

November 2, 2023

RESULT REPORT Q2 FY24 | Sector: Capital Goods

KEC International Ltd

Interest Cost and Railways play spoil sport

Our view

KEC International (KECI) reported weak print with a higher than anticipated interest cost and weakness in Railways business spoiling the show even as the company could deliver margin in line with guidance. A supply chain led slowdown in execution in T&D business is expected to be transient while pain in Railways business is expected to continue given increased competition from Tier-2/3 players impacting bidding margin. Civil continues to be shining light with supernormal revenue growth and strong pipeline in residential, data centres and Metro segments.

Looking forward

Management maintained its guidance on FY24 revenue growth (~17%), order inflow (~Rs220-250bn) and margin (~7%) for FY24. T&D and Civil are expected to continue driving revenue performance with execution of a strong order book and also a pipeline visibility. Railways is expected to remain muted in the near-term as the company remains cautious in bidding. We are building in strong margin expansion in FY25 primarily driven by (1) exhaustion of legacy orders, (2) Strong demand in higher kV T&D projects, (3) stable commodity prices. We have cut our EPS estimates for FY24E/25E by 16%/10% respectively factoring in higher interest cost and lower railway revenue. We maintain BUY with a revised target price of Rs 740 based on 18x FY25E earnings.

Result Highlights

- Consol sales came in at ~Rs45bn (up 11% YoY) (vs YSLe Rs47.1bn). T&D business saw significant moderation in revenue growth on account of supply chain issues in the domestic business.
- EBITDA Margin came in line with estimates at 6.1% (up 170bps YoY) in line with management guidance.
- PAT growth at 1% YoY also reflects a one-time reversal of a tax provision in Q2FY23. PBT growth stood at 148% YoY.
- Order Inflow saw a substantial decline of 35.3% YoY coming in at Rs45bn as the Railways business saw practical no orders in the quarter (Rs21bn in Q2FY23).
- Orderbook improved 14% YoY to Rs313bn with T&D share increasing to 48% from 44% in Q2FY23.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	Ysec	Consensus	
Sales	44,990	47,120	46,795	-4.5	-3.9	High interest cost and lower revenue growth led to underperformance
EBITDA	2,743	2,930	3,144	-6.4	-12.7	
EBITDA margin %	6.1	5.7	6.7	40 bps	-62 bps	
Adj. Pat	558	967	1,074	-42.3	-48.0	

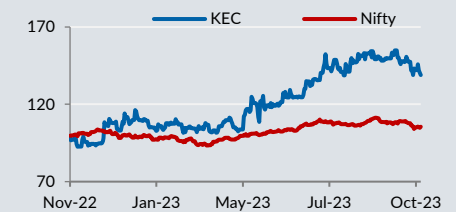
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 615
Target Price	: Rs 740
Potential Return	: +20%

Stock data (as on Nov 2, 2023)

Nifty	19,133
52 Week h/l (Rs)	748 / 405
Market cap (Rs/USD mn)	159768 / 1921
Outstanding Shares (mn)	257
6m Avg t/o (Rs mn):	349
Div yield (%)	0.5
Bloomberg code:	KECI IN
NSE code:	KEC

Stock performance



	1M	3M	1Y
Absolute return	-7.2%	-3.0%	41.6%

Shareholding pattern (As of Sep'23 end)

Promoter	51.9%
FII+DII	38.4%
Others	9.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	740	816

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	18.4	41.0
EPS (Old)	219	45.3
% change	-16	-10

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	172,817	199,824	226,672
YoY growth (%)	25.8	15.6	13.4
OPM (%)	4.8	7.1	9.5
EPS (Rs)	6.8	18.4	41.0
EPS growth (%)	-53.1	168.4	123.1
P/E (x)	89.8	33.5	15.0
EV/EBITDA (x)	22.7	14.4	9.6
Debt/Equity (x)	0.9	1.2	1.0
RoE (%)	4.7	11.8	22.4
RoCE (%)	11.4	12.3	16.3

ABHIJEET SINGH

Lead Analyst

abhijeet.singh@ysil.in



Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ (%)	FY23	FY22	YoY gr. (%)
Revenue	40,640	43,746	55,250	42,436	44,990	10.7	6.0	172,817	137,423	25.8
Total Revenues	40,640	43,746	55,250	42,436	44,990	10.7	6.0	172,817	137,423	25.8
Expenditure	38,861	41,747	52,415	39,992	42,247	8.7	5.6	164,520	128,388	28.1
as % of sales	95.6	95.4	94.9	94.2	93.9			95.2	93.4	
Consumption of RM	16,611	17,289	23,647	14,783	18,145	9.2	22.7	70,686	59,490	18.8
as % of sales	40.9	39.5	42.8	34.8	40.3			40.9	43.3	
Employee Cost	3,545	3,204	3,408	3,539	3,800	7.2	7.4	13,562	12,587	7.8
as % of sales	8.7	7.3	6.2	8.3	8.4			7.8	9.2	
Other expenditure	18,705	21,254	25,361	21,671	20,303	8.5	(6.3)	80,271	56,311	42.6
as % of sales	46.0	48.6	45.9	51.1	45.1			46.4	41.0	
EBITDA	1,780	1,999	2,835	2,444	2,743	54.2	12.3	8,297	9,035	(8.2)
Depreciation	399	408	415	418	465	16.7	11.3	1,615	1,579	2.3
EBIT	1,381	1,591	2,420	2,026	2,278	65.0	12.5	6,683	7,456	(10.4)
Other Income	161	17	55	28	158	(2.0)	459.0	313	134	133.3
Interest	1,277	1,493	1,616	1,587	1,778	39.3	12.1	5,386	3,160	70.4
PBT	266	114	859	467	658	147.6	40.9	1,610	4,431	(63.7)
Total Tax	(287)	(62)	137	44	100	NA	127.7	(151)	674	(122.4)
Adjusted PAT	552	176	722	423	558	1.1	31.9	1,761	3,757	(53.1)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	552	176	722	423	558	1.1	31.9	1,761	3,757	(53.1)
Extra ordinary items	-	-	-	-	-	-	-	-	(436)	-
Reported PAT	552	176	722	423	558	1.1	31.9	1,761	3,321	(47.0)
Adjusted EPS	2.1	0.7	2.8	1.6	2.2	1.1	31.9	6.8	12.9	(47.0)
Margins (%)										
EBIDTA	4.4	4.6	5.1	5.8	6.1	172	34	4.8	6.6	(177)
EBIT	3.4	3.6	4.4	4.8	5.1	167	29	3.9	5.4	(156)
EBT	0.7	0.3	1.6	1.1	1.5	81	36	0.9	3.2	(229)
PAT	1.4	0.4	1.3	1.0	1.2	(12)	24	1.0	2.4	(140)
Effective Tax rate	-107.9	-54.0	15.9	9.4	15.1	12,303	577	-9.4	15.2	(2,456)

Source: Company, YES Sec

Exhibit 3: Segmental Revenue

Revenue	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ (%)	FY23	FY22	YoY gr. (%)
T&D total	20,600	22,720	27,720	21,880	22,090	7.2	1.0	87,540	69,110	26.7
Cables	3,900	3,680	4,390	3,890	4,130	5.9	6.2	16,160	15,240	6.0
Railways	8,830	8,970	12,420	7,640	7,760	(12.1)	1.6	37,270	38,600	(3.4)
Civil/Water	7,400	8,450	11,350	9,550	10,540	42.4	10.4	33,180	18,970	74.9
Oil & gas pipelines	810	1,590	1,510	1,040	1,270	56.8	22.1	4,830	1,800	168.3
Less: Intersegmental	(1,200)	(1,660)	(2,140)	(1,560)	(1,550)	29.2	(0.6)	(6,450)	(6,740)	(4.3)
Total	40,590	43,750	55,250	42,440	44,240	9.0	4.2	172,830	137,540	25.7

Source: Company, YES Sec

CONCALL HIGHLIGHTS

- **FY24 Guidance maintained** - Revenue growth of ~17%, Order Inflow of ~Rs220-250bn, EBITDA margin of ~7%. Expect EBITDA margin to inch up in FY25 from FY24 levels.
- T&D revenue growth impacted by supply chain issues and RoW issues. In T&D, there is shortage of high-capacity conductors, not a supply constraint across the supplies. Strong ordering from Saudi Arabi pertaining to Neom. Tower supply order business from Australia. OB – 28bn for tower business.
- **SAE** – revenue growth of 51%, positive PBT for 2nd consecutive quarter, refinancing of local avg cost of borrowing from 20% to 12%. First hardware to US from Brazil.
- **Railways** – Revenue drop of 12% YoY, delays in availability of inputs and heavy rain in certain project areas. Clientele changing from PSUs to Zonal Railways. Cautious in bidding for orders.
- **Civil** – Residential, Data Centers (doing civil only right now, plan to get into MEP), Metro driving demand. Revenue growth target for FY25 is 30%. Commercial building inquiry activity going up. FY24 revenue target of Rs80bn. EBITDA Margin of ~8%. NWC is ~70 days. PBT Margin of ~5%.
- **Oil & Gas Pipeline:** Focus on building pre-qualifications, order book has seen weakness due to subdued tendering.
- **Cables:** Delivered highest ever profitability in H1FY24. Developed 5 new products slated for commercialization.
- **Order Pipeline of 1.25tn** (T&D - 700bn, Railways – 200bn, Civil – 200bn, GCC – Rs300bn, Overall International – Rs500bn), quoted many tenders in India and ME. Maintain guidance of Rs200-250bn. Expect FY24 order inflow of ~220-250bn.
- **Interest Cost** – Targeting 2.8-2.9% of revenue for H2FY24. Cash flow from Afghanistan and other sources would help cash flow. Also, driven by revenue growth. Average cost of borrowing is ~8%. The cost of borrowing is expected to remain at these levels for the next 3-4 quarters. Debt in Brazil is \$50mn. Domestic debt is ~70% of overall debt.
- NWC aspirational target is 100days. For FY24, target to bring it down to 110 days.
- **Jal Jeevan:** Large orders coming out. The supply side is not keeping pace.

FINANCIALS

Exhibit 4: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds						
Equity capital	514	514	514	514	514	514
Reserves	27,462	33,083	35,685	37,200	41,216	50,045
Non Minority Controlling Int.	0	0	0	0	0	0
Net worth	27,976	33,597	36,199	37,714	41,730	50,559
Debt	22,074	20,657	30,646	33,834	50,751	50,751
Deferred tax liab (net)	527	(68)	(1,703)	(3,201)	(3,201)	(3,201)
Total liabilities	50,577	54,186	65,142	68,347	89,280	98,109
Application of Funds						
Gross Block	15,485	18,954	21,594	23,046	25,046	26,546
Depreciation	6,543	7,796	9,161	10,228	11,981	13,840
Fixed Asset	13,518	13,975	15,377	15,828	16,075	15,717
CWIP	840	179	25	115	115	115
Investments	225	11	126	0	0	0
Net Working Capital	35,995	40,021	49,615	52,404	73,090	82,278
Inventories	7,758	8,422	10,665	11,372	13,687	15,525
Sundry debtors	54,448	55,668	55,738	72,554	73,908	83,838
Cash & equivalents	1,637	2,492	2,619	3,442	4,450	1,567
Loans & Advances	37,838	47,137	62,440	64,820	80,529	91,349
Other Current Asset	12,283	11,965	14,258	15,283	19,982	22,667
Sundry creditors	50,073	61,703	68,473	83,883	93,069	105,573
Provisions	761	825	1,015	1,186	1,399	1,587
Other current liabilities	27,135	23,135	26,617	29,997	24,998	25,508
Total Assets	50,577	54,186	65,142	68,347	89,280	98,109

Source: Company, YES Sec

Exhibit 5: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	119,654	131,142	137,423	172,817	199,824	226,672
% Change YoY	8.8	9.6	4.8	25.8	15.6	13.4
Operating profit	12,344	11,412	9,035	8,297	14,208	21,556
EBITDA margins	10.3	8.7	6.6	4.8	7.1	9.5
% Change YoY	7.3	(7.5)	(20.8)	(8.2)	71.2	51.7
Depreciation	1,472	1,525	1,579	1,615	1,753	1,858
EBIT	10,872	9,887	7,456	6,683	12,454	19,698
EBIT margins	9.1	7.5	5.4	3.9	6.2	8.7
Interest expense	3,080	2,627	3,160	5,386	6,598	6,598
Other income	111	299	134	313	360	567
Profit before tax	7,903	7,559	4,431	1,610	6,216	13,667
Taxes	2,248	2,032	674	(151)	1,492	3,280
Effective tax rate (%)	28.4	26.9	15.2	(9.3)	24.0	24.0
Net profit	5,655	5,527	3,757	1,760	4,724	10,387
Minorities and other						
Net profit after minorities	5,655	5,527	3,757	1,760	4,724	10,387
Exceptional items	0	0	(436)	0	0	0
Net profit	5,655	5,527	3,321	1,760	4,724	10,387
% Change YoY	16.3	(2.3)	(39.9)	(53.1)	168.4	119.9
EPS (Rs)	22.0	21.5	14.6	6.8	18.4	40.4

Source: Company, YES Sec

Exhibit 6: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	7,903	7,559	3,994	1,610	6,216	13,667
Interest	3,080	2,627	3,160	5,386	6,598	6,598
Depreciation	1,472	1,525	1,579	1,615	1,753	1,858
Other Items	583	1,071	546	(73)	-	-
(Inc)/Dec in WC	(8,670)	(2,298)	(9,253)	(255)	(19,677)	(12,071)
Direct Taxes Paid	3,493	2,088	2,863	2,215	1,492	3,280
CF from Oper. Activity	875	8,396	(2,837)	6,067	(6,602)	6,772
Inc/(Dec) in FA	2,065	1,801	1,431	1,783	2,000	1,500
Free Cash Flow	(1,190)	6,595	(4,269)	4,284	(8,602)	5,272
(Pur)/Sale of Invest.	(3,244)	(3,075)	(3,478)	(3,135)	(4,000)	(3,000)
CF from Inv. Activity	(1,179)	(1,274)	(2,047)	(1,352)	(2,000)	(1,500)
Change in Networth	-	-	-	-	-	-
Inc/(Dec) in Debt	4,273	(3,083)	8,709	2,365	16,917	-
Interest Paid	(2,689)	(3,501)	(2,725)	(5,344)	(6,598)	(6,598)
Dividends Paid	(1,558)	(5)	(1,025)	(1,029)	(709)	(1,558)
Others	-	-	-	-	(0)	0
CF from Fin. Activity	25	(6,589)	4,959	(4,008)	9,611	(8,156)
Inc/(Dec) in Cash	(280)	533	75	707	1,009	(2,883)
Opening cash Balance	1,752	1,527	1,998	2,076	2,812	3,820
Others	54	(62)	4	28	-	-
Closing cash Balance	1,527	1,998	2,076	2,812	3,820	937

Source: Company, YES Sec

Exhibit 7: Du-point analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	3.5	3.6	9.4	(48.6)	6.3	4.6
Interest burden (x)	0.2	0.2	0.1	(0.0)	0.1	0.2
EBIT margin (x)	0.1	0.1	0.1	0.0	0.1	0.1
Asset turnover (x)	2.4	2.4	2.1	2.5	2.2	2.3
Financial leverage (x)	1.8	1.6	1.8	1.8	2.1	1.9
RoE (%)	27.8%	21.5%	17.5%	19.4%	22.7%	29.6%

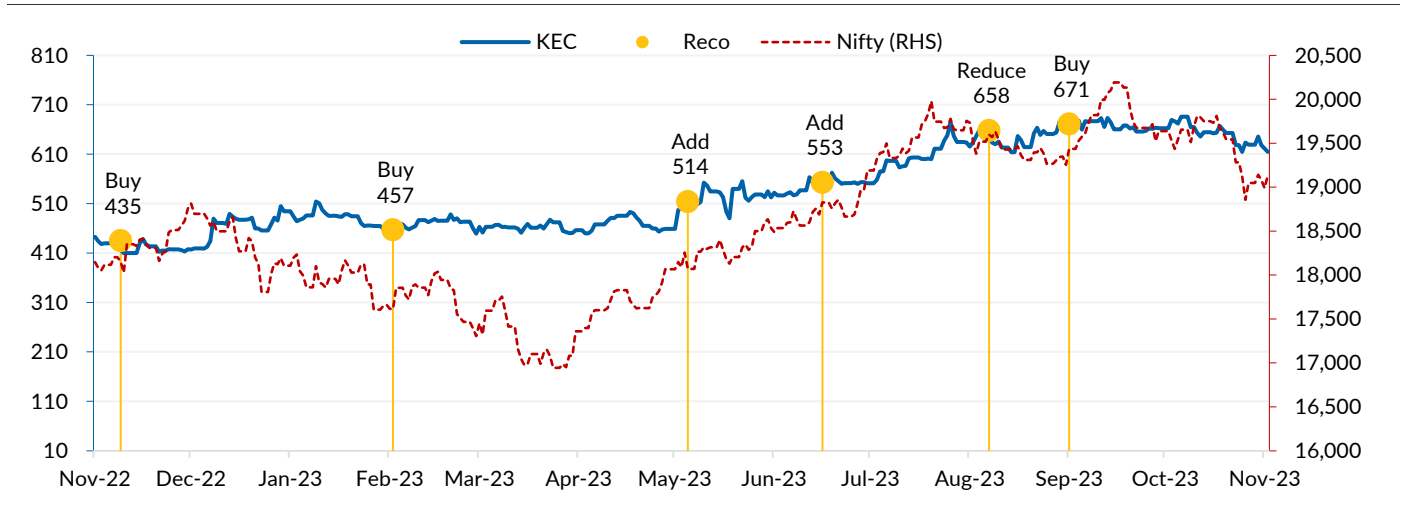
Source: Company, YES Sec

Exhibit 8: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (Rs)						
EPS	22.0	21.5	14.6	6.8	18.4	40.4
Dividend per share	4.0	4.0	4.0	3.0	2.8	6.1
Cash EPS	27.7	27.4	20.8	13.1	25.2	47.6
Book value per share	108.8	130.7	140.8	146.7	162.3	196.7
Div. payout (%)	15.0	18.6	31.0	43.8	15.0	15.0
Valuation ratios (x)						
P/E	28.0	28.6	42.1	89.8	33.5	15.2
P/CEPS	22.2	22.4	29.6	46.8	24.4	12.9
P/B	5.7	4.7	4.4	4.2	3.8	3.1
EV/EBIDTA	14.5	15.4	20.6	22.7	14.4	9.6
Dividend yield (%)	0.6	0.7	0.7	0.5	0.4	1.0
Profitability Ratios (%)						
RoIC	18.5	13.4	11.3	12.2	11.4	16.8
RoE	21.2	17.7	10.6	4.7	11.8	22.1
RoCE	16.7	14.1	10.6	11.4	12.3	16.3
Liquidity ratios						
Debtor (days)	166	155	148	153	135	135
Inventory (days)	24	23	28	24	25	25
Creditor (days)	153	172	182	177	170	170
Net working Capital (days)	105	104	125	103	125	130
Asset Turnover (x)	2.4	2.4	2.1	2.5	2.2	2.3

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Aditya Goenka, **Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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