RESULT UPDATE

### KEY DATA

Rating	REDUCE
Sector relative	UNDERperformer
Price (INR)	221
12 month price target (INR)	190
52 Week High/Low	415/189
Market cap (INR bn/USD bn)	62/0.7
Free float (%)	45.0
Avg. daily value traded (INR mn)	327.1

### SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	48.81%	48.81%	48.81%
FII	6.91%	6.99%	6.66%
DII	28.31%	29.70%	30.47%
Pledge	0%	0%	0%

### FINANCIALS

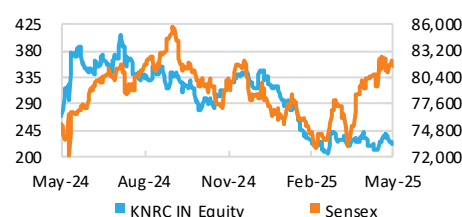
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	40,910	33,586	32,898	37,898
EBITDA	7,010	6,259	5,111	5,888
Adjusted profit	5,019	7,465	3,210	3,734
Diluted EPS (INR)	17.8	26.5	11.4	13.3
EPS growth (%)	27.9	48.8	(57.0)	16.3
RoAE (%)	16.6	20.2	7.8	8.4
P/E (x)	11.8	8.0	18.5	15.9
EV/EBITDA (x)	8.1	9.3	11.2	9.5
Dividend yield (%)	0.1	0.1	0.1	0.1

### CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	32,898	37,898	0%	-1%
EBITDA	5,111	5,888	-4%	-4%
Adjusted profit	3,210	3,734	0%	-1%
Diluted EPS (INR)	11.4	13.3	0%	-1%

### PRICE PERFORMANCE



## Challenges galore

KNR Constructions (KNR) reported Q4FY25 revenue of INR8.5bn. Due to arbitration claims and other one-offs in the previous quarters, results are not comparable YoY/QoQ. The order book declined sequentially to ~INR50.5bn (book-to-bill of 1.5x).

Declining revenue visibility amid a nil hike in outlay for the roads sector in the budget (refer to '[Union Budget: Muted capex growth](#)'), deteriorating working capital cycle due to payment issues on irrigation projects and potential liabilities in the Kerala project ([Link](#)) compel us to slash P/E multiple to 12x from 17x earlier. We downgrade the stock to 'REDUCE' from 'HOLD' with a revised SotP-based TP of INR190 (earlier INR250) based on Q4FY27E EPS.

### Muted performance

KNR's Q4FY25 revenue came in at ~INR8.5bn (figures are not comparable as the previous quarter's financials were skewed by one-offs in revenue/EBITDA/other income). Q4FY25 EBITDA/PAT margins stood at 13.8%/8.8%.

Some structural damages were reported in the under construction Ramanattukara-Valanchery project. As a result, the NHAI has initiated an investigation against the company and banned its subsidiary from participation in any future tenders till the conclusion of the said investigation or for one month, whichever is later. We await clarity about any potential liabilities on the company including its ability to bid for future MoRTH/NHAI projects ([Link](#)).

### Company remains gross debt-free despite NWC deterioration

KNR's gross debt declined to nil (~INR270mn at end-Q3FY25). As a result, the company ended the year with a net cash of ~INR1.4bn against net debt of ~INR80mn at end-Q3FY25. The working capital cycle, however, deteriorated QoQ to 274 days (248 days at end-Q3FY25). The total outstanding receipts for irrigation projects from the Telangana government (including uncertified bills) are at INR12bn (flat QoQ).

### Order book decreases QoQ

KNR ended FY25 with an order book of ~INR50.5bn (book-to-bill of 1.5x). In FY25, it won just two irrigation projects worth ~INR4.3bn. It is targeting INR80–100bn order accretion in FY26. Management mentioned that it has identified a bid pipeline of ~INR300–400bn from the NHAI, ~INR120–150bn from the state government road projects, ~INR20–50bn from mining projects, apart from irrigation projects across various states. It would continue to track opportunities in other segments such as railways EPC, metro, tunnelling work, flyovers, etc.

### Financials

Year to March	Q4FY25	Q4FY24	% Change	Q3FY25	% Change
Net Revenue	8,512	13,145	(35.2)	7,435	14.5
EBITDA	1,175	2,141	(45.1)	1,516	(22.5)
Adjusted Profit	752	1,982	(62.1)	1,822	(58.7)
Diluted EPS (INR)	2.7	7.0	(62.1)	6.5	(58.7)

## Financial Statements

### Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	40,910	33,586	32,898	37,898
Gross profit	13,415	11,183	9,934	11,444
Employee costs	1,735	1,769	1,733	1,996
Other expenses	4,670	3,154	3,090	3,559
EBITDA	7,010	6,259	5,111	5,888
Depreciation	1,245	903	966	1,028
Less: Interest expense	293	130	120	150
Add: Other income	1,422	4,517	267	282
Profit before tax	6,813	9,535	4,292	4,992
Prov for tax	1,875	2,278	1,082	1,258
Less: Other adj	0	0	0	0
Reported profit	4,938	7,257	3,210	3,734
Less: Excp.item (net)	80	209	0	0
Adjusted profit	5,019	7,465	3,210	3,734
Diluted shares o/s	281	281	281	281
Adjusted diluted EPS	17.8	26.5	11.4	13.3
DPS (INR)	0.3	0.3	0.3	0.3
Tax rate (%)	27.5	23.9	25.2	25.2

### Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Order intake (% YoY)	25.5	34.8	16.1	27.7
Book-to-bill ratio (x)	1.3	1.5	1.6	1.6
Gross margin (%)	32.8	33.3	30.2	30.2
EBITDA margin (%)	17.1	18.6	15.5	15.5
Net profit margin (%)	12.3	22.2	9.8	9.9
Revenue growth (% YoY)	9.3	(17.9)	(2.0)	15.2
EBITDA growth (% YoY)	(2.9)	(10.7)	(18.3)	15.2
Adj. profit growth (%)	27.9	48.8	(57.0)	16.3

### Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	7.0
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.0	82.0	81.0
Order intake (INR bn)	23.0	31.1	36.1	46.1
Order backlog (INR bn)	53.0	50.5	53.7	61.8
Capex (INR mn)	284.7	205.3	1,524.5	1,530.0
Tax rate (%)	27.2	23.7	25.2	25.2
Staff cost (% of sales)	4.2	5.3	5.3	5.3
Other exp. (% of sales)	11.4	9.4	9.4	9.4

### Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	11.8	8.0	18.5	15.9
Price/BV (x)	1.8	1.5	1.4	1.3
EV/EBITDA (x)	8.1	9.3	11.2	9.5
Dividend yield (%)	0.1	0.1	0.1	0.1

Source: Company and Nuvama estimates

### Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	562	562	562	562
Reserves	31,694	38,887	42,028	45,692
Shareholders funds	32,257	39,450	42,590	46,254
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	2,739	3,080	4,654	9,024
Other liabs & prov	7,166	3,845	4,269	4,744
Total liabilities	42,377	46,498	51,636	60,144
Net block	4,369	3,689	4,223	4,695
Intangible assets	1	0	0	0
Capital WIP	22	4	34	64
Total fixed assets	4,391	3,693	4,257	4,759
Non current inv	6,620	7,862	8,762	9,662
Cash/cash equivalent	2,346	1,436	2,261	3,214
Sundry debtors	14,059	12,762	11,574	14,384
Loans & advances	53	53	84	135
Other assets	4,538	4,329	5,064	6,392
Total assets	42,377	46,498	51,636	60,144

### Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	4,938	7,257	3,210	3,734
Add: Depreciation	1,245	903	966	1,028
Interest (net of tax)	212	99	89	112
Others	(436)	44	(160)	(182)
Less: Changes in WC	3,496	7,651	852	1,309
Operating cash flow	2,463	651	3,255	3,383
Less: Capex	285	205	1,524	1,530
Free cash flow	2,178	446	1,730	1,853

### Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	16.6	20.2	7.8	8.4
RoCE (%)	24.1	27.5	10.8	11.6
Inventory days	30	31	29	35
Receivable days	108	146	135	125
Payable days	43	47	61	94
Working cap (% sales)	23.8	30.9	26.7	24.0
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.1)	0	(0.1)	(0.1)
Interest coverage (x)	19.7	41.4	34.7	32.5

### Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	27.9	48.8	(57.0)	16.3
RoE (%)	16.6	20.2	7.8	8.4
EBITDA growth (%)	(2.9)	(10.7)	(18.3)	15.2
Payout ratio (%)	1.4	1.0	2.2	1.9

## Exhibit 1: Financial snapshot

Standalone (INR mn)	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY24	FY25	FY26E	FY27E
Revenue	8,512	13,145	(35.2)	7,435	14.5	40,910	33,586	32,898	37,898
Direct cost	6,174	8,299	(25.6)	4,674	32.1	27,495	22,404	22,964	26,455
Staff cost	411	432	(5.0)	413	(0.6)	1,735	1,769	1,733	1,996
Other expenditure	752	2,272	(66.9)	831	(9.5)	4,670	3,154	3,090	3,559
Total expenditure	7,337	11,004	(33.3)	5,919	24.0	33,900	27,327	27,787	32,010
EBITDA	1,175	2,141	(45.1)	1,516	(22.5)	7,010	6,259	5,111	5,888
Depreciation	223	326	(31.5)	229	(2.4)	1,245	903	966	1,028
EBIT	952	1,815	(47.6)	1,287	(26.0)	5,765	5,357	4,145	4,860
Less: Interest expense	38	113	(66.5)	31	22.5	293	130	120	150
Add: Other income	185	1,241	(85.1)	1,166	(84.1)	1,422	4,517	267	282
Add: Exceptional items	0	0		0					
Profit before tax	1,099	2,943	(62.6)	2,422	(54.6)	6,893	9,594	4,292	4,992
Less: Provision for Tax	348	961	(63.9)	600	(42.1)	1,955	2,337	1,082	1,258
Reported profit	752	1,982	(62.1)	1,822	(58.7)	4,938	7,257	3,210	3,734
Adjusted profit	752	1,982	(62.1)	1,822	(58.7)	4,938	7,407	3,210	3,734
Equity capital	281	281		281		562	562	562	562
No. of Diluted shares outstanding (mn)	281	281		281		281	281	281	281
Adjusted Diluted EPS	2.7	7.0	(62.1)	6.5	(58.7)	17.6	26.3	11.4	13.3
As % of net revenues									
Direct cost	72.5	63.1	939.7	62.9	966.7	67.2	66.7	69.8	69.8
Other expenses	8.8	17.3	(845.2)	11.2	(234.8)	11.4	9.4	9.4	9.4
EBITDA	13.8	16.3	(248.3)	20.4	(658.4)	17.1	18.6	15.5	15.5
Adjusted profit	8.8	15.1	(624.2)	24.5	(1,567.2)	12.1	22.1	9.8	9.9
Tax rate	31.6	32.7	(105.7)	24.8	683.4	28.4	24.4	25.2	25.2

Source: Company, Nuvama Research

## Q4FY25 conference call highlights

### FY26 guidance

- **Revenue:** INR25–30bn from the existing order book plus incremental revenues from the new order wins.
- **EBITDA margins:** 13–14%.
- **Order inflow:** INR80–100bn.

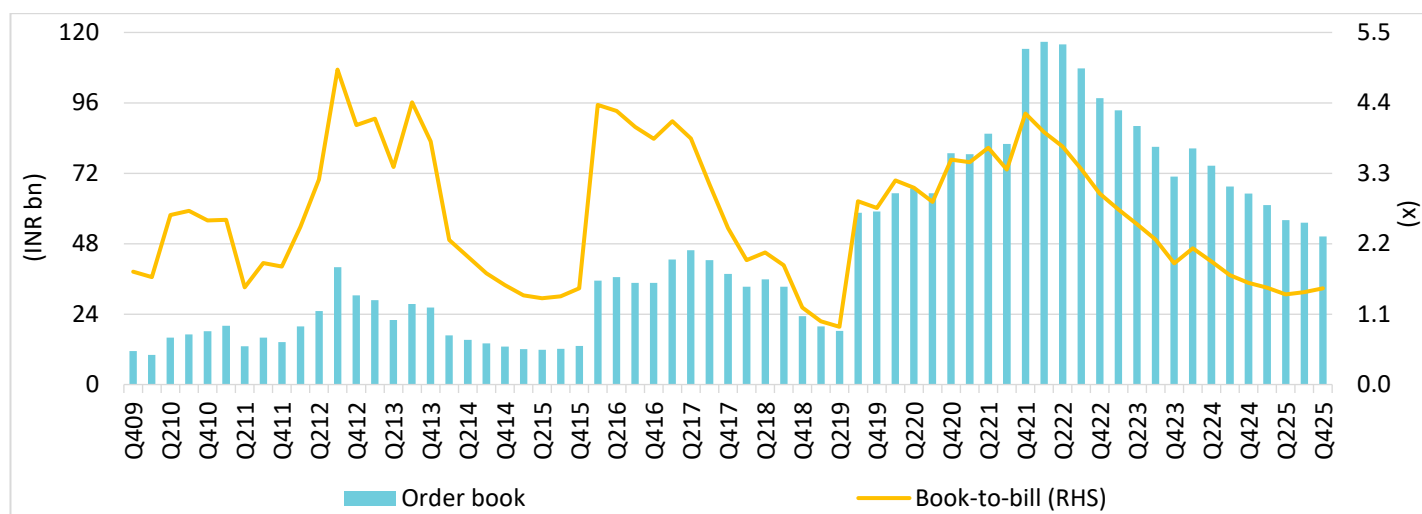
### Subdued order inflow

The company won just two irrigation projects worth ~INR4.3bn in FY25. It had won a water supply order worth INR11bn during FY24 and three orders worth ~INR20bn during FY23.

### Revenue visibility declines

KNR ended FY25 with an order book of ~INR50.5bn; book-to-bill stands at 1.5x.

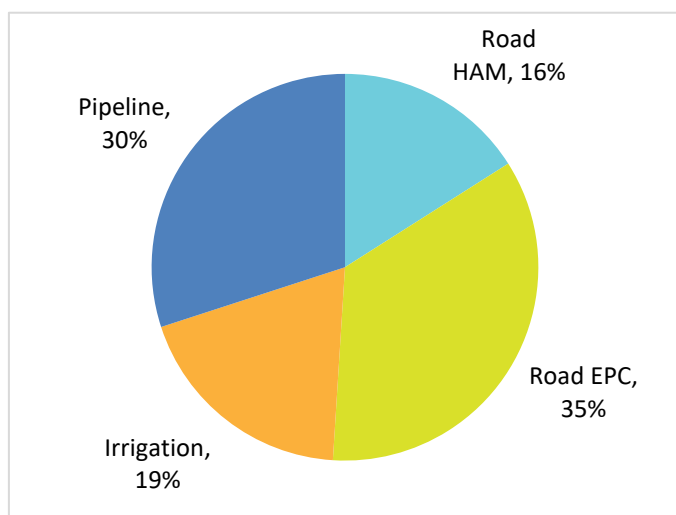
**Exhibit 2: Book-to-bill remains low**



Source: Company, Nuvama Research

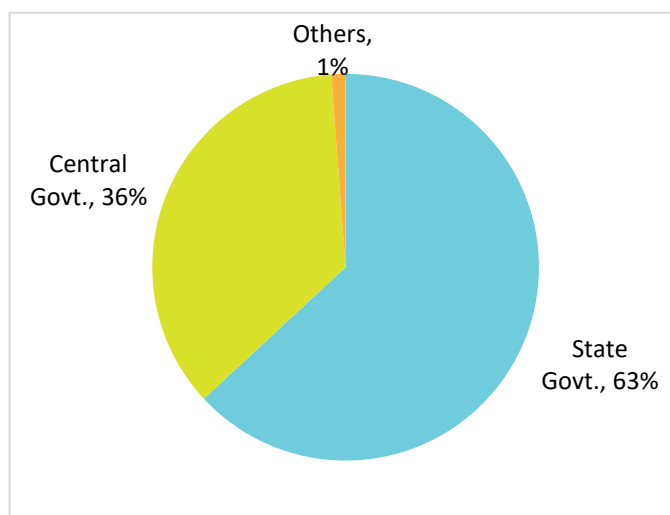
Transport projects account for majority (51%) of the order book with the balance coming from irrigation/water supply projects. Captive HAM projects comprise 16% of the order book.

**Exhibit 3: Order book breakdown by segment**



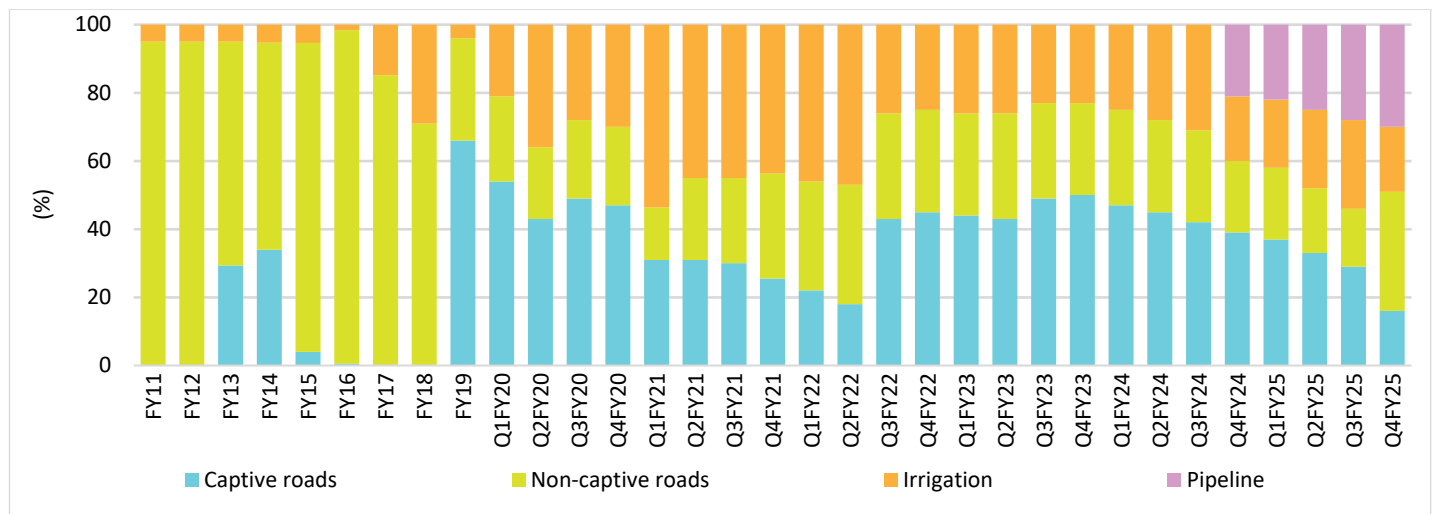
Source: Company, Nuvama Research

**Exhibit 4: Order book split by client**



Source: Company, Nuvama Research

**Exhibit 5: Share of captive projects in order book decreases QoQ**



Source: Company, Nuvama Research

Management mentioned that it has identified a bid pipeline of ~INR300–400bn from the NHAI, ~INR120–150bn from the state government road projects and mining projects of ~INR20–50bn .

Apart from this, KNR is also looking to participate in irrigation projects in Madhya Pradesh, Rajasthan, Andhra Pradesh and Bihar.

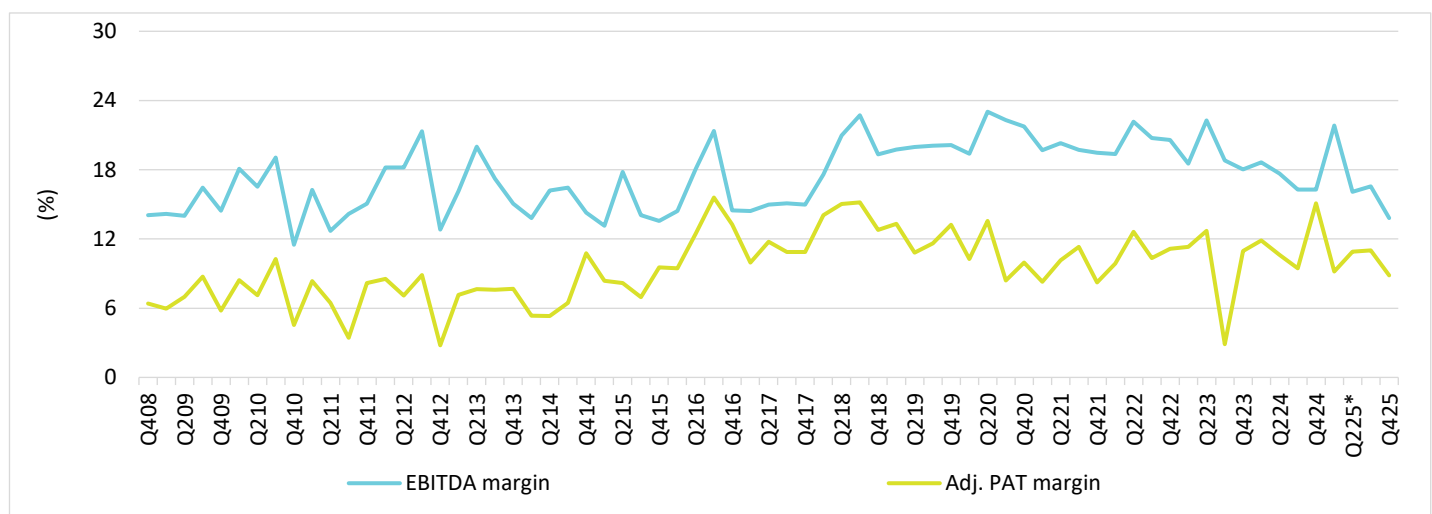
It would continue to track opportunities in other infra segments such as railways EPC, metro, tunnelling work, bridges & flyovers, mining and solar power projects.

## Margins fall

Adjusted for one offs in the previous quarter, EBITDA margins fell ~250bpYoY/~280bp QoQ to 13.8%.

PAT margins too fell ~620bp YoY/~220bp QoQ to 8.8% in Q4FY25.

**Exhibit 6: EBITDA and PAT margin trajectory**



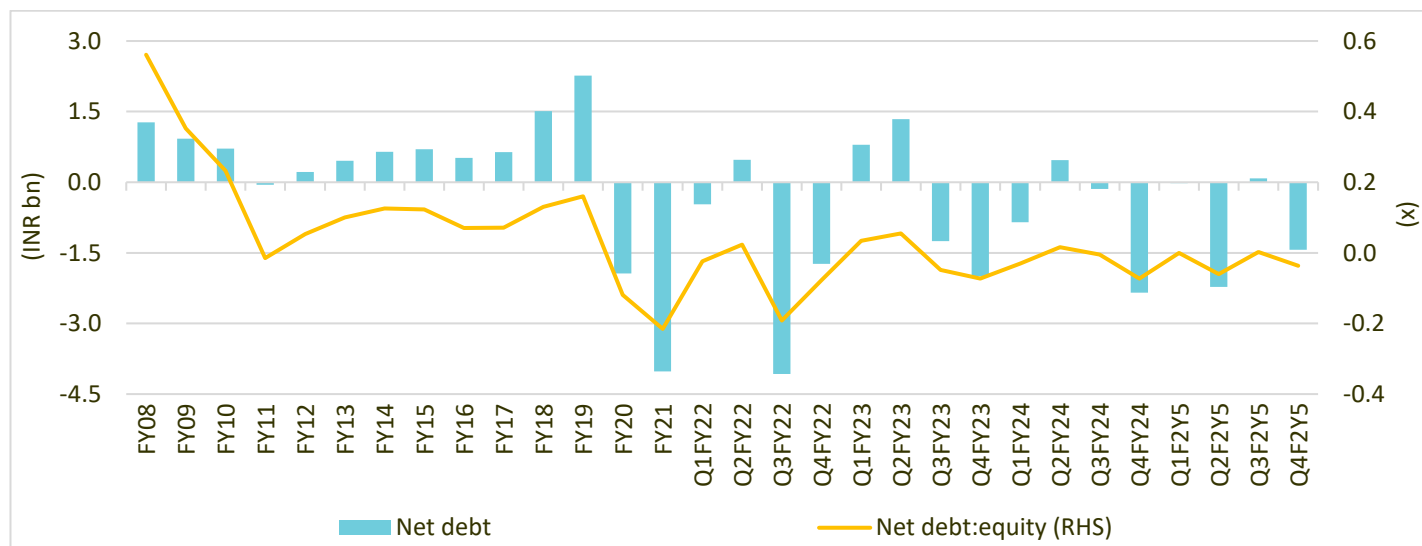
Source: Company, Nuvama Research

Note: \* Q225 and Q325 represent adjusted EBITDA and PAT margins as guided by management.

## Leverage falls QoQ

The company ended the quarter with nil gross debt (INR270mn at end-Q3FY25). KNR had a net cash position of INR1.4bn at end-FY25 (net debt of INR80mn in Q3FY25).

Exhibit 7: Debt levels fall sequentially

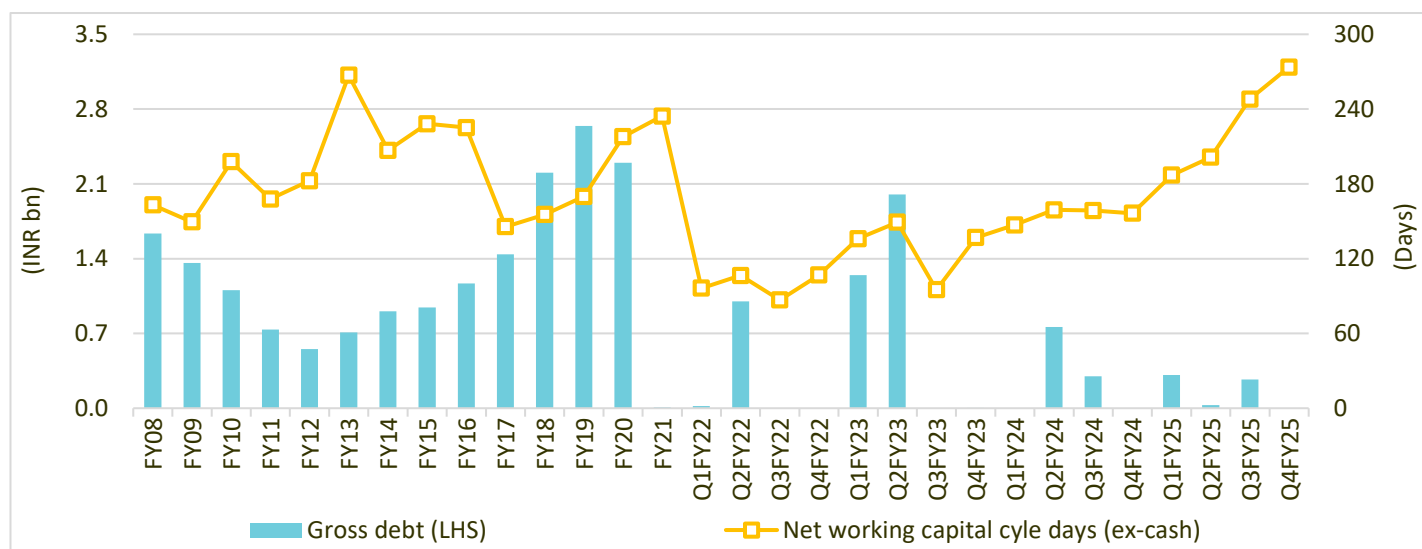


Source: Company, Nuvama Research

## Working capital cycle deteriorates QoQ

Net working capital cycle (ex-cash) increased sequentially to 274 days (248 days at end-Q3FY25).

Exhibit 8: Net working capital cycle deteriorates QoQ

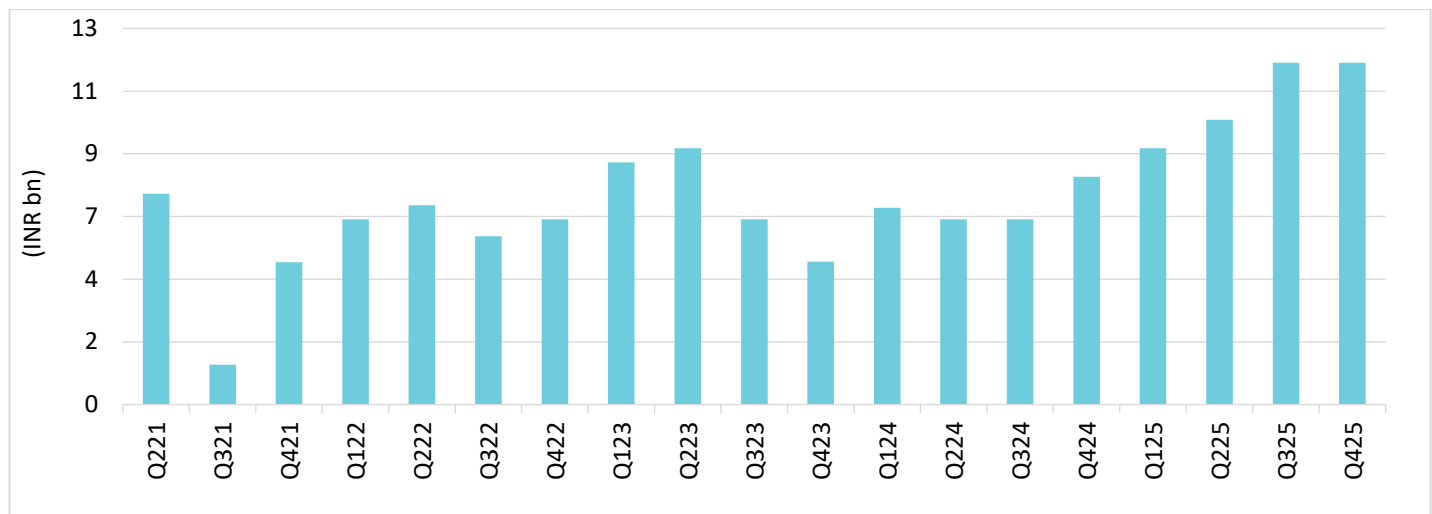


Source: Company, Nuvama Research

## Q4FY25 conference call highlights

- **Segmental split of revenue in Q4FY25:** Road HAM projects contributed ~47% towards revenue in the current quarter while road EPC contributed 30%. Irrigation projects made up 19% of the total revenues in Q4FY25.
- **Telangana receivables:** Total outstanding receipts from the Telangana government (including unbilled revenue) stand at ~INR12bn as on date.

Exhibit 9: Outstanding payments by Telangana government



Source: Company, Nuvama Research

- **HAM project portfolio:** KNR has an overall portfolio of eight HAM projects: seven from the NHAI and one from K-SHIP (Karnataka). Only three of these HAM projects – Magadi-Somwarpet, Oddanchatram-Madathukulam and Chittor – Thatchur have achieved PCOD till date.
- **Completion status of HAM projects:** Oddanchatram-Madathukulam: 100% (100% at end-Q3FY25), K-SHIP project: 88.7% (87.5%), Ramanattukara-Valanchery: 95% (89.5%), Valanchery-Kappirikkad: 93.4% (86.2%), Chittor-Thatchur: 90.7% (84.3%) and Marripudi to Somvarappadu: 37% (22.6%).

The company had achieved financial closure for Mysore to Kushalnagara project (Packages IV and V) in Sep-24. It received appointed date for both these projects in Apr-25.

- **Ramanattukara-Valanchery project:** Due to some indeterminate subsoil conditions in the said location and high water table, one of the approach ramps with RE wall of the vehicular underpass has yielded and caused excessive settlement. As a result, the service roads is slightly distorted.

Taking cognizance of this issue, the NHAI has initiated an investigation against the company and banned the SPV i.e. KNR Ramanattukara Infra Private Limited (wholly-owned subsidiary of the company) from participating in ongoing/future bidding for one month period or completion of investigation by the expert committee whichever is later.

As per management, the parent company has just been served with a show cause notice as to why they should not be debarred for one year and a penalty equal to 0.5% of the project cost should not be imposed on them. The company has fielded its reply and does not expect severe consequences of the same. It is yet to assess the exact financial impact of the same.

- **Asset monetisation:** KNR is looking to monetise four HAM projects and is at advanced stages of discussions with potential buyers. It expects to enter into an SPA by early-Q2FY26.
- **Equity contribution:** Of the total INR9.9bn equity requirement, KNR has invested ~INR6.5bn equity to date. Incremental equity needed is ~INR3.4bn of which, ~INR2.1bn will be invested in FY26 and the balance ~INR1.3bn in FY27.

- **Capex:** Total INR220mn incurred in FY25 (INR20mn in Q4FY25).
- **Irrigation projects:** The company booked revenue of INR1.52bn in irrigation projects in Q4FY25 (~INR5.2bn in FY25) and expects a similar run rate in the coming quarters.
- **Pipeline project:** Work on the pipeline project has started and the company has executed ~INR300mn during the quarter. Management is expecting to clock revenue of ~INR3–4bn in FY26 in this project.
- **Early completion bonus:** KNR has completed the Chittor – Thatchur project ~40 days ahead of the schedule and is thus eligible for ~INR32.6mn early completion bonus. The management expects to receive this bonus in Q1FY26.



## Company Description

Incorporated in 1995, KNR provides EPC services across sectors such as roads & highways, irrigation and urban water infrastructure management. Its project execution strength lies primarily in road transportation engineering projects, viz., construction and maintenance of roads, highways, flyovers and bridges.

Initially, the company executed many projects via joint ventures with companies such as Patel Engineering, Backbone Projects and Sri Laxmi Engineering. Later on, it started undertaking projects on a standalone basis. In addition, it entered the asset development space in 2006.

The company went public in 2008 with an IPO of ~7.88mn shares at INR170 per share, aggregating ~INR1.34bn. The issue proceeds were utilised for meeting the company's capex and working capital requirements and for meeting the equity commitment for BOT projects.

## Investment Theme

KNR, a name to reckon with in India's road contracting space, boasts a formidable reputation of quality and in-time execution. A conservative bidding strategy, unwavering execution focus, impressive asset base, backward integration and tight working capital control have paid off rich dividends—before-schedule completion incentives, high operating profitability and impressive return ratios.

Meanwhile, the limited BOT exposure provides comfort on balance sheet health. While focusing on the transportation space, KNR has attempted to de-risk its business model by ensuring its order book is geographically well spread. In addition, client-specific risk is adroitly managed, ensuring there is no concentration risk. This has placed the company in a sweet spot with low operational risks, thereby improving business sustainability.

## Key Risks

**Execution risk:** While KNR has excellent execution skills, its potential entry in new segments and geographies exposes it to execution risks. Besides, with the average size and complexity of projects increasing, the company faces the challenge of completing large projects within the stipulated time and cost.

**Profitability risks:** Historically, KNR's operating profitability has been higher than peers due to its backward integration model and concentration in the roads space in South India. In case it enters new geographies, it may not always have access to quarries. With expansion in operations, particularly to new geographies, KNR may face the challenge of sustaining profitability.

**Inherent risks associated with toll projects:** KNR's presence in the toll road segment exposes it to risks associated with unpredictability of traffic growth etc.

## Additional Data

### Management

MD	Mr. K Narsimha Reddy
CFO	Mr. K Jalandhar Reddy
Director	Mr. W R Reddy
Director	Mrs. K Yashoda
Auditor	K. P. Rao & Co.

### Holdings – Top 10\*

% Holding		% Holding	
HDFC MF	8.20	Kotak MF	1.45
SBI MF	4.31	HSBC	1.44
DSP MF	3.57	Axis MF	1.38
Canara MF	2.14	Tata MF	1.23
Franklin	1.88	Bank of Japan	1.10

\*Latest public data

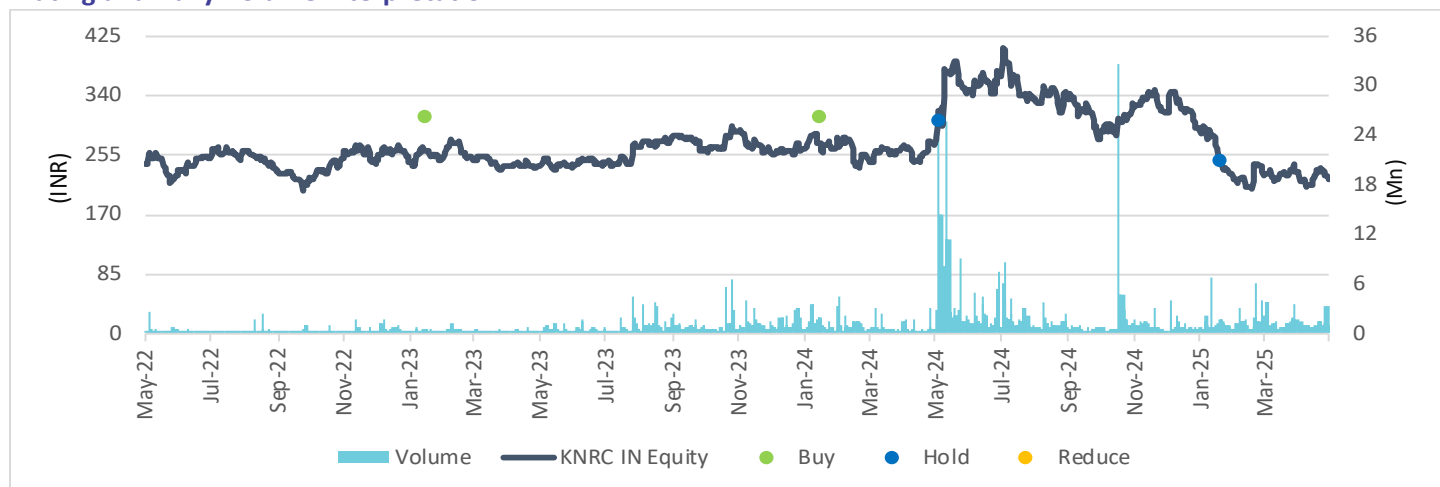
### Recent Company Research

Date	Title	Price	Reco
14-Feb-25	Order wins necessary; <i>Result Update</i>	247	Hold
13-Nov-24	Order inflow vital; <i>Result Update</i>	309	Hold
16-Aug-24	Order accretion critical; <i>Result Update</i>	340	Hold

### Recent Sector Research

Date	Name of Co./Sector	Title
27-May-25	Capacite Infraprojects	Accounting policy change hits margins; <i>Result Update</i>
27-May-25	Afcons	Soft quarter; bright outlook; <i>Result Update</i>
26-May-25	Ashoka Buildcon	Asset monetisation key; <i>Result Update</i>

### Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

### Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	204
Hold	<15% and >-5%	63
Reduce	<-5%	34

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