

KEC International

Refer to important disclosures at the end of this report

Margin drag continues

- KEC International reported EBITDAM of 4.4% at the consolidated level, which was lower than our (5.5%) and consensus estimates. Standalone EBITDAM at 6.2% surprised negatively and was down 200bps QoQ, while margin impact due to SAE was largely known. This was on account of the impact of high-cost inventory, execution of some legacy projects at a faster pace, and issues around project execution in Afghanistan. Softening commodity prices will have a positive impact in the coming quarters. Further, SAE is expected to break even by 4QFY23 and return to normalized margin levels for FY24.
- On the positive side, revenue growth was stronger at 13% YoY for the quarter, largely due to 65% growth in the civil segment. Inflows at Rs105bn YTD increased by 25% YoY.
- We have cut down our FY23 EPS by 43% due to delayed margin improvement in SAE and lower standalone margin, though long-term margin expectation (9.5-10%) remains intact. We expect EBITDAM of 8.7%/9.7% in FY24E/FY25E. We have pruned our FY24E/FY25E EPS by 8%/5%, respectively, and our Sept-23 TP stands at Rs505 (earlier Rs540). We maintain BUY on the stock.

- Revenue and inflows – Key positives:** KEC International reported 13%/20% YoY revenue growth for 2QFY23/1HFY23 at the consolidated level. While T&D growth continues to be at 7-8%, civil growth at 65% continues to be the key driver. YTD order inflows stood at 25% at Rs105bn, driven by T&D, civil, and railways. Order book (Rs276bn) along with L1 currently stands at Rs340bn. T&D/Civil/Railways account for 44%/32%/18% of the order book. Given the current revenue run rate and good inflow in H1FY23, the company has increased its revenue growth guidance to 20% from 15%.
- Margin, especially standalone, was a negative surprise:** SAE loss has been the key drag for the company in the past two odd years. More than Rs3bn of EBITDA loss has been realized at SAE level in the past six quarters. This is expected to break even in Q4FY23 and return to normalized margin levels in FY24. Standalone EBITDAM at 6.2% was a negative surprise, with 200bps contraction sequentially. High-cost inventory, issues in Afghanistan, and legacy projects led to the same. All these are expected to ease out in the future quarters. Hence, we have assumed EBITDAM to reach 8.7%/9.7% by FY24E/FY25E.
- NWC at elevated levels, expect normalization over the medium term:** Gross debt at the end of Q2FY23 stood at Rs59.2bn vs. ~Rs44bn YoY, but it was down by Rs1.56bn sequentially. NWC stood at 148 days, which is at elevated levels. Management expects improvement in NWC to reach normalized levels (110 days) by FY24. By FY23 end, debt is expected to be lower by Rs5-7bn due to lower inventory and better collection.
- Valuations and outlook:** We maintain our BUY rating on the stock with Sept-23 TP of Rs505 (earlier Rs540). Risks include delay in margin improvement.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 6\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,31,142	1,37,423	1,64,390	1,88,985	2,04,644
EBITDA	11,412	9,035	10,274	16,536	19,748
EBITDA Margin (%)	8.7	6.6	6.2	8.7	9.7
APAT	5,527	3,757	3,060	7,586	9,761
EPS (Rs.)	21.5	14.6	11.9	29.5	38.0
EPS (% chg)	(2.3)	(32.0)	(18.5)	147.9	28.7
ROE (%)	18.0	10.8	8.2	18.2	19.8
P/E (x)	20.3	29.8	36.6	14.8	11.5
EV/EBITDA (x)	12.6	17.7	15.6	9.5	7.6
P/BV (x)	3.3	3.1	2.9	2.5	2.1

Source: Company, Emkay Research

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CMP Rs 436 as of (November 8, 2022)	Target Price Rs 505 (▼) 12 months
Rating BUY (■)	Upside 15.9 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(43)/(8)
Target Price change (%)	6.5
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	FY23E	FY24E
Emkay	11.9	29.5
Consensus	18.2	32.1
Mean Consensus TP (12M)	Rs 482	

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 / 1.37
Daily Avg Volume (nos.)	6,74,436
Daily Avg Turnover (US\$ mn)	3.5

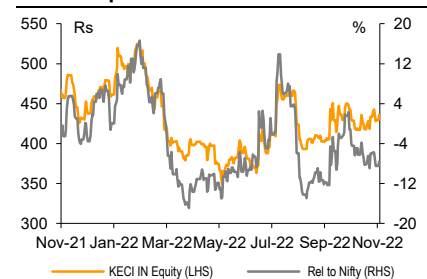
Shareholding Pattern Sep '22

Promoters	51.9%
FIIIs	11.6%
DIIIs	26.5%
Public and Others	10.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	3	16	(7)
Rel. to Nifty	(3)	(2)	5	(8)

Relative price chart



Source: Bloomberg

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Exhibit 1: Change in estimates

Y/E March (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	1,58,786	1,64,390	4%	1,77,459	1,88,985	6%	1,96,487	2,04,644	4%
EBITDA	12,306	10,274	-17%	16,415	16,536	1%	19,452	19,748	2%
EBITDAM (%)	7.8%	6.2%	-150 bps	9.2%	8.7%	-50 bps	9.9%	9.7%	-25 bps
APAT	5,369	3,060	-43%	8,253	7,586	-8%	10,273	9,761	-5%
EPS (Rs)	20.9	11.9	-43%	32.1	29.5	-8%	40.0	38.0	-5%

Source: Emkay Research, Company

Exhibit 2: Quarterly Results

Particulars	2QFY22	3QFY22	4QFY22	Q1 FY23	Q2 FY23	YoY (%)	QoQ (%)
Revenue	35,875	33,400	42,748	33,181	40,640	13.28%	22.48%
Material cost	27,202	24,879	33,881	24,631	31,812	16.95%	29.15%
As a % of sales	75.8	74.5	79.3	74.2	78.3	245bps	404bps
Employee Cost	3,161	3,227	3,180	3,406	3,545	12.15%	4.09%
As a % of sales	8.8	9.7	7.4	10.3	8.7	-9bps	-154bps
Other expenditure	2,982	2,904	3,170	3,460	3,504	17.49%	1.27%
As a % of sales	8.3	8.7	7.4	10.4	8.6	31bps	-181bps
Total expenditure	33,345	31,010	40,231	31,497	38,861	16.54%	23.38%
EBITDA	2,530	2,390	2,517	1,684	1,780	-29.65%	5.65%
Depreciation	386	393	419	393	399	3.40%	1.45%
EBIT	2,144	1,997	2,098	1,291	1,381	-35.60%	6.93%
Other Income	33	50	34	80	161	390.58%	103.02%
Interest	733	824	954	1,000	1,277	74.18%	27.69%
PBT	1,444	1,223	1,178	371	266	-81.60%	-28.40%
Taxes	205	287	58	61	-	0.00%	0.00%
PAT	1,239	936	1,120	310	197	-84.13%	-36.62%
Adjusted PAT	1,239	936	1,120	310	197	-84.13%	-36.62%
Extra ord / Exceptional item	436	-	-	-	-		
Reported PAT	803	936	1,120	310	197	-75.51%	-36.62%
Adjusted EPS (Rs)	3.1	3.6	4.4	1.2	2.1	-31.20%	78.08%

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,31,142	1,37,423	1,64,390	1,88,985	2,04,644
Expenditure	1,19,730	1,28,388	1,54,115	1,72,449	1,84,896
EBITDA	11,412	9,035	10,274	16,536	19,748
Depreciation	1,525	1,579	1,658	1,740	1,827
EBIT	9,887	7,456	8,617	14,796	17,921
Other Income	299	134	150	180	181
Interest expenses	2,627	3,160	4,603	4,725	4,911
PBT	7,559	4,431	4,164	10,251	13,190
Tax	2,032	674	1,103	2,665	3,429
Extraordinary Items	0	(436)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	5,527	3,321	3,060	7,586	9,761
Adjusted PAT	5,527	3,757	3,060	7,586	9,761

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	37,816	44,471	52,992
Net worth	33,597	36,199	38,330	44,986	53,506
Minority Interest	0	0	0	0	0
Loan Funds	34,513	50,145	56,145	53,145	52,145
Net deferred tax liability	552	438	438	438	438
Total Liabilities	68,661	86,782	94,913	98,569	1,06,090
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	1,73,462	1,88,543	2,03,979
Cash & bank balance	2,492	2,619	8,119	8,810	13,478
Other Current Assets	61,239	83,643	87,825	96,024	1,00,825
Current liabilities & Provision	71,807	76,607	93,792	1,04,977	1,12,565
Net current assets	54,507	71,381	79,669	83,566	91,414
Misc. exp	0	0	0	0	0
Total Assets	68,661	86,782	94,913	98,569	1,06,090

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	7,260	4,296	4,014	10,071	13,009
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(6,400)	(16,860)	(2,788)	(3,205)	(3,180)
Operating Cashflow	8,396	(2,837)	6,382	10,666	13,138
Capital expenditure	(2,792)	(2,826)	(1,500)	(1,500)	(1,500)
Free Cash Flow	5,604	(5,663)	4,882	9,166	11,638
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	6,000	(3,000)	(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	467	(8,655)	(7,151)
Net chg in cash	965	128	5,500	691	4,668
Opening cash position	1,527	2,492	2,619	8,119	8,810
Closing cash position	2,492	2,619	8,119	8,810	13,478

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	8.7	6.6	6.2	8.7	9.7
EBIT Margin	7.5	5.4	5.2	7.8	8.8
Effective Tax Rate	26.9	15.2	26.5	26.0	26.0
Net Margin	4.2	2.7	1.9	4.0	4.8
ROCE	15.8	9.8	9.7	15.5	17.7
ROE	18.0	10.8	8.2	18.2	19.8
RoIC	16.0	9.9	10.1	16.8	19.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	21.5	14.6	11.9	29.5	38.0
CEPS	27.4	20.8	18.4	36.3	45.1
BVPS	130.7	140.8	149.1	175.0	208.1
DPS	0.0	4.0	3.6	3.6	4.8

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	20.3	29.8	36.6	14.8	11.5
P/CEPS	15.7	20.8	23.5	11.9	9.6
P/BV	3.3	3.1	2.9	2.5	2.1
EV / Sales	1.1	1.2	1.0	0.8	0.7
EV / EBITDA	12.6	17.7	15.6	9.5	7.6
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	1.3	1.0	0.7
Net Debt/EBIDTA	2.8	5.3	4.7	2.7	2.0
Working Cap Cycle (days)	144.8	182.6	158.9	144.4	139.0

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9.6	4.8	19.6	15.0	8.3
EBITDA	(7.5)	(20.8)	13.7	60.9	19.4
EBIT	(9.1)	(24.6)	15.6	71.7	21.1
PAT	(2.3)	(39.9)	(7.8)	147.9	28.7

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	35,875	33,400	42,748	33,181	40,640
EBITDA	2,530	2,390	2,517	1,684	1,780
EBITDA Margin (%)	7.1	7.2	5.9	5.1	4.4
PAT	803	936	1,120	310	552
EPS (Rs)	3.1	3.6	4.4	1.2	2.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	51.8	51.8	51.8	51.9	51.9
FIIIs	11.1	12.3	12.2	12.2	11.6
DIIs	27.0	26.4	26.4	26.5	26.5
Public and Others	10.1	9.6	9.6	9.5	10.0

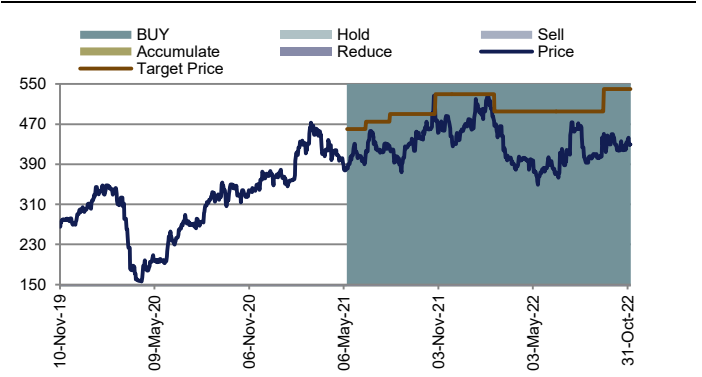
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Sep-22	451	540	12m	Buy	Abhineet Anand
14-Sep-22	435	495	12m	Buy	Abhineet Anand
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	3.86	3.69	-5%	-18	100.00	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.10	NA	10	2.51	0
Kalpataru Power	0.00	0.23	NA	23	5.98	0
KEC International	0.00	0.19	NA	19	4.89	0
Larsen & Toubro	2.26	1.59	-29%	-66	41.26	0
CESC	0.00	0.16	NA	16	4.07	0
NHPC	0.11	0.10	-10%	-1	2.57	0
NTPC	0.78	0.78	0%	0	20.22	0
Power Grid Corporation	0.72	0.54	-25%	-18	13.89	0
Cash	0.00	0.18	NA	18	4.60	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	3-Nov-21	5-May-22	4-Aug-22	4-Oct-22	4-Nov-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	140.6	123.2	113.8	113.7	126.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	135.3	121.5	111.5	114.8	124.3

*Performance measurement base date 1st April 2019

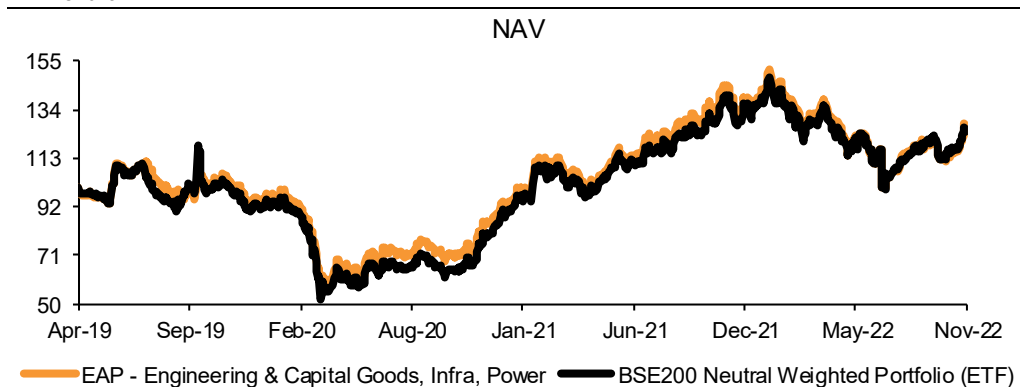
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	10.9%	10.8%	2.4%	-10.3%
BSE200 Neutral Weighted Portfolio (ETF)	8.2%	11.5%	2.3%	-8.2%

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”

Emkay Rating Distribution

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

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