

CMP: ₹ 740

Target: ₹ 895(21%)

Target Period: 12 months

BUY

May 9, 2024

## Outlook robust ; Margin recovery in the works...

About the stock: KEC International (KEC) is one of the EPC majors in key infrastructure sectors such as power T&D, railways, civil, urban infrastructure, solar, smart infrastructure, oil & gas pipelines and cables.

- A strategic shift in portfolio from T&D to non-T&D (13% contribution in FY16 increased to 50% in FY24)
- Strong T&D prospects in domestic and international markets (25% of backlog from international markets)

Q4FY24 performance: Consolidated revenues grew 12% YoY at ₹ 6165 crore. From a segmental perspective, T&D revenues grew by 24% YoY at ₹ 3384 crore. On the other hand, oil & gas pipeline and civil segment revenues grew by 41% and 11% respectively. On the flip side railways declined by 27%. Order inflows for FY24 stood at Rs 18102 crore while order backlog stood at ₹ 29644 crore. EBITDA margins came in at 6.3% in Q4FY24 which expanded 120 bps YoY and 10 bps QoQ. Consequently, PAT grew by 110% led by better operational performance and lower finance costs.

### Investment Rationale

- Domestic T&D to drive revenue growth: The company believes the domestic T&D to grow in the range of 30-40% in FY25E on back of robust order book, bidding pipeline and sectoral tailwind. Overall T&D business is expected to grow by 20% whereas railways business will decline 15-20% (this is a deliberate attempt given strong competitive intensity and higher working capital requirement). In our view other segments like civil will grow in double digits. Hence, we expect revenues to grow by 12.3% CAGR over FY24-FY26E. The company currently has ₹130000 crore of bidding pipeline and the management expects order inflows of ₹ 25000 crore in FY25E .
- Margins to inch up to 9% by FY26E: We build in a margin of 7.4% and 9% for FY25E and FY26E. The recovery in margins will emanate from factors like a) strong growth in T&D business which earns double digit margins, b) positive contribution from SAE business, c) run down of low margin railway order and other legacy orders. The management expects exit run rate of margins to be at 9-10% in Q4FY25E thereby FY25E average margins at 7.5%.

### Rating and Target Price

- With strong backlog and bid pipeline of Rs 130000 crore, we believe KEC possess strong revenue growth visibility over the next couple of years. The company is expected to deliver revenue CAGR of 12.3% coupled strong recovery in margins which will drive PAT CAGR at 86% over FY24-FY26E We ascribe Buy rating with a revised target of ₹ 895 (22x FY26E EPS).



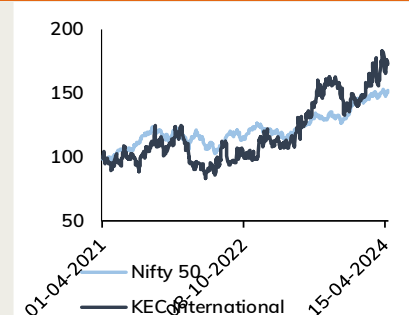
### Particulars

Particular	Amount
Market Cap	18,973.1
Total Debt (FY24)	5,050.0
Cash and Inv	312.4
EV	23,711.0
52 week H/L	₹839/444
Equity capital	₹ 51.4
Face value	₹ 2

### Shareholding pattern

%	Jun-23	Sep-23	Dec-23	Mar-24
Promotei	51.9	51.9	51.9	51.9
FII	11.6	11.3	10.9	12.5
DII	26.7	27.2	27.0	25.6
Public	9.8	9.6	10.2	10.0

### Price Chart



### Key risks

- Delay in order finalisations and wins
- Rise in input costs can impact margins and impact profitability.

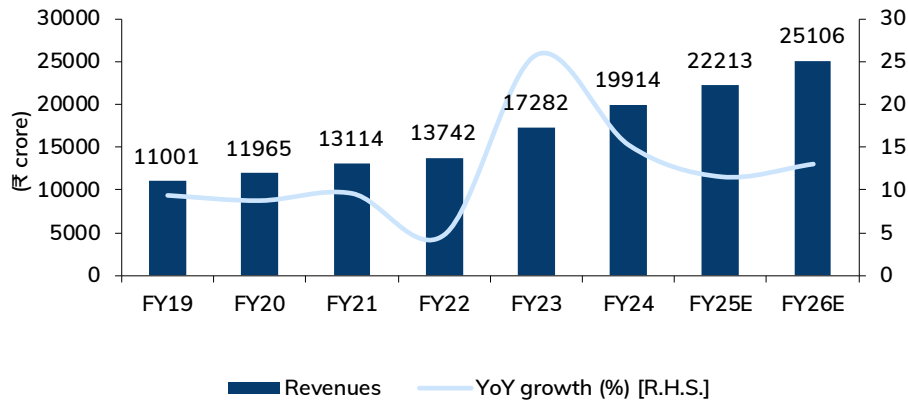
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### Key Financial Summary

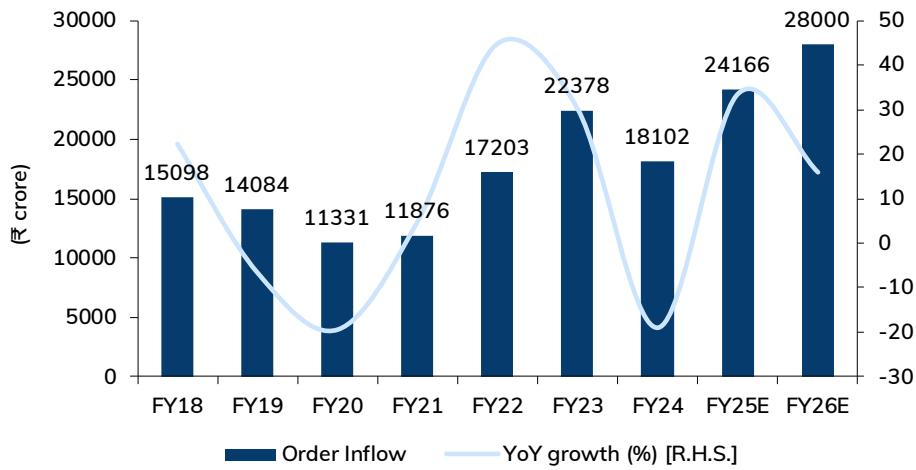
Particulars (₹ crore)	FY22	FY23	FY24	5 Year CAGR (FY18-FY23)	FY25E	FY26E	2 Year CAGR (FY23-FY25E)
Net Sales	13,742.3	17,281.7	19,914.2	11.4%	22,213.3	25,106.3	12.3%
EBITDA	903.5	829.8	1,214.6	-3.8%	1,636.7	2,267.3	36.6%
EBITDA Margin (%)	6.6	4.8	6.1		7.4	9.0	
Net Profit	332.1	123.9	302.7	-23.1%	642.2	1,045.0	85.8%
EPS (₹)	12.9	4.8	11.8		25.0	40.6	
P/ E (x)	57.1	153.1	62.7		29.5	18.2	
RoNW (%)	10.6	3.5	8.3		15.4	20.6	
RoCE (%)	11.9	9.6	15.1		19.5	24.6	

Exhibit 1: Revenue to grow at 12.3% CAGR over FY24-26E



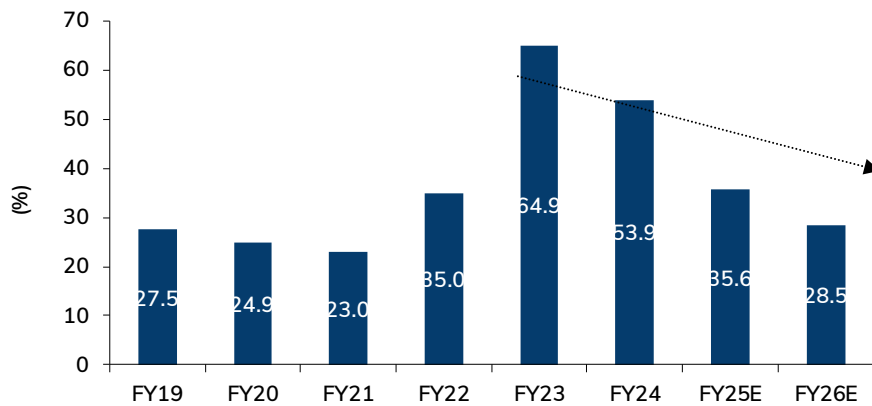
Source: Company, ICICI Direct Research

Exhibit 2: Order inflows to remain strong



Source: Company, ICICI Direct Research

Exhibit 3: Interest cost to EBITDA to improve meaningfully



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Total operating Income	17,281.7	19,914.2	22,213.3	25,106.3	
Growth (%)	25.8	15.2	11.5	13.0	
Raw Material Expenses	7,068.5	8,408.0	8,960.8	9,783.2	
Employee Expenses	1,356.2	1,440.6	1,713.8	1,950.1	
Erecting & Contracting Exp	6,552.2	7,176.8	7,960.7	8,932.2	
Administrative Expenses	1,474.9	1,674.2	1,941.3	2,173.5	
Total Operating Expenditure	16,451.9	18,699.6	20,576.6	22,839.0	
EBITDA	829.8	1,214.6	1,636.7	2,267.3	
Growth (%)	-8.2	46.4	34.8	38.5	
Depreciation	213.7	229.4	254.5	287.0	
Interest	538.6	655.1	583.0	646.8	
Other Income	31.3	52.4	57.0	60.0	
Exceptional Item	0.0	0.0	0.0	0.0	
PBT	108.8	382.4	856.3	1,393.4	
Total Tax	-15.1	79.7	214.1	348.3	
PAT	123.9	302.7	642.2	1,045.0	
Adjusted PAT	123.9	302.7	642.2	1,045.0	
Growth (%)	-62.7	144.3	112.1	62.7	
EPS (₹)	4.8	11.8	25.0	40.6	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	123.9	302.7	642.2	1,045.0	
Add: Depreciation	213.7	229.4	254.5	287.0	
(Inc)/dec in Current Assets	-2,069.1	-865.7	-1,914.0	-2,445.4	
Inc/(dec) in CL and Provisions	1,861.5	605.0	1,671.7	1,522.3	
Others	3.3	3.0	5.0	5.0	
CF from operating activities	130.0	271.4	654.3	408.9	
(Inc)/dec in Investments	4.0	-20.0	-20.0	-20.0	
(Inc)/dec in Fixed Assets	-180.0	-180.0	-321.9	-250.0	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-343.4	-289.0	-430.9	-359.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	331.6	0.0	0.0	0.0	
Dividend paid & dividend tax	-105.8	-115.7	-128.6	-128.6	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	0.0	7.6	0.0	0.0	
CF from financing activities	230.7	-169.7	-127.6	-128.6	
Net Cash flow	17.4	-187.3	95.9	-78.6	
Opening Cash	295.0	312.4	125.1	220.9	
Closing Cash	312.4	125.1	220.9	142.3	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
<b>Liabilities</b>					
Equity Capital	51.4	51.4	51.4	51.4	
Reserve and Surplus	3,459.7	3,592.7	4,107.4	5,023.9	
Total Shareholders funds	3,511.2	3,644.1	4,158.8	5,075.3	
Total Debt	3,194.3	3,194.3	3,194.3	3,194.3	
Deferred Tax Liability	7.2	12.2	17.2	22.2	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	6,900.0	7,047.9	7,577.6	8,509.1	
<b>Assets</b>					
Gross Block	2,067.6	2,247.6	2,569.6	2,819.6	
Less: Acc Depreciation	1,111.9	1,305.7	1,524.6	1,776.0	
Net Block	955.8	941.9	1,045.0	1,043.6	
Capital WIP	40.0	40.0	40.0	40.0	
Total Fixed Assets	995.8	981.9	1,085.0	1,083.6	
Investments	63.0	83.0	103.0	123.0	
Inventory	1,137.2	1,427.1	1,433.2	1,799.7	
Debtors	6,896.1	7,938.4	8,824.5	9,973.7	
Loans and Advances	164.6	126.1	198.2	168.4	
Other Current Assets	7,283.6	6,855.5	7,805.3	8,764.9	
Cash	312.4	125.1	220.9	142.3	
Total Current Assets	15,793.8	16,472.2	18,482.1	20,848.9	
Creditors	8,388.3	8,947.7	9,950.4	11,246.3	
Provisions	94.4	107.4	119.4	135.0	
Total Current Liabilities	11,453.6	12,058.6	13,730.3	15,252.6	
Net Current Assets	4,340.2	4,413.6	4,751.8	5,596.4	
Others Assets	0.0	0.0	0.0	0.0	
Total Assets	6,899.9	7,047.9	7,577.6	8,509.0	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Per share data (₹)					
EPS	4.8	11.8	25.0	40.6	
Cash EPS	13.1	20.7	34.9	51.8	
BV	136.6	141.7	161.8	197.4	
DPS	4.0	4.5	5.0	5.0	
Cash Per Share	12.2	4.9	8.6	5.5	
Operating Ratios (%)					
EBITDA Margin	4.8	6.1	7.4	9.0	
PBT / Total Operating income	0.6	1.9	3.9	5.5	
PAT Margin	0.7	1.5	2.9	4.2	
Inventory days	24.0	26.2	23.5	26.2	
Debtor days	145.6	145.5	145.0	145.0	
Creditor days	177.2	164.0	163.5	163.5	
Return Ratios (%)					
RoE	3.5	8.3	15.4	20.6	
RoCE	9.6	15.1	19.5	24.6	
RoIC	12.2	18.5	24.3	29.9	
Valuation Ratios (x)					
P/E	153.1	62.7	29.5	18.2	
EV / EBITDA	26.3	18.1	13.4	9.7	
EV / Net Sales	1.3	1.1	1.0	0.9	
Market Cap / Sales	1.1	1.0	0.9	0.8	
Price to Book Value	5.4	5.2	4.6	3.7	
Solvency Ratios					
Debt/EBITDA	3.8	2.6	2.0	1.4	
Debt / Equity	0.9	0.9	0.8	0.6	
Current Ratio	1.4	1.4	1.3	1.4	
Quick Ratio	1.3	1.2	1.2	1.2	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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