

KEC International

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SAE becomes Achilles Heel

- We recently interacted with the management of KEC International Limited (KEC). We gathered that FY24 would be a clean year as SAE Tower's (SAE) losses would cease to exist and margin impact due to high commodity prices would recover to earlier times.
 - SAE Towers, which has been reporting losses for the past two years due to delays and high commodity costs, will likely complete the last leg of its EPC projects by Oct-Nov 2022. For FY24, management expects ~8% growth in SAE's margin.
 - Civil has been the driving force in the near term and will be adding to growth like Railways did a few years back. Diversification (Non-T&D FY22 revenue stood at 50% vs. 17% in FY16) has helped the company maintain healthy sales growth over the years.
 - We roll forward our valuation to Sept'23 with a revised TP of Rs540 (earlier Rs495). We introduce FY25 EPS at Rs40, largely in line with consensus estimates with ~10% margin. We maintain BUY on the stock.
- **SAE becomes Achilles Heel** – Over the past two years, SAE has seen significant margin erosion on account of commodity inflation, supply constraints, and delays in EPC projects. Now, of the four EPC projects, only one project is due for completion (Expected by Oct-Nov 2022). Hence, all pain-related to these projects is likely to be over in the current fiscal. KEC is still evaluating whether to take new EPC projects in Brazil, given the risks associated. Supply orders have been profitable and a large part of the book is presently under this category. Consequently, in the medium term, the company will not be taking big EPC projects and projects with external engineering. SAE's Mexico business is doing well and has orders for the next six quarters. There are renewable energy (RE) opportunities in the US as well, but logistics cost is acting as one of the determinants.
 - **Long-term story intact:** KEC has showed its ability to diversify across sectors (diversified into five new businesses since 2016), with exposure across T&D, railways, oil and gas, urban infrastructure, and other civil sectors, while keeping business fundamentals intact. Non-T&D formed 50% of the revenue in FY22 vs. 17% in FY16. Civil and urban infrastructure is going to be the structured growth story going forward. From executing small industrial plants in FY18, the company is now taking up high residential building, urban infra, data center, water pipelines, and airports projects, among others.
 - **Valuation and outlook:** Given that SAE's losses will continue for the next one or two more quarters, we have sharply cut our FY23 numbers (20%), though there is not much change in FY24 EPS (down 1%). We have introduced FY25 EPS at Rs40, in line with street's estimates. We expect KEC to return to ~10% margin in the coming years. We roll forward our valuation to Sept'23 with a TP of Rs540 (Rs495 earlier). We maintain BUY on the stock. Risks include further delay in project completion in SAE and weak order inflows.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,31,142	1,37,423	1,58,786	1,77,459	1,96,487
EBITDA	11,412	9,035	12,306	16,415	19,452
EBITDA Margin (%)	8.7	6.6	7.8	9.2	9.9
APAT	5,527	3,757	5,369	8,253	10,273
EPS (Rs)	21.5	14.6	20.9	32.1	40.0
EPS (% chg)	(2.3)	(32.0)	42.9	53.7	24.5
ROE (%)	18.0	10.8	14.0	18.6	19.6
P/E (x)	20.2	29.7	20.8	13.5	10.9
EV/EBITDA (x)	12.6	17.6	12.1	8.8	7.0
P/BV (x)	3.3	3.1	2.7	2.3	2.0

Source: Company, Emkay Research

CMP	Target Price
Rs 434 as of (September 14, 2022)	Rs 540 (▲) 12 months
Rating	Upside
BUY (■)	24.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(20)/ (1)
Target Price change (%)	9.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	20.9	32.1
Consensus	18.5	31.9
Mean Consensus TP (12M)	Rs 477	

Stock Details

Bloomberg Code	KECI IN
Face Value (Rs)	2
Shares outstanding (mn)	257
52 Week H/L	550 / 345
M Cap (Rs bn/USD bn)	112 / 1.41
Daily Avg Volume (nos.)	6,96,383
Daily Avg Turnover (US\$ mn)	3.7

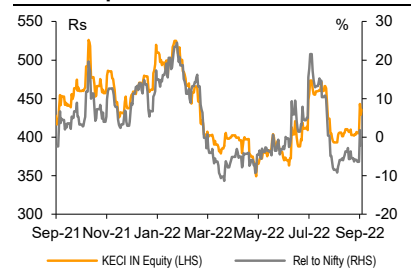
Shareholding Pattern Jun '22

Promoters	51.9%
FIIs	12.2%
DIIIs	26.5%
Public and Others	9.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	17	9	-
Rel. to Nifty	9	3	2	(4)

Relative price chart



Source: Bloomberg

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Exhibit 1: Non-T&D share has increased over the years

Quantum Leap in Non T&D Revenues – Share increased to 50%



Source: Company, Emkay Research

Exhibit 2: Diversification has led to sustained growth

Delivering Sustainable Growth

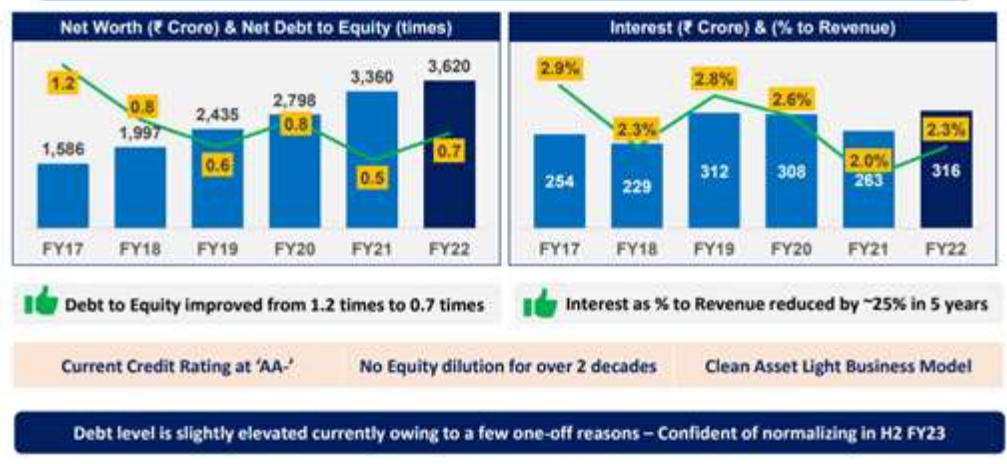


- Delivering Sustainable Growth across Revenue, PAT (Excluding COVID impact) and Order Book
- Steady performance in FY22 and Q1 FY23 amidst a challenging environment
 - Revenue growth of 5% in FY22 and 31% in Q1 FY23
 - Profitability impacted due to SAE Brazil EPC and Increase in Commodity prices/ Freight costs
 - Highest ever Order Intake in FY22 of over Rs. 17,200 Cr - Growth of ~45%; YTD FY23 Order Intake of ~Rs. 6,000 Cr
 - Highest ever Order Book + L1 of over Rs. 30,000 Cr as on date

Source: Company, Emkay Research

Exhibit 3: Strong balance sheet

Strengthening Balance Sheet



Source: Company, Emkay Research

Exhibit 4: Civil to be one of the key growth drivers**Civil & Urban Infra – Structured Growth Story**

Source: Company, Emkay Research

Exhibit 5: Change in estimates

Y/E, March (Rs mn)	FY23E			FY24E			FY25E
	Earlier	Revised	% Change	Earlier	Revised	% Change	
Revenue	1,59,465	1,58,786	0%	1,67,170	1,77,459	6%	1,96,487
EBITDA	13,555	12,306	-9%	15,881	16,415	3%	19,452
EBITDAM (%)	8.5%	7.8%	-75 bps	9.5%	9.2%	-25 bps	9.9%
APAT	6,745	5,369	-20%	8,314	8,253	-1%	10,273
EPS (Rs)	26.2	20.9	-20%	32.3	32.1	-1%	40.0

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,31,142	1,37,423	1,58,786	1,77,459	1,96,487
Expenditure	1,19,730	1,28,388	1,46,480	1,61,044	1,77,035
EBITDA	11,412	9,035	12,306	16,415	19,452
Depreciation	1,525	1,579	1,658	1,740	1,827
EBIT	9,887	7,456	10,648	14,675	17,625
Other Income	299	134	150	180	181
Interest expenses	2,627	3,160	3,493	3,549	3,733
PBT	7,559	4,431	7,305	11,305	14,073
Tax	2,032	674	1,936	3,052	3,800
Extraordinary Items	0	(436)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	5,527	3,321	5,369	8,253	10,273
Adjusted PAT	5,527	3,757	5,369	8,253	10,273

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	514	514	514	514	514
Reserves & surplus	33,083	35,685	40,124	47,447	56,480
Net worth	33,597	36,199	40,639	47,961	56,994
Minority Interest	0	0	0	0	0
Loan Funds	34,513	50,145	49,145	48,145	47,145
Net deferred tax liability	552	438	438	438	438
Total Liabilities	68,661	86,782	90,222	96,545	1,04,578
Net block	13,975	15,377	15,219	14,979	14,651
Investment	0	0	0	0	0
Current Assets	1,26,314	1,47,988	1,64,138	1,79,582	1,97,685
Cash & bank balance	2,492	2,619	11,412	15,875	22,181
Other Current Assets	61,239	83,643	87,825	92,216	96,827
Current liabilities & Provision	71,807	76,607	89,160	98,040	1,07,783
Net current assets	54,507	71,381	74,978	81,541	89,902
Misc. exp	0	0	0	0	0
Total Assets	68,661	86,782	90,222	96,545	1,04,578

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	7,260	4,296	7,155	11,125	13,892
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(6,400)	(16,860)	5,195	(2,100)	(2,055)
Operating Cashflow	8,396	(2,837)	15,565	11,263	13,598
Capital expenditure	(2,792)	(2,826)	(1,500)	(1,500)	(1,500)
Free Cash Flow	5,604	(5,663)	14,065	9,763	12,098
Investments	225	0	0	0	0
Other Investing Cash Flow	994	644	0	0	0
Investing Cashflow	(1,274)	(2,047)	(1,350)	(1,320)	(1,319)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	2,785	15,632	(1,000)	(1,000)	(1,000)
Dividend paid (incl. tax)	(5)	(1,025)	(930)	(930)	(1,240)
Other Financing Cash Flow	(6,310)	(6,435)	0	0	0
Financing Cashflow	(6,157)	5,012	(5,423)	(5,479)	(5,973)
Net chg in cash	965	128	8,792	4,464	6,305
Opening cash position	1,527	2,492	2,619	11,412	15,875
Closing cash position	2,492	2,619	11,412	15,875	22,181

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	8.7	6.6	7.8	9.2	9.9
EBIT Margin	7.5	5.4	6.7	8.3	9.0
Effective Tax Rate	26.9	15.2	26.5	27.0	27.0
Net Margin	4.2	2.7	3.4	4.7	5.2
ROCE	15.8	9.8	12.2	15.9	17.7
ROE	18.0	10.8	14.0	18.6	19.6
RoIC	16.0	9.9	13.1	18.4	21.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	21.5	14.6	20.9	32.1	40.0
CEPS	27.4	20.8	27.3	38.9	47.1
BVPS	130.7	140.8	158.1	186.6	221.7
DPS	0.0	4.0	3.6	3.6	4.8

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	20.2	29.7	20.8	13.5	10.9
P/CEPS	15.8	20.9	15.9	11.2	9.2
P/BV	3.3	3.1	2.7	2.3	2.0
EV / Sales	1.1	1.2	0.9	0.8	0.7
EV / EBITDA	12.6	17.6	12.1	8.8	7.0
Dividend Yield (%)	0.0	0.9	0.8	0.8	1.1

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.0	1.3	0.9	0.7	0.4
Net Debt/EBIDTA	2.8	5.3	3.1	2.0	1.3
Working Cap Cycle (days)	144.8	182.6	146.1	135.1	125.8

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9.6	4.8	15.5	11.8	10.7
EBITDA	(7.5)	(20.8)	36.2	33.4	18.5
EBIT	(9.1)	(24.6)	42.8	37.8	20.1
PAT	(2.3)	(39.9)	61.7	53.7	24.5

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	25,400	35,875	33,400	42,748	33,181
EBITDA	1,599	2,530	2,390	2,517	1,684
EBITDA Margin (%)	6.3	7.1	7.2	5.9	5.1
PAT	461	803	936	1,120	310
EPS (Rs)	1.8	3.1	3.6	4.4	1.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	51.8	51.8	51.8	51.8	51.9
FIIIs	11.1	11.1	12.3	12.2	12.2
DIIs	26.5	27.0	26.4	26.4	26.5
Public and Others	10.6	10.1	9.6	9.6	9.5

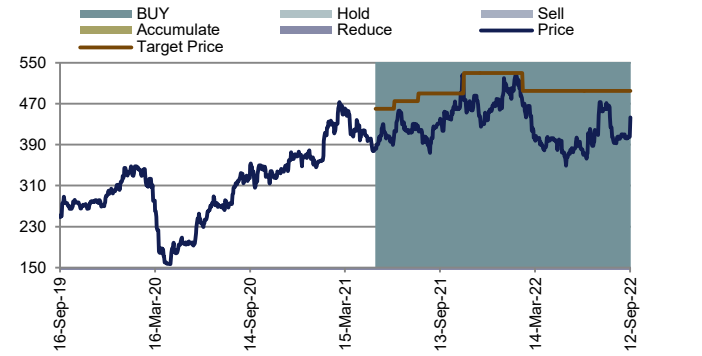
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
18-Aug-22	405	495	12m	Buy	Abhineet Anand
18-Feb-22	467	495	12m	Buy	Abhineet Anand
10-Jan-22	483	530	12m	Buy	Abhineet Anand
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 Alpha Portfolio – Eng. & Capital Goods, Infra, Power



Analyst: Abhineet Anand

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Sector

Engineering, Infra and Power

Analyst bio

Abhineet has experience of over 19 years in Engineering, Infrastructure and Power sectors as Analyst, Consultant and Engineer. Abhineet has completed his B.E. in Mechanical Engineering and PGDM in Finance from IIM Kozhikode.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Engineering & Capital Goods, Infra, Power	3.78	3.78	0%	0	100.00	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.00	NA	0	0.00	0
Kalpataru Power	0.00	0.20	NA	20	5.39	0
KEC International	0.00	0.20	NA	20	5.27	0
Larsen & Toubro	2.23	1.58	-29%	-65	41.83	0
CESC	0.00	0.37	NA	37	9.79	0
NHPC	0.09	0.00	-100%	-9	0.00	0
NTPC	0.74	0.74	1%	0	19.63	0
Power Grid Corporation	0.72	0.68	-5%	-3	18.09	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	14-Sep-21	15-Mar-22	14-Jun-22	12-Aug-22	13-Sep-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	128.6	129.6	116.1	116.1	120.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	123.8	127.2	116.3	114.9	121.6

*Performance measurement base date 1st April 2019

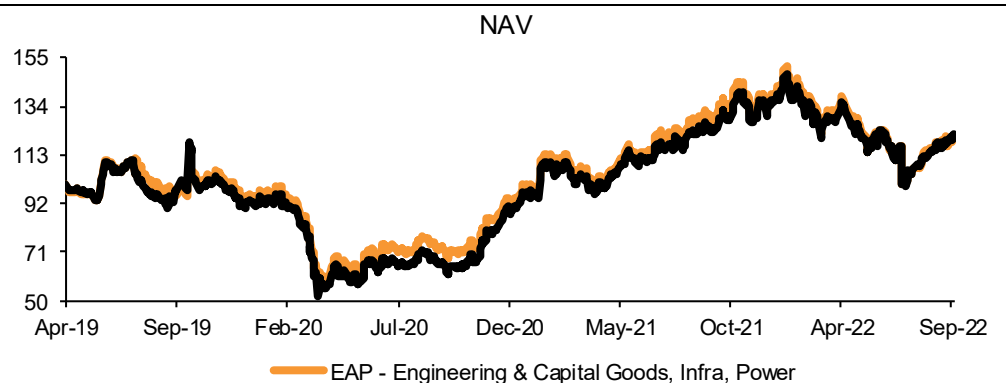
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	3.9%	3.8%	-6.9%	-6.2%
BSE200 Neutral Weighted Portfolio (ETF)	5.8%	4.6%	-4.4%	-1.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
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