KNR CONSTRUCTIONS

RESULT UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	202
12 month price target (INR)	190
52 Week High/Low	368/189
Market cap (INR bn/USD bn)	57/0.6
Free float (%)	45.0
Avg. daily value traded (INR mn)	365.5

SHAREHOLDING PATTERN

	Jun-25	Mar-25	Dec-24
Promoter	48.81%	48.81%	48.81%
FII	7.06%	6.91%	6.99%
DII	25.10%	28.31%	29.70%
Pledge	0%	0%	0%

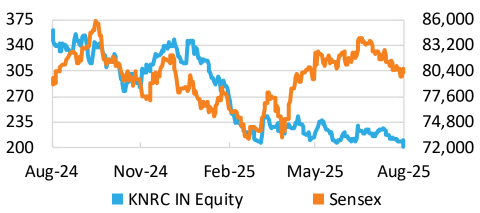
FINANCIALS (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	33,586	22,783	31,970	36,787
EBITDA	6,259	3,563	4,903	5,532
Adjusted profit	7,465	2,773	3,691	3,714
Diluted EPS (INR)	26.5	9.9	13.1	13.2
EPS growth (%)	48.8	(62.9)	33.1	0.6
RoAE (%)	20.2	6.8	8.4	7.8
P/E (x)	7.6	20.5	15.4	15.3
EV/EBITDA (x)	8.8	15.5	11.3	10.1
Dividend yield (%)	0.1	0.1	0.1	0.1

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	22,783	31,970	-31%	-16%
EBITDA	3,563	4,903	-30%	-17%
Adjusted profit	2,773	3,691	-14%	-1%
Diluted EPS (INR)	9.9	13.1	-13%	-2%

PRICE PERFORMANCE



Order inflows improve

KNR Constructions (KNR) reported Q1FY26 revenue of INR4.8bn. Due to arbitration claims and other one-offs during the quarter and in Q1FY25, results are not comparable YoY/QoQ. The company received an ~INR48bn mining order during the quarter (KNR's stake at 74%), which boosted order book to ~INR83bn (book-to-bill of 2.8x). Furthermore, it is L1 in ~INR30bn orders.

While improving order accretion is positive, low revenue visibility amid a nil hike in outlay for the roads sector in the budget (refer *Union Budget: Muted capex growth*) and a stretched working capital cycle compel us to cut FY26E/27E EPS by 14%/1%. Maintain 'REDUCE' with an SotP-based TP of INR190 (unchanged) based on Q1FY28E EPS.

Weak showing

KNR's Q1FY26 revenue came in at ~INR4.8bn (figures are not comparable as financials of this quarter and of Q1FY25 were skewed by one-offs in revenue/EBITDA/PAT). EBITDA/PAT margins were 13.6%/10.6% in Q1FY26.

Remains net cash despite NWC deterioration

KNR's gross debt increased to INR55mn (~nil at end-FY25). The company ended Q1FY26 with net cash of ~INR775mn (net cash of ~INR1.4bn at end-FY25). The working capital cycle deteriorated QoQ to 324 days (274 days at end-FY25). The total outstanding receipts for irrigation projects from the Telangana government (including uncertified bills) were ~INR12.9bn. These dues pertain to the Kaleswaram Package 3 and Kaleswaram Package 4 projects; collections in these projects have been stalled since Mar-25 and Mar-23, respectively. During Q1FY26, KNR received ~INR147mn payment for the Kaleswaram Package 3 project.

Order book increases QoQ

KNR won a mining order worth ~INR35.5bn (its share out of total order of ~INR48bn) in Q1FY26. It expects this project to contribute revenue of ~INR0.9–1bn in FY26E and thereafter ~INR7bn for the next five years. It estimates ~11–11.5% EBITDA margin in the project. The contract period is for five years plus initial development period of 360 days. KNR envisages a capex of ~INR3–4bn over the life of this project.

Apart from this, the company is also L1 in an ~INR22bn MSRDC project (LoA likely in Q3FY26) and an ~INR7bn flyover project in Telangana. KNR it is looking to bid for INR800–900bn NHAI projects. The company is also eyeing state government and irrigation projects. KNR is targeting order wins of INR100–120bn in FY26E in addition to the mining project already won.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	4,833	8,802	(45.1)	8,512	(43.2)
EBITDA	656	1,920	(65.8)	1,175	(44.2)
Adjusted Profit	513	1,339	(61.7)	752	(31.8)
Diluted EPS (INR)	1.8	4.8	(61.7)	2.7	(31.8)

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KNR CONSTRUCTIONS

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	33,586	22,783	31,970	36,787
Gross profit	11,183	7,358	10,229	11,660
Employee costs	1,769	1,656	2,323	2,673
Other expenses	3,154	2,140	3,002	3,455
EBITDA	6,259	3,563	4,903	5,532
Depreciation	903	723	820	1,404
Less: Interest expense	130	150	180	210
Add: Other income	4,517	1,017	1,032	1,047
Profit before tax	9,535	3,707	4,935	4,965
Prov for tax	2,278	934	1,244	1,251
Less: Other adj	0	0	0	0
Reported profit	7,257	2,773	3,691	3,714
Less: Excp.item (net)	209	0	0	0
Adjusted profit	7,465	2,773	3,691	3,714
Diluted shares o/s	281	281	281	281
Adjusted diluted EPS	26.5	9.9	13.1	13.2
DPS (INR)	0.3	0.3	0.3	0.3
Tax rate (%)	23.9	25.2	25.2	25.2

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	562	562	562	562
Reserves	38,887	41,590	45,211	48,854
Shareholders funds	39,450	42,152	45,773	49,417
Minority interest	0	0	0	0
Borrowings	0	0	1,000	1,000
Trade payables	3,080	2,574	3,075	3,947
Other liabs & prov	3,845	4,269	4,744	5,276
Total liabilities	46,498	49,118	54,715	59,762
Net block	3,689	3,966	6,896	6,992
Intangible assets	0	0	0	0
Capital WIP	4	34	64	94
Total fixed assets	3,693	4,000	6,960	7,086
Non current inv	7,862	10,162	11,462	12,362
Cash/cash equivalent	1,436	1,646	2,604	1,815
Sundry debtors	12,762	12,206	10,567	12,614
Loans & advances	53	58	114	168
Other assets	4,329	4,520	4,830	5,721
Total assets	46,498	49,118	54,715	59,762

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Order intake (% YoY)	34.8	144.9	(26.3)	0
Book-to-bill ratio (x)	1.5	4.6	4.0	4.0
Gross margin (%)	33.3	32.3	32.0	31.7
EBITDA margin (%)	18.6	15.6	15.3	15.0
Net profit margin (%)	22.2	12.2	11.5	10.1
Revenue growth (% YoY)	(17.9)	(32.2)	40.3	15.1
EBITDA growth (% YoY)	(10.7)	(43.1)	37.6	12.8
Adj. profit growth (%)	48.8	(62.9)	33.1	0.6

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	7,257	2,773	3,691	3,714
Add: Depreciation	903	723	820	1,404
Interest (net of tax)	99	112	134	157
Others	44	(182)	(205)	(227)
Less: Changes in WC	7,651	(115)	(596)	3,406
Operating cash flow	651	3,540	5,037	1,641
Less: Capex	205	1,024	3,780	1,530
Free cash flow	446	2,516	1,257	111

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	7.0	7.0
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.0	82.0	81.0	81.0
Order intake (INR bn)	31.1	76.1	56.1	56.1
Order backlog (INR bn)	50.5	103.8	147.1	147.1
Capex (INR mn)	205.3	1,024.5	1500.0	1500.0
Tax rate (%)	23.7	25.2	25.2	25.2
Staff cost (% of sales)	5.3	7.3	7.3	7.3
Other exp. (% of sales)	9.4	9.4	9.4	9.4

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	20.2	6.8	8.4	7.8
RoCE (%)	27.5	9.5	11.5	10.6
Inventory days	31	40	30	30
Receivable days	146	200	130	115
Payable days	47	67	47	51
Working cap (% sales)	30.9	45.3	28.2	26.7
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	0	0	0	0
Interest coverage (x)	41.4	19.0	22.7	19.7

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	7.6	20.5	15.4	15.3
Price/BV (x)	1.4	1.3	1.2	1.1
EV/EBITDA (x)	8.8	15.5	11.3	10.1
Dividend yield (%)	0.1	0.1	0.1	0.1

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	48.8	(62.9)	33.1	0.6
RoE (%)	20.2	6.8	8.4	7.8
EBITDA growth (%)	(10.7)	(43.1)	37.6	12.8
Payout ratio (%)	1.0	2.5	1.9	1.9

Source: Company and Nuvama estimates

Exhibit 1: Financial snapshot

Standalone (INR mn)	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ	FY24	FY25	FY26E	FY27E	FY28E
Revenue	4,833	8,802	(45.1)	8,512	(43.2)	40,910	33,586	22,783	31,970	36,787
Direct cost	3,219	5,613	(42.7)	6,174	(47.9)	27,495	22,404	15,425	21,741	25,127
Staff cost	390	419	(7.0)	411	(5.1)	1,735	1,769	1,656	2,323	2,673
Other expenditure	569	849	(33.0)	752	(24.4)	4,670	3,154	2,140	3,002	3,455
Total expenditure	4,177	6,881	(39.3)	7,337	(43.1)	33,900	27,327	19,221	27,066	31,255
EBITDA	656	1,920	(65.8)	1,175	(44.2)	7,010	6,259	3,563	4,903	5,532
Depreciation	150	225	(33.4)	223	(32.7)	1,245	903	723	820	1,404
EBIT	506	1,695	(70.1)	952	(46.8)	5,765	5,357	2,840	4,083	4,128
Less: Interest expense	34	41	(15.8)	38	(9.5)	293	130	150	180	210
Add: Other income	217	196	11.0	185	17.5	1,422	4,517	1,017	1,032	1,047
Add: Exceptional items	0	531		0						
Profit before tax	689	1,851	(62.7)	1,099	(37.3)	6,893	9,594	3,707	4,935	4,965
Less: Provision for Tax	177	512	(65.5)	348	(49.2)	1,955	2,337	934	1,244	1,251
Reported profit	513	1,339	(61.7)	752	(31.8)	4,938	7,257	2,773	3,691	3,714
Adjusted profit	513	808	(36.5)	752	(31.8)	4,938	7,407	2,773	3,691	3,714
Equity capital	281	281		281		562	562	562	562	562
No. of Diluted shares outstanding (mn)	281	281		281		281	281	281	281	281
Adjusted Diluted EPS	1.8	2.9	(36.5)	2.7	(31.8)	17.6	26.3	9.9	13.1	13.2
As % of net revenues										
Direct cost	66.6	63.8	282.2	72.5	(593.9)	67.2	66.7	67.7	68.0	68.3
Other expenses	11.8	9.6	211.9	8.8	293.0	11.4	9.4	9.4	9.4	9.4
EBITDA	13.6	21.8	(824.2)	13.8	(22.8)	17.1	18.6	15.6	15.3	15.0
Adjusted profit	10.6	9.2	143.2	8.8	177.7	12.1	22.1	12.2	11.5	10.1
Tax rate	25.6	27.6	(203.3)	31.6	(599.3)	28.4	24.4	25.2	25.2	25.2

Source: Company, Nuvama Research

FY26 guidance

- **Revenue:** INR20–25bn
- **EBITDA margins:** 13–13.5%
- **Order inflow:** INR100–120bn (excluding the mining project)
- **Capex:** INR1bn

Order inflow surges

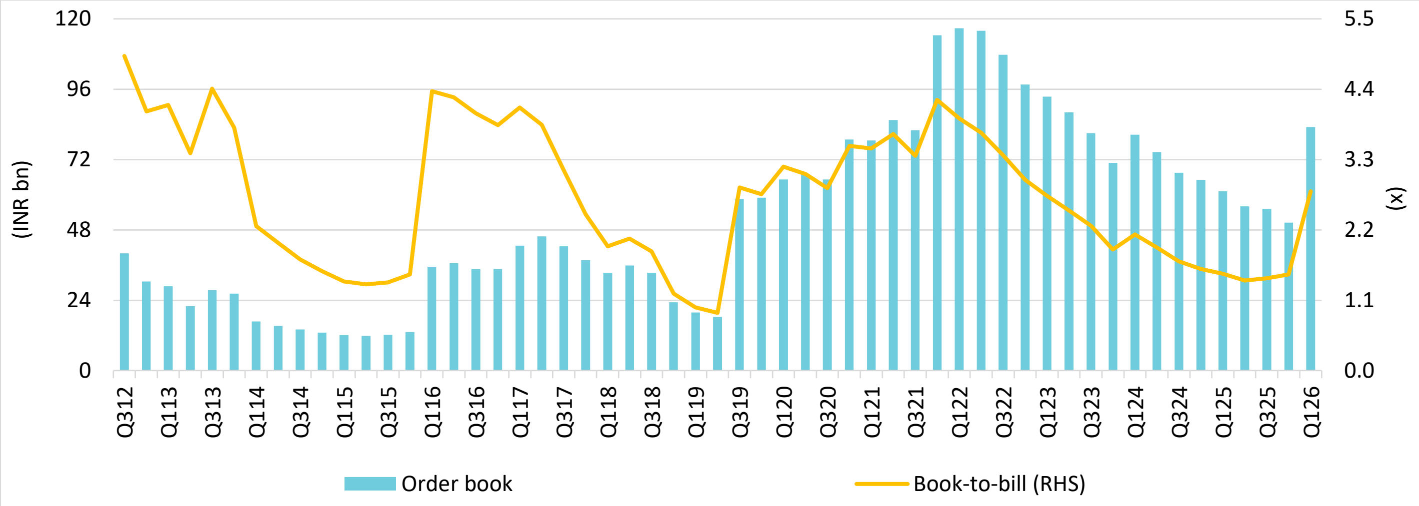
The company won a mining order worth ~INR35.5bn (KNR's share) in Q1FY26. Apart from this, it is also L1 in an ~INR22bn MSRDC project (LoA likely in Q3FY26) and an ~INR7bn flyover project in Telangana.

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

Revenue visibility improves

KNR ended Q1FY26 with an order book of ~INR83bn; book-to-bill stands at 2.8x.

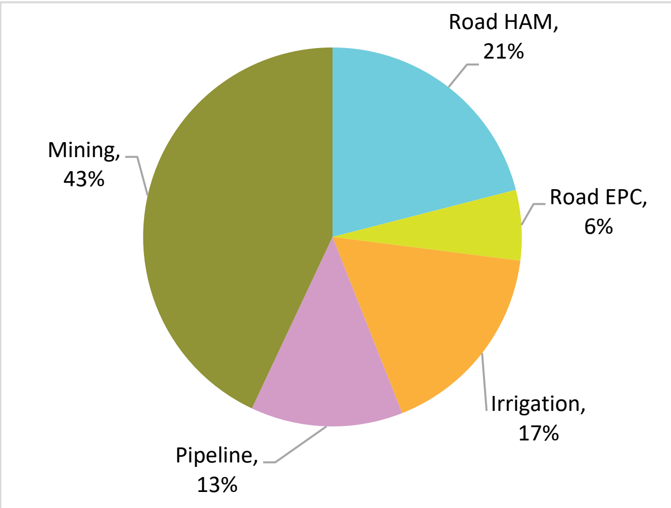
Exhibit 2: Book-to-bill improves sequentially



Source: Company, Nuvama Research

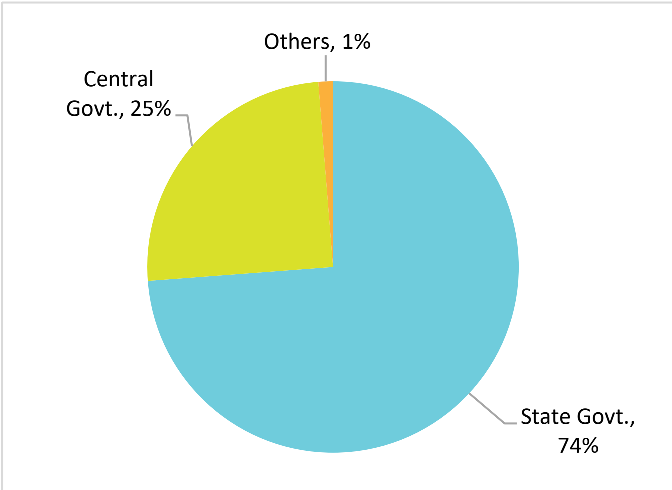
The transport segment, which used to make up majority of its order book, now constitutes only 27% of the total order book. The mining segment now has a larger share of the pie with 43% share as on end-Q1FY26 with the balance coming from irrigation/water supply projects. Captive HAM projects comprise 21% of the order book.

Exhibit 3: Order book breakdown by segment



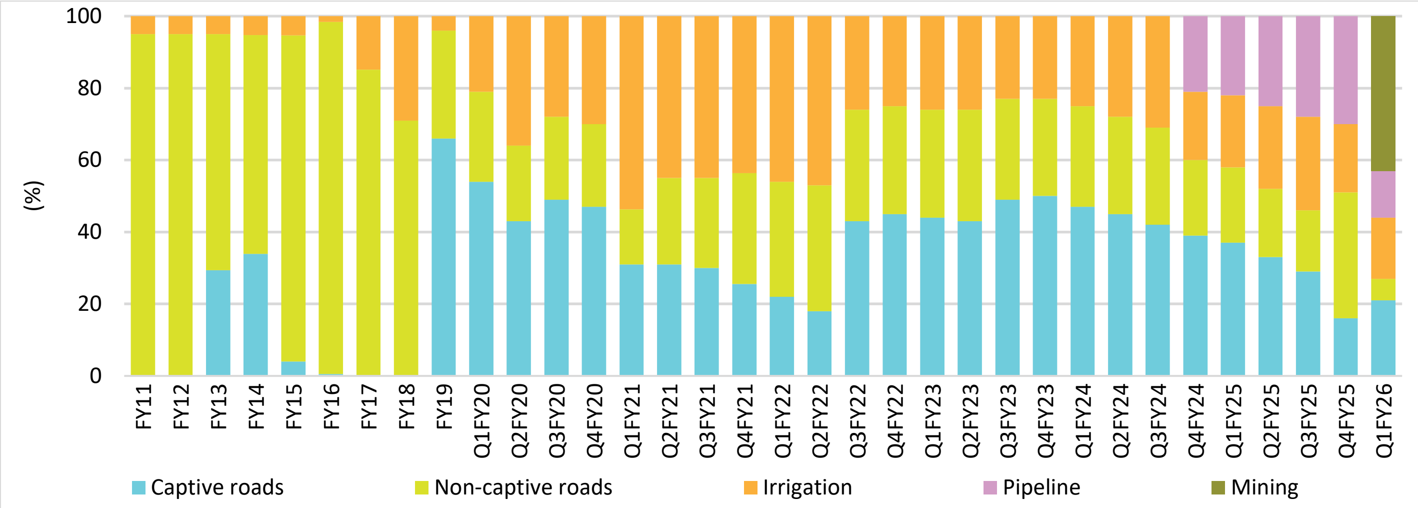
Source: Company, Nuvama Research

Exhibit 4: Order book split by client



Source: Company, Nuvama Research

Exhibit 5: Share of captive projects in order book increases QoQ



Source: Company, Nuvama Research

Management mentioned it looking to bid for ~INR800–900bn NHAI projects. They are also eyeing ~INR25bn projects from the Tamil Nadu government and ~INR20bn in Andhra Pradesh.

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

EBITDA margins fell ~820bp YoY/~20bp QoQ to 13.6%. PAT margins increased ~140bp YoY/~180bp QoQ to 10.6% in Q1FY26.

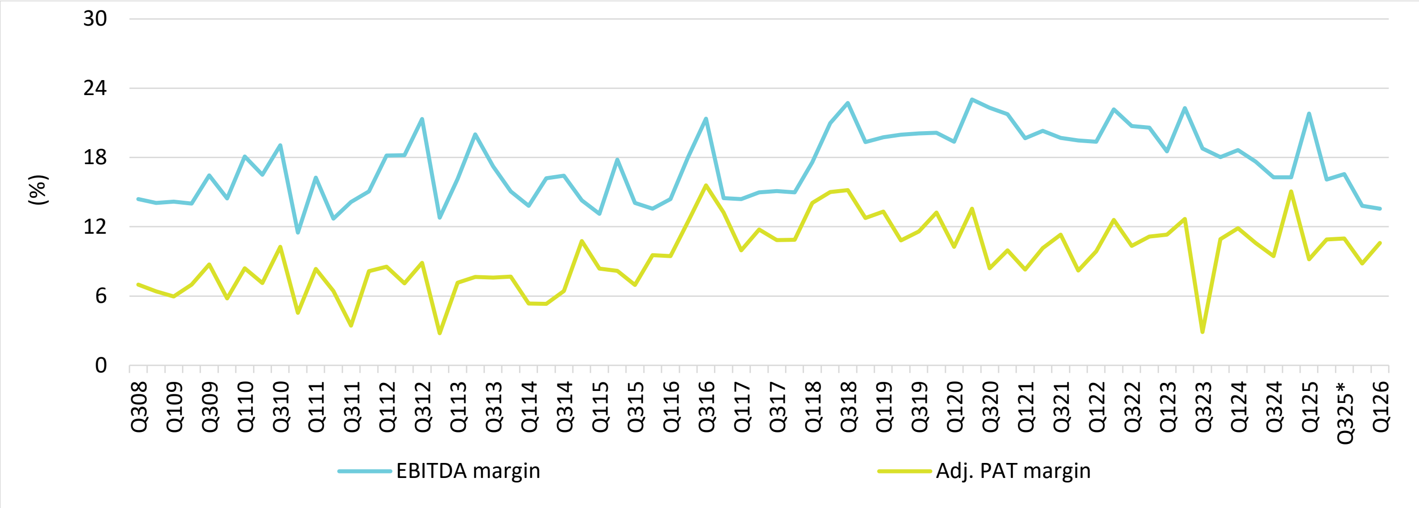
However, there were a few one-offs:

For the quarter ended Q1FY26, the company has received an arbitration claim for an amount of INR41.3mn, which is included in revenue from operations. Total INR68mn towards interest on such claim is included in the other income while expenses related to such claims of INR2.6mn are included in other expenses and the resultant tax of INR26.8mn is included in the current tax.

For the quarter ended Q1FY25, the company had received an arbitration claim for an amount of INR608.8mn, which is included in revenue from operations. Expenses related to such claims of INR44.1mn are included in other expenses while the resultant tax of INR142.1mn is included in current tax.

In Q1FY25, it had also received an amount of INR144.9mn as dividend from one of its associate companies, which is included in other income and the resultant tax of INR36.5mn was included in current tax of that period.

Exhibit 6: EBITDA and PAT margin trajectory



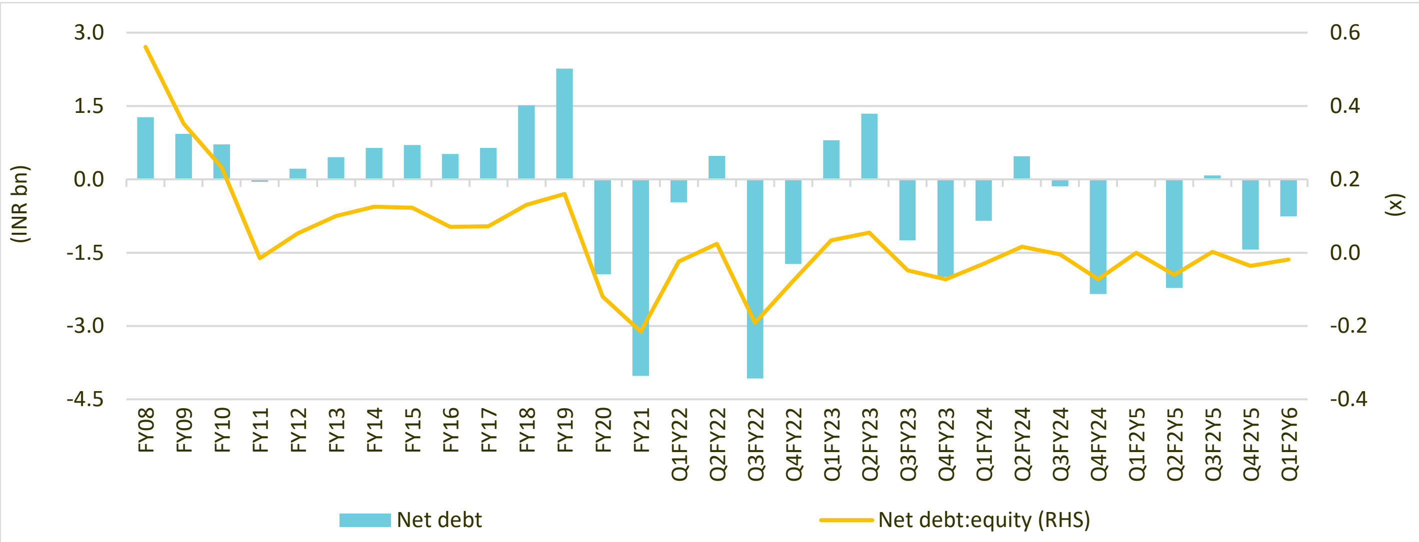
Source: Company, Nuvama Research

*Note: * Represent adjusted EBITDA and PAT margins as guided by management.*

Leverage increases QoQ

The company ended the quarter with a gross debt of ~INR55mn (nil at end-Q4FY25). KNR had a net cash position of INR750mn at end-Q1FY26 (net cash of INR1.4bn at end-FY25). Net debt/equity was (0.02)x at end-Q1FY26.

Exhibit 7: Net cash levels fall sequentially

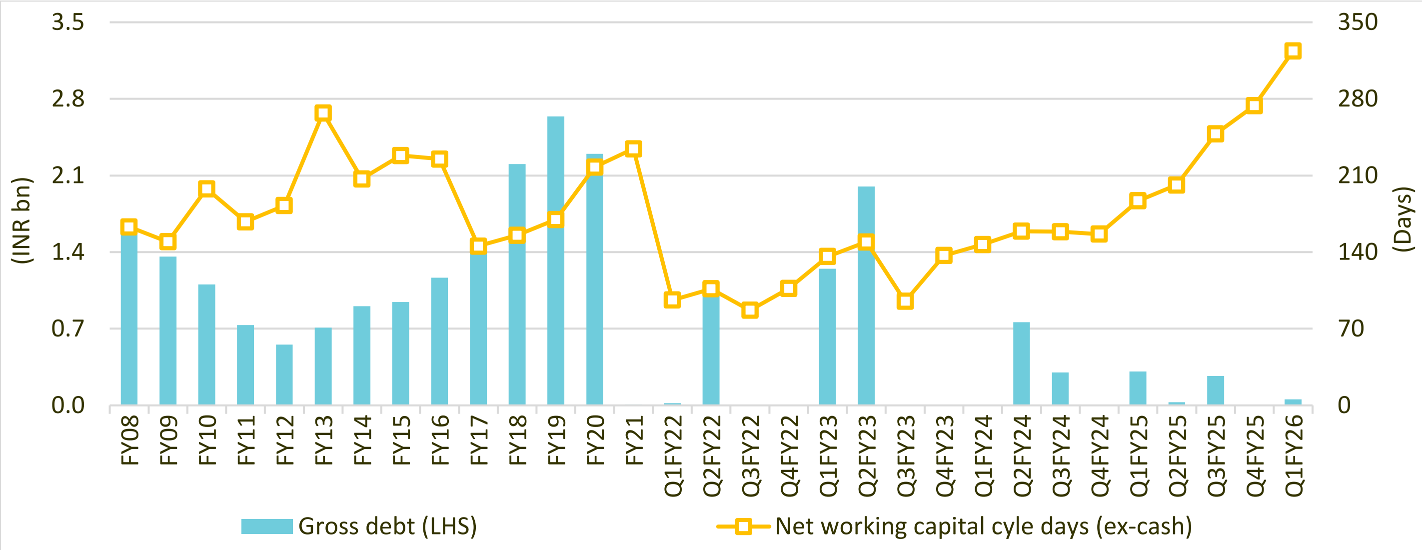


Source: Company, Nuvama Research

Working capital cycle deteriorates QoQ

Net working capital cycle (ex-cash) increased sequentially to 324 days (274 days at end-Q4FY25).

Exhibit 8: Net working capital cycle deteriorates QoQ

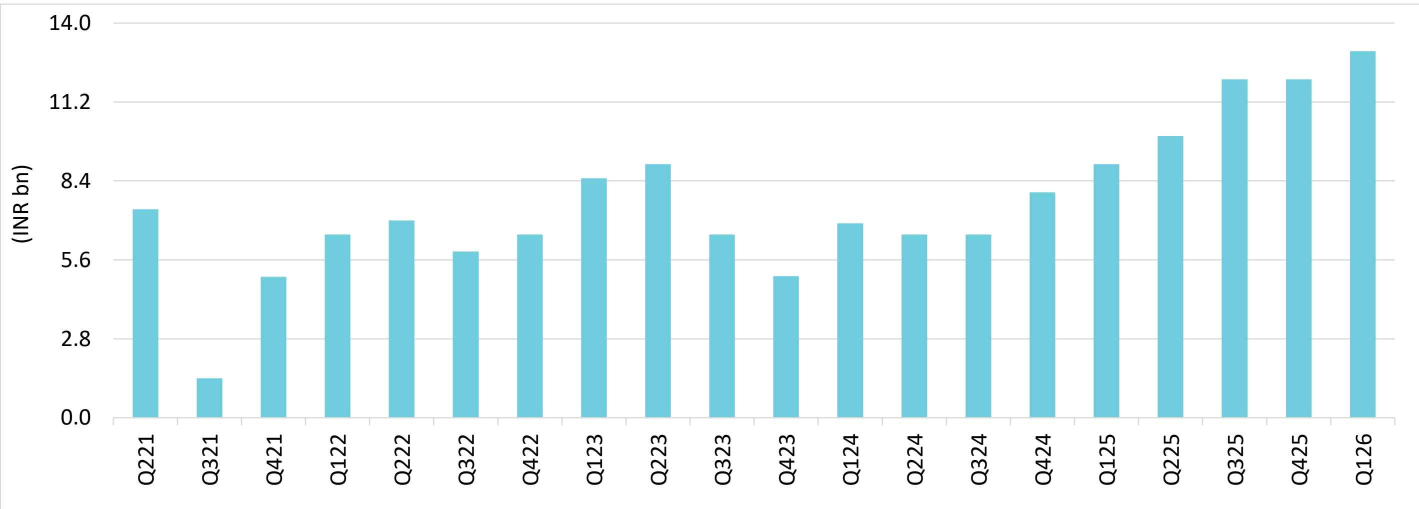


Source: Company, Nuvama Research

Q1FY26 conference call highlights

- **Segmental split of revenue in Q1FY26**: Road HAM projects contributed ~58% towards revenue in the current quarter while road EPC contributed 31%. Irrigation/other segment made up 6%/5% of total revenue in Q1FY26.
- **Telangana receivables:** Total outstanding receipts from the Telangana government (including unbilled revenue) stand at ~INR13bn 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 COD/PCOD till date.

- **Completion status of HAM projects**: Oddanchatram-Madathukulam: 100% (100% at end-Q4FY25), K-SHIP project: 89.1% (88.7%), Ramanattukara-Valanchery: 99% (95%), Valanchery-Kappirikkad: 98.3% (93.4%), Chittor-Thatchur: 94.3% (90.7%) and Marripudi to Somvarappadu: 43.5% (37%).

  The company had achieved financial closure for Mysore to Kushalnagara project (Packages IV and V) in Sep-24 and received appointed date for both these projects in Apr-25. However, work has not commenced on these projects yet.

- **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 had yielded and caused excessive settlement. As a result, the service roads was slightly distorted.

  Taking cognizance of this issue, the NHAI had 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.

  The suspension period is now completed and the company can now bid for future projects. However, the NHAI can take some further action against the company as it may deem fit.

- **Asset monetisation**: KNR is looking to monetise four HAM projects and is in advanced stages of discussions with potential buyers. It expects to enter into an SPA in Q2FY26.

- **Equity contribution:** Of the total INR9.9bn equity requirement, KNR has invested ~INR6.8bn equity to date. Incremental equity needed is ~INR3.4bn of which, ~INR3.1bn will be invested across FY26/27.

- **Irrigation projects**: The outstanding order book is ~INR14bn of which ~INR5bn is unbilled; hence, the net executable order book is ~INR9bn. The company expects to book revenue of ~INR3–4bn in FY26E from the irrigation projects.

- **Pipeline project:** Work on the pipeline project shall pick up pace in the coming quarters. Management expects to clock revenue of ~INR5bn in FY26E in this project.

- **Mining project:** During the quarter, the company received LoA from Patratu Vidyut Utpadan Nigam Limited (a subsidiary of NTPC in joint venture with JBVNL), for development and operation of Banhardih Coal Mining Block in Jharkhand for a total mining reserve of 34.5 MT.

  It is a joint venture with KNR Constructions holding 74% stake and Harsha Constructions Private Limited holding 26% stake. Total contract value is INR48bn (KNR's share is INR35.6bn).

- **Capex**: INR20mn incurred in Q1FY25.

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	Axis MF	1.38
Franklin	1.88	DSP MF	1.27
ICICI MF	1.68	Tata MF	1.23
HSBC	1.44	Bank of Japan	1.10

**Latest public data*

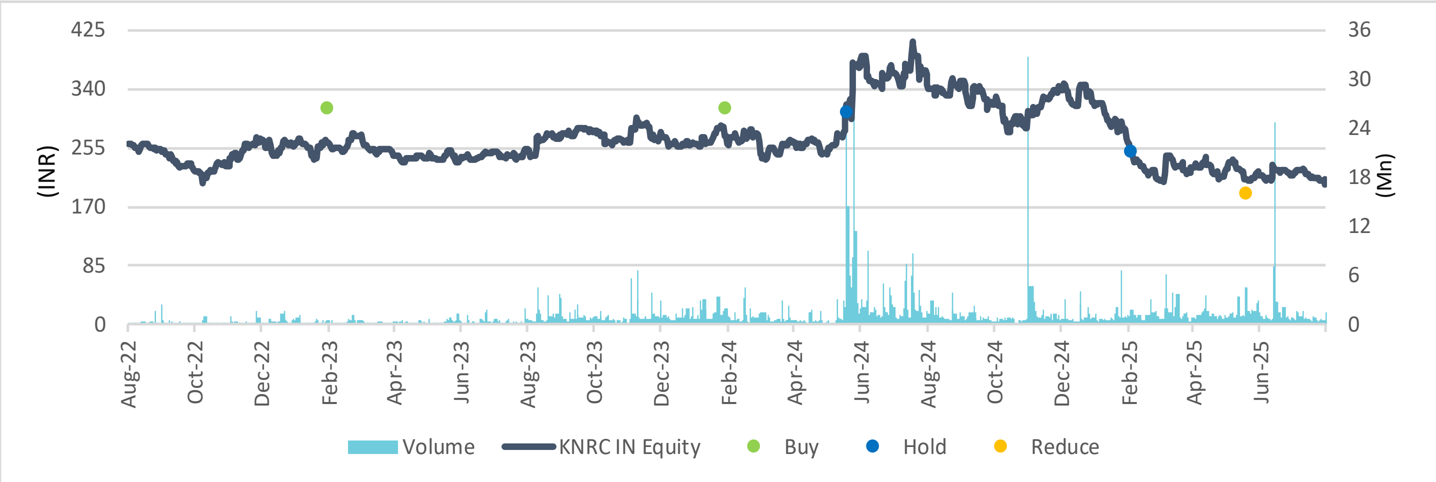
Recent Company Research

Date	Title	Price	Reco
30-May-25	Challenges galore; *Result Update*	221	Reduce
14-Feb-25	Order wins necessary; *Result Update*	247	Hold
13-Nov-24	Order inflow vital; *Result Update*	308	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
09-Aug-25	Afcons	Execution and margins improve; *Result Update*
08-Aug-25	NBCC	Steady quarter; *Result Update*
06-Aug-25	Adani Ports & SEZ	Near-term volume woes; guidance unchange; *Result Update*

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%	198
Hold	<15% and >-5%	70
Reduce	<-5%	36

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