

KEC International

BSE SENSEX 76,693 S&P CNX 23,290



Bloomberg	KECI IN
Equity Shares (m)	257
M.Cap.(INRb)/(USD\$b)	197.5 / 2.4
52-Week Range (INR)	839 / 523
1, 6, 12 Rel. Per (%)	-1/11/21
12M Avg Val (INR M)	463

Financials Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Net Sales	199.1	225.2	251.0
EBITDA	12.1	16.4	21.4
PAT	3.5	6.3	10.1
EPS (INR)	13.5	24.5	39.2
GR. (%)	97.0	81.8	60.0
BV/Sh (INR)	159.3	176.6	204.2

Ratios

ROE (%)	8.8	14.6	20.6
RoCE (%)	11.8	13.6	17.1

Valuations

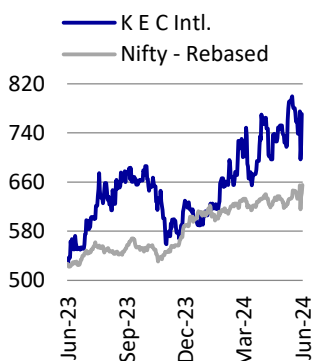
P/E (X)	56.9	31.3	19.5
P/BV (X)	4.8	4.3	3.8
EV/EBITDA (X)	17.9	13.1	10.0
Div Yield (%)	-	-	-

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	51.9	51.9	51.9
DII	25.8	27.0	25.8
FII	12.5	10.9	12.6
Others	9.8	10.3	9.7

FII Includes depository receipts

Stock performance (one-year)



CMP: INR768

TP: INR710 (-7%)

Neutral

Pipeline remains strong

KECI in its annual analyst meet highlighted a strong addressable market for T&D and improving opportunities for the civil segment. The company is continuously focusing on profitable growth and targeting reduction in NWC cycle on improved collections. We expect KECI to continue to benefit from the prospect pipeline in T&D and thus, maintain our estimates. We retain our Neutral rating on the stock with a TP of INR710, based on 18x two-year forward earnings.

Domestic T&D – tendering pipeline provides strong visibility

KECI's domestic T&D business witnessed exponential growth in the order book, from INR30b in FY22 to INR100b in FY24, aided by the government's thrust on renewable energy, green hydrogen and an overall increase in power demand. There is a robust pipeline of INR250b for domestic T&D projects and it is poised to grow at a healthy pace over the next 3-4 years. A strong order book and a healthy pipeline should help KECI sustain 50% growth in domestic T&D revenue in FY25. Owing to strong demand for power, KECI is bidding for four lines that transmit power to Mumbai. Notably, PGCIL has won an HVDC order worth ~INR130-140b. The company expects to bag the same in 2QFY25.

International T&D – legacy projects over; focus on profitable growth

There is continued traction in the GCC region, particularly in UAE and Abu Dhabi, coupled with healthy prospects in Mexico, Australia, US, etc. However, the situation in Russia, Central Asia, Africa and SAARC region is muted owing to a combination of factors such as geopolitical tensions, currency fluctuation and funding issues. After reporting losses in the post-Covid period, SAE has seen a turnaround in FY24 with order book + L1 of INR30b. New orders have been booked at better margin, so going forward the company expects further improvement. Large tenders are expected from Australia for many renewable projects. KECI also expanded its Dubai tower manufacturing facility to cater to increased demand from the Middle East. Pending dues from Afghanistan stood at ~INR3b, which the company expects to recover in due course.

Civil – poised to see multi-year growth

The civil segment has been growing at a robust pace over the past few years, led by commercial and residential real estate, private capex, data centers, water projects, metros, etc. The company expects this momentum to continue, with healthy activity taking place in data centers, real estate, hospitals, government buildings, etc. Though order inflows declined during FY24 due to delays in finalization of water-related projects and focus on the completion of existing metro projects, we expect improved traction to be visible from FY25 onwards for the civil segment on improved private capex, B&F capex, etc. Delays in existing metro projects also led to some cost overruns, thereby impacting margins in the civil segment.

Teena Virmani - Research Analyst (Teena.Virmani@MotilalOswal.com)

Harsh Tewaney - Research Analyst (Harsh.Tewaney@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Railways – to see another muted year

There has been a continued sluggishness in the railways segment as the bulk of government spending has largely gone toward locomotives, wagons and station redevelopment, where KECI lacks presence. This factor, coupled with heightened competitive intensity and execution delays, led to a 17% revenue decline in FY24 and margin pressure. Accordingly, the company has consciously adopted a selective approach while bidding and will focus on executing the backlog, which will help to reduce working capital. KECI expects a higher emphasis on infrastructure upgrades, as Vande Bharat trains are currently running at below-capacity speeds. As a result, FY25 revenue could continue to decline.

Margin improvement playing out sequentially

KECI has been witnessing sequential margin expansion for the last six quarters, aided by the completion of legacy projects, new order wins at favorable margins, stable commodity prices, limited competition in large-ticket T&D projects (5-6 players) and SAE turnaround. For FY25, the management has guided for 7.5% margin and expects it to improve further in FY26. As the average ticket size of domestic T&D projects has gone up (INR500b), competition is confined to 5-6 players, which has led to pricing discipline. This has resulted in improved profitability in T&D, where the company is able to enjoy ~10% margin. Civil segment margins will improve once the execution ramps up on metro projects.

Focus on working capital reduction

KECI is focusing on working capital reduction through improved customer advances, improved collection from Afghanistan and railways segment, and better payment terms for transmission projects.

Adding capabilities to capture opportunities

In order to improve its backward integration, the company has forayed into the manufacturing of conductors (AAAC, AL-59, ACSR). The facility is expected to be commissioned in 3QFY25 and has already secured orders for supplying AL-59 and ACSR conductors from a government utility and private TBCB players. This move will support margins and revenues of the cables segment. However, the company does not intend to compete with other conductor players, which are also its suppliers. It is meant for internal consumption. Similarly, KECI has added a few more products to cater to civil, railways, T&D and urban infra businesses.

Financial outlook

We maintain our estimates and expect a CAGR of 12%/33% in revenue/EBITDA over FY24-26 for KECI. This will be driven by: 1) order inflow growth of 29%, led by a strong prospect pipeline, 2) a gradual recovery in EBITDA margin to 7.3%/8.5% by FY25/26, and 3) control over working capital due to improved customer advances, improved debtor collections from railways and Afghanistan projects. With margin improvement and stable working capital, we expect RoE and RoCE to improve to 20.6% and 17.1% by FY26, respectively.

Key risks and concerns

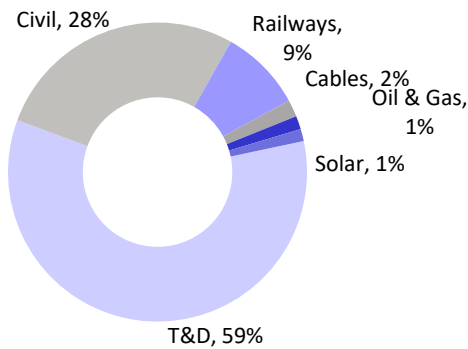
A slowdown in order inflows, higher commodity prices, increase in receivables and working capital, and heightened competition are some of the risks that could potentially impact our estimates.

Valuation and view

KECI is currently trading at 31x/20x on FY25E/FY26E EPS. We maintain our **Neutral** rating with a target price of INR710.

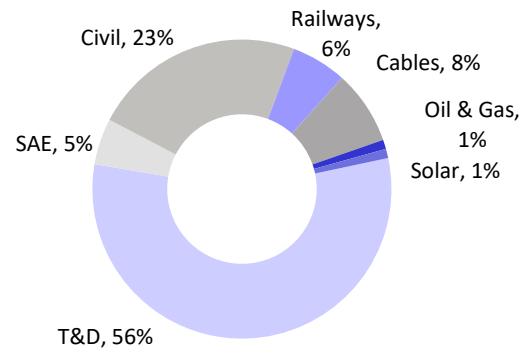
Key Exhibits

Exhibit 1: Segmental order book breakup of INR380b



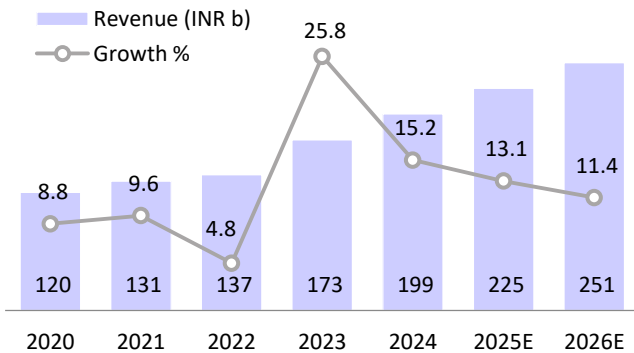
Source: MOFSL, Company

Exhibit 2: Segmental FY24 order inflow breakup of INR181b



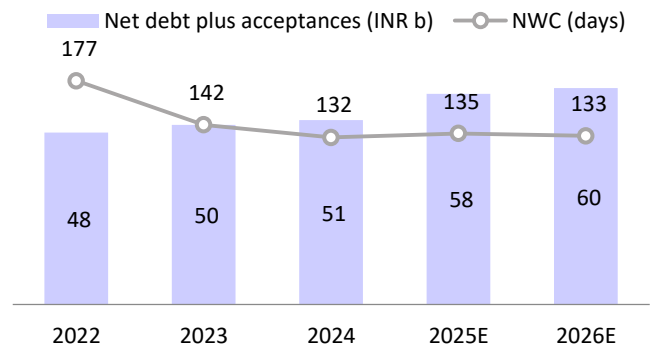
Source: MOFSL, Company

Exhibit 3: Revenue growth was strong over last 3 years



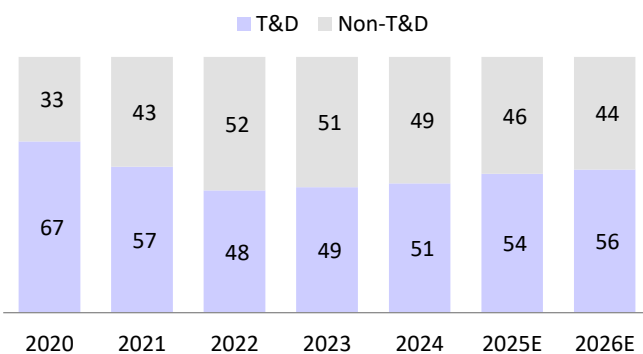
Source: MOFSL, Company

Exhibit 4: Net debt remained largely stable despite growth



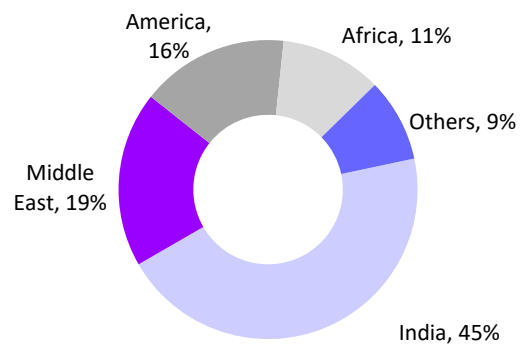
Source: MOFSL, Company

Exhibit 5: T&D to remain dominant segment in revenues (%)



Source: MOFSL, Company

Exhibit 6: T&D order book is diversified geographically (%)



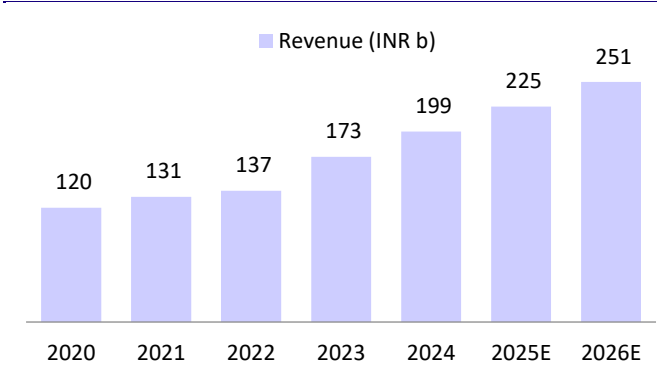
Source: MOFSL, Company

Exhibit 7: Segmental assumptions (INR m)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E
Transmission & distribution									
Order inflows	81,529	70,295	38,525	68,881	60,211	89,512	1,01,371	1,20,721	1,49,375
YoY growth (%)	6.4	-13.8	-45.2	78.8	-12.6	48.7	13.2	19.1	23.7
Revenues	67,950	65,906	66,360	64,910	60,050	74,851	90,080	1,16,381	1,33,612
YoY growth (%)	12.7	-3.0	0.7	-2.2	-7.5	24.6	20.3	29.2	14.8
Order backlog	1,03,788	1,15,461	1,00,465	1,05,100	1,06,722	1,28,322	1,45,256	1,49,595	1,65,358
Bill to book ratio (%)	51.6	47.4	49.3	48.1	44.4	49.4	50.3	56.6	59.6
Cables									
Order inflows	10,569	9,539	10,198	8,313	10,322	11,189	14,482	18,826	25,415
YoY growth (%)	6.9	-9.7	6.9	-18.5	24.2	8.4	29.4	30.0	35.0
Revenues	10,090	11,830	11,050	10,620	15,240	16,160	16,450	20,048	23,768
YoY growth (%)	-4.3	17.2	-6.6	-3.9	43.5	6.0	1.8	21.9	18.6
Order backlog	3,460	3,741	6,151	1,911	2,372	3,055	5,929	4,707	6,354
Bill to book ratio (%)	85.3	91.0	79.3	73.4	124.6	119.2	93.8	100.0	100.0
Railways									
Order inflows	39,255	26,885	31,727	16,626	24,084	29,091	10,861	12,490	14,988
YoY growth (%)	164.7	-31.5	18.0	-47.6	44.9	20.8	-62.7	15.0	20.0
Revenues	8,440	19,180	25,510	34,080	38,600	37,020	31,150	27,195	17,777
YoY growth (%)	89.2	127.3	33.0	33.6	13.3	-4.1	-15.9	-12.7	-34.6
Order backlog	41,515	48,698	61,509	45,862	37,946	39,719	32,608	17,904	15,116
Bill to book ratio (%)	24.3	34.9	39.5	48.8	66.7	70.5	69.0	70.0	70.0
Civil									
Order inflows	4,529	11,266	27,194	15,418	63,651	78,323	45,255	72,408	97,751
YoY growth (%)	-26.7	148.7	141.4	-43.3	312.8	23.1	-42.2	60.0	35.0
Revenues	4,230	5,950	3,760	12,810	21,440	38,310	54,390	59,540	73,244
YoY growth (%)	77.7	40.7	-36.8	240.7	67.4	78.7	42.0	9.5	23.0
Order backlog	5,189	4,682	26,654	32,485	78,263	1,19,157	1,12,647	1,25,515	1,50,022
Bill to book ratio (%)	49.3	55.0	20.6	37.3	33.3	32.6	38.4	40.0	42.0
SAE									
Order inflows	15,098	10,526	5,666	9,501	13,762	15,665	9,051	10,861	14,120
YoY growth (%)	-6.0	-30.3	-46.2	67.7	44.9	13.8	15.0	20.0	30.0
Revenues	10,250	9,655	15,390	11,460	8,840	13,240	14,470	10,467	11,946
YoY growth (%)	2.3	-5.8	59.4	-25.5	-22.9	49.8	9.3	-27.7	14.1
Order backlog	19,028	18,157	10,252	5,733	11,858	15,277	8,893	9,288	11,462
Bill to book ratio (%)	50.8	39.7	73.3	76.4	70.1	67.2	73.1	73.1	73.1
Order inflows	1,50,980	1,28,510	1,13,310	1,18,739	1,72,030	2,23,780	1,81,020	2,35,306	3,01,649
YoY growth (%)	22.2	-14.9	-11.8	4.8	44.9	30.1	-19.1	30.0	28.2
Revenues	1,00,580	1,10,005	1,19,654	1,31,142	1,37,423	1,72,817	1,99,130	2,25,249	2,51,006
YoY growth (%)	17.2	9.4	8.8	9.6	4.8	25.8	15.2	13.1	11.4
Order backlog	1,72,980	1,90,740	2,05,030	1,91,091	2,37,160	3,05,530	2,87,420	2,97,476	3,48,119
Bill to book ratio (%)	50.0	47.4	49.3	50.6	52.0	51.4	52.2	57.7	58.1

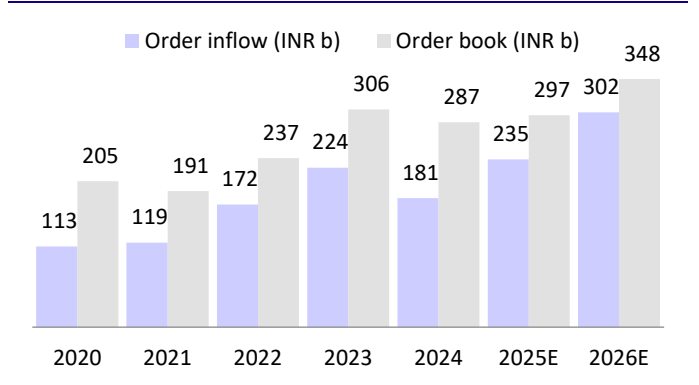
Source: Company, MOFSL

Exhibit 8: We expect 12% revenue CAGR over FY24-26 driven by strong order book



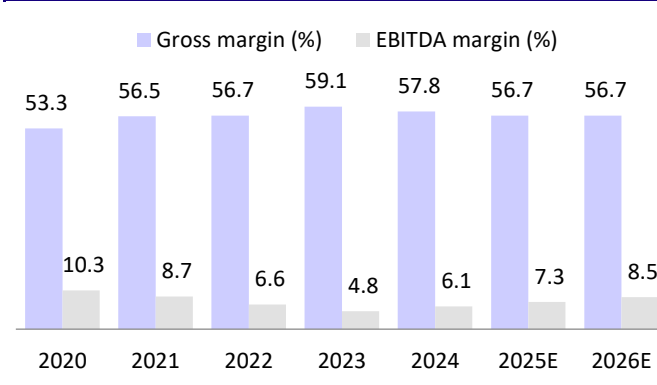
Source: Company, MOFSL

Exhibit 9: Order inflow & order book have started moving up since FY22 (INR b)



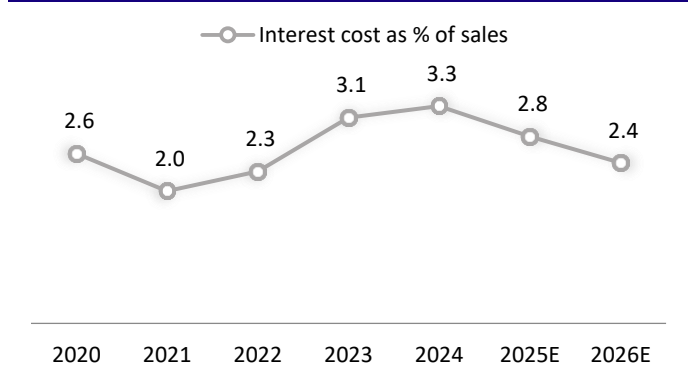
Source: Company, MOFSL

Exhibit 10: We expect a gradual margin expansion as legacy projects get over (%)



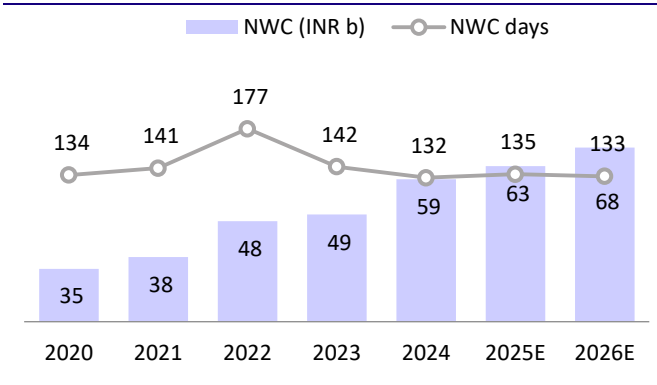
Source: Company, MOFSL

Exhibit 11: Interest cost as a % of sales to remain ~2.4-3% of sales in order to fund growth (%)



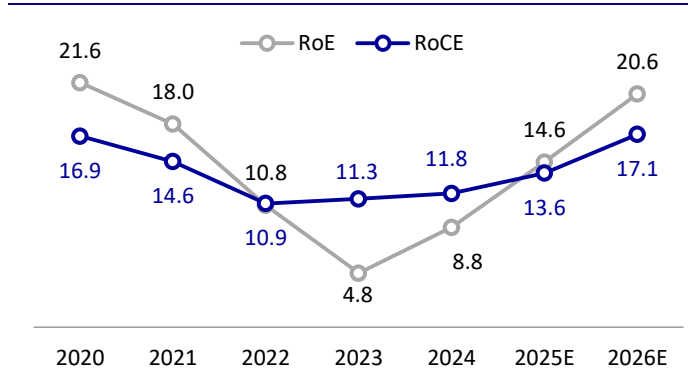
Source: Company, MOFSL

Exhibit 12: We expect NWC days to see moderation while net debt to remain high on strong growth



Source: Company, MOFSL

Exhibit 13: We expect return ratios to improve on better profitability (%)



Source: Company, MOFSL

Financials and valuation

Income Statement							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	1,19,654	1,31,142	1,37,423	1,72,817	1,99,142	2,25,249	2,51,006
Change (%)	8.8	9.6	4.8	25.8	15.2	13.1	11.4
Raw Materials	84,182	96,076	1,04,582	1,36,208	1,55,848	1,71,415	1,91,016
Gross Profit	35,471	35,065	32,840	36,609	43,294	53,835	59,990
Employees Cost	11,044	11,151	11,219	14,749	14,406	19,153	21,343
Other Expenses	12,084	12,503	12,587	13,562	16,742	18,279	17,281
Total Expenditure	1,07,310	1,19,730	1,28,388	1,64,520	1,86,996	2,08,847	2,29,639
% of Sales	89.7	91.3	93.4	95.2	93.9	92.7	91.5
EBITDA	12,344	11,412	9,034	8,297	12,146	16,402	21,367
Margin (%)	10.3	8.7	6.6	4.8	6.1	7.3	8.5
Depreciation	1,472	1,525	1,579	1,615	1,854	1,965	2,124
EBIT	10,872	9,886	7,456	6,683	10,292	14,437	19,242
Int. and Finance Charges	3,080	2,627	3,160	5,386	6,551	6,368	6,105
Other Income	111	299	134	313	524	405	424
PBT bef. EO Exp.	7,903	7,559	4,430	1,610	4,265	8,474	13,561
EO Items	0	0	-436	0	0	0	0
PBT after EO Exp.	7,903	7,559	3,994	1,610	4,265	8,474	13,561
Total Tax	2,248	2,032	674	-151	797	2,169	3,472
Tax Rate (%)	28.4	26.9	16.9	-9.4	18.7	25.6	25.6
Reported PAT	5,655	5,527	3,320	1,761	3,468	6,305	10,090
Adjusted PAT	5,655	5,527	3,683	1,761	3,468	6,305	10,090
Change (%)	16.3	-2.3	-33.4	-52.2	97.0	81.8	60.0
Margin (%)	4.7	4.2	2.7	1.0	1.7	2.8	4.0

Balance Sheet							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	514	514	514	514	514	514	514
Total Reserves	27,462	33,083	35,685	37,200	40,443	44,878	51,975
Net Worth	27,976	33,597	36,199	37,714	40,957	45,392	52,490
Total Loans	20,618	18,434	28,627	31,945	38,123	37,623	36,123
Deferred Tax Liabilities	527	-68	-1,703	-3,273	-3,537	-3,537	-3,537
Capital Employed	49,121	51,963	63,123	66,386	75,544	79,479	85,076
Gross Block	20,514	22,307	24,943	26,822	29,094	31,371	33,989
Less: Accum. Deprn.	9,221	10,485	12,064	13,679	15,532	17,497	19,621
Net Fixed Assets	11,292	11,821	12,880	13,143	13,561	13,873	14,368
Goodwill on Consolidation	2,226	2,154	2,497	2,685	2,721	2,721	2,721
Capital WIP	840	179	25	115	139	139	139
Total Investments	225	11	126	0	0	0	0
Curr. Assets, Loans&Adv.	1,13,963	1,25,696	1,45,720	1,67,470	1,70,356	1,93,788	2,15,187
Inventory	7,758	8,422	10,665	11,372	12,133	14,194	15,817
Account Receivables	91,096	1,01,498	1,16,659	1,34,966	1,35,133	1,52,849	1,71,703
Cash and Bank Balance	1,637	2,492	2,619	3,442	2,733	5,370	5,224
Loans and Advances	13,473	13,284	15,777	17,691	20,357	21,375	22,444
Curr. Liability & Prov.	79,425	87,897	98,125	1,17,027	1,11,234	1,31,043	1,47,339
Other Current Liabilities	78,664	87,107	97,109	1,15,841	1,10,037	1,29,191	1,45,276
Provisions	761	790	1,015	1,186	1,197	1,851	2,063
Net Current Assets	34,539	37,799	47,596	50,443	59,122	62,745	67,848
Appl. of Funds	49,121	51,963	63,123	66,386	75,544	79,479	85,076

Financials and valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	22.0	21.5	14.3	6.8	13.5	24.5	39.2
Cash EPS	27.7	27.4	20.5	13.1	20.7	32.2	47.5
BV/Share	108.8	130.7	140.8	146.7	159.3	176.6	204.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Valuation (x)							
P/E	34.9	35.7	53.5	112.0	56.9	31.3	19.5
Cash P/E	27.7	28.0	37.5	58.4	37.1	23.8	16.1
P/BV	7.0	5.9	5.4	5.2	4.8	4.3	3.8
EV/Sales	1.8	1.6	1.6	1.3	1.2	1.0	0.9
EV/EBITDA	17.5	18.7	24.7	27.2	19.2	14.0	10.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	7.2	20.8	-21.9	11.7	-0.4	44.2	40.6
Return Ratios (%)							
RoE	21.6	18.0	10.6	4.8	8.8	14.6	20.6
RoCE	17.2	14.8	10.8	11.4	11.8	13.6	17.1
RoIC	17.8	15.1	11.3	11.9	12.4	14.6	18.6
Working Capital Ratios							
Fixed Asset Turnover (x)	5.8	5.9	5.5	6.4	6.8	7.2	7.4
Asset Turnover (x)	2.4	2.5	2.2	2.6	2.6	2.8	3.0
Inventory (Days)	24	23	28	24	22	23	23
Debtor (Days)	278	282	310	285	248	248	250
Creditor (Days)	0	0	0	0	0	0	0
Leverage Ratio (x)							
Current Ratio	1.4	1.4	1.5	1.4	1.5	1.5	1.5
Interest Cover Ratio	3.5	3.8	2.4	1.2	1.6	2.3	3.2
Net Debt/Equity	0.7	0.5	0.7	0.8	0.9	0.7	0.6

Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INR m)							
OP/(Loss) before Tax	7,903	7,559	4,430	1,610	4,265	8,474	13,561
Depreciation	1,472	1,525	1,579	1,615	1,854	1,965	2,124
Interest & Finance Charges	3,080	2,627	3,160	5,386	6,551	6,368	6,105
Direct Taxes Paid	-2,248	-2,032	-674	151	-797	-2,169	-3,472
(Inc)/Dec in WC	-3,764	-2,405	-9,669	-2,026	-9,387	-986	-5,249
CF from Operations	6,443	7,274	-1,174	6,736	2,486	13,652	13,069
Others	-656	-595	-1,636	-1,569	-264	0	0
CF from Operating incl EO	5,787	6,679	-2,809	5,166	2,222	13,652	13,069
(Inc)/Dec in FA	-3,933	-1,322	-2,826	-2,156	-2,333	-2,277	-2,619
Free Cash Flow	1,854	5,357	-5,635	3,010	-111	11,375	10,451
(Pur)/Sale of Investments	-93	214	-116	126	0	0	0
CF from Investments	-4,025	-1,107	-2,942	-2,030	-2,333	-2,277	-2,619
Issue of Shares	-977	1,334	310	526	803	0	0
Inc/(Dec) in Debt	2,224	-2,184	10,193	3,317	6,179	-500	-1,500
Interest Paid	-3,080	-2,627	-3,160	-5,386	-6,551	-6,368	-6,105
Dividend Paid	-1,054	-1,240	-1,028	-771	-1,028	-1,870	-2,992
CF from Fin. Activity	-2,887	-4,716	6,315	-2,314	-598	-8,738	-10,597
Inc/Dec of Cash	-1,125	855	564	822	-709	2,637	-146
Opening Balance	2,762	1,637	2,492	2,619	3,442	2,733	5,370
Other Bank Balances			-436				
Closing Balance	1,636	2,492	2,619	3,442	2,733	5,370	5,224

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NOTES

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BUY	>=15%
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UNDER REVIEW	Rating may undergo a change
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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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