**KEC International**

**Margin trajectory improving**

KEC reported Q1FY24 numbers with a slightly better EBITDA margin profile. Its revenue/EBITDA/APAT beat our estimates by 8.4%/18.2%/3.4x. However, the standalone PAT margin came in at the lowest level. It won orders worth INR 45bn (i.e. 18% of FY24 guidance of INR 250bn in FYTD24. With L1 of INR 50bn, the order book (OB) as of Jun’23 stood at the record high level of INR 350bn (~2x FY23 revenue). There has been movement in collections from Afghanistan as KEC received INR 2.2bn in FYTD24. The consolidated net debt, including the interest-bearing acceptances, stood at INR 57.1bn, an increase of INR 7.6bn from INR 49.5bn as of Mar’23, and remains our key concern. The interest cost for Q1FY24 came in at 3.7% (vs. 3.0/2.9% YoY/QoQ) of revenue. The NWC days as of Jun’23 stood at 126 and are expected to be ~110 by FY24-end. KEC reiterated its FY24 revenue guidance of INR 200bn (+16% YoY) with the EBITDA margin at ~7%. Given slightly better margins in this quarter, we would like to wait for a few quarters for a clear trend to emerge on the margin profile. Given the debt-heavy balance sheet, we maintain REDUCE with an increased TP of INR 511/share (14x Jun’23 Earnings, vs. 13x earlier).

Our multiple increase reflects improving visibility on margin recovery and the strong bid tender pipeline. Rerating continues to depend upon debt reduction and margin recovery.

- **Q1FY24 financial snapshot:** Revenue: INR 42.4bn (+27.9/-23.2% YoY/QoQ, a beat of 8.4%). While execution in segments like cables and SAE Towers at INR 3.9/3.1bn declined by 7/16% YoY, revenue growth was driven by growth in all the other segments. T&D (KEC) came in at INR 18.8bn (+46% YoY) and non-T&D segments like railways/civil/oil & gas came in at INR 7.6/9.6/1bn (+8/60/13% YoY). EBITDA: INR 2.4bn (+45.1/-13.8% YoY/QoQ, a beat of 18.2%). EBITDA margin: 5.8% (+68/+63bps YoY/QoQ, vs. our estimate of 5.3%, owing to lower input prices; partly offset by higher absorption of overheads and higher employee benefit expenses). APAT came in at INR 423mn (+36.5/-41.3% YoY/QoQ, a beat of 3.4x). Standalone EBITDA margin: 4.6% (vs. 8/4.2% Q1FY23/Q4FY23). It reiterated its FY24 revenue guidance of INR 200bn (+16% YoY) with the margin at ~7%.

- **Record high OB; well-diversified:** KEC received INR 45bn worth of orders in FYTD24 (i.e. 18% of FY24 guidance of INR 250bn), led by T&D, civil and railways. The order book as of Jun’23 stood at INR 301.3bn (~1.7x FY23 revenue). Including L1 of INR 50bn, the order book stood at INR 350bn. The tender pipeline is at INR 2tn. Geographically, 71/29% of the OB came from the domestic/international market. Segment-wise, the majority of the OB was contributed by T&D/civil/railways at 44/35/15%, followed by cables/oil & gas/solar at 2/2/2%.

- **Targeting lower NWC days; not much reduction expected in debt numbers:** The consolidated net debt, including the interest-bearing acceptances, stood at INR 57.1bn, an increase of INR 7.6bn from INR 49.5bn as of Mar’23. The interest cost for Q1FY24 came in at 3.7% (vs. 3.0/2.9% YoY/QoQ) of revenue. The average margin profile was driven by growth in all the other segments, and remains our key concern. The interest cost for Q1FY24 came in at 3.7% (vs. 3.0/2.9% YoY/QoQ) of revenue. The NWC days as of Jun’23 stood at 126 and are expected to be ~110 by FY24-end. KEC reiterated its FY24 revenue guidance of INR 200bn (+16% YoY) with the EBITDA margin at ~7%. Given slightly better margins in this quarter, we would like to wait for a few quarters for a clear trend to emerge on the margin profile. Given the debt-heavy balance sheet, we maintain REDUCE with an increased TP of INR 511/share (14x Jun-25E EPS, vs. 13x earlier). Our multiple increase reflects improving visibility on margin recovery and the strong bid tender pipeline. Rerating continues to depend upon debt reduction and margin recovery.

**Consolidated financial summary (INR mn)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Q1FY24</th>
<th>Q1FY23 YoY (%)</th>
<th>4QFY23 YoQ (%)</th>
<th>QoQ (%)</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>42,436</td>
<td>33,181</td>
<td>27.9</td>
<td>55,250</td>
<td>(23.2)</td>
<td>1,728,817</td>
<td></td>
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<tr>
<td>EBITDA</td>
<td>2,444</td>
<td>1,684</td>
<td>45.1</td>
<td>2,835</td>
<td>(13.8)</td>
<td>8,297</td>
<td>14,021</td>
<td>19,739</td>
</tr>
<tr>
<td>APAT</td>
<td>423</td>
<td>310</td>
<td>36.5</td>
<td>721</td>
<td>(41.3)</td>
<td>1,760</td>
<td>4,551</td>
<td>8,562</td>
</tr>
<tr>
<td>EPS (INR)</td>
<td>1.6</td>
<td>1.2</td>
<td>36.5</td>
<td>2.8</td>
<td>(41.3)</td>
<td>6.8</td>
<td>17.7</td>
<td>33.3</td>
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<tr>
<td>P/E (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>96.1</td>
<td>37.2</td>
<td>19.8</td>
</tr>
<tr>
<td>EV/EBIDTA (x)</td>
<td>26.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15.4</td>
<td>10.9</td>
<td>8.5</td>
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<tr>
<td>RoE (%)</td>
<td>4.8</td>
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<td></td>
<td></td>
<td></td>
<td>11.5</td>
<td>19.0</td>
<td>21.6</td>
</tr>
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</table>

Source: Company, HSIE Research
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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-26171-7330 www.hdfcsec.com