

KEC International

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Strong order book points toward better future

- KEC has recorded order inflows of ~Rs130bn YTD, with L1 orders of over Rs60bn. This is the highest-ever inflow till mid-Jan in any fiscal – 9MFY19 saw inflows of Rs115bn with L1 orders of ~Rs40bn. Till H1FY22, Railways/T&D at 33%/28% were the major contributors to the overall inflows. We have increased our annual inflow forecast to ~Rs180bn.
 - Further, more recently, the Union Cabinet has approved the second phase of the Green Energy Corridor of the Intra-State Transmission System at a cost of Rs120bn. Domestic T&D is expected to improve in terms of inflows in FY23.
 - We cut our FY22E Sales/EBITDA/PAT by 2%/5%/7% to factor in some execution delays due to the construction ban in Delhi and floods in Chennai during Q3FY22. KEC has projects in both the cities. Our FY23E/FY24E EPS now stands at Rs28.8/Rs37.7, higher/lower by 5%/2%.
 - We maintain Buy rating on the stock, with a TP of Rs530 (Dec'22E), based on 15x one-year forward PE, which is the average 10-year multiple.
- Highest YTD order inflow ever:** YTD order inflow for KEC stands at Rs130bn, with L1 orders of Rs60bn. This is the highest-ever inflow till 9M. Based on this, we have raised our order inflow estimate to Rs180bn for FY22.
 - Civil and T&D driving inflows:** Till H1FY22, Civil (Rs24.5bn inflow - 33% of overall), T&D (Rs20.7bn inflow - 28% of overall) and Railways (Rs12.6bn inflow - 17% of overall) were the major contributors. There has also been an improvement in inflows at SAE Towers.
 - We expect a flat Q3 from a revenue perspective:** KEC had reported 12% YoY growth in revenue in H1FY22 on the back of ~140%/70%/18% YoY growth in Civil/Cables/Railways. SAE revenue was down by 35% due to lower opening order book.
 - Order inflow momentum to continue in FY23 as well:** We believe that with the second phase of the Green Energy corridor getting Cabinet approval, orders from Railways and Civil will drive the inflows for FY23 and hence the momentum should continue.
 - Diversification continues with Oil & Gas sector as another addition:** The acquisition of Spur Infrastructure will give KEC entry into the Oil & Gas space. In the past few years, KEC has successfully diversified into Railways and Civil.
 - Maintain Buy with Dec'22 TP of Rs530:** We cut our FY22E EPS by 7% to factor in delays in execution in Q3 (due to construction ban in Delhi and floods in Chennai) and delay in margin recovery in SAE. Given SAE is expected to turn positive in FY23, we estimate FY23/FY24 margins at 8.7%/10%. Average margins during FY17 to FY20 stood at 10.1% and, hence, we believe this is achievable. Our FY23E/FY24E EPS stands at Rs28.8/37.7. Maintain Buy with a TP of Rs530.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,19,654	1,31,140	1,47,114	1,67,260	1,80,532
EBITDA	12,344	11,410	11,034	14,635	18,053
EBITDA Margin (%)	10.3	8.7	7.5	8.7	10.0
APAT	5,655	5,525	5,114	7,403	9,686
EPS (Rs)	22.0	21.5	19.9	28.8	37.7
EPS (% chg)	16.3	(2.3)	(7.4)	44.8	30.8
ROE (%)	21.6	17.9	14.3	18.0	19.9
P/E (x)	21.0	21.5	23.2	16.0	12.3
EV/EBITDA (x)	12.0	13.2	13.2	9.5	7.5
P/BV (x)	4.2	3.5	3.1	2.7	2.2

Source: Company, Emkay Research

CMP	Target Price
Rs 462 as of (January 9, 2022)	Rs 530 (■) 12 months
Rating	Upside
BUY (■)	14.8 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(7)/(5)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	19.9	28.8
Consensus	21.6	31.7
Mean Consensus TP (12M)	Rs 527	

Stock Details

Bloomberg Code	KECI IN
Face Value (Rs)	2
Shares outstanding (mn)	257
52 Week H/L	550 / 338
M Cap (Rs bn/USD bn)	119 / 1.60
Daily Avg Volume (nos.)	4,99,404
Daily Avg Turnover (US\$ mn)	3.2

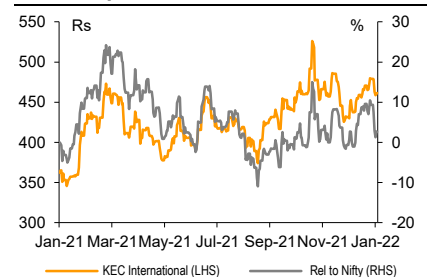
Shareholding Pattern Sep '21

Promoters	51.8%
FIIIs	11.1%
DIIIs	27.0%
Public and Others	10.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	2	8	26
Rel. to Nifty	-	2	(3)	-

Relative price chart



Source: Bloomberg

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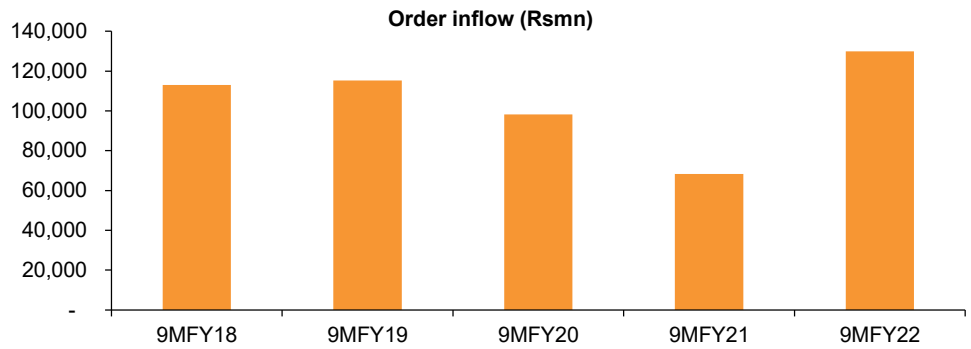
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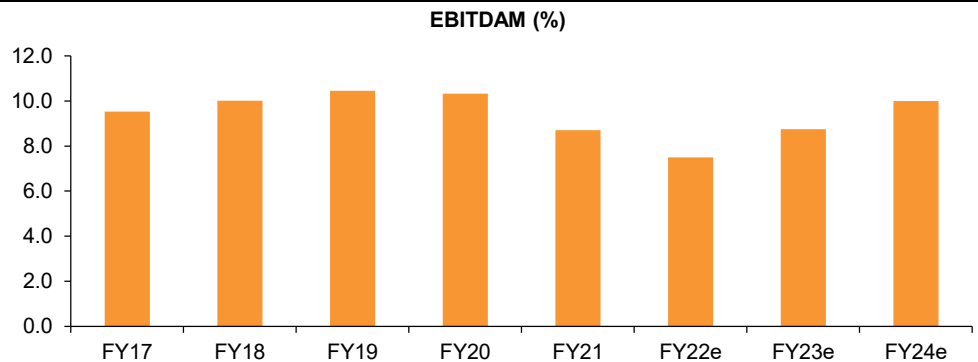
Story in Charts

Exhibit 1: 9MFY22 inflows at ~Rs130bn is highest ever



Source: Company, Emkay Research

Exhibit 2: EBITDAM is expected to be back to ~10% by FY24e



Source: Company, Emkay Research

Exhibit 3: Revision in Consolidated Earnings Estimates

Y/E, Mar (Rs. mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	150,479	147,114	-2%	163,133	167,260	3%	176,638	180,532	2%
EBITDA	11,587	11,034	-5%	15,090	14,635	-3%	17,664	18,053	2%
EBITDAM (%)	7.7%	7.5%	-20 bps	9.2%	8.7%	-50 bps	10.0%	10.0%	0 bps
APAT	5,507	5,114	-7%	7,805	7,403	-5%	9,460	9,686	2%
EPS (Rs)	21.4	19.9	-7%	30.4	28.8	-5%	36.8	37.7	2%

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,19,654	1,31,140	1,47,114	1,67,260	1,80,532
Expenditure	1,07,310	1,19,730	1,36,080	1,52,625	1,62,479
EBITDA	12,344	11,410	11,034	14,635	18,053
Depreciation	1,472	1,525	1,556	1,634	1,715
EBIT	10,872	9,885	9,478	13,002	16,338
Other Income	111	299	120	150	180
Interest expenses	3,080	2,627	2,869	3,011	3,250
PBT	7,903	7,557	6,729	10,141	13,268
Tax	2,248	2,032	1,615	2,738	3,582
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	5,655	5,525	5,114	7,403	9,686
Adjusted PAT	5,655	5,525	5,114	7,403	9,686

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	514	514	514	514	514
Reserves & surplus	27,462	33,083	37,267	43,740	52,496
Net worth	27,976	33,597	37,781	44,254	53,010
Minority Interest	0	0	0	0	0
Loan Funds	31,727	33,694	32,694	31,694	30,694
Net deferred tax liability	751	552	552	552	552
Total Liabilities	60,454	67,843	71,027	76,500	84,255
Net block	12,048	12,612	13,056	12,922	12,707
Investment	225	11	11	11	11
Current Assets	1,15,657	1,27,678	1,40,608	1,56,297	1,70,280
Cash & bank balance	1,527	2,117	6,182	11,816	13,682
Other Current Assets	36,438	37,119	38,975	40,924	42,970
Current liabilities & Provision	68,315	72,636	82,827	92,909	98,922
Net current assets	47,342	55,041	57,781	63,388	71,359
Misc. exp	0	0	0	0	0
Total Assets	60,454	67,843	71,027	76,500	84,255

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	7,792	7,258	6,609	9,991	13,088
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(5,534)	(7,309)	1,325	28	(6,105)
Operating Cashflow	874	2,270	10,743	11,926	8,365
Capital expenditure	(2,463)	(1,429)	(2,000)	(1,500)	(1,500)
Free Cash Flow	(1,588)	841	8,743	10,426	6,865
Investments	(93)	214	0	0	0
Other Investing Cash Flow	1,265	827	0	0	0
Investing Cashflow	(1,179)	(88)	(1,880)	(1,350)	(1,320)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	2,767	1,967	(1,000)	(1,000)	(1,000)
Dividend paid (incl tax)	(1,558)	(930)	(930)	(930)	(930)
Other Financing Cash Flow	1,951	(1)	0	0	0
Financing Cashflow	80	(1,591)	(4,799)	(4,941)	(5,180)
Net chg in cash	(225)	590	4,064	5,635	1,866
Opening cash position	1,752	1,527	2,117	6,182	11,816
Closing cash position	1,527	2,117	6,182	11,816	13,682

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	10.3	8.7	7.5	8.7	10.0
EBIT Margin	9.1	7.5	6.4	7.8	9.0
Effective Tax Rate	28.4	26.9	24.0	27.0	27.0
Net Margin	4.7	4.2	3.5	4.4	5.4
ROCE	19.1	15.9	13.8	17.8	20.6
ROE	21.6	17.9	14.3	18.0	19.9
RoIC	19.6	16.0	14.6	20.1	24.2

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	22.0	21.5	19.9	28.8	37.7
CEPS	27.7	27.4	25.9	35.1	44.3
BVPS	108.8	130.7	147.0	172.1	206.2
DPS	6.1	3.6	3.6	3.6	3.6

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	21.0	21.5	23.2	16.0	12.3
P/CEPS	16.6	16.8	17.8	13.1	10.4
P/BV	4.2	3.5	3.1	2.7	2.2
EV / Sales	1.2	1.1	1.0	0.8	0.8
EV / EBITDA	12.0	13.2	13.2	9.5	7.5
Dividend Yield (%)	1.3	0.8	0.8	0.8	0.8

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	1.1	0.9	0.7	0.4	0.3
Net Debt/EBIDTA	2.4	2.8	2.4	1.4	0.9
Working Cap Cycle (days)	139.8	147.3	128.0	112.5	116.6

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	8.8	9.6	12.2	13.7	7.9
EBITDA	7.3	(7.6)	(3.3)	32.6	23.4
EBIT	5.3	(9.1)	(4.1)	37.2	25.7
PAT	16.3	(2.3)	(7.4)	44.8	30.8

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	32,577	32,892	43,605	25,400	35,875
EBITDA	2,931	2,987	3,546	1,599	2,530
EBITDA Margin (%)	9.0	9.1	8.1	6.3	7.1
PAT	1,426	1,451	1,943	461	803
EPS (Rs)	5.5	5.6	7.6	1.8	3.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	51.8	51.8	51.8	51.8	51.8
FIIIs	9.7	9.8	10.8	11.1	11.1
DIIIs	26.9	26.0	25.6	26.5	27.0
Public and Others	11.6	12.3	11.9	10.6	10.1

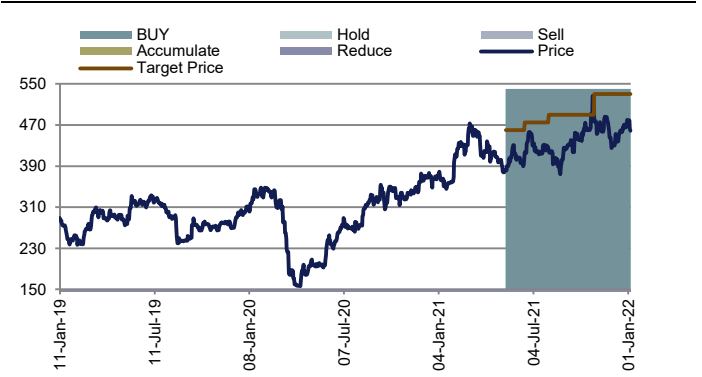
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Oct-21	477	530	12m	Buy	Abhineet Anand
02-Aug-21	419	490	12m	Buy	Abhineet Anand
17-Jun-21	417	475	12m	Buy	Abhineet Anand
12-May-21	382	460	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Jan 2022 10:13:10 (SGT)

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