Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KEC International Ltd

On a strong growth path

Stock Update

Company Update

Capital Goods	Sharekhan code: KEC
Reco/View: Buy ↔	CMP: Rs. 702
	Price Target: Rs. 850 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

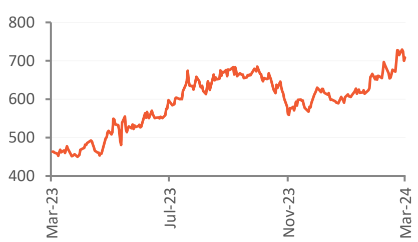
Company details

Market cap:	Rs. 18,057 cr
52-week high/low:	Rs. 739/443
NSE volume: (No of shares)	4.6 lakh
BSE code:	532714
NSE code:	KEC
Free float: (No of shares)	12.4 cr

Shareholding (%)

Promoters	51.9
FII	10.9
DII	27.0
Others	10.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.2	12.0	3.8	51.7
Relative to Sensex	2.5	5.9	-7.5	28.9

Sharekhan Research, Bloomberg

Summary

- Company currently has an order book of ~Rs 38,000 crore (including L1 position), which gives revenue visibility for the next 6-8 quarters. We expect faster execution of order book will drive revenue growth as major order intake has been from the T&D segment, which has a shorter execution time.
- Management expects the T&D segment to report double-digit margins from H2FY25 onwards, mainly due to closure of legacy orders in H1FY25 and execution of new better margin projects.
- Positive development in the cables (launched two products), Oil & Gas and Civil (breakthrough orders in the hospitals and FMCG sectors) segments will not only provide revenue diversification but can also act as avenue for future growth.
- We retain a Buy on KEC with a revised PT of Rs. 850, backed by improving margin trajectory, robust order book and strong earnings outlook.

The company's YTDFY24 order intake reached Rs. 13,000 crore, primarily from the T&D segment (Rs 7500 crore) and civil segments (Rs 2500 crore). The company expects faster execution of existing order books due to shorter execution times in the T&D segment, which will drive revenue growth. Within the T&D segment, the management expects double-digit margins by H2FY25 mainly due to closure of legacy orders in H1FY25 and execution of better new margin projects. The company also plans to set up a fully integrated manufacturing line for aluminium conductors for captive use, which will improve KEC's competitiveness of its T&D business. While in the civil segment, the company got breakthrough orders in Hospital and FMCG sectors, while in the cables segment company launched two products to enhance its portfolio of niche products.

- **Decent order intake and faster execution to drive growth:** YTDFY24 order intake stood at Rs 13,000 crore with significant contribution from T&D and civil segment. The company currently has an order book of Rs 38,000 crore (including L1 position), which gives revenue visibility for next 6-8 quarters. Major order intake has been from T&D segment where execution time is around much lower (~15 months) as compared with infrastructure project, where execution time is 2-3 years. Hence, the management expects faster execution of existing order books.
- **Strong traction in T&D segment:** This segment reported a strong order inflow of Rs.7500 crore for YTDFY24. Domestically, company has secured multiple orders from Power Grid Corporation of India (PGCIL) and repeat orders from state utilities. While in export market, the company has leveraged its Dubai manufacturing capacity and expanded its presence in Middle East market. Considering a strong project pipeline, company plans to debottleneck its Dubai facility and increase its capacity from 50,000 tonnes per annum to 60,000 tonnes per annum at a cost of Rs 10 crore. Recent increase in renewable energy capacity led to increased demand for new transmission lines, which led to higher demand for aluminium conductor. To fulfil this demand, company plans to set up a fully integrated manufacturing line for aluminium conductors. Company plans to incur capex of Rs 60 crore and complete the capex within next few quarters. Management does not plan to sell these products in market but use it for internal consumptions, which will increase the competitiveness of its T&D business.
- **Revenue diversification will drive long-term growth:** Within the civil segment, the company received orders from diverse segments and the company further expanded its presence by getting breakthrough orders in the hospitals and FMCG segments. In Oil & Gas segment, company has started exploring international opportunity and have been approved by a leading global energy company based in the Middle East. Company has developed two new products in the cables segment - EV charging cables and green cables, which will enhance company's portfolio of niche products and cater to the emerging market segment. Positive development in the cables, oil & gas and civil segments will not only provide revenue diversification but can also act as avenue for future growth.

Our Call

Maintain Buy with a revised PT of Rs. 850: A strong order book of ~Rs. 38,000 crore (including L1) and order prospects of Rs. 1,30,000 crore which bode well for revenue growth. In addition, successful diversification into other high-growth potential segments such as civil, cables, and oil & gas would help scale up business and profitability. We expects ~15% revenue growth for FY2024-26E with a sequential improvement in its margins. KEC is trading at a P/E of ~17x its FY2026E EPS, which provides room for upside, given its healthy order backlog and order pipeline and the possibility of margin revival. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 850. (An increase in the PT reflects strong growth outlook and higher profitability).

Key Risks

A slowdown in tendering activities could impact its execution. Further, escalation in input costs and supply-side constraints are key challenges.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	13,742	17,282	20,249	23,169	26,110
OPM (%)	6.6	4.8	6.1	7.5	8.5
Adj Net Profit	376	176	332	731	1,073
% YoY growth	-32.0	-53.1	88.8	119.8	46.9
Adj EPS (Rs)	14.6	6.8	12.9	28.4	41.7
PER (x)	48.1	102.6	54.3	24.7	16.8
P/BV (x)	5.0	4.8	4.5	3.9	3.2
EV/EBITDA (x)	22.9	25.2	16.9	12.0	9.4
ROCE (%)	13.0	10.4	15.8	21.5	24.3
ROE (%)	10.8	4.8	8.5	16.8	20.8

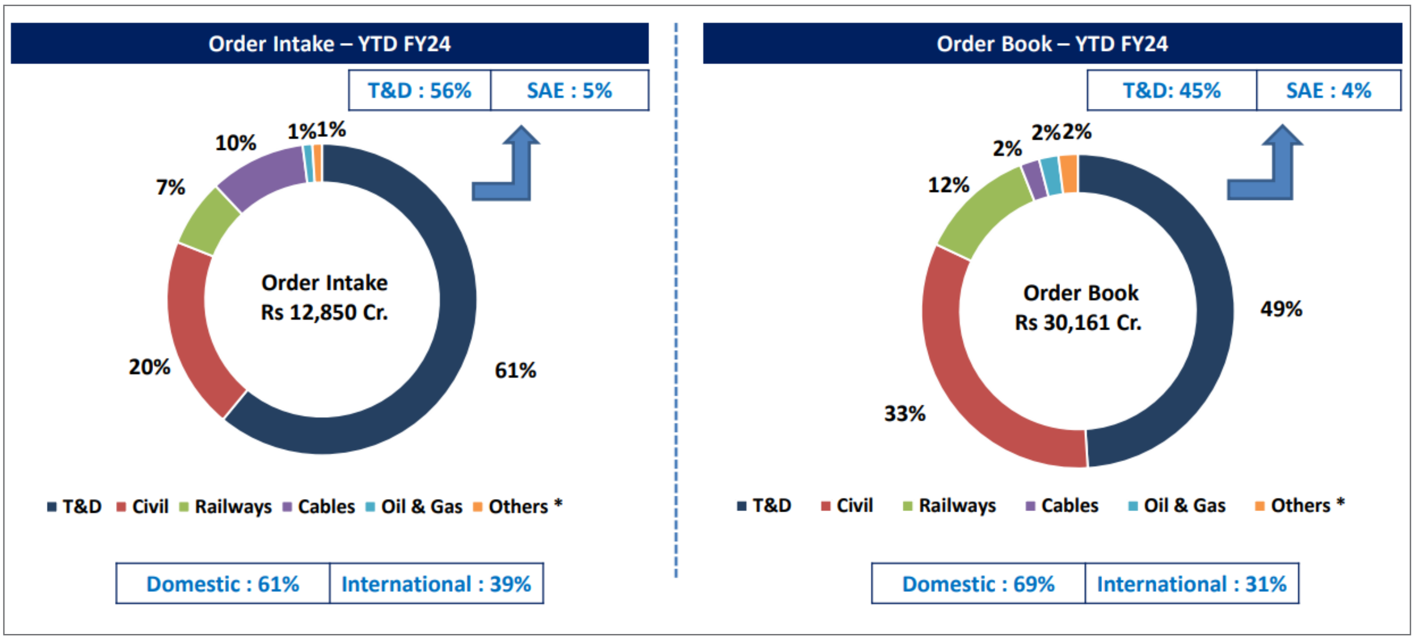
Source: Company; Sharekhan estimates

Key Highlights

- **Order Book:** YTDFY24 order intake stood at Rs 13000 crore with significant contribution from T&D and civil segments. Due to strong order inflow in the T&D segment, company has become selective in terms of the working capital and the margin profile while bidding for various projects. Company currently has order book of Rs 38,000 crore (including L1 position), which gives revenue visibility for next 6-8 quarters.
- **Margin improvement:** Management expects PBT margin to improve due to decline in interest expense. In T&D segment, management expects double-digit margin by H2FY25 mainly due to closure of legacy orders in H1FY25 and execution of new better margin projects.
- **Order pipeline:** Company is expecting large potential in the next few quarters including two large HVDCs orders. The company plans to participate in least 30-35 renewable transmission tenders.
- **Working capital:** Working capital cycle continued to improve driven by better collections, commercial closure of projects and a shift in the order book composition with a growing share of civil, T&D and product supply business. Net working capital days declined by 4 days from 133 days in Q2FY24 to 129 days in Q3FY24.
- **Debt:** KEC was able to reduce its debt including acceptance by Rs 300 crore q-o-q to reach Rs 6045 crore. It plans to further reduce its debt by the end of FY24. Reduction in debt will lead to lower interest expense and improve PBT margins.
- **Tower Business:** It secured the large tower supply order from US market. Company's order book including L1 orders stood at Rs 2500 crore spanning six continents. The subsidiary - SAE Towers focused exclusively on manufacturing resulted in consistent profit over the past few quarters. SAE current order book including L1 stood at Rs 1300 crore related to orders for the supply of towers, hardware and poles and engineering and testing of towers in the US market.
- **Collections from Afghanistan:** During Q3FY24, company made collection of Rs 55 crore from Afghanistan, which added to a total collection of Rs 320 crore of collection post regime change in Afghanistan. The company is optimistic in receiving balance payment in coming quarters.
- **Aluminium conductor capacity:** The recent increase in renewable energy capacity led to increased demand for new transmission lines, which led to higher demand for aluminium conductors. To fulfil this demand, company plans to set up a fully integrated manufacturing line for aluminium conductors. Company plans to incur a capex of Rs 60 crore and complete the capex within next few quarters. Management does not plan to sell these products in market but use it for internal consumptions, which will increase the competitiveness of its T&D business.
- **Civil Segment:** YTDFY24 order intake stood at Rs 2500 crore as company secured multiple orders from diverse sectors including industrial, commercial & residential buildings, public spaces & data centres. It further expanded its presence in civil segment by getting breakthrough orders in Hospital and FMCG segments. KEC has a robust order book including L1 order book of Rs 11,000 crore with this segment. Company is currently executing 50 high-rise building projects across India for real estate developers.
- **Railways:** Intense competition from Tier-2 and Tier-3 EPC contractors and a shift in the clientele from Railway PSUs to zonal railways led to lower order intake within this segment. Company is currently pursuing selected opportunities in India and international market within this segment.
- **Oil & Gas:** The company has strengthened its order book by securing its second order for composite station works and currently has decent order book including L1 order of Rs 900 crore. Company has started exploring international opportunities and these have been approved by leading global energy company based in the Middle East.

- **Solar Power:** Company is currently executing 600MW solar project in Karnataka. Company continues to actively bid for selected opportunity within this segment.
- **Cables:** KEC continues to deliver improved margin and reported highest profitability for 9MFY24 due to improved product mix. It has developed two new products - EV charging cables and green cables to enhance its portfolio of niche products and cater to emerging market segment.

Consolidated Order Intake & Order Book



Source: Company presentation

Outlook and Valuation

Sector View – Ample levers offer scope for growth

The government's rising focus on infrastructure availability, affordable housing, thrust on rural electrification, 100% electrification of the railway network by 2025, and increasing metro rail to 25 cities by 2025 are expected to propel growth for user industries. The government has envisaged Rs. 111 lakh crore of capital expenditure in the infrastructure sector from FY2020 to FY2025. Sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of projected infrastructure investments. The government's continued thrust on infrastructure investments is expected to improve demand across railways, metros, roads, healthcare, and real estate, providing ample opportunities for KEC. India's focus on becoming a $5 trillion economy, building industries to drive manufacturing-led growth, and goals on sustainable energy will ensure significant investments in the power sector. India's power-generation capacity is expected to reach 777 GW by 2030, and the development of a high-voltage transmission grid will need to keep pace with generation capacity. Other factors that will drive growth in the T&D sector are the need for setting up of inter-regional grid capacity to ensure seamless flow of power from one region to another, evacuation infrastructure for renewables, and cross-border interconnections with SAARC countries. With the setting up of a cross-country national grid, states are planning huge investments to improve connectivity, reliability, and affordability. An increase in large-size transmission lines, as well as substation tenders from state utilities can thus benefit companies such as KEC.

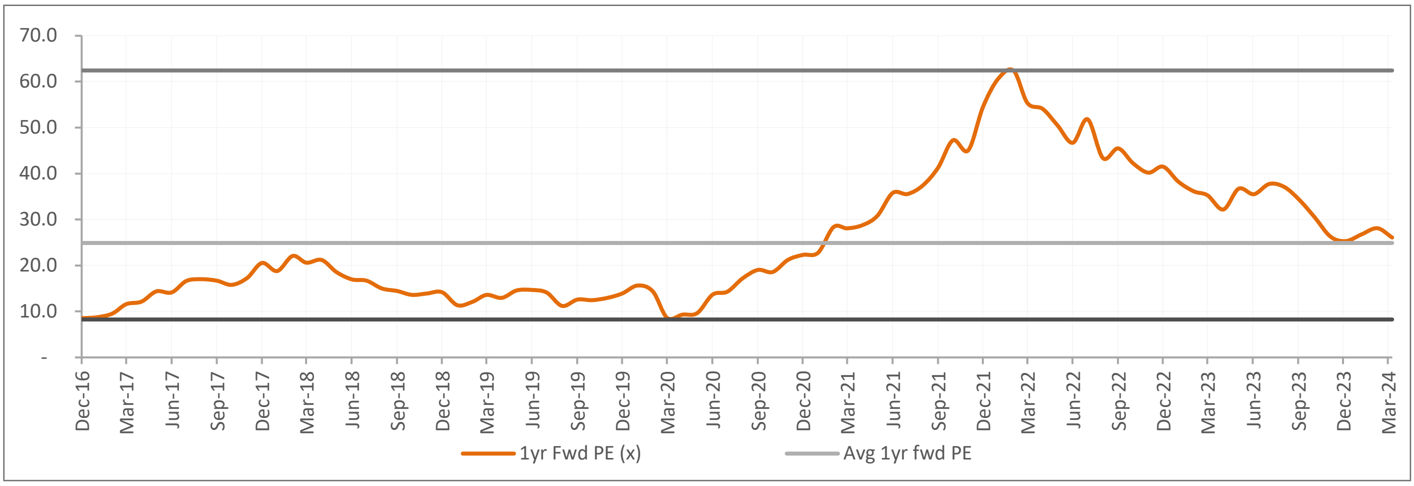
Company Outlook – Better prospects in the long term

Ordering activity is gradually gaining momentum, with tendering visibility remaining healthy in railways, international T&D, and civil segments. The management sees a Rs. 1,30,000 crore project pipeline across businesses. The International T&D pipeline is very strong in the Middle East, the Americas, Bangladesh, and the Far East regions. The company expects execution to pick up going ahead for FY2024, with a scale-up in execution in international T&D orders, civil, and oil and gas, while domestic T&D is expected to remain flat. Sluggishness in domestic T&D project awards is well compensated through opportunities in international T&D (across the MENA region, Bangladesh, the Far East and North and West Africa), with a good chunk of tenders being floated. The green energy corridor is also a potential business opportunity for KEC.

Valuation – Maintain Buy with a revised PT of Rs. 850

A strong order book of ~Rs. 38,000 crore (including L1) and order prospects of Rs. 1,30,000 crore which bode well for revenue growth. In addition, successful diversification into other high-growth potential segments such as civil, cables, and oil & gas would help scale up business and profitability. We expects ~15% revenue growth for FY2024-26E with a sequential improvement in its margins. KEC is trading at a P/E of ~17x its FY2026E EPS, which provides room for upside, given its healthy order backlog and order pipeline and the possibility of margin revival. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 850. (An increase in the PT reflects strong growth outlook and higher profitability).

One-year forward P/E (x) band



Source: Sharekhan Research

About company

KEC is a global power transmission infrastructure EPC major. The company is in the power T&D, cables, railways, renewable (solar energy), smart infra, and civil construction businesses. Globally, the company has powered infrastructure development in more than 61 countries. KEC is a leader in power transmission EPC projects and has over seven decades of experience. Over the years, the company has grown through the organic and inorganic routes.

Investment theme

T&D spend in India is expected to be around Rs. 2,300 billion over FY2018-FY2023E, up 28% over FY2012-FY2017. Much of this spending will likely come from state electricity boards. Additionally, ordering for the Green Energy Corridor will likely provide ample opportunities in the domestic market. Moreover, expansion in the regional transmission network in Africa, SAARC, and CIS countries will likely supplement domestic demand and present a large business opportunity. KEC has significantly scaled up the non-T&D segments (railways, civil, and cables segments), and margins in these segments have improved significantly. The opportunity size remains high in the non-T&D segment to provide enough opportunity to ramp up its total order outstanding for the business. KEC's order book remains strong, providing strong revenue visibility; and order inflow visibility remains healthy in international T&D, railways, and civil segments. Stability in the margins going forward would be a key re-rating trigger for the stock.

Key Risks

- Slower-than-expected project execution in domestic and international markets due to various reasons is expected to affect performance.
- Slowdown in tendering activities, especially in T&D, railways, and overseas orders.

Additional Data

Key management personnel

Harsh Vardhan Goenka	Non-Executive - Non-Independent Director-Chairperson
Vimal Kejriwal	Managing Director & CEO
Rajeev Aggarwal	Chief Financial Officer
Ajit Tekchand Vaswani	Non-Executive - Independent Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	8.0
2	Kotak Mahindra Asset Management Co	3.2
3	L&T Mutual Fund Trustee Ltd/India	2.9
4	DSP Investment Managers Pvt Ltd	2.7
5	Canara Robeco Asset Management Co	2.2
6	Vanguard Group Inc/The	1.8
7	FIL Ltd	1.8
8	Royal Bank of Canada	1.7
9	Fidelity Funds SICAV	1.6
10	Nippon Life India Asset Management	1.5

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.