

Robust Execution; Recovery in Margin Awaited
Est. Vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA Margin – **MISS**; PAT – **MISS**
Change in Estimates post Q4FY24 (Abs.)
FY25E/FY26E: Revenue: 0%/2%; EBITDA: 0%/2%; PAT: -1%/4%

Recommendation Rationale

- **Good revenue visibility:** As of 31st Mar'24, the company's order book stands at Rs 29,644 Cr. This, combined with an order inflow of Rs 18,102 Cr, provides robust revenue growth visibility for the next 18 months. Additionally, the company holds the L1 position in projects valued at Rs 7,000 Cr, primarily in the T&D (Transmission and Distribution) business. A substantial tender pipeline of Rs 130,000 Cr ensures a healthy order intake for the company in the foreseeable future. For FY25, the company has set a target of Rs 25,000 Cr order inflow. With its established track record of execution excellence and the government's increasing focus on infrastructure development, the company is positioned for steady revenue growth, projecting a 14% CAGR over the period from FY24 to FY26E.
- **Improvement in EBITDA margins:** EBITDA margins have shown sequential improvement and the management expects close to double-digit margins by the end of FY26. We look forward to seeing improvement in margins as guided by the management.
- **Reduction in finance cost to be gradual:** The company reduced its debt level in Q4FY24 and the total debt stood at Rs 5,090 Cr vs. Rs 6,045 Cr in Q3FY24. High debt levels are due to the high working capital required for business expansion. Going forward, management expects an increase in collection which will help reduce working capital days. This will lead to a reduction in finance costs moving forward.

Sector Outlook: Positive

Company Outlook & Guidance: The management has guided for 15% revenue growth in FY25. The company expects robust order intake as the bidding pipeline continues to be strong in most of the segments.

Current Valuation: 17x FY26 EPS (Earlier Valuation: 16x FY26 EPS)

Current TP: Rs 700/share (Earlier TP: Rs 635/share)

Recommendation: We maintain our **HOLD** rating on the stock and await meaningful recovery in the margin.

Financial Performance

KEC International (KEC) reported a mixed set of numbers in Q4FY24 with revenue at Rs 6,165 Cr (up 12% YoY), EBITDA of Rs 388 Cr (up 37% YoY), and PAT of Rs 152 Cr (up 110% YoY). While revenue was above our expectations, EBITDA and PAT were below our estimates. The company's EBITDA stood at 6.3% in Q4FY24 vs. 5.1% in Q4FY23. The challenges faced in the supply chain and execution of railway projects have indeed impacted both revenue and margins, preventing them from reaching their full potential.

The order book break-up is as follows: 49% T&D, 34% Civil, 11% Railways, 2% Solar, 2% Oil & Gas, and 2% Cables. The non-T&D and T&D share in the order intake currently stands at 39:61, indicating the company's increasing dependency on the T&D segment.

Outlook: The company has a well-diversified and robust order book plus an L1 position which gives healthy revenue visibility for the next 18 months. Moreover, favourable government thrust on building infrastructure and the revival of private Capex are boosting the overall sentiments, which will auger well for the company moving forward.

Valuation & Recommendation: The stock is currently trading at 16x FY26E EPS. We maintain our **HOLD** rating on the stock with a TP of Rs 700/share, implying a downside of 5% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	6165	23%	12%	5967	3%
EBITDA	388	26%	37%	418	-7%
EBITDA Margin	6.3%	20 bps	120 bps	7%	(70 bps)
Net Profit	152	57%	110%	166	-9%
EPS (Rs)	5.9	57%	110%	6.5	-9%

Source: Company, Axis Research

(CMP as of 8th May, 2024)

CMP (Rs)	737
Upside /Downside (%)	(5)
High/Low (Rs)	839/444
Market cap (Cr)	18,956
Avg. daily vol. (6m) Shrs.	7,05,000
No. of shares (Cr)	25.7

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	51.9	51.9	51.9
FII's	11.3	10.9	12.5
MFs / UTI	25.1	25.2	24.1
Banks / FI's	0.0	0.0	0.0
Others	11.8	12.0	11.5

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	19,914	22,678	25,821
EBITDA	1,215	1,701	2,143
Net Profit	347	720	1062
EPS (Rs)	13	28	41
PER (x)	49	24	16
P/BV (x)	4.1	3.6	3.0
EV/EBITDA (x)	14	10	8
ROE (%)	9	16	20

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0%	2%
EBITDA	0%	2%
PAT	-1%	4%

ESG disclosure Score**

Environmental Disclosure	25
Social Disclosure Score	27
Governance Disclosure Score	91
Total ESG Disclosure Score	48
Sector Average	47

Source: Bloomberg, Scale: 0,1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **Order Book:** As of 31st Mar'24, the company's order book stands at Rs 29,644 Cr. It received an order inflow of Rs 18,102 Cr in Q4FY24. The company has guided for an order inflow of Rs 25,000 Cr in FY25.
- **Revenue Guidance:** FY24 revenue is expected to grow by 15%. Going forward, the management expects EBITDA margins to improve to 7.5% in FY25 and it may exit FY25 at higher levels of 9%.
- **Bidding Pipeline:** The company's order book plus L1 position stands at Rs 37,000+ Cr (equally diversified in both segments). The current bidding pipeline is over Rs 1,30,000 Cr.
- **Capex:** The company has guided that its Capex would be in the range of Rs 300-350 Cr in FY25.
- **Borrowings and Net working capital:** In Q4FY24, the company's net debt, including Acceptances, stood at Rs 5,090 Cr, despite an increase in revenue of over Rs 2,500 Cr on a YoY basis. The NWC stood at 112 days in Q4FY24 and the management expects it to further improve and be at 110 days in FY24.
- **Dividend:** The board has recommended a Dividend of Rs 4/equity share, i.e. 200% of its face value of Rs 2/each for FY24.

Segmentwise Performance:

- **T&D-** The company reported revenues of Rs 10,456 Cr, reflecting a 21% YoY growth, within its Transmission and Distribution (T&D) segment. With an order book and L1 position exceeding Rs 21,000 Cr across both domestic and international operations, the business exhibits robust prospects. In the Indian T&D landscape, the company holds an L1 position in numerous transmission line and substation orders, capitalizing on significant opportunities within the power sector, particularly emanating from potential renewable energy zones. The company's SAE business demonstrated a remarkable turnaround, achieving positive Profit Before Tax (PBT) consistently throughout the fiscal year. Notably, the company received substantial collections totalling approximately Rs. 420 Cr from Afghanistan following the regime change, with an additional Rs 300 Cr pending.
- **Non-T&D-**
 - **Railways:** The company achieved a booked revenue of Rs 3,115 Cr for the fiscal year and initiated the execution phase for its inaugural international project in Bangladesh. Management's strategic approach involves selective bidding, taking into account market competition and low-margin profiles.
 - **Civil:** This segment generated revenues of Rs 4,370 Cr, marking a robust growth of 32% YoY. Securing orders exceeding Rs 4,200 Cr across diverse sectors including FMCG, Metals & Mining, Cement, Residential & Commercial buildings, and Datacenter segments underscores the business's positive outlook. Civil projects are anticipated to be a significant revenue driver across all segments.
 - **Others:** The Oil & Gas division reported revenues of Rs 626 Cr, demonstrating a commendable growth of 30% YoY. The Cables business achieved its highest-ever revenue, profitability, and order intake. Meanwhile, in the Solar segment, progress is underway for the execution of the company's largest solar project, a 600 MWp installation in Karnataka.

Key Risks to our Estimates and TP

- Lower order intake may impact revenue growth.
- A rise in commodity prices may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	22,678	25,821	22,704	22704	0%	2%
EBITDA	1,701	2,143	1,703	1703	0%	2%
PAT	720	1,062	726	726	-1%	4%

Source: Company, Axis Securities

Result Review Q4FY24

	Quarterly Performance				
	Q4FY24	Q3FY24	Q4FY23	% Change (QoQ)	% Change (YoY)
Sales	6,165	5,007	5,525	23	12
Other Op. Inc	0	0	0		
Total Revenue	6,165	5,007	5,525	23	12
Expenditure					
Cost of material consumed	2700	2253	2257	20	20
Change in Inventory	219	-56	219	(493)	0
Erection and subcontracting expenses	2046	1775	2097	15	(2)
Employee Cost	344	362	341	(5)	1
Other Expenses	468	364	439	29	7
Total Expenditure	5777	4699	5353	23	8
EBITDA	388	308	283	26	37
	6.3%	6.1%	5.1%		
Oth. Inc.	8	26	6	(70)	41
Interest	154	164	162	(6)	(5)
Depreciation	48	49	42	(1)	16
Exceptional Item	0	0	0		
PBT	193	121	86	60	125
Tax	42	24	14	74	203
PAT	152	97	72	57	110
EPS (Rs)	5.9	3.8	2.8	56	110

Source: Company, Axis Securities

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	17,282	19,914	22,678	25,821
Other operating income	0	0	0	0
Total income	17,282	19,914	22,678	25,821
Net Raw material	7,069	8,408	9,071	10,070
Contribution (%)	59.1%	57.8%	60.0%	61.0%
Other Expenses	9,383	10,292	11,906	13,608
Operating Profit	830	1,215	1,701	2,143
Other income	31	52	34	39
PBIDT	861	1,267	1,735	2,182
Depreciation	161	185	213	227
Interest & Fin Chg.	539	655	610	610
E/o income / (Expense)	0	0	0	0
Pre-tax profit	161	427	912	1,345
Tax provision	-15	80	191	282
PAT	176	347	720	1,062
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	0	0.0	0.0	0.0
Adjusted PAT	176	347	720	1,062
Reported PAT	176	347	720	1,062

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	6,743	8,106	8,723	9,683
Net Block	1,306	1,433	1,420	1,393
Right of use assets	231	195	195	195
CWIP	2	14	13	13
Investments	509	350	350	350
Wkg. cap. (excl cash)	4,486	5,908	6,311	6,838
Cash / Bank balance	208	205	434	894
Misc. Assets	0	0	0	0
Capital employed	6,743	8,105	8,723	9,683
Equity capital	51	51	51	51
Reserves	3,569	4,044	4,662	5,622
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	3,079	4,010	4,010	4,010
Def Tax Liabilities	44	0	0	0

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PAT	176	347	720	1063
Depreciation	161	185	213	227
Interest Expense	539	655	610	610
Changes in Working Capital	(25)	(790)	(403)	(527)
Others	(22)	166	158	244
Tax Paid	(222)	(252)	(192)	(282)
Net Cash from Operations	607	311	1107	1334
Capex	(178)	(237)	(199)	(200)
Investment	13	0	0	0
Others	30	14	34	39
Net Cash from Investing	(135)	(223)	(165)	(161)
Borrowings	381	170	0	0
Interest Expense	(534)	(649)	(610)	(610)
Dividend paid	(103)	(77)	(103)	(103)
Others	(145)	411	0	0
Net Cash from Financing	(401)	(145)	(713)	(713)
Net Change in Cash	70	(56)	229	460
Opening cash	208	281	205	434
Closing cash	281	205	434	894

Source: Company, Axis Securities

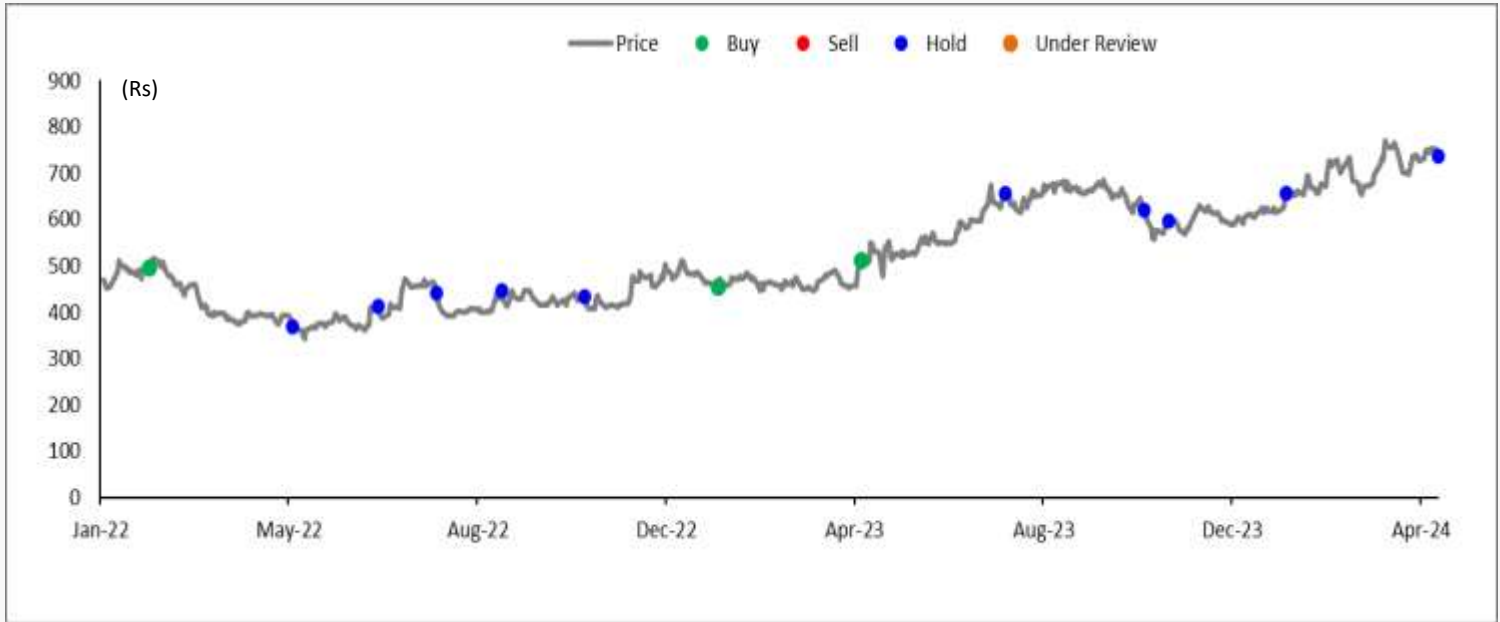
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Sales growth	25.8	15.2	13.9	13.9
OPM	4.8	6.1	7.5	8.3
Oper. profit growth	(8.2)	46.4	40.0	26.0
COGS / Net sales	40.9	42.2	40.0	39.0
Overheads/Net sales	54.3	51.7	52.5	52.7
Depreciation / G. block	7.6	6.5	7.0	7.0
Effective interest rate	16.7	17.8	15.3	15.3
Net wkg.cap / Net sales	0.23	0.23	0.23	0.22
Net sales / Gr block (x)	8.2	7.0	7.4	8.0
RoCE	16	24	32	35
Debt / equity (x)	0.90	0.97	0.85	0.70
Effective tax rate	(9)	19	21	21
RoE	5	9	16	20
Payout ratio (Div/NP)	58.4	29.6	14.3	9.7
EPS (Rs)	6.8	13.5	28.0	41.3
EPS Growth	(47.0)	97.1	107.7	47.5
CEPS (Rs)	13.1	20.7	36.3	50.2
DPS (Rs)	4.0	4.0	4.0	4.0

Source: Company, Axis Securities

KEC International Price Chart and Recommendation History



Date	Reco	TP	Research
02-Feb-22	BUY	555	Result Update
04-May-22	HOLD	400	Result Update
29-Jun-22	HOLD	400	AAA
05-Aug-22	HOLD	420	Result Update
16-Sep-22	HOLD	440	Company Update
09-Nov-22	HOLD	405	Result Update
02-Feb-23	BUY	515	Result Update
05-May-23	BUY	570	Result Update
07-Aug-23	HOLD	645	Result Update
02-Nov-23	HOLD	600	Result Update
20-Nov-23	HOLD	600	AAA
01-Feb-24	HOLD	635	Result Update
09-May-24	HOLD	700	Result Update

Source: Axis Securities

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