

# Management Meet Note

## Knowledge Marine & Engineering Works

### Making a splash

We recently met the management of Knowledge Marine & Engineering Works (KMEW) to gauge its business prospects. Incorporated in 2015, KMEW is engaged in providing dredging services, owning and operating marine crafts, and repairing and maintaining/refitting marine crafts and marine infrastructure. It derives 97%/3% of its revenue from dredging/port ancillary services. Revenue grew 3.3x YoY to INR202cr in FY23 on a 34% EBITDA margin. The stock is not rated.

#### Following are the key takeaways from that interaction:

- **Capex strategy:** KMEW has the expertise to design and build fleets. It undertakes capex only post contract wins, which enables it to deliver fantastic return ratios (RoE and RoCE of more than 50%). It currently owns and operates 12 vessels, five dredging assets and seven port ancillary vessels. It aims to operate 40 vessels by 2030. The management is looking to generate a daily revenue of INR15,000–25,000 revenue for every INR1cr spent, resulting in a rapid payback period of 18–36 months. With the vessels operating for 20 years, it is able to earn a robust margin and repay any debt incurred for the asset within the first few years of the tender.
- **Order book** pending at the end of FY23 was INR203cr. KMEW has expressed interest in projects worth ~INR1,100cr and has order win rate of over 50%. The company only bids for orders with an EBITDA margin of over 30%.
- **Competition:** KMEW faces less to no competition in shallow draft water dredging as the four global leaders, who account for 80% of dredging worldwide, do not participate in such tenders and neither does Dredging Corporation of India, which undertakes only maintenance dredging. There are also high barriers of entry for dredging tenders such as the number of contracts executed, average revenue over the past three years, and the percentage cost of the tender as opposed to revenue. Dredging in India is majorly carried out by foreign entities (through subsidiaries). However, Indian dredging companies stand to benefit from the provision that if they are L2 (within a margin of 10% to a foreign entity), they can take up the tender by executing at the L1 bid price.
- **Potential to form JVs for large tenders:** KMEW has built up credibility and scale through execution of tenders through JVs. It will look at JVs in the future for large tenders, if required. Given KMEW's current qualifications, it can bid for tenders worth INR310cr.
- **Capabilities and expertise:** Potential JV partners agree to work with KMEW given its expertise in gauging the type of material that will be at the bottom of the water body as different materials require different vessels. The company has been collecting data for over 20 years and has the expertise in designing and operating the vessels that are required.
- **Growth drivers:** The management sees growth opportunities in: i) The government initiative of waste to wealth, which involves the monetisation of materials that are dredged. For example, sand can be mined at INR250/t and sold for INR1,000–1,200/t in Maharashtra. ii) The Bahrain government is looking to reclaim land, with sand being an essential commodity. KMEW is in the process of setting up a subsidiary in Bahrain to capture the sand mining opportunity. Sand in Bahrain is reclaimed at BHD3 (BHD1= INR 217) per cubic meter and the market opportunity of sand to be dredged is 40/50mn cubic meters (INR2,600cr/INR3,260cr). iii) The management also sees large opportunities in dam desilting, where it has bid for five projects. iv) **National waterways contracts:** Several new tenders have come up for different stretches of the Ganga and Brahmaputra rivers. v) **Fishing harbours:** KMEW has secured a contract worth INR84.35cr for capital dredging at Mangrol Fishing Harbour Phase III, including an additional work order and an order from RKEC Projects for the development of a fishing harbour at Veraval, Gujarat.

#### Valuation and view

KMEW's prudent business model, with capex being undertaken only on the receipt of new contracts, a 50% win rate, low competition, and execution capabilities lends us confidence in its ability to capture market share in dredging and sand mining opportunities. It boasts of a sustainable EBITDA margin of over 34%, a PAT margin of 20–25%, and has been cash flow positive for the preceding three years. With a healthy cash position (net cash position of INR41cr), a strong Balance Sheet, and the ability to take on debt, if required, is expected to fuel growth going forward. Based on management's expectation of INR500cr revenue by FY25, with a 20% PAT margin, we estimate an EPS of INR92.6 in FY25. At the CMP, the stock trades at an attractive valuation of 15x FY25E EPS.

#### Key financials

Year to March (INR cr)	FY19	FY20	FY21	FY22	FY23
Revenue	11	24	33	61	202
EBITDA	4	8	13	32	69
EBITDA margin (%)	40.6	32.1	39.5	53	34.1
PAT	2	5	7	20	47
PAT margin (%)	25.6	20.1	21.3	34.1	23.4
EPS (INR)	-	-	6.7	19.9	43.6
P/E ratio (x)	-	-	5.5	8.7	20.7

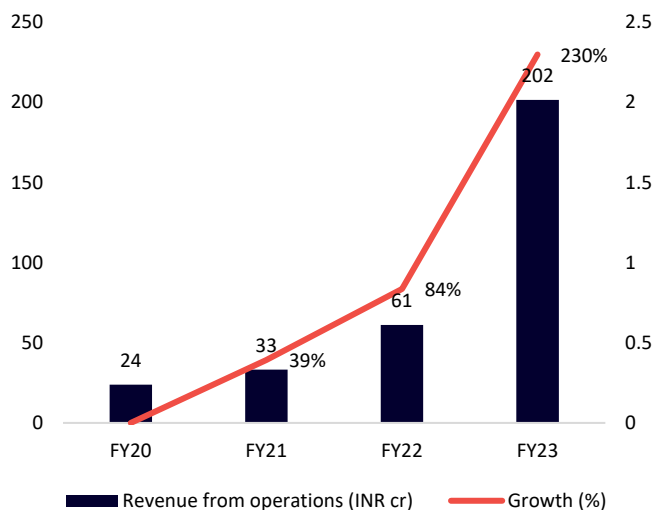
CMP: INR1,399  
 Rating: Not rated  
 Date: August 18, 2023

Bloomberg:	KMEW:IN
52-week range (INR):	496/1,450
M-cap (INR cr):	1,511
Promoter holding (%)	67.09

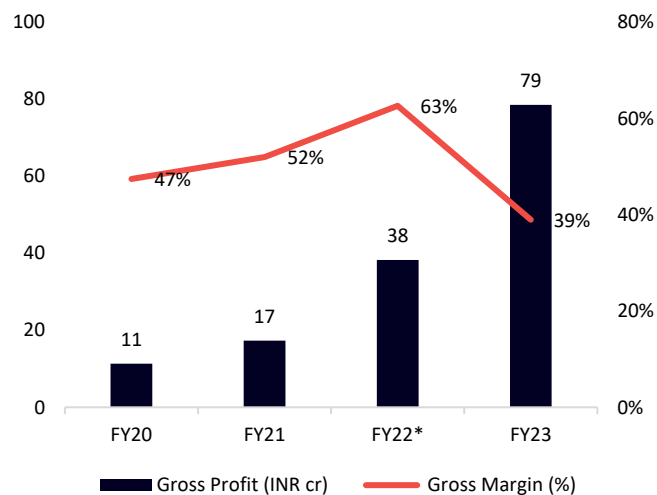
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### Focus charts

**Exhibit 1: Revenue growth**

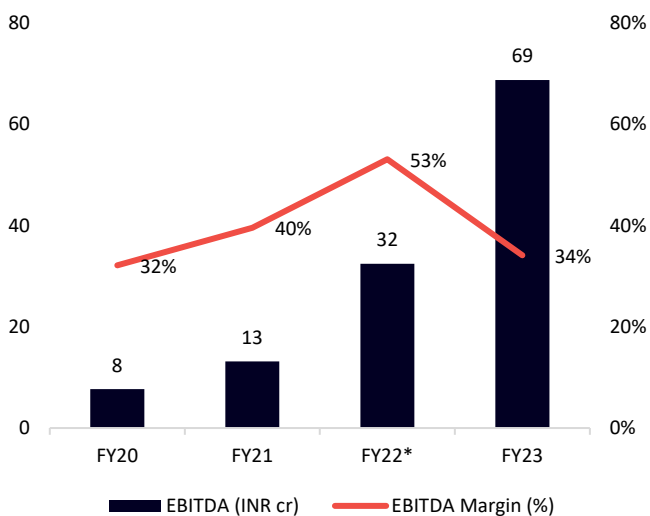


**Exhibit 2: Gross profit and gross profit margin**

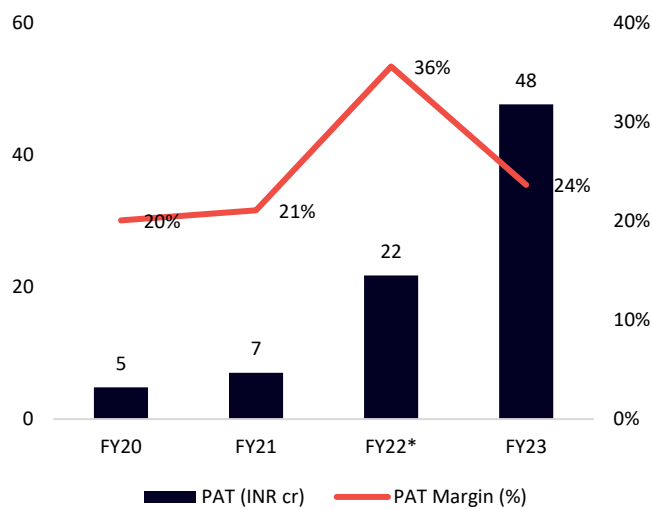


Source: KMEW, Nuvama Wealth Research

**Exhibit 3: EBITDA and EBITDA margin**



**Exhibit 4: PAT and PAT margin**



Source: KMEW, Nuvama Wealth Research

Revenue grew 3.3x YoY to INR202cr. The management expects a revenue of ~INR500cr in FY25 and more than INR1,000cr in FY30 driven by market share gains in dredging and capitalisation of sand mining opportunities. It expects to sustain EBITDA margin at 34%, with KMEW only bidding for contracts with a margin of over 30%.

\* Margin in FY22 looks slightly elevated due to end of the year booking for a portion of a contract which was expensed in FY23. On a normalised basis, the management has guided at an EBITDA/PAT margin 30–40%/20–25%.

### Exhibit 5: Opportunities in the dredging market

Global dredging market	USD12–15bn per year
Indian dredging market	INR10,000–12,000cr per year
1) Ports	~INR5,000cr (including INR500cr from shallow draft waters)
2) Rivers	INR3,000–4,000cr
3) Fishing harbours	INR1,000cr

Source: Industry reports, KMEW, Nuvama Wealth Research

The global market was pegged at USD12–15bn in 2023. Around 80% of the global market is controlled by four players: Van Oord, Dredging International, Jan De Nul, and Voscal. The **Indian dredging market is dominated by these foreign companies** who execute orders through their subsidiaries. Indian dredging companies have an opportunity to increase market share with a provision that if the **Indian company is L2** (within a margin of 10%) to a foreign entity, they can **take up the tender by executing at the L1 bid price**.

KMEW faces **less to no competition in shallow draft water** dredging as the four global leaders do not participate in such tenders and neither does Dredging Corporation of India, which undertakes only maintenance dredging. The annual market size for shallow draft water dredging is INR500cr.

**High barriers to entry** for dredging tenders such as the number of contracts executed, average revenue over the past three years, and percentage cost of the tender as opposed to revenue keeps competition low as there are a small number of Indian companies that qualify to bid. KMEW has built up credibility and scale through execution of tenders through JVs. Given KMEW's current qualifications, it can bid for tenders worth INR310cr.

KMEW plans to tie up with a strategic partner and create a special purpose vehicle (SPV) to enter the **sand mining segment** using CSDs. (CSDs are hydraulic dredgers having the ability to dredge nearly all kinds of soils and are used where the ground is too hard for trailing suction hopper dredgers). Potential JV partners agree to work with KMEW given its expertise in gauging the type of material that will be at the bottom of the water body as different materials require different vessels. The company has been collecting data for over 20 years and has the expertise in designing and operating the vessels that are required.

KMEW is aiming to capture **10% market share by 2030, leading to a revenue of over INR1,000cr**.






### Exhibit 6: Order book status

						Rs in Crores
Customer Name	Deployed Vessel	Order Book	Balance Contract	Completed (as on 31.03.2023)	Contract Start Date	Tenure
Ministry of External Affairs	River Pearl 8	212.00	60.36	151.64	14/01/2022	2.9 years
Kolkata Port Trust	River Pearl 4	108.00	32.25	75.75	14/09/2019	5 years
Dredging Corporation of India	River Pearl 11 & 12	84.35	40.26	44.09	14/06/2022	1 year
RKEC Projects Limited	To be deployed	39.85	39.85	0.00	Expected to start post monsoon i.e. October, 2023	2 Years
Kolkata Port Trust	River Pearl 2	28.96	1.63	27.33	24/01/2018	5 years
Kolkata Port Trust	River Pearl 1	23.04	5.09	17.95	22/11/2017	7 years
Deendayal Port Trust	River Pearl 10	9.59	9.59	0.00	May, 2023	5 years
Deendayal Port Trust	River Pearl 6 & 7	9.12	6.91	2.21	14/12/2021	5 years
Vishakhapatnam Port Trust	River Pearl 3	5.49	1.16	4.33	19/03/2019	5 years
Vishakhapatnam Port Trust	River Pearl 5	5.02	3.97	1.05	05/02/2022	5 Years
Vishakhapatnam Port Trust	River Pearl 9	1.87	1.77	0.10	03/01/2023	3 years
<b>TOTAL</b>		<b>527.29</b>	<b>202.84</b>	<b>324.45</b>		

Source: KMEW, Nuvama Wealth Research

**Order book:** The company's pending order book at the end of FY23 was INR203cr, with an average tenure of more than 30 months. The management expressed interest in projects worth ~INR1,100cr and has an order win rate of above 50%. It expects to execute orders worth INR130–150cr, over and above the current order book in FY24. It qualifies for bidding for contracts with volumes of up to 4.5mn cubic meters and a revenue of up to INR310cr. KMEW only bids for orders with an EBITDA margin of over 30%.




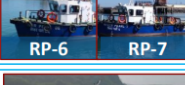



### Exhibit 7: Dredging assets

Vessel	Description	Vessel Speed (Knots)	Gross / Net Vessel Tonnage	Year Built / Rebuilt / Builder	Dimension (L x B x D) mts	Loaded Draft (mts)	Engine Make	BHP / RPM
 RP-2	Grab Hopper Dredger deployed at Kolkata Port	6	622 / 201	2016 Dhanotra Engg Works	51.0 x 12.0 x 3.6	3.1	Cummins	325 x 2
 RP-4	Trailing Suction Hopper Dredger deployed at Kolkata Port	10	1,520 / 456	2019 IHC Dredgers	76.0 x 13.0 x 5.5	4.0	Smith-Man	900 x 2
 RP-8	Trailing Suction Hopper Dredger deployed at Sittwe Port, Myanmar	12	2,326 / 698	2004 Cochin Shipyard	69.9 x 14.6 x 5.4	4.6	Catterpillar	1,700 x 2 / 1,000 x 2
 RP-11	Self Propelled Hopper Barge deployed at Mangrol port	8	613 / 184	2017	48.6 x 13.0 x 3.25	2.75	Cummins KT-1150	450 x 2 / 1800 x 2
 RP-12	Backhoe Dredger deployed at Mangrol Port	-	238 / 77	2010	36.0 x 11.0 x 2.5	1.70	-	-

Source: KMEW, Nuvama Wealth Research

Of its fleet of 12 vessels at present, five are dredging assets. The management aims to reach 40 vessels by 2030. KMEW has bid for four dredging contracts worth INR400cr, with the potential to add up to eight dredgers by December-end.

### Exhibit 8: Port ancillary vessels

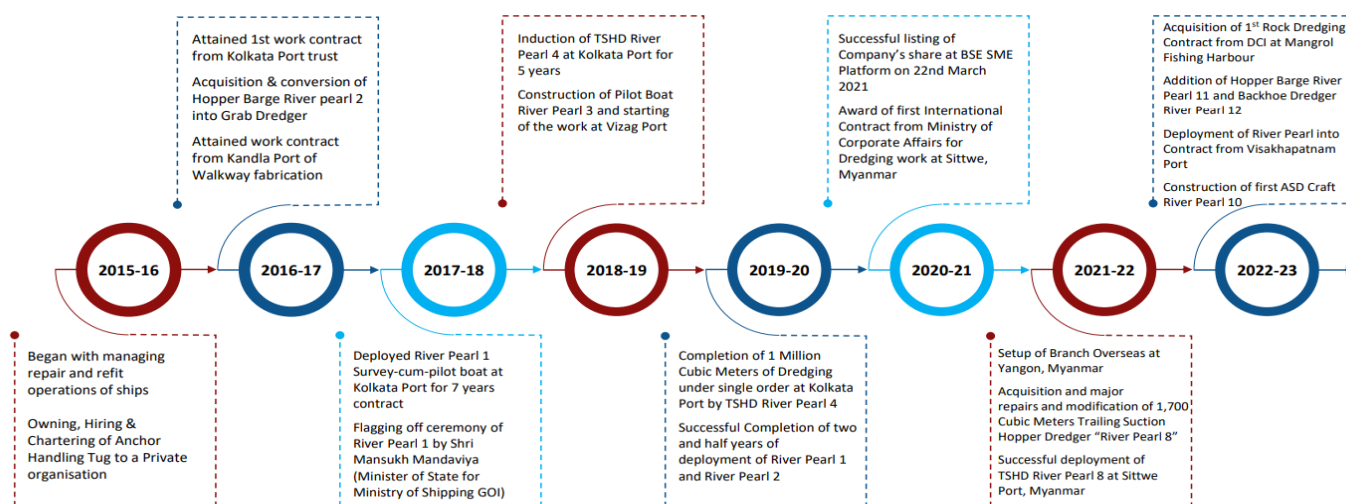
Vessel	Description	Vessel Speed (Knots)	Gross / Net Vessel Tonnage (tons)	Year Built / Builder	Dimension (L x B x D) mts	Loaded Draft (mts)	Engine Make	BHP / RPM
 RP-1	Survey-cum-pilot boat deployed at Kolkata	12	113 / 34	2017 Katale Shipyard	24.5 x 5.5 x 3.0	1.3	Cummins	600 x 2
 RP-3	Pilot Boat deployed at Vizag Port	14	34.66 / 10.39	2019 Wadia Shipbuilders	15.6 x 4.2 x 2.3	1.3	Scania	350 x 2 / 2,300
 RP-5	Fast Speed Patrol Boat for Coastal & Port Security at Vizag Port	20	33 / 10	2021 Synergy Shipbuilders	14.8 x 4.4 x 2.10	0.9	Cummins	455 x 2 / 2,100
 RP-6	Mooring Launches deployed at Vadinar, Deendayal Port	11	16 / 5	2021 Synergy Shipbuilders	11.0 x 3.5 x 1.9	1.1	Ashok Leyland	120 x 2 / 2,400
 RP-7								
 RP-9	Fast Speed Patrol Boat deployed at Vishakapatnam Port	16.4	20 / 7	2022 Synergy Shipbuilders	13.1 x 3.8 x 1.9	0.8	Weichai	326 x 2 / 2100
 RP-10	Service Boat deployed at Deendayal Port	10.0	122 / 37	2023 Synergy Shipbuilders	21.0 x 7.2 x 3.0	3.0	Cummins	500 x 2 / 1,800

Source: KMEW, Nuvama Wealth Research

KMEW derives ~3% of revenue from services provided by port ancillary vessels. In FY23, it derived INR6cr from this segment. The management expects INR30cr in FY24 from this segment, thus aiding revenue.



### Exhibit 9: Company background and milestones



Source: KMEW, Nuvama Wealth Research

### Exhibit 10: Key managerial personnel

Name	Designation	Remark
Mr Saurabh Daswani	MD	His areas of expertise include procurement, vendor management, and budgeting. He completed his Post-Graduate Diploma In Business Administration, with a specialisation in finance.
Mr Sujay Kewalramani	CEO	He has over 17 years of experience in marine, dredging, and the shipping industry with an additional experience in ship design, building, and repairing. He has also worked with L&T Shipbuilding, Mercator, and Adani Ports. Mr Kewalramani holds a M.Sc degree in Naval Architect and Marine Engineering from the University of New Orleans. He was awarded 'CEO of The Year' for 2022-23 by the Indian Achievers' Award.
Mrs Kanak Kewalramani	Director and CFO	She has over 14 years of experience in the field of compliance, law, finance, and taxation. She is a qualified Company Secretary from the Institute of Company Secretaries of India. She holds a Bachelor of Legislative Law degree and a PGDBA, with a specialisation in finance.
Mr Jagat Jiban Biswas	Non –Executive Director	Mr Biswas has more than 43 years of experience in marine, dredging, and the engineering field and was the former HoD of Kolkata Port Trust. After graduating from T.S. Rajendra, Mumbai in 1978, he cleared the competency examinations on nautical sciences from DG (Shipping), India.
Mr Dinesh Kewalramani	COO	He has over 14 years of experience in the field of dredging during his stints at various major ports in India. Mr Kewalramani has a track record of executing contracts of over INR1,000cr. He has a master's and a bachelor's in marine mechanical engineering from the University of New Orleans.
Mr Pinkesh Kewalramani	CTO	He has more than seven years of experience in the field of shipbuilding, repairing, refitting, testing, docking, and dock-planning of marine craft. He holds a bachelor's degree in mechanical engineering from Ahmedabad and is a marine chief engineer.
Mr Sandeep Zaveri	Independent Director	In the last 25 years, Mr Zaveri has gained as a rich and varied experience in the chemical industry. He has completed his master's degree in chemical engineering from the Stevens Institute of Technology, US.
Mr Ashish M Mohandas	Independent Director	He has over 12 years of experience in marketing and sales with various MNCs across diverse states in India. He completed his Post Graduate Diploma in Marketing from Tolani Motwane Institute of Management Studies, Kutch and B.Sc in Mathematics from Mahatma Gandhi University, Kottayam.

Source: KMEW, Nuvama Wealth Research

### Financials

#### Income statement

Year to March	FY19	FY20	FY21	FY22	FY23
Income from operations	11	24	33	61	202
Direct costs	3	13	16	23	123
Employee cost	2	2	2	3	4
Other expenses	2	2	2	3	6
Total operating expenses	6	16	20	29	133
<b>EBITDA</b>	<b>4</b>	<b>8</b>	<b>13</b>	<b>32</b>	<b>69</b>
Depreciation and amortisation	1	2	2	2	4
EBIT	3	6	11	30	64
Interest expenses	1	1	2	2	2
Other income	0	0	0	1	1
Profit before tax	3	5	10	28	63
Provision for tax	0	1	3	7	16
Core profit	3	4	7	21	47
Minority Interest	1	0	0	1	0
Profit after tax	2	4	7	20	47
Extraordinary items & share of profit from associates	0	1	0	0	0
Reported net profit	3	5	7	21	47
<b>Adjusted net profit</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>20</b>	<b>47</b>
Equity shares outstanding (cr)	-	-	1	1	1.1
Basic EPS (INR)	-	-	6.7	19.9	43.6
Diluted shares (cr)	-	-	1	1	1.1
Fully diluted EPS (adjusted)	-	-	6.7	19.9	43.6
Dividend per share	-	-	0	0	0
Dividend payout (%)	-	-	0	0	0

#### Common size metrics as a percentage of net revenue

Year to March	FY19	FY20	FY21	FY22	FY23
Operating expenses	59.4	67.9	60.5	47	65.9
Depreciation	7.6	6.3	6.2	4	2.2
Interest expenditure	4.8	4.6	5.1	4.1	1.2
EBITDA margins	40.6	32.1	39.5	53	34.1
Net profit margin	25.6	20.1	21.3	34.1	23.4

#### Growth metrics (%)

Year to March	FY19	FY20	FY21	FY22	FY23
Revenue	-	126.3	39.2	83.6	229.8
EBITDA	-	79.1	71.3	146.4	111.9
PBT	-	77.2	78.8	194.2	126.3
Net profit	-	138.5	51.7	195.8	131.1
EPS	-	-	-	195.8	119

### Balance Sheet

(INR cr)

As on March 31	FY19	FY20	FY21	FY22	FY23
Equity share capital	3	3	10	10	11
Reserves and surplus	4	8	17	37	123
Shareholders' funds	6	10	27	47	134
Secured loans	7	11	12	17	4
Unsecured loans	3	5	5	9	20
Borrowings	10	16	17	26	24
Net debt	3	15	5	4	-32
Minority interest	2	2	2	2	3
Other liabilities	2	1	2	3	5
<b>Sources of funds</b>	<b>20</b>	<b>29</b>	<b>48</b>	<b>79</b>	<b>165</b>
Gross block	14	30	32	60	70
Depreciation	1	2	5	7	11
Net block	12	27	28	53	59
Capital work in progress	8	0	3	2	8
Total fixed assets	20	27	31	54	67
Other non-current assets	1	1	0	5	12
Investments					
Inventories	0	0	0	0	1
Sundry debtors	1	3	0	4	56
Cash and equivalents	7	2	12	23	56
Other current assets	1	2	8	8	17
Total current assets	9	7	20	34	130
Sundry creditors and others	9	5	1	8	28
Provisions	1	1	2	7	15
Total current liabilities and provisions	10	6	3	14	44
Net current assets	-1	1	17	20	86
<b>Uses of funds</b>	<b>20</b>	<b>29</b>	<b>48</b>	<b>79</b>	<b>165</b>
Book value per share (INR)	26	42	26	46	124

### Cash Flow Statement

Year to March	FY19	FY20	FY21	FY22	FY23
EBIT	3	5	9	28	63
Add: Depreciation	1	2	2	2	4
Add: Others	1	1	2	2	1
Gross cash flow	5	8	13	33	69
Less: Changes in working capital	-7	6	8	-2	48
Operating cash flow	11	2	5	35	21
Less: Capex	9	17	3	24	11
<b>Free cash flow</b>	<b>2</b>	<b>-15</b>	<b>2</b>	<b>10</b>	<b>11</b>



### Ratios

Year to March	FY19	FY20	FY21	FY22	FY23
ROE (%)	29.6	53.8	36.8	54.7	51.9
ROCE (%)	34.3	24.8	28.6	47.1	52.6
Debtors (days)	36	46	4	24	101
Current ratio	0.9	1.1	6.7	2.4	3
Debt/Equity	1.6	1.5	0.6	0.6	0.2
Inventory (days)	0	4	4	1	2
Payable (days)	247	40	5	37	47
Cash conversion cycle (days)	-211	11	3	-12	56
Debt/EBITDA	2.3	2.1	1.3	0.8	0.4
Adjusted debt/Equity	0.4	1.4	0.2	0.1	(0.2)

### Valuation parameters

Year to March	FY19	FY20	FY21	FY22	FY23
Diluted EPS (INR)	-	-	6.7	19.9	43.6
CEPS (INR)	-	-	8.7	22.3	47.6
Diluted P/E (x)	-	-	5.5	8.7	20.7
Price/BV(x)	-	-	1.4	3.7	7.3
EV/Sales (x)	-	-	1.3	3	4.7
EV/EBITDA (x)	-	-	3.3	5.6	13.7
Diluted shares O/S	-	-	1	1	1.1
Basic EPS	-	-	6.7	19.9	43.6
Basic PE (x)	-	-	5.5	8.7	20.7
Dividend yield (%)	-	-	0%	0%	0%

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