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India | Equity Research | Q2FY25 results review

KEC International

Capital Goods

Revenue growth back to double digit, margin expansion pace remains slow

KEC reported a healthy Q2 performance, revenue growth returned to double digits, margin improved 20bps YoY and PAT growth continued to be robust (53% YoY) driven by savings in interest cost. Order inflow (OI) has been a bright spot (albeit on a low base) with YTD FY25 OI of ~INR 135bn (+50% YoY). T&D continues to drive both execution and OI while Non-T&D faces headwinds in select pockets of Railways and Water. The company maintains its FY25 guidance of 15% revenue growth and 7.5% EBITDA margin, indicating a much stronger H2FY25. Orderbook of INR 420bn (including L1) provides comfort on revenue visibility. Margin improvement trajectory, however, has been slower than guided so far and remains a key monitorable. Maintain **HOLD**, TP revised to **INR 1,000** (20x avg. FY26/27E EPS).

Revenue growth returns to double digit

KEC reported revenue of INR 51.1bn (+14% YoY) driven by strong T&D orderbook (OB) and execution. T&D revenue grew 28% to INR 28.3bn while Non-T&D revenue continues to be weak (INR 23.7bn, -3% YoY). Railways business continues to decline (-35% YoY) while Civil revenue growth has also moderated on account of calibrated execution in certain water infrastructure related projects. The management has maintained its FY25 revenue growth guidance of 15%.

Margin yet to see a meaningful improvement

KEC reported EBITDA margin of 6.3% (+20bps YoY) during Q2 (H1 margin of 6.1% vs guidance of 7.5% for FY25). The company's EBITDA margin has been impacted largely by its legacy T&D orders, weak Railway margin and slower execution in water business. It has maintained its FY25 guidance of 7.5% implying a strong recovery in H2FY25 driven by higher execution of international T&D orders, expected claim recovery in Railways and improved collections in water business.

Order Inflow further swells a strong orderbook

KEC reported an order inflow of INR 135bn (+50% YoY) during H1FY25 driven largely by improved international T&D orders and continued traction in domestic T&D business. This has led to orderbook growth of 9% YoY 341bn (1.6x TTM revenue). The company has guided for an OI of INR 250bn for FY25.

Financial Summary

Y/E Mar-31 (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,99,142	2,30,461	2,64,397	3,07,096
EBITDA	12,146	17,772	23,166	28,416
EBITDA Margin (%)	6.1	7.7	8.8	9.3
Net Profit	3,468	7,943	11,243	14,297
EPS (INR)	13.5	29.8	42.2	53.7
EPS % Chg YoY	97.0	121.2	41.6	27.2
P/E (x)	72.4	32.7	23.1	18.2
EV/EBITDA (x)	23.6	16.3	12.5	10.2
RoCE (%)	11.8	15.3	18.9	20.6
RoE (%)	8.8	17.9	21.4	22.3

Abhijeet Singh

abhijeet.singh@icicisecurities.com
+91 22 6807 7340

Mohit Kumar

kumar.mohit@icicisecurities.com

Mahesh Patil

mahesh.patil@icicisecurities.com

Abhinav Nalawade

abhinav.nalawade@icicisecurities.com

Nidhi Shah

nidhi.shah@icicisecurities.com

Market Data

Market Cap (INR)	260bn
Market Cap (USD)	3,082mn
Bloomberg Code	KECI IN
Reuters Code	KECL.BO
52-week Range (INR)	1,068 /550
Free Float (%)	47.0
ADTV-3M (mn) (USD)	14.9

Price Performance (%)	3m	6m	12m
Absolute	17.6	29.8	67.8
Relative to Sensex	15.4	21.0	44.0

ESG Score	2022	2023	Change
ESG score	NA	68.6	NA
Environment	NA	50.8	NA
Social	NA	69.8	NA
Governance	NA	79.4	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

20-05-2024: [Q4FY24 results review](#)

QIP of INR 8.7bn to help reduce debt and interest cost

KEC raised INR8.7bn during Q2 (issuing ~9.1mn shares at INR955) largely to pare debt and expects its net debt (including acceptances) to be in the range of ~INR40-45bn at FY25 end. This could mean ~INR750-800mn annual savings in interest cost and has guided for FY25 interest cost at 2.5% of sales (vs 2.7% earlier). The company targets working capital days to remain ~100 at FY25 end driven by improved collections and better payment terms in some of its newer bids.

Maintain HOLD with revised TP of INR 1,000

KEC's INR420bn orderbook (including L1) and strong order inflow momentum provides revenue visibility comfort for the next 1.5 years. In addition, the pipeline of INR1.5trn also adds confidence for the medium-term future prospects. However, pace of margin improvement has been a sentiment dampener. The company's guidance for FY25 (of 7.5% EBITDA margin) implies an asking rate of 8.5% for H2FY25. We maintain **HOLD** with TP of **INR 1,000** based on 20x average of FY26/FY27 EPS (earlier 18x FY26E)

Key risks: 1) Increase in commodity prices and interest costs and 2) delays in project execution and delayed receivables, (3) increased provisioning related to cost overruns.

Exhibit 1: Maintain HOLD at a revised TP of INR 1,000

Valuation	FY26E	FY27E	Average
PAT (INR mn)	11,243	14,297	12,770
No. of Shares	257	257	257
EPS (INR)	44	56	50
Multiple			20
Target Price			1,000

Source: I-Sec research, Company data

Exhibit 2: Quarterly financial highlights

INR mn	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)
Net Sales	51,133	44,990	13.7	45,119	13.3
EBITDA	3,202	2,743	16.7	2,704	18.4
Margin	6.3	6.1	20bps	6.0	27bps
Depreciation	453	465	(2.6)	465	(2.6)
Finance Cost	1,681	1,778	(5.5)	1,550	8.5
Other Income	66	158	(58.1)	431	(84.6)
Extraordinary income	-	-		-	
PBT	1,135	658	72.5	1,120	1.3
Tax	281	100	182.0	245	14.7
Tax rate (%)	24.7	15.1	960bps	21.8	290bps
Reported PAT	854	558	53.0	876	(2.5)
Adjusted PAT	854	558	53.0	876	(2.5)
Margin (%)	1.7	1.2	40bps	1.9	-27bps
EPS	3.2	2.2	47.3	3.3	(2.5)
Order intake	58,180	45,000	29.3	76,640	(24.1)
Orderbook	3,40,880	3,13,200	8.8	3,27,150	4.2
Revenue Breakup	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)
T&D (excl SAE)	25,140	18,760	34.0	21,530	16.8
T&D - SAE	3,170	3,330	(4.8)	3,460	(8.4)
T&D	28,310	22,090	28.2	24,990	13.3
Cables	4,410	4,130	6.8	3,630	21.5
Railway	5,030	7,760	(35.2)	4,710	6.8
Civil	11,520	10,540	9.3	10,590	8.8
Solar	2,730	2,020	(26.0)	1,990	37.2
Total	52,000	46,540	(10.5)	45,910	13.3

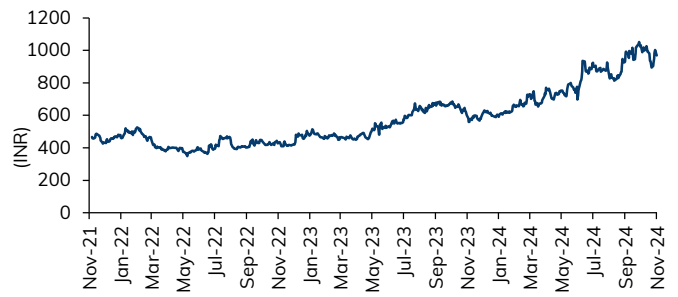
Source: I-Sec research, Company data

Exhibit 3: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	51.9	51.9	50.1
Institutional investors	38.2	38.0	39.9
MFs and others	24.1	23.7	24.3
FIs/Banks	0	0.6	0.6
Insurance	1.1	1.0	1.5
FIIIs	13	12.7	13.6
Others	9.9	10.2	10.0

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,99,142	2,30,461	2,64,397	3,07,096
Operating Expenses	31,148	35,465	39,232	44,059
EBITDA	12,146	17,772	23,166	28,416
EBITDA Margin (%)	6.1	7.7	8.8	9.3
Depreciation & Amortization	1,854	1,774	2,000	2,164
EBIT	10,292	15,998	21,166	26,252
Interest expenditure	6,551	5,762	6,610	7,677
Other Non-operating Income	524	383	474	538
Recurring PBT	4,265	10,619	15,031	19,114
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	797	2,676	3,788	4,817
PAT	3,468	7,943	11,243	14,297
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	3,468	7,943	11,243	14,297
Net Income (Adjusted)	3,468	7,943	11,243	14,297

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,64,462	1,65,809	1,93,805	2,27,791
of which cash & cash eqv.	2,733	3,389	3,846	2,948
Total Current Liabilities & Provisions	1,10,989	1,13,298	1,29,841	1,50,656
Net Current Assets	53,473	52,511	63,964	77,134
Investments	-	-	-	-
Net Fixed Assets	10,819	14,045	12,545	12,382
ROU Assets	1,952	1,952	1,952	1,952
Capital Work-in-Progress	139	139	139	139
Total Intangible Assets	2,918	2,918	2,918	2,918
Other assets	9,431	9,431	9,431	9,431
Deferred Tax Assets	-	-	-	-
Total Assets	79,326	80,997	90,950	1,03,957
Liabilities				
Borrowings	38,123	33,123	33,123	33,123
Deferred Tax Liability	-	-	-	-
provisions	246	246	246	246
other Liabilities	-	-	-	-
Equity Share Capital	514	532	532	532
Reserves & Surplus	40,443	47,096	57,049	70,055
Total Net Worth	40,957	47,628	57,581	70,588
Minority Interest	-	-	-	-
Total Liabilities	79,326	80,997	90,950	1,03,957

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	3,111	16,714	8,383	9,530
Working Capital Changes	(7,902)	1,618	(10,995)	(14,069)
Capital Commitments	(2,336)	(4,407)	(500)	(2,000)
Free Cashflow	5,447	21,120	8,883	11,530
Other investing cashflow	105	383	474	538
Cashflow from Investing Activities	(2,231)	(4,024)	(26)	(1,462)
Issue of Share Capital	-	-	-	-
Interest Cost	(6,489)	(5,762)	(6,610)	(7,677)
Inc (Dec) in Borrowings	8,522	-	-	-
Dividend paid	(772)	(1,290)	(1,290)	(1,290)
Others	(2,442)	(5,000)	-	-
Cash flow from Financing Activities	(1,447)	(12,052)	(7,900)	(8,967)
Chg. in Cash & Bank balance	(709)	656	457	(899)
Closing cash & balance	2,733	3,389	3,846	2,948

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	13.5	29.8	42.2	53.7
Adjusted EPS (Diluted)	13.5	29.8	42.2	53.7
Cash EPS	20.7	36.5	49.7	61.8
Dividend per share (DPS)	(3.0)	(4.8)	(4.8)	(4.8)
Book Value per share (BV)	159.3	178.9	216.3	265.2
Dividend Payout (%)	(22.3)	(16.2)	(11.5)	(9.0)
Growth (%)				
Net Sales	15.2	15.7	14.7	16.1
EBITDA	46.4	46.3	30.4	22.7
EPS (INR)	97.0	121.2	41.6	27.2
Valuation Ratios (x)				
P/E	72.4	32.7	23.1	18.2
P/CEPS	47.2	26.7	19.6	15.8
P/BV	6.1	5.5	4.5	3.7
EV / EBITDA	23.6	16.3	12.5	10.2
P / Sales	1.3	1.1	1.0	0.8
Dividend Yield (%)	(0.3)	(0.5)	(0.5)	(0.5)
Operating Ratios				
Gross Profit Margins (%)	21.7	23.1	23.6	23.6
EBITDA Margins (%)	6.1	7.7	8.8	9.3
Effective Tax Rate (%)	18.7	25.2	25.2	25.2
Net Profit Margins (%)	1.7	3.4	4.3	4.7
NWC / Total Assets (%)	64.0	60.6	66.1	71.4
Net Debt / Equity (x)	0.9	0.6	0.5	0.4
Net Debt / EBITDA (x)	2.9	1.7	1.3	1.1
Profitability Ratios				
RoCE (%)	11.8	15.3	18.9	20.6
RoE (%)	8.8	17.9	21.4	22.3
RoC (%)	11.8	15.3	18.9	20.6
Fixed Asset Turnover (x)	18.5	18.5	19.9	24.6
Inventory Turnover Days	24	24	24	24
Receivables Days	87	75	75	75
Payables Days	181	156	155	156

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
