

Retail Equity Research  
**KEC International Ltd.**  
Capital Goods

**Accumulate**

BSE CODE : 532714 NSE CODE: KEC  
BLOOMBERG CODE: KECI:IN SENSEX : 64,832

12 Months Investment Period Rating as per Small Cap  
**CMP Rs. 576 TARGET Rs.640 RETURN 11%** ↑  
(Closing: 09-11-2023)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↔

**EARNINGS** ↓

**Margin recovery on cards...**

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 Q2FY24, KEC reported a revenue growth of 11% YoY led by strong execution in civil business by 42% YoY and SAE tower segment by 51% YoY.
- EBITDA margin expanded by 172bps YoY to 6.1% in Q1FY24 owing to higher execution in non-T&D business and benign raw material prices.
- We expect margins to improve in H2FY24 on account of a healthy product mix and the management reiterated the expectation of ~7% margin in FY24.
- An increase in interest costs by 39% in Q1FY24 due to higher interest rates and an increase in working capital loans impacted earnings growth.
- The order book increased by 14% YoY in H1FY24; however, inflow declined by 14% YoY due to subdued growth in the railway, civil & SAE segments.
- The order book remains healthy; however, increasing debt levels remain a concern. We therefore reduce the P/E valuation to 18x (vs 20x earlier) on FY25 EPS and maintain Accumulate rating with a TP of Rs.640.

**Margins improved...**

KEC reported a revenue growth of 10.7% YoY to Rs4,499cr in Q2FY24, which is below our estimate. Subdued execution in T&D business and railway segment restricted the top-line growth. On the other hand, civil, SAE and solar business registered a decent revenue growth of 42%/51%/127% respectively. The management lower the revenue guidance to Rs20,000cr (vs Rs24,000cr earlier) for FY24 on account of a strong order book and a tender pipeline of Rs1,25,000cr in H2FY24. EBITDA margin improved by 172bps YoY to 6.1% during the quarter due to benign commodity prices and higher mix of non- T&D orders. The management stated that margin recovery is on the cards, expects margins to expand to 7% in FY24 as most of the legacy orders are completed and moderation in commodity prices. However, interest cost increased by 39% YoY in Q2FY24, while interest cost to revenue remained high at 4% compared to 3.1% during Q2FY23. The net debt is increased by Rs943cr in H1FY24 to Rs4,491cr and it remains a concern for earnings growth for FY24.

**Strong order book...**

In H1FY24, despite an increase in T&D orders by 22% YoY to Rs3,960cr, the company's order inflow de-grew by 14% YoY to Rs. 9,000cr, owing to drop in railway order intake by -46% YoY and water & civil business by -29% YoY. The order book during H2FY24 increased by 14% YoY to Rs. 31,320cr. 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 at Rs 1,25,000cr (include international T&D Rs50,000cr & domestic T&D 30,000cr) and expects Rs. 8,500cr of order inflows from the civil segment in FY24.

**Valuations**

Govt's thrust on capex spending and a revival in private capex provide ample impetus to the sector. The pick-up in T&D order book and improvement in margins are positive for KEC. However, rising debt level remains an overhang. We therefore reduce P/E valuation to 18x on FY25 EPS with a TP of Rs. 640.

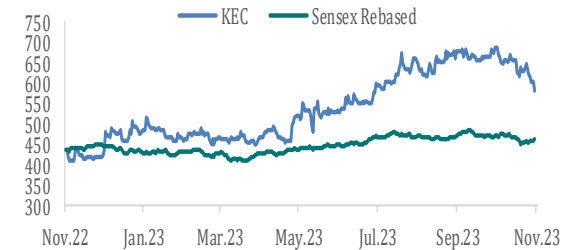
**Company Data**

Market Cap (cr)	₹ 14,809
Enterprise Value (cr)	₹ 16,718
Outstanding Shares (cr)	25.7
Free Float	48.18%
Dividend Yield	0.5%
52 week high	₹ 739
52 week low	₹ 405
6m average volume (cr)	0.05
Beta	0.7
Face value	₹ 2

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	51.9	51.9	51.9
FII's	12.6	11.6	11.3
MFs/Insti	25.8	26.7	27.2
Public	9.7	9.9	9.7
Total	100.0	100.0	100.0
Promoter Pledge (%)	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11%	2%	29%
Absolute Sensex	-2%	5%	6%
Relative Return*	-9%	-3%	22%

\*Over or underperformance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	17,282	20,199	22,430
Growth (%)	25.8	16.9	11.0
EBITDA	830	1,414	1,929
EBITDA Margin(%)	4.8	7.0	8.6
PAT Adj.	176	513	914
Growth (%)	-39.0	191.3	78.1
Adj.EPS	6.8	19.9	35.5
Growth (%)	-39.0	191.3	78.1
P/E	84.1	28.9	16.2
P/B	3.9	3.6	3.0
EV/EBITDA	21.4	13.0	9.4
ROE (%)	4.8	12.9	20.0
D/E	0.9	1.0	0.8

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**Research Analyst**



## Profit & Loss

Rs (cr)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23
<b>Sales</b>	<b>4,499</b>	<b>4,064</b>	10.7	<b>4,244</b>	6.0	<b>8,743</b>	<b>7,382</b>
<b>EBITDA</b>	<b>274</b>	<b>178</b>	54.2	<b>244</b>	12.3	<b>519</b>	<b>346</b>
EBITDA margins (%)	6.1	4.4	172bps	5.8	34bps	5.9	4.7
Depreciation	47	40	16.7	42	11.3	88	79
<b>EBIT</b>	<b>228</b>	<b>138</b>	65.0	<b>203</b>	12.5	<b>430</b>	<b>267</b>
Interest	178	128	39.3	159	12.1	337	228
Other Income	16	16	-2.0	3	459.0	19	24
Exceptional Items	-	-	0.0	-	0.0	-	-
<b>PBT</b>	<b>66</b>	<b>27</b>	147.6	<b>47</b>	40.9	<b>112</b>	<b>64</b>
Tax	10	-29	-134.7	4.4	128	14	-23
<b>Reported PAT</b>	<b>56</b>	<b>55</b>	1.1	<b>42</b>	31.9	<b>98</b>	<b>86</b>
Adjustments	-	-	0.0	-	0.0	-	-
<b>Adj PAT</b>	<b>56</b>	<b>55</b>	1.1	<b>42</b>	31.9	<b>98</b>	<b>86</b>
No. of Shares	26	26		26		26	26
<b>EPS (Rs)</b>	<b>2</b>	<b>2</b>	1.1	<b>2</b>	31.9	<b>4</b>	<b>3</b>

## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	20,634	23,348	20,199	22,430	-2.1	-3.9
EBITDA	1,465	1,915	1,414	1,929	-3.5	0.7
Margins (%)	7.10	8.20	7.00	8.60	-10bps	40bps
Adj. PAT	560	899	513	914	-8.4	1.6
EPS	21.8	35.0	19.9	35.5	-8.5	1.5

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>13,114</b>	<b>13,742</b>	<b>17,282</b>	<b>20,199</b>	<b>22,430</b>
% change	9.6	4.8	25.8	16.9	11.0
<b>EBITDA</b>	<b>1,141</b>	<b>904</b>	<b>830</b>	<b>1,414</b>	<b>1,929</b>
% change	-7.5	-20.8	-8.2	70.4	36.4
Depreciation	153	158	161	169	172
<b>EBIT</b>	<b>989</b>	<b>746</b>	<b>668</b>	<b>1,245</b>	<b>1,757</b>
Interest	263	316	539	655	691
Other Income	29.9	13.4	31.3	40.0	48.0
<b>PBT</b>	<b>756</b>	<b>399</b>	<b>161</b>	<b>629</b>	<b>1,114</b>
% change	-4.3	-47.2	-59.7	290.9	77.0
Tax	203	67	-15	116	201
Tax Rate (%)	27	17	-9	19	18
<b>Reported PAT</b>	<b>553</b>	<b>332</b>	<b>176</b>	<b>513</b>	<b>914</b>
Adj*	0	44	0	0	0
<b>Adj PAT</b>	<b>553</b>	<b>288</b>	<b>176</b>	<b>513</b>	<b>914</b>
% change	-2.3	-47.8	-39.0	191.3	78.1
No. of shares (cr)	26	26	26	26	26
<b>Adj EPS (Rs.)</b>	<b>21</b>	<b>11</b>	<b>7</b>	<b>20</b>	<b>36</b>
% change	-2.3	-47.8	-39.0	191.3	78.1
DPS (Rs.)	4.6	4.6	4.7	4.8	4.8

### CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net inc. + Depn.</b>	<b>908</b>	<b>557</b>	<b>322</b>	<b>799</b>	<b>1,286</b>
Non-cash adj.	84	99	435	523	486
Changes in W.C	-225	-1,464	-218	-960	-422
<b>C.F. Operation</b>	<b>845</b>	<b>-808</b>	<b>539</b>	<b>362</b>	<b>1,350</b>
Capital exp.	-180	-536	-186	-220	-198
Change in inv.	49	503	-13	0	0
Other invest.CF	3	-13	-31	-40	-48
<b>C.F - Investment</b>	<b>-127</b>	<b>-46</b>	<b>-230</b>	<b>-260</b>	<b>-246</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	470	1019	332	850	-550
Dividends paid	-1	-119	-121	-122	-124
Other finance.CF	-607	-39	-447	-651	-699
<b>C.F - Finance</b>	<b>-664</b>	<b>861</b>	<b>-236</b>	<b>77</b>	<b>-1373</b>
Chg. in cash	53	8	74	179	-269
Closing cash	200	208	281	460	191

### BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	200	208	281	460	191
Accounts Receivable	5,567	5,574	7,255	8,190	8,910
Inventories	842	1,066	1,137	1,249	1,322
Other Cur. Assets	5,469	7,727	8,073	8,467	9,033
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	1,321	1,350
CWIP	18	2	11	10	10
Intangible Assets	282	294	301	310	315
Def. Tax (Net)	7	170	320	376	428
Other Assets	492	-	-	-	-
<b>Total Assets</b>	<b>13,993</b>	<b>16,298</b>	<b>18,661</b>	<b>20,382</b>	<b>21,560</b>
Current Liabilities	8,711	9,714	11,577	12,065	12,991
Provisions	79	102	119	111	123
Debt Funds	1,843	2,863	3,194	4,044	3,494
Other Liabilities	-	-	-	-	-
Equity Capital	51	51	51	51	51
Reserves & Surplus	3,308	3,569	3,720	4,111	4,901
Shareholder's Fund	336	362	377	416	495
<b>Total Liabilities</b>	<b>13,993</b>	<b>16,298</b>	<b>18,661</b>	<b>20,382</b>	<b>21,560</b>
<b>BVPS (Rs.)</b>	<b>131</b>	<b>141</b>	<b>147</b>	<b>162</b>	<b>193</b>

### RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	8.7	6.6	4.8	7.0	8.6
EBIT margin (%)	7.5	5.4	3.9	6.2	7.8
Net profit mgn.(%)	4.2	2.1	1.0	2.5	4.1
ROE (%)	18.0	8.3	4.8	12.9	20.0
ROCE (%)	10.0	5.1	2.5	12.3	15.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	154.9	148.0	153.2	148.0	145.0
Inventory (days)	32.0	37.2	30.5	29.5	28.5
Payables (days)	234.9	233.6	220.2	213.4	210.0
Current ratio (x)	1.4	1.5	1.4	1.5	1.5
Quick ratio (x)	0.7	0.6	0.7	0.7	0.7
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	8.2	7.8	8.8	9.4	9.5
Total asset T.O (x)	1.0	0.9	1.0	1.0	1.1
Int. coverage ratio (x)	3.8	2.4	1.2	1.9	2.5
Adj. debt/equity (x)	0.6	0.8	0.9	1.0	0.8
<b>Valuation</b>					
EV/Sales (x)	1.3	1.3	1.0	0.9	0.8
EV/EBITDA (x)	14.4	19.3	21.4	13.0	9.4
P/E (x)	26.8	51.3	84.1	28.9	16.2
P/BV (x)	4.4	4.1	3.9	3.6	3.0

## 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
10-Nov-2023	Accumulate	640

## 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.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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