

KEC International

Mixed performance

KECI reported a mixed set of numbers in Q2FY25, with the highest-ever order inflow during the quarter and a relatively weak to muted EBITDA margin profile. Its revenue/EBITDA/APAT beat/(miss) stood at 1.5/-3.8/-17.2%. The standalone (~88% revenue) EBITDA margin also remained weak at 5.1%. KECI maintained reverting to 9-10% EBITDA margins by Q4FY25 on the back of legacy projects getting completed. KEC continues to surprise with the Order Inflow (OI) of INR 134.8bn, largely led by T&D, civil and railways segments at 69/9/10%, respectively. The order book (OB) as of Sep'24 stood at INR 341bn (~1.7x FY24 revenue), while L1 stood at INR 84.1bn. Further, KEC plans to transfer its cables business to a subsidiary (KEC Asian Cables Limited) by January 2025 as management remains optimistic about long-term growth (revenue of INR 28-29bn by FY27). KEC expects to realise INR 7-8bn of receivables in FY25, aiding its existing liquidity. KECI expects 15% FY25 revenue growth. Given the slip in the margin, we have tweaked our estimates lower. Given INR 8.7bn fundraising, robust inflows, expected margin expansion and likely higher valuation for the cable business, we increase our P/E valuation from 18x to 20x. Owing to the limited upside on our revised target price of INR 1,017/sh, we maintain an ADD rating on KECI.

- Q2FY25 financial snapshot:** Revenue: INR 51.1bn (+13.7/13.3%, YoY/QoQ, beat of 1.5%). The EBITDA came in at INR 3.2bn (+16.7/+13.9%, YoY/QoQ, a miss of 3.8%), while the EBITDA margin stood at 6.3% (+16.6/+20.3bps, YoY/QoQ, vs. our estimate of 6.6%). APAT came in at INR 854mn (+53/-2.5% YoY/QoQ, a miss of 17.2%). Management envisages challenges such as manpower shortages, adverse weather, and delayed collections in water projects affecting margins.
- Record high order book:** KECI's OI stood at INR 135bn in FYTD25, a surge of 50% on a YoY basis, led by T&D, civil and railways. The tender pipeline is currently at INR 1.5trn, with KEC targeting OI of INR 250bn for FY25. The OB as of Sep'24 stood at INR 341bn (~1.7x FY24 revenue), including L1 of INR 84.1bn the order book stood at INR 425bn.
- Effective debtor management crucial for achieving lower NWC targets:** The consolidated net debt, including interest-bearing acceptances, has reduced by INR 3.3bn to INR 52.7bn (from INR 55.97bn as of Jun 2024). The interest cost for Q2FY25 was at 3.3% (vs. 3.9%/3.4% YoY/QoQ) of revenue. The NWC days as of Sep 2024 stood at 130 (+8 days QoQ) and are expected to be <~100 by FY25-end.

Consolidated financial summary (INR mn)

Particulars	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Revenues	51,133	44,990	13.7	45,119	13.3	199,142	227,479	258,683	291,155
EBITDA	3,202	2,743	16.7	2,704	18.4	12,146	16,568	23,206	26,991
APAT	854	558	53.0	876	(2.5)	3,468	6,506	11,623	14,169
EPS (INR)	3.3	2.2	53.0	3.4	(2.5)	13.5	24.4	43.7	53.2
P/E (x)						61.5	39.2	22.0	18.0
EV/EBITDA (x)						21.9	18.7	13.2	11.3
RoE (%)						8.8	14.9	22.4	22.2

Source: Company, HSIE Research

Change in Estimates (INR mn)

Particulars	FY25E			FY26E			FY27E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	227,479	227,479	-	258,683	258,683	-	291,155	291,155	0.0
EBITDA	16,568	17,307	(4.3)	23,206	23,681	(2.0)	26,991	26,461	2.0
EBITDA (%)	7.3	7.6	(32.5)	9.0	9.2	(18.4)	9.3	9.1	18.2
APAT	6,506	7,406	(12.1)	11,623	12,047	(3.5)	14,169	13,827	2.5

Source: Company, HSIE Research

ADD

CMP (as on 5 Nov 2024) INR 949

Target Price INR 1,017

NIFTY 24,213

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 906	INR 1,017	
EPS Change %	FY25E (12.1)	FY26E (3.5)	FY27E 2.5

KEY STOCK DATA

Bloomberg code	KECI IN
No. of Shares (mn)	266
MCap (INR bn) / (\$ mn)	253/3,004
6m avg traded value (INR mn)	1,029
52 Week high / low	INR 1,068/550

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.7	26.2	57.9
Relative (%)	13.8	18.6	34.4

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	51.88	50.1
FIs & Local MFs	25.29	26.33
FPIs	12.66	13.60
Public & Others	10.16	9.97
Pledged Shares	-	-

Source: BSE

Pledge share as a % of total shares

Parikshit D Kandpal, CFA

parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Aditya Sahu

aditya.sahu@hdfcsec.com
+91-22-6171-7338

Jay Shah

jay.shah1@hdfcsec.com
+91-22-6171-7353