



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

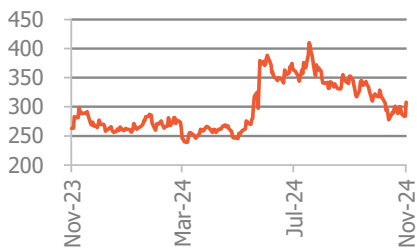
**Company details**

Market cap:	Rs. 8,656 cr
52-week high/low:	Rs. 415/237
NSE volume: (No of shares)	2.2 lakh
BSE code:	532942
NSE code:	KNRCON
Free float: (No of shares)	14.4 cr

**Shareholding (%)**

Promoters	48.8
FII	6.7
DII	30.5
Others	14.1

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-3.0	-11.5	25.3	17.1
Relative to Sensex	2.2	-9.9	18.5	-2.6

Sharekhan Research, Bloomberg

**KNR Constructions Ltd**  
One-offs boost Q2; order wins stay critical

<b>Infrastructure</b>	<b>Sharekhan code: KNRCON</b>		
<b>Reco/View: Hold</b>	↔	<b>CMP: Rs. 308</b>	<b>Price Target: Rs. 340</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- For Q2FY2025, adjusting for one-off arbitration claim, standalone revenue was marginally higher than estimates, while OPM marginally lagged. Higher other income led to beat on standalone net profit.
- Management targets Rs. 3,500-3,600 crore standalone revenue for FY2025. Order book at 1.4x TTM standalone revenue stays critical.
- Order inflow target remains largely unchanged at Rs. 6,000-8,000 crore for FY2025, expecting strong order wins in Q4FY2025. The company continues to eye strategic partnerships for bidding BOT toll/annuity projects.
- We retain HOLD on KNR with a revised PT of Rs. 340, factoring downwardly revised execution run-rate and considering unfavourable risk-reward at current valuations due to near-term headwinds.

KNR reported marginally higher-than-expected standalone net revenue of Rs. 856 crore (down 9.1% y-o-y, adjusting for Rs. 27.8 crore arbitration claim). Adjusted standalone OPM (adjusting for arbitration claim in revenue and other expense) at 16.1% (-154bps y-o-y) was marginally below our estimate of 16.7%. Consequently, adjusted operating profit declined by 17% y-o-y to Rs. 138 crore (2% higher than our estimate). Adjusted standalone net profit (adjusted for arbitration claim revenue, other expense, tax outgo, and other exceptional items) grew by 36.6% y-o-y to Rs. 136.4 crore (55% above our estimate owing to higher other income). Management targets Rs. 3,500-3,600 crore standalone revenue for FY2025. Order inflow guidance stays at Rs. 6,000-8,000 crore, expecting strong order intake in Q4FY2025. KNR's current order book at Rs. 5,606 crore (1.4x TTM standalone revenue) stays weak. Consequently, the company is eyeing BOT Toll/ Annuity projects of NHAI, strategic partnerships with Adani Group/Cube Highways, and sub-contracting arrangement with Patel Infra (MSRDC projects). KNR will also be bidding for irrigation projects in Telangana and Andhra Pradesh.

**Key positives**

- Higher execution led to better-than-estimated adjusted standalone revenue.
- The company has largely maintained order inflow guidance for FY2025, expecting strong order wins in Q4FY2025.

**Key negatives**

- Order book at 1.4x TTM standalone revenue stays critical on account of nil order wins during H1FY2025.
- Receivables from Telangana remained high at Rs. 1,000 crore.

**Management Commentary**

- Management targets standalone revenue of Rs. 3,500-3,600 crore for FY2025 and Rs. 4,500 crore for FY2026. Order inflow guidance is at Rs. 6,000-8,000 crore for FY2025; management expects strong order intake in Q4FY2025.
- KNR has Rs. 435 crore receivables for HAM projects and Rs. 600 crore for irrigation projects (majorly package 4). Irrigation receivables including unbilled revenue stand at Rs. 1,000 crore.
- The company has invested Rs. 556 crore, out of total equity requirement of Rs. 992 crore. The balance Rs. 436 crore will be invested as follows: Rs. 200 crore in H2FY2025, Rs. 120 crore in FY2026, and Rs. 116 crore in FY2027.

**Revision in estimates** – We have lowered our standalone revenue estimates for FY2025-FY2027, factoring in lower execution run-rate, led by a delay in order intake.

**Our Call**

**Valuation – Retain HOLD with a revised PT of Rs. 340:** KNR is expected to benefit from the government's infrastructure spending, especially on roads and highways. However, in the near term, the company faces a highly competitive environment and delays in opening up of bids. The company would need to bag projects in the near term to provide revenue growth visibility post FY2025. However, it may need to cut down on OPM to win projects. The company is also exploring strategic partnerships to bid for BOT-toll projects. The company's outstanding receivables in the irrigation segment remain a concern. The stock is currently trading at a P/E of 17x/15x its FY2026E/ FY2027E earnings, which we believe provide an unfavourable risk-reward considering near-term headwinds. Hence, we retain our HOLD rating on the stock with a revised price target (PT) of Rs. 340, factoring in downward revision in execution run-rate for FY2025-FY2027.

**Key Risks**

Delays in execution and a weak macroeconomic environment will lead to a lull in new project awards.

**Valuation (Standalone)**

Particulars	Rs cr			
	FY24	FY25E	FY26E	FY27E
Revenue	4,091.0	3,681.5	4,561.7	5,036.3
OPM (%)	17.1	16.8	17.4	17.4
Adjusted PAT	493.8	376.8	522.3	577.8
YoY growth (%)	36.8	(23.7)	38.6	10.6
Adjusted EPS (Rs.)	17.6	13.4	18.6	20.5
P/E (x)	17.5	23.0	16.6	15.0
P/B (x)	2.6	2.4	2.1	1.8
EV/EBITDA (x)	11.6	13.2	10.3	9.3
RoNW (%)	16.6	11.1	13.6	13.2
RoCE (%)	17.3	11.5	14.0	13.6

Source: Company; Sharekhan estimates