



**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	■	↔	■

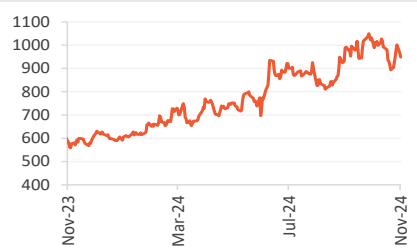
**Company details**

Market cap:	Rs. 24,437 cr
52-week high/low:	Rs. 1067/551
NSE volume: (No of shares)	205 lakh
BSE code:	532714
NSE code:	KEC
Free float: (No of shares)	12.8 cr

**Shareholding (%)**

Promoters	50.1
FII	13.6
DII	26.3
Others	10.0

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-8.1	14.8	28.2	57.8
Relative to Sensex	-5.4	13.9	20.1	34.4

Sharekhan Research, Bloomberg

**KEC International Ltd**  
Strong order book to lead growth

Capital Goods	Sharekhan code: KEC		
Reco/View: Buy	↔	CMP: Rs. 949	Price Target: Rs. 1,100 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Order book is at a record high of ~Rs. 42,500 crore (including L1 position of Rs 8412 crore), representing a 2.5x revenue potential on the base of FY24x revenues. Revenue growth of 14% was led by T&D segment (28%) which was compensated by non-T&D segment (-3%).
- Operating profits grew by 17%, while margins improved by 17bps to 6.3%. Margins recovery were slower due to execution of low margin legacy orders.
- Strong traction in T&D segment leading to order intake of Rs 9,000 crore a stellar 70% y-o-y growth leading order book to Rs 26,000 crore.
- We retain a Buy on KEC with a revised PT of Rs. 1100, (20x of FY27 EPS) backed by an improving margin trajectory, robust order book and strong earnings outlook.

**YTD FY25 order intake reached Rs. 13,482 crore, representing a stellar growth of 50% y-o-y primarily from the T&D segment (Rs. 9000 crore) and Railways (Rs 1350 crore). Management expects the T&D segment to grow by 20% in FY25E driven by faster execution in domestic T&D segment. The company also plans to set up a fully-integrated manufacturing line for aluminum conductors for captive use, which will improve competitiveness of its T&D business. Civil segment's execution will be backed by a strong order backlog to be executed in the current year. The segment is expected to grow 30% on a strong order book of Rs 10,000 crore. Railways segment will be more focused on completion of existing projects.**

**Key positives**

- T&D segment grew by a strong 28% with strong order inflow of Rs 9,000 crore. Record order book stands at Rs 26,000.
- YTD order inflow were at Rs 13,842 crore, representing a 50% y-o-y growth. KEC has received orders of Rs. 1300 crore in railways segments.
- Aluminum conductor plant already commissioned, and dispatch is expected in November.

**Key negatives**

- Railways and oil & gas segments have a subdued performance and declined by 37% and 28%, respectively.

**Management Commentary**

- Heavy rainfall in some regions of India and supply chain bottlenecks in T&D has led to delay in execution of margin accretive orders. Shortage of professional labour has impacted the civil business showing a growth of 9% in Q2FY25.
- YTD order inflow were at Rs 13,842 crore, representing a 50% y-o-y growth. Management has guided that KEC is expected to surpass the earlier order intake guidance of Rs 25000 crore.
- Tenders under evaluation/ pipeline is to the tune of Rs 1.5 lakh crore of which 70% is held contributed by T&D segment.
- The cables business is being transferred to a subsidiary and expects a total turnover of Rs 2500-2700 crore by FY27.

**Revision in estimates** – We have retained the estimates for FY25-27

**Our Call**

**Maintain Buy with a revised PT of Rs. 1,100:** A strong order book of ~Rs. 42,500 crore (including L1) bodes well for revenue growth. In addition, successful diversification into other high-growth potential segments such as civil projects, cables, and oil & gas would help scale up business and profitability. We expect ~16% revenue growth for FY2024-27E with a sequential improvement in its margins. KEC is trading at a P/E of ~16x its FY2027E EPS, which provides room for an upside, given its healthy order backlog and order pipeline and the possibility of margin revival. Hence, we maintain our Buy on the stock with a revised price target (PT) of Rs. 1100 (20x on FY27EPS).

**Key Risks**

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

**Valuation (Consolidated)**

Particulars	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	17,282	19,914	23,147	26,791	31,027
OPM (%)	4.8	6.1	7.5	9.0	9.2
Adj Net Profit	176	347	718	1,194	1,528
% YoY growth	-53.1	97.0	107.0	66.3	28.0
Adj EPS (Rs)	6.8	13.5	27.9	46.4	59.4
PER (x)	137.9	70.0	33.8	20.3	15.9
P/BV (x)	6.4	5.9	5.2	4.2	3.3
EV/EBITDA (x)	32.7	22.9	16.0	11.5	9.7
ROCE (%)	10.5	14.9	20.4	26.5	27.8
ROE (%)	4.8	8.8	16.3	22.7	23.4

Source: Company; Sharekhan estimates

## Key Highlights

**Order book:** YTD FY25 order intake stood at Rs 13,482 crore with significant contribution from T&D and Railways segment. KEC currently has order book of Rs 42,500 crore (including L1 position), which gives revenue visibility for next 2-3 years. Management has guided that KEC is expected to surpass the earlier order intake guidance of Rs 25000 crore.

**T&D segment:** Revenues strongly grew by 28% y-o-y driven by execution of order book. Significant traction is seen in T&D ordering activities leading to order intake of Rs 9,000 crore (70% growth y-o-y). Margins are expected to improve in the second half backed by execution of margins accretive PGCIL orders. Management guided an overall EBITDA margins to be 7.5% for FY25 and around 9% for FY26.

**Aluminum conductor capacity:** The recent rise in renewable energy capacity led to increased demand for new transmission lines, which led to higher demand for aluminium conductors. To fulfil this demand, KEC plans to set up a fully integrated manufacturing line for aluminium conductors. The plant is operational, and dispatch is expected from November month. Cables business is being transferred to a subsidiary and expects a total turnover of Rs 2500-2700 crore by FY27.

**Civil Segment:** YTD FY25 order intake stood at Rs 1200 crore as the company secured multiple orders from diverse sectors including industrial, residential and the defence sectors. Expanded portfolio with the addition of prestigious new client in Metals and Mining segment.

**Railways:** YTD order intake stands at Rs 1300 crore in conventional and emerging areas of metros. The company is focusing on fast-tracking and completion of existing projects. Going for only selective bidding which are margins accretive. Kavach orders have been announced.

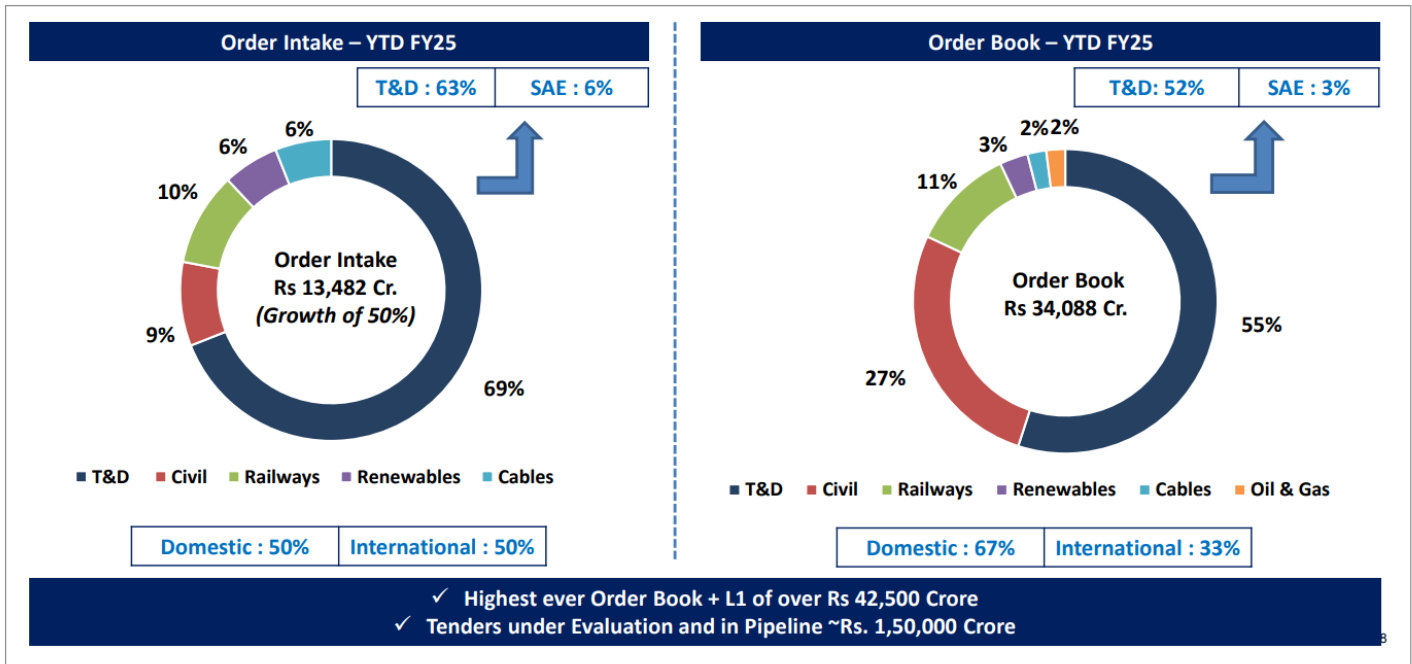
**Oil & Gas:** KEC has strengthened its order book by securing its second order for composite station works and currently has decent order book including L1 order of Rs 681 crore. It has started exploring international opportunities and these have been approved by leading global energy company based in the Middle East.

**Renewables:** The segments stand at a order book of Rs 1300 crore. KEC have commenced execution on its largest order for a 625 MWp Solar PV project in Rajasthan.

Results (Consolidated)				Rs cr	
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
<b>Net Sales</b>	<b>5,113</b>	<b>4,499</b>	<b>13.7</b>	<b>4,512</b>	<b>13.3</b>
<b>Operating profit</b>	<b>320</b>	<b>274</b>	<b>16.7</b>	<b>270</b>	<b>18.4</b>
Other income	7	16	-58.1	43	-84.6
Interest	168	178	-5.5	155	8.5
Depreciation	45	47	-2.6	47	-2.6
<b>PBT</b>	<b>113</b>	<b>66</b>	<b>72.5</b>	<b>112</b>	<b>1.3</b>
Tax	28	10	182.0	24	14.7
<b>Adj PAT</b>	<b>85</b>	<b>56</b>	<b>53.0</b>	<b>88</b>	<b>-2.5</b>
EPS	3.3	2.2	53.0	3.4	-2.5
<b>Margin</b>			<b>bps</b>		<b>bps</b>
OPM (%)	6.3	6.1	17	6.0	27
NPM (%)	1.7	1.2	43	1.9	(27)
Tax rate (%)	24.7	15.1	961	21.8	290

Source: Company, Sharekhan Research

**Order Intake & Order Book (Consolidated)**



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.

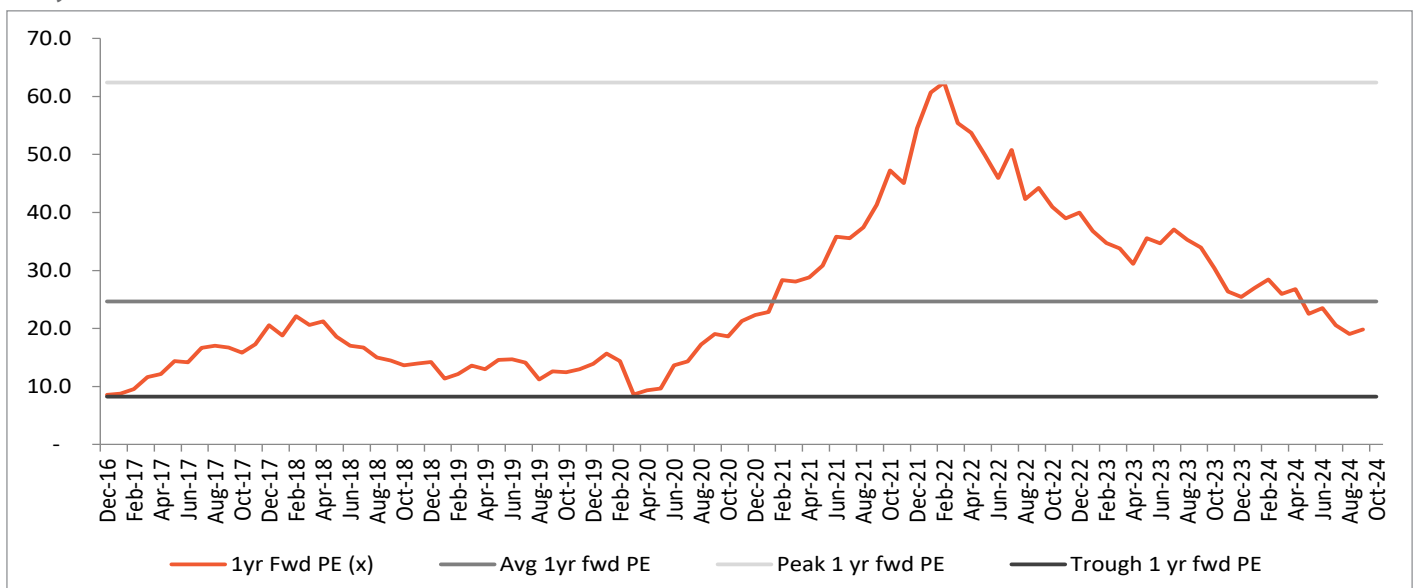
### ■ Company outlook - Better long term prospects

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 segment (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. 1,100:

A strong order book of ~Rs. 42,500 crore (including L1) bodes well for revenue growth. In addition, successful diversification into other high-growth potential segments such as civil projects, cables, and oil & gas would help scale up business and profitability. We expect ~16% revenue growth for FY2024-27E with a sequential improvement in its margins. KEC is trading at a P/E of ~16x its FY2027E EPS, which provides room for an upside, given its healthy order backlog and order pipeline and the possibility of margin revival. Hence, we maintain our Buy on the stock with a revised price target (PT) of Rs. 1100 (20x on FY27EPS).

### 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

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.53
2	L&T Mutual Fund Trustee Ltd/India	2.67
3	Kotak Mahindra Asset Management Co	2.59
4	DSP Investment Managers Pvt Ltd	2.26
5	Nippon Life India Asset Management	2.08
6	IDFC Mutual Fund/India	1.96
7	STEL Holdings Ltd	1.88
8	Royal Bank of Canada	1.76
9	Vanguard Group Inc/The	1.76
10	Tata Asset Management Pvt Ltd	1.5

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	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	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	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
<b>Negative</b>	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 deteriorating balance sheet
Right Valuation	
<b>Positive</b>	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.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	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

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by BNP PARIBAS

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