

Retail Equity Research
KEC International Ltd.
Capital Goods

Accumulate

BSE CODE : 532714 NSE CODE: KEC
BLOOMBERG CODE: KECI:IN SENSEX : 73,105

12 Months Investment Period Rating as per Small Cap
CMP Rs. 720 TARGET Rs.833 RETURN 16% ↑
(Closing: 14-05-2024)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

T&D segment aided top-line and margins...

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.

- KEC reported the highest ever revenue in Q4FY24 with a growth of 11.6% YoY, led by strong execution in the T&D business by 25% YoY and SAE segment by 19% YoY.
- EBITDA margin expanded by 116bps YoY to 6.3% in Q4FY24 owing to reduction in sub-contracting expenses and higher execution in T&D business.
- The order book + L1 remains healthy at Rs.37,000cr, and KEC expects Rs.25,000cr of new orders in FY25, provide revenue visibility for coming quarters.
- The company achieved 15% revenue growth in FY24 and guided for 15% YoY growth in FY25 with 7.5-8% margin.
- We expect traction in T&D orders and civil business will be the growth drivers for the company.
- We maintain our Accumulate rating and value KEC at a P/E of 18x on FY26 EPS with a TP of Rs.833.

Healthy execution in T&D segment...

KEC reported a revenue growth of 11.6% YoY to Rs6,165cr in Q4FY24, led by healthy execution in T&D business by 25% YoY to Rs 2,918cr and SAE business by 19% YoY to Rs 466cr. In FY24, the top-line grew by 15.2% YoY to Rs22,682cr, supported by superior execution in Civil (32% YoY), T&D (27% YoY), SAE (21% YoY). The management expects revenue to grow by 15% in FY25, aided by civil, SAE tower, and T&D businesses. EBITDA margin improved by 116bps YoY to 6.3% during the quarter due to a better mix and a reduction in subcontracting expenses. The company expects the FY25 margin to improve to 7.5-8%. Given the pressure on margins due to higher competition and delays in non-T&D margins, it is slightly lower than T&D margins. On the other hand, logistics costs were emerging as a concern due to the ongoing issues on the Red Sea route.

Order book provides visibility...

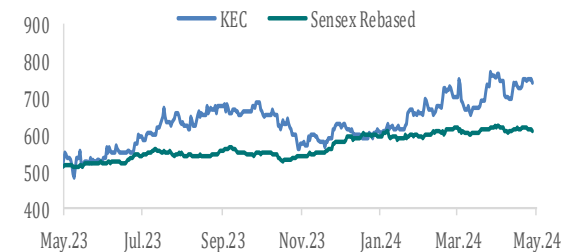
In FY24, the total order book + L1 orders stood robust at Rs 37,000cr, which is 2x TTM revenue. Despite an increase in T&D orders by 13% YoY to Rs6,116cr in FY24, the total order inflow declined by 19% YoY to Rs18,102cr, due to a decline in Railway orders by 63% YoY to Rs 1,086cr and water & civil business by -38% YoY to Rs4,163cr. The management is very selective on railway tenders due to margin pressure on account of higher competition. The company expects Rs 25,000cr of new orders in FY25, aided by robust opportunities in the domestic and international T&D order pipeline and civil business.

Valuations

A strong order pipeline and pickup in T&D and civil execution will drive the business going forward. We expect the company to benefit from the government's focus on thermal and renewable energy projects in FY25. The reduction in net debt by Rs 95cr to Rs509cr in Q4FY24 augurs well for earnings. We maintain our Accumulate rating and value the stock at a P/E of 18x on FY26 EPS with a TP of Rs. 833.

Company Data			
Market Cap (cr)	₹ 18,509		
Enterprise Value (cr)	₹ 20,418		
Outstanding Shares (cr)	25.7		
Free Float	48.18%		
Dividend Yield	0.4%		
52 week high	₹ 838		
52 week low	₹ 476		
6m average volume (cr)	0.05		
Beta	0.6		
Face value	₹ 2		
Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	51.9	51.9	51.9
FII's	11.3	10.9	12.5
MFs/Insti	27.2	27.0	25.8
Public	9.7	10.3	9.8
Total	100.0	100.0	100.0
Promoter Pledge (%)	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	12%	28%	44%
Absolute Sensex	3%	13%	19%
Relative Return*	9%	15%	25%

*Relative Return of KEC against Sensex Rebased



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	19,914	22,682	25,379
Growth (%)	15.2	13.9	11.9
EBITDA	1,215	1,769	2,284
EBITDA Margin(%)	6.1	7.8	9.0
PAT Adj.	347	780	1189
Growth (%)	97.0	125.0	52.4
Adj.EPS	13.5	30.4	46.3
Growth (%)	97.0	125.0	52.4
P/E	53.4	23.7	15.6
P/B	4.6	4.0	3.2
EV/EBITDA	18.0	12.2	9.2
ROE (%)	8.9	18.0	22.9
D/E	1.0	0.7	0.5

Antu Eapan Thomas

Research Analyst



Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Sales	6,165	5,525	11.6	5,007	23.1	19,914	17,282	15.2
EBITDA	388	283	36.9	308	26.0	1,215	830	46.4
EBITDA margins (%)	6.3	5.1	116bps	6.1	14bps	6.1	4.8	130bps
Depreciation	48	42	16.3	49	-1.1	185	161	14.8
EBIT	340	242	40.4	259	31.1	1,029	668	54.0
Interest	154	162	-4.6	164	-6.1	655	539	21.6
Other Income	8	6	41.1	26	-70.0	52	31	67.3
Exceptional Items	-	-	0.0	-	0.0	-	-	0.0
PBT	193	86	125.1	121	60.1	426	161	164.9
Tax	42	14	203.4	23.9	74	80	-15	-629.3
Reported PAT	152	72	110.2	97	56.7	347	176	97.0
Adjustments	-	-	0.0	-	0.0	-	-	0.0
Adj PAT	152	72	110.2	97	56.7	347	176	97.0
No. of Shares	26	26		26		26	26	
EPS (Rs)	6	3	110.2	4	56.7	13	7	97.0

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	22,322	25,181	22,682	25,379	1.6	0.8
EBITDA	1,808	2,266	1,769	2,284	-2.1	0.8
Margins (%)	8.10	9.00	7.80	9.00	-30bps	0bps
Adj. PAT	816	1,167	780	1,189	-4.4	1.9
EPS	31.8	45.4	30.4	46.3	-4.6	1.9

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	13,742	17,282	19,914	22,682	25,379
% change	4.8	25.8	15.2	13.9	11.9
EBITDA	904	830	1,215	1,769	2,284
% change	-20.8	-8.2	46.4	45.7	29.1
Depreciation	158	161	185	187	193
EBIT	746	668	1,029	1,582	2,091
Interest	316	539	655	685	701
Other Income	13.4	31.3	52.4	55.0	60.0
PBT	399	161	426	952	1,451
% change	-47.2	-59.7	164.9	123.1	52.4
Tax	67	-15	80	171	261
Tax Rate (%)	17	-9	19	18	18
Reported PAT	332	176	347	780	1,189
Adj*	44	0	0	0	0
Adj PAT	288	176	347	780	1,189
% change	-47.8	-39.0	97.0	125.0	52.4
No. of shares (cr)	26	26	26	26	26
Adj EPS (Rs.)	11	7	13	30	46
% change	-47.8	-39.0	97.0	125.0	52.4
DPS (Rs.)	4.6	4.7	4.8	4.8	4.9

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	557	322	612	1,139	1,643
Non-cash adj.	99	435	535	516	440
Changes in W.C	-1,464	-218	-470	-412	-623
C.F. Operation	-808	539	677	1,243	1,461
Capital exp.	-536	-186	-220	-98	-98
Change in inv.	503	-13	0	0	0
Other invest.CF	-13	-31	-52	-55	-60
C.F - Investment	-46	-230	-272	-153	-158
Issue of equity	0	0	0	0	0
Issue/repay debt	1019	332	470	-550	-550
Dividends paid	-119	-121	-122	-124	-125
Other finance.CF	-39	-447	-663	-694	-704
C.F - Finance	861	-236	-315	-1367	-1379
Chg. in cash	8	74	89	-278	-77
Closing cash	208	281	371	92	16

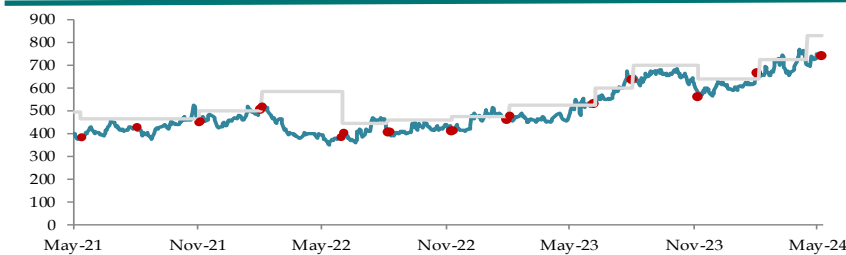
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	208	281	371	92	16
Accounts Receivable	5,574	7,255	7,911	8,389	9,039
Inventories	1,066	1,137	1,260	1,355	1,460
Other Cur. Assets	7,727	8,073	8,348	9,011	9,734
Investments	13	-	-	-	-
Gross Fixed Assets	1,866	2,048	2,268	2,368	2,468
Net Fixed Assets	1,243	1,282	1,316	1,231	1,140
CWIP	2	11	10	10	10
Intangible Assets	294	301	310	315	315
Def. Tax (Net)	170	320	413	467	526
Other Assets	-	-	-	-	-
Total Assets	16,298	18,661	19,939	20,870	22,240
Current Liabilities	9,714	11,577	12,169	12,978	13,819
Provisions	102	119	109	124	139
Debt Funds	2,863	3,194	3,664	3,114	2,564
Other Liabilities	-	-	-	-	-
Equity Capital	51	51	51	51	51
Reserves & Surplus	3,569	3,720	3,945	4,601	5,666
Shareholder's Fund	362	377	400	465	572
Total Liabilities	16,298	18,661	19,939	20,870	22,240
BVPS (Rs.)	141	147	155	181	222

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	6.6	4.8	6.1	7.8	9.0
EBIT margin (%)	5.4	3.9	5.2	7.0	8.2
Net profit mgn.(%)	2.1	1.0	1.7	3.4	4.7
ROE (%)	8.3	4.8	8.9	18.0	22.9
ROCE (%)	5.1	2.5	9.7	15.2	18.8
W.C & Liquidity					
Receivables (days)	148.0	153.2	145.0	135.0	130.0
Inventory (days)	37.2	30.5	29.5	28.5	28.0
Payables (days)	233.6	220.2	214.0	204.7	202.4
Current ratio (x)	1.5	1.4	1.5	1.4	1.5
Quick ratio (x)	0.6	0.7	0.7	0.6	0.7
Turnover & Leverage					
Gross asset T.O (x)	7.8	8.8	9.2	9.8	10.5
Total asset T.O (x)	0.9	1.0	1.0	1.1	1.2
Int. coverage ratio (x)	2.4	1.2	1.6	2.3	3.0
Adj. debt/equity (x)	0.8	0.9	1.0	0.7	0.5
Valuation					
EV/Sales (x)	1.5	1.2	1.1	0.9	0.8
EV/EBITDA (x)	23.4	25.8	18.0	12.2	9.2
P/E (x)	64.2	105.1	53.4	23.7	15.6
P/BV (x)	5.1	4.9	4.6	4.0	3.2

Recommendation summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
12-Jun-2023	Accumulate	603
16-Aug-2023	Accumulate	703
10-Nov-2023	Accumulate	640
06-Feb-2024	Accumulate	726
15-May-2024	Accumulate	833

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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