

Cables business value unlocking on the cards

Engineering & Capital Goods ▶ Company Update ▶ September 3, 2024

TARGET PRICE (Rs): 1,050

KEC's robust order inflows (FY25 YTD: +80%YoY at ~Rs100bn; +L1 position of Rs80bn) provide a strong base for attaining management's FY25 inflow guidance of Rs250bn (~40% target already accomplished). With an all-time high order backlog, coupled with a substantial tender pipeline of ~Rs1.5trn, KEC is well-positioned to log sustained growth in coming years. BoD-approved fundraise of ~Rs60bn (QIP/NCD: Rs45bn/Rs15bn) toward exploring organic/inorganic growth prospects within existing/new verticals remains the key monitorable. We roll forward to Sep-26E which raises our TP to Rs1,050/sh (upside: >13%). KEC's Cables business has witnessed a strong growth trajectory recently, with the outlook looking promising due to energy transition and urbanization. Management has decided to transfer this segment to a subsidiary, thus enabling optimal capital allocation and unlocking stockholder value. Potentially, on a bull case basis, with 27% revenue CAGR (FY24-27E) and 8-9% EBITDAM, the cables business is valued at Rs54bn (35x Sep-26E; 20% holdco discount); the indicative timeline for the Cables demerger is 3-6 months.

KEC International: Financial Snapshot (Consolidated)

| Y/E Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------|---------|---------|---------|---------|---------|
| Revenue | 172,817 | 199,142 | 230,746 | 258,319 | 290,974 |
| EBITDA | 8,297 | 12,203 | 18,809 | 22,955 | 27,055 |
| Adj. PAT | 1,760 | 3,525 | 8,384 | 11,388 | 15,238 |
| Adj. EPS (Rs) | 6.8 | 13.7 | 32.5 | 44.1 | 59.1 |
| EBITDA margin (%) | 4.8 | 6.1 | 8.2 | 8.9 | 9.3 |
| EBITDA growth (%) | (8.2) | 47.1 | 54.1 | 22.0 | 17.9 |
| Adj. EPS growth (%) | (47.0) | 100.2 | 137.8 | 35.8 | 33.8 |
| RoE (%) | 4.8 | 9.0 | 18.8 | 21.4 | 23.4 |
| RoIC (%) | 10.4 | 14.5 | 21.3 | 24.7 | 27.3 |
| P/E (x) | 135.7 | 67.8 | 28.5 | 21.0 | 15.7 |
| EV/EBITDA (x) | 32.2 | 22.5 | 14.5 | 11.7 | 9.7 |
| P/B (x) | 6.3 | 5.8 | 5.0 | 4.1 | 3.3 |
| FCFF yield (%) | 0.1 | (0.8) | 3.2 | 5.1 | 5.2 |

Source: Company, Emkay Research

Order inflow remains robust

Strong order inflow of ~Rs100bn (+80% YoY) till date provides assurance on KEC achieving its FY25 inflow target of Rs250bn during FY25 (~40% target already achieved). Order backlog+L1 at the end of Q1FY25 stood at Rs420bn (BB ratio: 1.6x), with T&D (including SAE)/Civil contributing the lion's share of ~51%/31% to the backlog. The company has secured significant orders, especially in the UAE and Africa. Its tendering pipeline remains strong, at ~Rs1.5trn (40-45% share of which pertains to T&D; balance comprises of renewable, civil, and railways tendering opportunities).

Cables – In transition mode for value unlocking

The Cables industry is on the cusp of an elongated growth story and is projected to clock 10% CAGR ahead, mainly led by government infrastructure investments, green-energy initiatives, and rising demand in the real estate and industrial sectors. KEC management believes that at current capacity, the cables segment can register 20-25% revenue CAGR for the next 2-3 years. Nevertheless, during FY25, KEC plans capex of ~Rs800-900mn in the cables segment, over & above the Rs600mn invested in the aluminum conductor unit (expected to be commissioned by Q3FY25); Management is confident of registering revenue in the Rs28-29bn range during FY26 (FY24-26: ~31% CAGR). Additionally, the management intends to demerge this business by transferring it to a subsidiary. Potentially, on a bull case basis, we build in cables business to grow at 27% revenue CAGR (FY24-27E) and 8-9% EBITDAM, arriving at a valuation of Rs54bn (35x Sep-26E; 20% holdco discount).

Fund-raise – The key monitorable

The favorable business landscape has enabled the management to explore organic and inorganic growth opportunities within KEC's current operations as well as in adjacent new verticals. To capitalize on such opportunities, the management intends to raise sufficient liquidity. Accordingly, the BoD has proposed to raise capital of ~Rs60bn (QIP/NCDs: Rs45bn/Rs15bn).

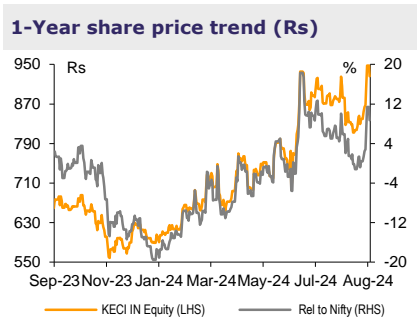
Valuation

Our revenue/EBITDA/PAT CAGRs for FY24-27E remain intact at 14%/31%/64%, resp. We roll forward valuations to Sep-26E at 20x PER, and arrive at TP of Rs1,050/sh (13% upside); we maintain our ADD rating on the stock. We believe bifurcating the cables business will lead to value unlocking and optimal capital allocation, potentially leading to a re-rating of the segment post-demerger within the next 3-6 months.

| | |
|-------------------------|-------------|
| Target Price – 12M | Sep-25 |
| Change in TP (%) | 10.5 |
| Current Reco. | ADD |
| Previous Reco. | ADD |
| Upside/(Downside) (%) | 13.4 |
| CMP (02-Sep-24) (Rs) | 926.0 |

| Stock Data | Ticker |
|-----------------------------|-----------|
| 52-week High (Rs) | 969 |
| 52-week Low (Rs) | 550 |
| Shares outstanding (mn) | 257.1 |
| Market-cap (Rs bn) | 238 |
| Market-cap (USD mn) | 2,837 |
| Net-debt, FY25E (Rs mn) | 34,563 |
| ADTV-3M (mn shares) | 1 |
| ADTV-3M (Rs mn) | 1,156.7 |
| ADTV-3M (USD mn) | 13.8 |
| Free float (%) | - |
| Nifty-50 | 25,279 |
| INR/USD | 83.9 |
| Shareholding, Jun-24 | |
| Promoters (%) | 51.9 |
| FPIs/MFs (%) | 12.7/25.3 |

| Price Performance (%) | 1M | 3M | 12M |
|-----------------------|-----|------|------|
| Absolute | 5.0 | 25.4 | 38.2 |
| Rel. to Nifty | 2.6 | 11.8 | 6.3 |

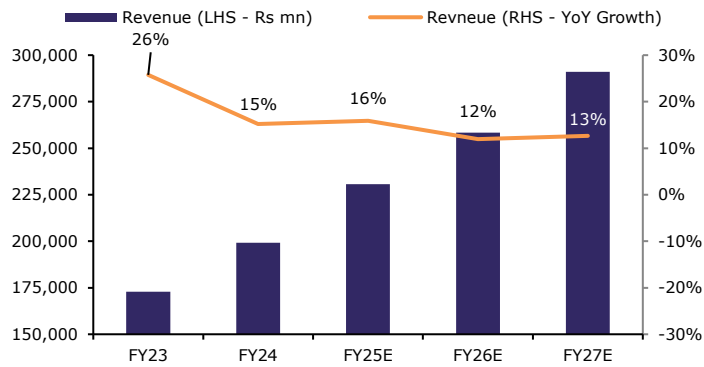


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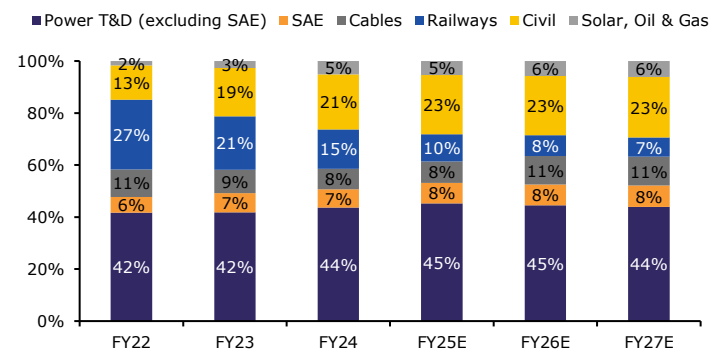
Story in Charts

Exhibit 1: Revenue CAGR expected at ~14% during FY24-27E



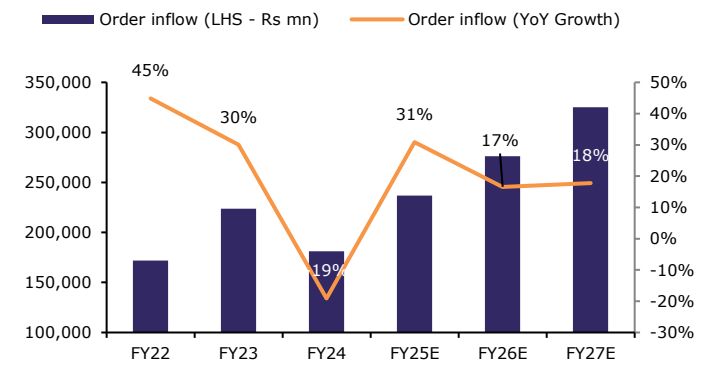
Source: Company, Emkay Research

Exhibit 2: Cables business revenue contribution growing to 11% by FY27E



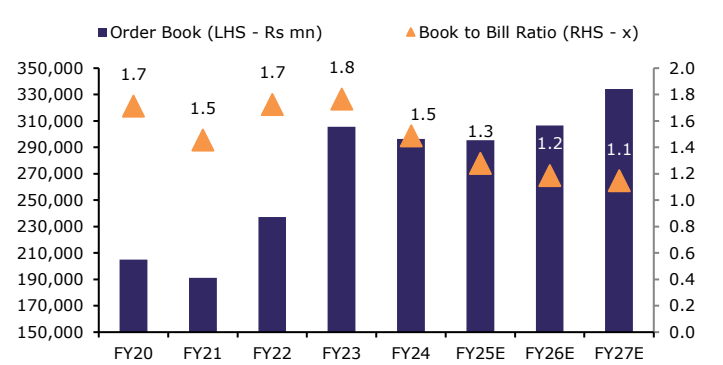
Source: Company, Emkay Research

Exhibit 3: Inflows till date at ~Rs100bn (+80% YoY)



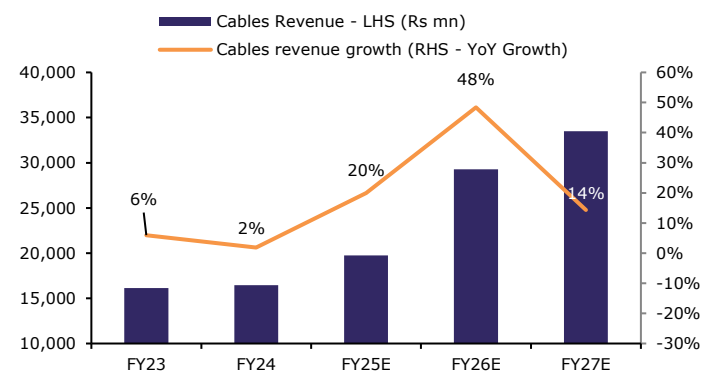
Source: Company, Emkay Research

Exhibit 4: Order book remains strong



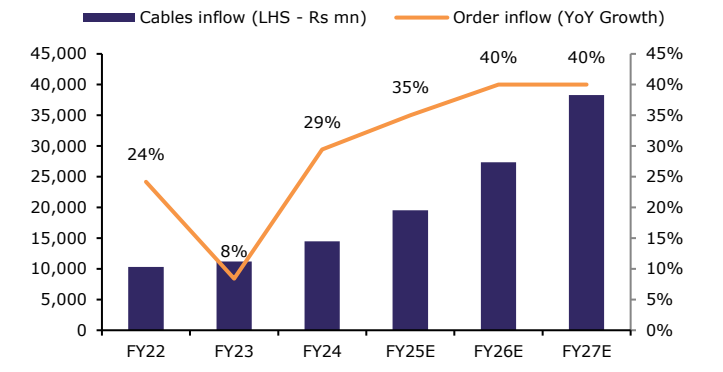
Source: Company, Emkay Research

Exhibit 5: Cables business to grow faster than consolidated KEC, on the back of strategic separation of the segment



Source: Company, Emkay Research

Exhibit 6: Upcoming cables industry growth opportunities will lead to strong order inflow growth



Source: Company, Emkay Research

Exhibit 7: We arrive at Cables and Conductors business valuation of ~Rs54bn (35x Sep-26E; 20% holdco discount)

| (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|---------------|---------------|---------------|---------------|---------------|
| Revenue | | | | | |
| Cables | 16,150 | 16,450 | 19,740 | 23,293 | 27,486 |
| <i>Growth (YoY)</i> | 6% | 2% | 20% | 18% | 18% |
| Conductors | - | - | - | 6,000 | 6,000 |
| Total | 16,150 | 16,450 | 19,740 | 29,293 | 33,486 |
| % of Sales | 9% | 8% | 9% | 11% | 12% |
| EBITDA | | | | | |
| EBITDA | | | 1,777 | 2,636 | 3,181 |
| EBITDAM | | | 9.0% | 9.0% | 9.5% |
| <i>Growth (YoY)</i> | | | | 48.4% | 20.7% |
| PAT | | | | | |
| PAT | | | 1,271 | 1,500 | 2,357 |
| PATM | | | 6.4% | 6.4% | 7.0% |
| <i>Growth (YoY)</i> | | | | 18.0% | 57.2% |
| Cables and conductors - Order Inflow | | | | | |
| | 11,189 | 14,482 | 19,550 | 27,370 | 38,318 |
| <i>Growth YoY</i> | | 29.4% | 35.0% | 40.0% | 40.0% |
| Cables and conductors - Order Backlog | | | | | |
| | 3,055 | 5,929 | 5,739 | 3,816 | 8,648 |
| <i>BB ratio (x)</i> | 0.2 | 0.4 | 0.3 | 0.1 | 0.3 |

Source: Company, Emkay Research

Exhibit 8: Cables business – Peer comparison

| Particulars | Revenue (Rs mn) | | | EDITDA (Rs mn) | | | EPS (Rs/share) | | | PER (x) | | | RoE (%) | | |
|-------------------------------------|-----------------|---------|---------|----------------|--------|--------|----------------|-------|-------|---------|-------|-------|---------|-------|-------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Polycab India | 214,867 | 251,004 | 290,979 | 29,012 | 34,520 | 40,826 | 136 | 162 | 190 | 50 | 42 | 36 | 22 | 22 | 22 |
| <i>YoY growth</i> | | 16.8% | 15.9% | | 19.0% | 18.3% | | 18.9% | 17.1% | | | | | | |
| Finolex Cables | 57,306 | 67,218 | 77,782 | 6,712 | 8,068 | 9,391 | 41 | 52 | 59 | 35 | 28 | 25 | 14 | 15 | 16 |
| <i>YoY growth</i> | | 17.3% | 15.7% | | 20.2% | 16.4% | | 27.3% | 13.3% | | | | | | |
| KEI Industries | 95,709 | 113,394 | 135,512 | 10,456 | 12,991 | 15,881 | 81 | 99 | 124 | 55 | 45 | 36 | 21 | 21 | 21 |
| <i>YoY growth</i> | | 18.5% | 19.5% | | 24.2% | 22.2% | | 22.2% | 25.1% | | | | | | |
| Apar Industries | 187,362 | 217,995 | 244,303 | 16,720 | 18,999 | 18,543 | 220 | 250 | 282 | 40 | 35 | 31 | 22 | 24 | 19 |
| <i>YoY growth</i> | | 16.3% | 12.1% | | 13.6% | -2.4% | | 13.8% | 12.6% | | | | | | |
| KEC (Cables & Conductors business)* | 19,740 | 29,293 | 33,486 | 1,777 | 2,636 | 3,181 | 4.9 | 5.8 | 9.1 | | | | | | |
| <i>YoY growth</i> | | 48.4% | 14.3% | | 48.4% | 20.7% | | 18.0% | 57.2% | | | | | | |

Source: Company, Emkay Research; Note: * Emkay estimate

KEC International: Consolidated Financials and Valuations

Profit & Loss

| Y/E Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 172,817 | 199,142 | 230,746 | 258,319 | 290,974 |
| Revenue growth (%) | 25.8 | 15.2 | 15.9 | 11.9 | 12.6 |
| EBITDA | 8,297 | 12,203 | 18,809 | 22,955 | 27,055 |
| EBITDA growth (%) | (8.2) | 47.1 | 54.1 | 22.0 | 17.9 |
| Depreciation & Amortization | 1,615 | 1,854 | 1,905 | 2,036 | 2,179 |
| EBIT | 6,683 | 10,349 | 16,904 | 20,920 | 24,876 |
| EBIT growth (%) | (10.4) | 54.9 | 63.3 | 23.8 | 18.9 |
| Other operating income | 0 | 0 | 0 | 0 | 0 |
| Other income | 313 | 524 | 607 | 680 | 766 |
| Financial expense | 5,386 | 6,551 | 7,201 | 7,593 | 6,901 |
| PBT | 1,610 | 4,322 | 10,311 | 14,006 | 18,741 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Taxes | (151) | 797 | 1,927 | 2,618 | 3,503 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 1,760 | 3,525 | 8,384 | 11,388 | 15,238 |
| PAT growth (%) | (47.0) | 100.2 | 137.8 | 35.8 | 33.8 |
| Adjusted PAT | 1,760 | 3,525 | 8,384 | 11,388 | 15,238 |
| Diluted EPS (Rs) | 6.8 | 13.7 | 32.5 | 44.1 | 59.1 |
| Diluted EPS growth (%) | (47.0) | 100.2 | 137.8 | 35.8 | 33.8 |
| DPS (Rs) | 4.0 | 3.0 | 5.0 | 5.0 | 5.0 |
| Dividend payout (%) | 58.4 | 21.9 | 15.4 | 11.3 | 8.5 |
| EBITDA margin (%) | 4.8 | 6.1 | 8.2 | 8.9 | 9.3 |
| EBIT margin (%) | 3.9 | 5.2 | 7.3 | 8.1 | 8.5 |
| Effective tax rate (%) | (9.3) | 18.4 | 18.7 | 18.7 | 18.7 |
| NOPLAT (pre-IndAS) | 7,307 | 8,440 | 13,745 | 17,010 | 20,227 |
| Shares outstanding (mn) | 258.0 | 258.0 | 258.0 | 258.0 | 258.0 |

Source: Company, Emkay Research

Cash flows

| Y/E Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 1,610 | 4,322 | 10,311 | 14,006 | 18,741 |
| Others (non-cash items) | 0 | 0 | 0 | 0 | 0 |
| Taxes paid | (2,215) | (2,521) | (1,927) | (2,618) | (3,503) |
| Change in NWC | (3,595) | (9,651) | (5,171) | (4,878) | (8,023) |
| Operating cash flow | 2,487 | 30 | 11,711 | 15,460 | 15,530 |
| Capital expenditure | (2,156) | (2,333) | (3,000) | (1,900) | (1,900) |
| Acquisition of business | 126 | 0 | 0 | 0 | 0 |
| Interest & dividend income | 234 | 157 | 607 | 680 | 766 |
| Investing cash flow | (1,717) | (1,809) | (2,393) | (1,220) | (1,134) |
| Equity raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Debt raised/(repaid) | 3,317 | 6,179 | (500) | (500) | (500) |
| Payment of lease liabilities | (301) | (266) | 0 | 0 | 0 |
| Interest paid | (5,386) | (6,551) | (7,201) | (7,593) | (6,901) |
| Dividend paid (incl tax) | (1,029) | (772) | (1,290) | (1,290) | (1,290) |
| Others | 3,019 | 2,052 | 0 | 0 | 0 |
| Financing cash flow | (78) | 908 | (8,991) | (9,383) | (8,691) |
| Net chg in Cash | 692 | (871) | 328 | 4,856 | 5,705 |
| OCF | 2,487 | 30 | 11,711 | 15,460 | 15,530 |
| Adj. OCF (w/o NWC chg.) | (1,108) | (9,621) | 6,540 | 10,582 | 7,506 |
| FCFF | 331 | (2,303) | 8,711 | 13,560 | 13,630 |
| FCFE | (4,821) | (8,697) | 2,118 | 6,646 | 7,495 |
| OCF/EBITDA (%) | 30.0 | 0.2 | 62.3 | 67.3 | 57.4 |
| FCFE/PAT (%) | (273.9) | (246.7) | 25.3 | 58.4 | 49.2 |
| FCFF/NOPLAT (%) | 4.5 | (27.3) | 63.4 | 79.7 | 67.4 |

Source: Company, Emkay Research

Balance Sheet

| Y/E Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Share capital | 514 | 514 | 514 | 514 | 514 |
| Reserves & Surplus | 37,200 | 40,443 | 47,537 | 57,635 | 71,583 |
| Net worth | 37,714 | 40,957 | 48,051 | 58,149 | 72,097 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Deferred tax liability (net) | 72 | 0 | 0 | 0 | 0 |
| Total debt | 31,945 | 38,123 | 37,623 | 37,123 | 36,623 |
| Total liabilities & equity | 69,731 | 79,080 | 85,674 | 95,272 | 108,721 |
| Net tangible fixed assets | 10,672 | 11,412 | 12,508 | 12,372 | 12,092 |
| Net intangible assets | 3,010 | 2,918 | 2,918 | 2,918 | 2,918 |
| Net ROU assets | 2,146 | 1,952 | 1,952 | 1,952 | 1,952 |
| Capital WIP | 115 | 139 | 139 | 139 | 139 |
| Goodwill | 2,685 | 2,721 | 2,721 | 2,721 | 2,721 |
| Investments [JV/Associates] | 0 | 0 | 0 | 0 | 0 |
| Cash & equivalents | 3,442 | 2,733 | 3,060 | 7,917 | 13,621 |
| Current assets (ex-cash) | 153,402 | 171,160 | 196,195 | 216,389 | 242,551 |
| Current Liab. & Prov. | 103,055 | 111,234 | 131,099 | 146,414 | 164,553 |
| NWC (ex-cash) | 50,347 | 59,926 | 65,096 | 69,974 | 77,997 |
| Total assets | 69,731 | 79,080 | 85,674 | 95,272 | 108,721 |
| Net debt | 28,503 | 35,390 | 34,563 | 29,207 | 23,002 |
| Capital employed | 69,731 | 79,080 | 85,674 | 95,272 | 108,721 |
| Invested capital | 66,175 | 76,208 | 82,474 | 87,216 | 94,960 |
| BVPS (Rs) | 146.2 | 158.7 | 186.2 | 225.4 | 279.4 |
| Net Debt/Equity (x) | 0.8 | 0.9 | 0.7 | 0.5 | 0.3 |
| Net Debt/EBITDA (x) | 3.4 | 2.9 | 1.8 | 1.3 | 0.9 |
| Interest coverage (x) | 0.8 | 0.6 | 0.4 | 0.4 | 0.3 |
| RoCE (%) | 10.4 | 14.6 | 21.3 | 23.9 | 25.1 |

Source: Company, Emkay Research

Valuations and key Ratios

| Y/E Mar | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|--------------|--------------|--------------|-------------|-------------|
| P/E (x) | 135.7 | 67.8 | 28.5 | 21.0 | 15.7 |
| P/CE(x) | 70.8 | 44.4 | 23.2 | 17.8 | 13.7 |
| P/B (x) | 6.3 | 5.8 | 5.0 | 4.1 | 3.3 |
| EV/Sales (x) | 1.5 | 1.4 | 1.2 | 1.0 | 0.9 |
| EV/EBITDA (x) | 32.2 | 22.5 | 14.5 | 11.7 | 9.7 |
| EV/EBIT(x) | 40.0 | 26.5 | 16.2 | 12.8 | 10.5 |
| EV/IC (x) | 4.0 | 3.6 | 3.3 | 3.1 | 2.8 |
| FCFF yield (%) | 0.1 | (0.8) | 3.2 | 5.1 | 5.2 |
| FCFE yield (%) | (2.0) | (3.6) | 0.9 | 2.8 | 3.1 |
| Dividend yield (%) | 0.4 | 0.3 | 0.5 | 0.5 | 0.5 |
| DuPont-RoE split | | | | | |
| Net profit margin (%) | 1.0 | 1.8 | 3.6 | 4.4 | 5.2 |
| Total asset turnover (x) | 2.6 | 2.7 | 2.8 | 2.9 | 2.9 |
| Assets/Equity (x) | 1.8 | 1.9 | 1.9 | 1.7 | 1.6 |
| RoE (%) | 4.8 | 9.0 | 18.8 | 21.4 | 23.4 |
| DuPont-RoIC | | | | | |
| NOPLAT margin (%) | 4.2 | 4.2 | 6.0 | 6.6 | 7.0 |
| IC turnover (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| RoIC (%) | 10.4 | 14.5 | 21.3 | 24.7 | 27.3 |
| Operating metrics | | | | | |
| Core NWC days | 106.3 | 109.8 | 103.0 | 98.9 | 97.8 |
| Total NWC days | 106.3 | 109.8 | 103.0 | 98.9 | 97.8 |
| Fixed asset turnover | 7.1 | 7.6 | 8.0 | 8.3 | 8.8 |
| Opex-to-revenue (%) | 54.3 | 51.7 | 50.1 | 49.6 | 49.3 |

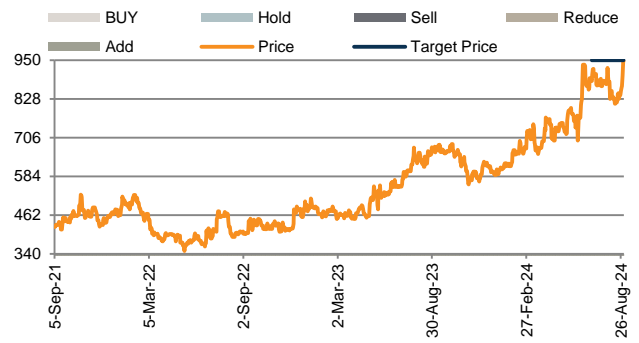
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|-----------|---------------------|----------|--------|----------------|
| 30-Jul-24 | 885 | 950 | Add | Ashwani Sharma |
| 01-Jul-24 | 884 | 950 | Add | Ashwani Sharma |

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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|---------------|---|
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| REDUCE | 5% upside to 15% downside |
| SELL | <15% downside |

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