

Poised for comeback...

About the stock: KEC International (KEC) is one of the EPC majors in key infrastructure sectors such as power T&D, railways, civil, urban infrastructure, solar, smart infrastructure, oil & gas pipelines and cables.

- A strategic shift in portfolio from T&D to non-T&D (13% contribution in FY16 increased to 50% in FY22)
- T&D diversified across countries with entry in ~20 countries in last five years

Key Highlights of Analyst Meet

- KEC International expects revenues to grow 15% in FY23E and at 15-20% in FY24E. A recovery is expected from Q3FY23E onwards as losses in SAE Towers will be over by then. Low margin T&D orders will be completed and high margin news orders execution will come into play. For FY24E, the management expects double digit margins at the company level
- The company is experiencing strong business visibility across segments and uptick in tendering activities of domestic T&D and railways with ₹ 110000 crore of tender pipeline. Out of this, ₹ 60,000 crore is from T&D and rest is from Civil and Railways. This results in improved quality of order intake for KEC. Overall award to tender ratio remains at 15-16%. The company expects inflows to the tune of ₹19000-20000 crore in FY23E
- **Working capital:** KEC's working capital is quite controlled and down 15-20%. Going forward, it is expecting further improvement. The management is targeting 130 days of NWC by FY23E and 100 days for FY24E. Interest cost to revenue ratio is expected to come down to 2% in FY24E. Usually, the cables business is a negative working capital one. Gross debt is expected to remain around ₹ 5000 crore in FY24E similar to FY23 levels despite strong growth in FY24 revenues. A good quantum of release in working capital is expected in H2FY23E, which will cushion strong growth in FY24E

What should investors do? KEC's share price has grown by ~4x over the past five years (from ~₹ 125 in March 2016 to ~₹ 500 levels in January 2022).

- We remain long term positive and change our rating from HOLD to **BUY**

Target Price and Valuation: We value KEC at ₹ 540 i.e. 17x P/E on FY24E EPS.



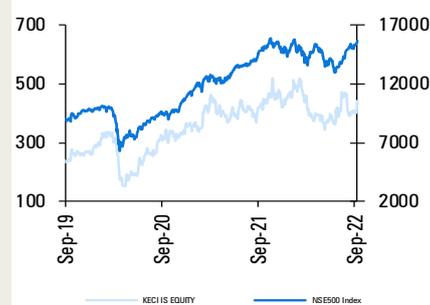
Particulars

Particular	Amount
Market Capitalization	11,183.3
Total Debt (FY22)	2,862.7
Cash and Inv. (FY22)	295.0
EV	13,751.0
52 week H/L	₹550/ 346
Equity capital	₹ 51.4 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.8	51.8	51.8	51.9
FII	11.1	12.3	12.2	12.2
DII	27.0	26.4	26.4	26.5
Others	10.1	9.6	9.6	9.5

Price Chart



Recent Event & Key risk

- (i) Rising commodity prices, (ii) Execution delays, order deferrals in T&D space

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Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	11,965.4	13,114.2	13,742.3	10.1%	15,972.4	19,244.7	18.3%
EBITDA	1,234.7	1,141.2	903.5	2.0%	1,133.9	1,737.7	38.7%
EBITDA Margin (%)	10.3	8.7	6.6		7.1	9.0	
Net Profit	565.9	552.7	332.1	3.9%	411.4	819.7	57.1%
EPS (₹)	22.0	21.5	12.9		16.0	31.9	
P/E (x)	19.8	20.2	33.7		27.2	13.6	
RoNW (%)	20.2	17.0	10.6		11.1	18.6	
RoCE (%)	22.3	19.8	11.9		13.9	20.3	

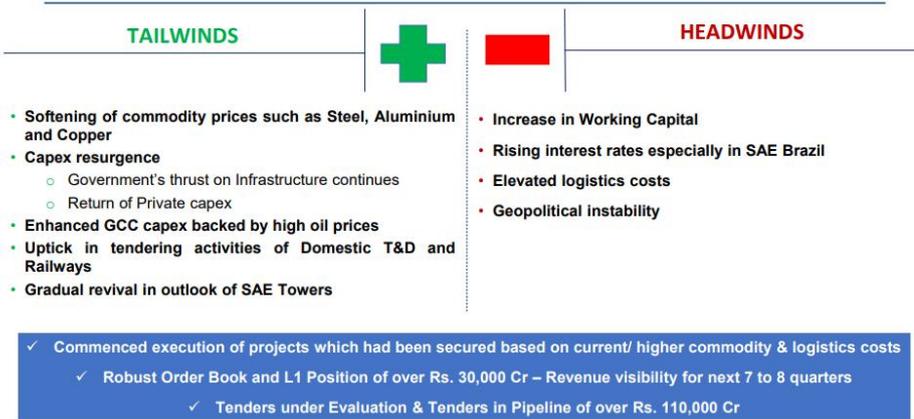
Source: Company, ICICI Direct Research

Key Highlights of Analyst Meet (Continued)

- **T&D business:** The company has strengthened its presence in India with large orders from PGCIL, private players and state utilities including Green Energy Corridor projects and won significant orders in international markets such as Saudi Arabia, UAE, Bangladesh and America. KEC is witnessing strong order enquiries in Indian T&D space. The Mexican facility is full in terms of order booking for the next six to eight quarters while Brazil has decent visibility
- **Railways:** Share of railways in total revenue has increased from 2% in FY16 to 28% in FY22 with revenue CAGR of 60% in six years. Also, it has delivered double digit margins in this segment. KEC has the largest contributors to Indian Railways Electrification Mission Electrified ~23% of the Indian Railway Network in FY22. The company is witnessing a gradual pick-up in tendering activity and is confident of securing a larger share of orders in the coming months from conventional as well as metro railways segments
- **Civil:** Civil & urban infra will be the largest growth drivers for KEC. The company is getting a lot of enquiries in the commercial as well as residential space but KEC has been very selective on this. KEC is expecting significant opportunities in the overseas markets for the civil segment

Exhibit 1: Key headwinds and tailwinds for company

Current Outlook



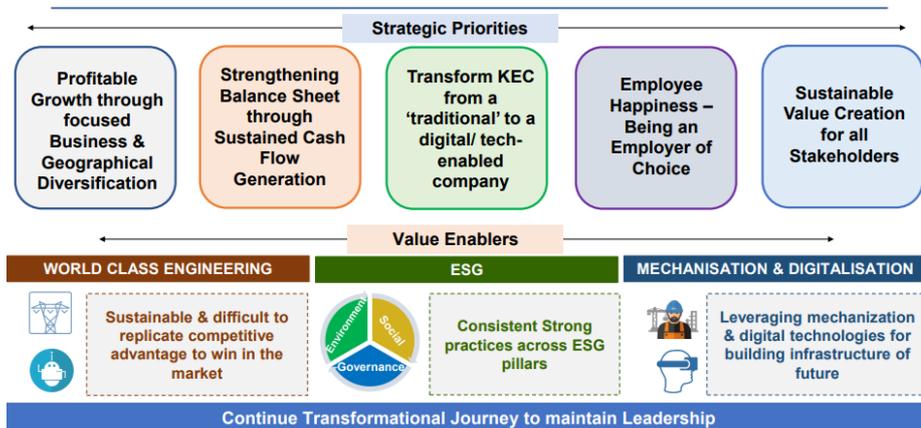
Source: Company, ICICI Direct Research

Exhibit 2: Robust demand across businesses



Source: Company, ICICI Direct Research

Exhibit 3: Looking ahead...



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	13,114.2	13,742.3	15,972.4	19,244.7
Growth (%)	9.6	4.8	16.2	20.5
Raw Material Expenses	5,700.6	5,949.0	6,738.7	8,096.6
Employee Expenses	1,115.1	1,258.7	1,388.4	1,626.2
Erecting & Contracting Exp.	3,907.0	4,509.2	5,312.5	6,160.0
Administrative Expenses	1,250.3	1,121.9	1,438.9	1,691.2
Total Operating Expenditure	11,973.0	12,838.8	14,878.5	17,574.0
EBITDA	1,141.2	903.5	1,133.9	1,737.7
Growth (%)	-7.6	-20.8	25.5	53.2
Depreciation	152.5	157.9	213.7	229.4
Interest	262.7	316.0	394.1	412.4
Other Income	29.9	13.4	33.0	29.5
Exceptional Item	0.0	43.6	0.0	0.0
PBT	755.9	399.4	559.0	1,125.3
Total Tax	203.2	67.4	147.6	305.6
PAT	552.7	332.1	411.4	819.7
Adjusted PAT	552.7	332.1	411.4	819.7
Growth (%)	-2.3	-39.9	23.9	99.2
EPS (₹)	21.5	12.9	16.0	31.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	552.7	332.1	411.4	819.7
Add: Depreciation	152.5	157.9	213.7	229.4
(Inc)/dec in Current Assets	-798.3	-1,779.1	-441.7	-2,607.6
Inc/(dec) in CL and Provisions	848.2	929.4	267.2	1,677.7
Others	3.3	3.0	5.0	5.0
CF from operating activities	755.1	-359.7	450.6	119.3
(Inc)/dec in Investments	-17.0	-16.5	-15.0	-15.0
(Inc)/dec in Fixed Assets	-132.2	-24.2	-180.0	-180.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-499.0	-360.7	-334.0	-284.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-218.4	1,019.3	250.0	0.0
Dividend paid & dividend tax	-102.8	-103.8	-129.7	-138.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-311.8	918.5	67.3	-138.9
Net Cash flow	-55.7	198.0	183.9	-303.7
Opening Cash	152.7	97.0	295.0	478.9
Closing Cash	97.0	295.0	478.9	175.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	51.4	51.4	51.4	51.4
Reserve and Surplus	3,205.5	3,436.7	3,665.4	4,346.1
Total Shareholders funds	3,256.9	3,488.1	3,716.8	4,397.5
Total Debt	1,843.4	2,862.7	3,112.7	3,112.7
Deferred Tax Liability	55.2	43.8	48.8	53.8
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	5,282.4	6,575.8	7,069.5	7,765.2
Assets				
Gross Block	1,895.4	1,897.6	2,067.6	2,247.6
Less: Acc Depreciation	779.6	933.8	1,111.9	1,305.7
Net Block	1,115.7	963.9	955.8	941.9
Capital WIP	17.9	30.0	40.0	40.0
Total Fixed Assets	1,133.6	993.9	995.8	981.9
Investments	50.4	67.0	82.0	97.0
Inventory	842.2	1,066.5	990.2	1,171.5
Debtors	5,384.7	5,106.1	6,564.0	7,645.1
Loans and Advances	99.7	110.9	121.5	159.4
Other Current Assets	5,306.7	7,128.9	6,178.2	7,485.5
Cash	97.0	295.0	478.9	175.2
Total Current Assets	11,730.2	13,707.3	14,332.9	16,636.8
Creditors	6,174.9	6,847.3	7,001.6	8,436.0
Provisions	65.1	87.8	84.0	101.2
Total Current Liabilities	8,662.7	9,592.1	9,859.3	11,537.0
Net Current Assets	3,067.6	4,115.3	4,473.6	5,099.8
Others Assets	0.0	0.0	0.0	0.0
Total Assets	5,282.4	6,575.8	7,069.5	7,765.2

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	21.5	12.9	16.0	31.9
Cash EPS	27.4	19.1	24.3	40.8
BV	126.7	135.7	144.6	171.0
DPS	4.0	4.0	4.2	4.5
Cash Per Share	3.8	11.5	18.6	6.8
Operating Ratios (%)				
EBITDA Margin	8.7	6.6	7.1	9.0
PBT / Total Operating income	5.8	2.9	3.5	5.8
PAT Margin	4.2	2.7	2.6	4.3
Inventory days	23.4	28.3	22.6	22.2
Debtor days	149.9	135.6	150.0	145.0
Creditor days	171.9	181.9	160.0	160.0
Return Ratios (%)				
RoE	17.0	10.6	11.1	18.6
RoCE	19.8	11.9	13.9	20.3
RoIC	23.9	15.4	18.3	25.3
Valuation Ratios (x)				
P/E	20.2	33.7	27.2	13.6
EV / EBITDA	11.3	15.2	12.2	8.1
EV / Net Sales	1.0	1.0	0.9	0.7
Market Cap / Sales	0.9	0.8	0.7	0.6
Price to Book Value	3.4	3.2	3.0	2.5
Solvency Ratios				
Debt/EBITDA	1.6	3.2	2.7	1.8
Debt / Equity	0.6	0.8	0.8	0.7
Current Ratio	1.3	1.4	1.4	1.4
Quick Ratio	1.2	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap			EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
L&T (LARTOU)	1,957	2,175	Buy	274606	56.8	65.0	76.7	34.5	30.1	25.5	8.9	10.2	11.6	12.1	12.7	13.6		
Siemens Ltd	3,105	3,660	Buy	110575	29.5	36.7	50.5	105.3	84.5	61.5	13.9	15.7	19.2	10.1	11.6	14.2		
AIA Engineering (AIAENG)	2,564	3,011	Buy	24184	64.6	79.8	86.0	39.7	32.1	29.8	16.5	17.9	17.1	13.2	14.3	13.6		
Thermax (THERMA)	2,510	2,405	Buy	29908	26.2	38.7	53.4	95.8	64.9	47.0	11.3	15.4	18.7	8.9	12.0	14.6		
KEC International (KECIN)	434	542	Buy	11166	12.9	16.0	31.9	33.6	27.1	13.6	11.9	13.9	20.3	10.6	11.1	18.6		
Greaves Cotton (GREAVE)	172	209	Buy	3977	0.7	3.5	3.6	243.0	48.8	48.1	2.5	9.4	10.7	1.3	6.7	7.7		
Elgi Equipment (ELGEQU)	550	474	Hold	17430	5.7	6.6	9.1	96.3	83.4	60.3	18.9	17.8	21.0	18.7	18.5	21.1		
Bharat Electronics (BHAELE)	337	315	Buy	82016	9.6	11.3	12.6	34.9	29.8	26.7	26.2	28.5	28.6	19.6	21.3	21.4		
Cochin Shipyard (COCSHI)	379	340	Hold	4990	42.9	38.6	42.3	8.8	9.8	9.0	10.9	12.5	12.7	12.7	10.8	11.1		
SKF (SKFIND)	4,827	4,920	Buy	23864	77.0	104.8	122.9	62.7	46.1	39.3	26.0	29.8	30.1	20.6	22.7	22.4		
Timken India (TIMIND)	3,225	3,561	Buy	24258	43.5	61.3	71.2	74.1	52.6	45.3	25.3	36.2	42.0	19.7	27.9	32.2		
NRB Bearing (NRBBEA)	170	220	Buy	1645	7.8	9.2	12.1	21.8	18.4	14.0	15.0	15.3	19.2	12.6	12.6	14.8		
Action Construction (ACTCON)	308	285	Buy	3668	8.8	12.5	15.7	35.0	24.6	19.6	23.0	22.5	23.6	13.9	15.6	16.4		
Data Patterns (DATPAT)	1141	900	Buy	5920	18.1	21.7	28.0	63.0	52.6	40.8	23.8	24.4	26.4	16.4	18.1	19.6		
HAL (HINAER)	2,570	2,860	Buy	85938	151.9	130.9	143.1	16.9	19.6	18.0	27.4	30.6	30.8	26.3	23.2	23.4		
ABB (ABB)	3,296	3,275	Buy	69845	25.5	38.9	43.7	129.4	84.8	75.5	45.0	49.2	64.9	11.2	13.0	17.6		
Ador Welding (ADOWEL)	949	890	Buy	1290	33.2	37.5	49.3	28.6	25.3	19.2	19.9	23.8	26.8	13.6	17.1	19.3		

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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