

Retail Equity Research
KEC International Ltd.
Capital Goods

Accumulate

BSE CODE : 532714 NSE CODE: KEC
BLOOMBERG CODE: KECI:IN SENSEX : 65,402

12 Months Investment Period Rating as per Small Cap
CMP Rs. 613 TARGET Rs.703 RETURN 15% ↑
(Closing: 14-08-2023)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Healthy growth in T&D business...

KEC International Ltd. (KEC) is a global infrastructure Engineering, Procurement and Construction major. It has presence in the verticals of Power T&D (Transmission & Distribution), Cables, Railways and Water & Renewable.

- In Q1FY24, KEC reported a healthy revenue growth of 28% YoY led by strong execution in T&D segment by 71% YoY, and the civil segment by 60% YoY
- EBITDA margin expanded by 68bps YoY to 5.8% in Q1FY24 owing to benign raw material prices and moderation in employee costs.
- The company expects margins to improve to 6% in H1FY24 and 8% in H2FY24 supported by strong execution and moderation in commodity prices.
- The order book, including L1 orders, stands at a record level of over Rs.35,000cr, (2x TTM revenue), and KEC is targeting an inflow of around Rs 25,000cr for FY24.
- With the improvement in T&D execution and a healthy order book, we remain positive on KEC on a long term basis. We reiterate, Accumulate rating and value the stock at a P/E of 20x with a TP of Rs.703.

Company Data

Market Cap (cr)	₹ 15,760
Enterprise Value (cr)	₹ 17,669
Outstanding Shares (cr)	25.7
Free Float	48.18%
Dividend Yield	0.5%
52 week high	₹ 699
52 week low	₹ 391
6m average volume (cr)	0.05
Beta	0.7
Face value	₹ 2

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	51.9	51.9	51.9
FII's	12.6	12.6	11.6
MFs/Insti	25.1	25.8	26.7
Public	10.4	9.7	9.9
Total	100.0	100.0	100.0
Promoter Pledge (%)	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	25%	38%	39%
Absolute Sensex	7%	7%	12%
Relative Return*	18%	31%	28%

*Over or underperformance to benchmark index

Healthy revenue growth...

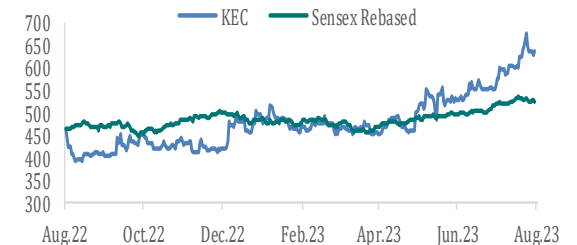
KEC registered a revenue growth of 28% YoY to Rs4,244cr in Q1 FY24, driven by T&D execution at 71% YoY and the civil businesses at 60% YoY, while the SAE and the cable businesses witnessed a de-growth in revenue of -16%/-7%, respectively. The management guided for a revenue of over Rs2,4000cr in FY24 on account of a strong order book and a tender pipeline of Rs20,000cr in the next two quarters. EBITDA margin improved by 68bps YoY to 5.8% during the quarter due to benign commodity prices and a moderation in employee costs as a percentage of revenue. The management stated that margin recovery is on the cards, expects margins to expand to 7% in FY24 (6% in H1FY24 and 8% in H2FY24), supported by execution and moderation in commodity prices. Interest cost increased by 59% YoY in Q1FY24, whereas interest cost to revenue remained high at 3.7% compared to 3% during Q1FY23. Better operating margin and a fall in tax expenses of -28% YoY led PAT to grow by 36% YoY to Rs.42cr.

Strong order book ...

In Q1FY24, the company's order inflow grew by 30% YoY to Rs. 4,500cr, supported by strong traction in the T&D segment (47% YoY), railway business (74% YoY), SAE (48% YoY), and cable business (20% YoY). The order book during the quarter increased by 27% YoY to Rs. 30,125cr, cr. The total order book, along with current L1, stands at Rs.35,000cr (2x TTM revenue), providing better revenue visibility in the coming quarters. The management also stated that the T&D tender pipeline remains healthy in the SAARC region (especially Nepal & Bangladesh) and expects Rs. 8,000cr of order inflows from the civil segment in FY24.

Valuations

A pick-up in execution along with an improvement in margins will support earnings growth. Govt's thrust on capex spending and a revival in private capex provide ample impetus to the sector. With the improvement in T&D execution and a healthy order book, we remain positive on KEC on a long term basis. We reiterate, Accumulate rating and value the stock at a P/E of 20x with a TP of Rs. 703.



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	17,282	20,634	23,348
Growth (%)	25.8	19.4	13.2
EBITDA	830	1,465	1,915
EBITDA Margin(%)	4.8	7.1	8.2
PAT Adj.	176	560	899
Growth (%)	-39.0	218.3	60.4
Adj.EPS	6.8	21.8	35.0
Growth (%)	-39.0	218.3	60.4
P/E	89.5	28.1	17.5
P/B	4.2	3.7	3.2
EV/EBITDA	22.5	12.8	9.8
ROE (%)	4.8	14.0	19.6
D/E	0.9	0.8	0.7

Antu Eapen Thomas

Research Analyst



Profit & Loss

Rs (cr)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Sales	4,244	3,318	27.9	5,525	-23.2
EBITDA	244	168	45.1	283	-13.8
EBITDA margins (%)	5.8	5.1	68bps	5.1	63bps
Depreciation	42	39	6.4	42	0.7
EBIT	203	129	56.9	242	-16.3
Interest	159	100	58.7	162	-1.8
Other Income	3	8	-64.4	6	-48.7
Exceptional Items	-	-	0.0	-	0.0
PBT	47	37	25.8	86	-45.6
Tax	4	6	-28.2	13.7	-68
Reported PAT	42	31	36.5	72	-41.4
Adjustments	-	-	0.0	-	0.0
Adj PAT	42	31	36.5	72	-41.4
No. of Shares	26	26		26	
EPS (Rs)	2	1	36.5	3	-41.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	20,463	22,958	20,634	23,348	0.8	1.7
EBITDA	1,453	1,951	1,465	1,915	0.8	-1.9
Margins (%)	7.10	8.50	7.10	8.20	0bps	-30bps
Adj. PAT	551	913	560	899	1.7	-1.5
EPS	21.4	35.5	21.8	35.0	1.7	-1.5

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	13,114	13,742	17,282	20,634	23,348
% change	9.6	4.8	25.8	19.4	13.2
EBITDA	1,141	904	830	1,465	1,915
% change	-7.5	-20.8	-8.2	76.6	30.7
Depreciation	153	158	161	167	172
EBIT	989	746	668	1,298	1,742
Interest	263	316	539	600	615
Other Income	29.9	13.4	31.3	40.0	48.0
PBT	756	399	161	737	1,175
% change	-4.3	-47.2	-59.7	358.0	59.4
Tax	203	67	-15	177	276
Tax Rate (%)	27	17	-9	24	24
Reported PAT	553	332	176	560	899
Adj*	0	44	0	0	0
Adj PAT	553	288	176	560	899
% change	-2.3	-47.8	-39.0	218.3	60.4
No. of shares (cr)	26	26	26	26	26
Adj EPS (Rs.)	21	11	7	22	35
% change	-2.3	-47.8	-39.0	218.3	60.4
DPS (Rs.)	4.6	4.6	4.7	4.8	4.8

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	908	557	322	905	1,347
Non-cash adj.	84	99	435	408	323
Changes in W.C	-225	-1,464	-218	-433	-716
C.F. Operation	845	-808	539	879	955
Capital exp.	-180	-536	-186	-220	-198
Change in inv.	49	503	-13	0	0
Other invest.CF	3	-13	-31	-40	-48
C.F - Investment	-127	-46	-230	-260	-246
Issue of equity	0	0	0	0	0
Issue/repay debt	470	1019	332	40	-40
Dividends paid	-1	-119	-121	-122	-124
Other finance.CF	-607	-39	-447	-596	-623
C.F - Finance	-664	861	-236	-679	-787
Chg. in cash	53	8	74	-59	-79
Closing cash	200	208	281	222	143

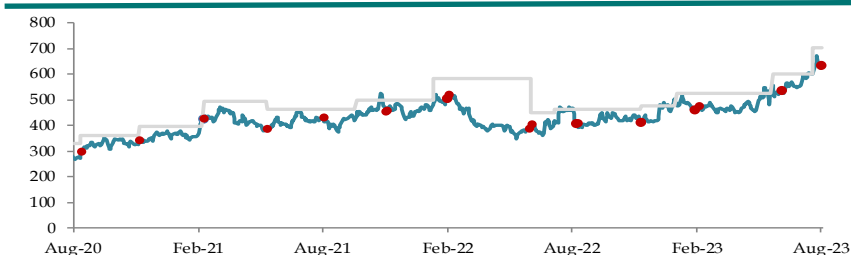
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	200	208	281	222	143
Accounts Receivable	5,567	5,574	7,255	8,367	9,595
Inventories	842	1,066	1,137	1,302	1,434
Other Cur. Assets	5,469	7,727	8,073	8,452	9,358
Investments	1	13	-	-	-
Gross Fixed Assets	1,648	1,866	2,048	2,268	2,468
Net Fixed Assets	1,116	1,243	1,282	1,323	1,352
CWIP	18	2	11	10	10
Intangible Assets	282	294	301	310	315
Def. Tax (Net)	7	170	320	375	439
Other Assets	492	-	-	-	-
Total Assets	13,993	16,298	18,661	20,361	22,647
Current Liabilities	8,711	9,714	11,577	12,804	14,339
Provisions	79	102	119	113	128
Debt Funds	1,843	2,863	3,194	3,234	3,194
Other Liabilities	-	-	-	-	-
Equity Capital	51	51	51	51	51
Reserves & Surplus	3,308	3,569	3,720	4,158	4,934
Shareholder's Fund	336	362	377	421	499
Total Liabilities	13,993	16,298	18,661	20,361	22,647
BVPS (Rs.)	131	141	147	164	194

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	8.7	6.6	4.8	7.1	8.2
EBIT margin (%)	7.5	5.4	3.9	6.3	7.5
Net profit mgn.(%)	4.2	2.1	1.0	2.7	3.9
ROE (%)	18.0	8.3	4.8	14.0	19.6
ROCE (%)	10.0	5.1	2.5	11.9	14.4
W.C & Liquidity					
Receivables (days)	307.2	353.3	323.8	297.5	296.3
Inventory (days)	32.0	37.2	30.5	29.5	29.0
Payables (days)	234.9	239.0	224.8	227.9	233.9
Current ratio (x)	1.4	1.5	1.4	1.4	1.4
Quick ratio (x)	0.7	0.6	0.7	0.7	0.7
Turnover & Leverage					
Gross asset T.O (x)	8.2	7.8	8.8	9.6	9.9
Total asset T.O (x)	1.0	0.9	1.0	1.1	1.1
Int. coverage ratio (x)	3.8	2.4	1.2	2.2	2.8
Adj. debt/equity (x)	0.6	0.8	0.9	0.8	0.7
Valuation					
EV/Sales (x)	1.3	1.3	1.1	0.9	0.8
EV/EBITDA (x)	15.3	20.4	22.5	12.8	9.8
P/E (x)	28.5	54.6	89.5	28.1	17.5
P/BV (x)	4.7	4.4	4.2	3.7	3.2

Recommendation summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
11-Aug-2020	BUY	362
6-Nov-2020	BUY	395
10-Feb-2021	BUY	530
17-May-2021	BUY	464
03-Aug-2021	Accumulate	464
8-Nov-2021	Accumulate	500
03-Feb-2022	Accumulate	585
06-Jun-2022	Accumulate	448
12-Aug-2022	Accumulate	435
11-Nov-2022	Accumulate	475
06-Feb-2023	Accumulate	524
12-Jun-2023	Accumulate	603
16-Aug-2023	Accumulate	703

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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