

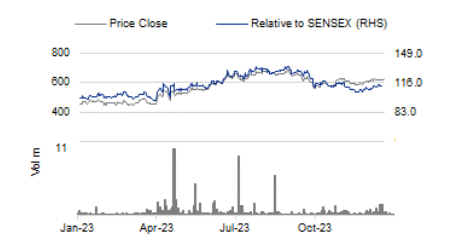
India

**ADD** (no change)

Consensus ratings*: Buy 15 Hold 5 Sell 6	
Current price:	Rs658
Target price: ▲	Rs800
Previous target:	Rs700
Up/downside:	21.6%
InCred Research / Consensus:	20.2%
Reuters:	KECL.NS
Bloomberg:	KECI IN
Market cap:	US\$2,036m Rs169,074m
Average daily turnover:	US\$4.2m Rs348.6m
Current shares o/s:	257.1m
Free float:	48.1%
*Source: Bloomberg	

**Key changes in this note**

- ▶ Cut our PAT estimates by 13%/5% for FY25F/26F, respectively.
- ▶ Introduce our FY26F EPS of Rs40.

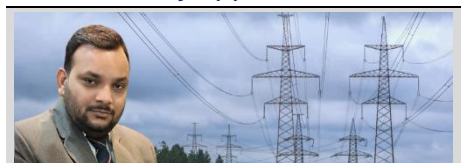


Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	11.6	4.7	44.6
Relative (%)	12.4	(7.2)	20.3

<b>Major shareholders</b>	% held
Promoters	51.9
HDFC Mutual Fund	8.8
Kotak Flexicap Fund	3.2

**Research Analyst(s)**



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# KEC International Ltd

## Civil business drives 3Q growth

- 3Q EBITDA witnessed a 54% YoY jump to Rs3.1bn (+12% QoQ). The EBITDA margin increased to 6.1% from 4.6% YoY, but lower than our estimate of 7.2%.
- For FY24F, it's likely to miss the order inflow guidance of Rs250bn & EBITDA margin of 7% by 30-40bp while the revenue guidance of Rs200bn is on track.
- We cut our earnings estimates by 13% for FY24F and by 5% for FY25F, factoring in the lower margin. Retain ADD rating with a higher TP of Rs800.

### Civil business continues to drive growth

3QFY24 revenue of KEC International (KEC) grew by 14% YoY (11% QoQ) to Rs50bn, 5% above our estimate and 1% above Bloomberg consensus estimate. The revenue growth was led by the civil segment (up 30% YoY), SAE Towers (up 39% YoY) and domestic T&D (up 24% YoY) while the railway segment's revenue declined by 28% YoY. EBITDA witnessed a 54% YoY jump to Rs3.1bn (+12% QoQ), 10% below our estimate & 9% below Bloomberg consensus estimate. The EBITDA margin increased to 6.1% from 4.6% YoY, lower than our estimate of 7.2%. PAT jumped 5.5x YoY (75% QoQ) to R969m, supported by the higher other income.

### Healthy order prospects; slight dip in margin guidance for FY24F

KEC has a strong Rs1,250bn order pipeline, of which the transmission segment accounts for Rs750bn while the railway and civil segments account for Rs200-250bn each. The company has a healthy order book, with L1 status orders worth over Rs380bn. KEC saw a YTD order inflow of ~Rs130bn, with the T&D and civil businesses being the major gainers. In FY24F, KEC may miss its order inflow guidance of Rs250bn and the EBITDA margin guidance of 7% by 30-40bp while the revenue guidance of Rs200bn is on track.

### Lower debt burden

Net debt, including acceptances, stood at Rs60.5bn as of 3QFY24-end, declining by ~Rs3bn QoQ. The company aims to further reduce debt by the end of this year. Net working capital or NWC stands at 129 days as of 3QFY24-end, a reduction of 4 days QoQ. KEC is looking to reduce its NWC days to ~110 by FY24F from 118 days in FY23.

### Outlook & valuation

The T&D business has delivered strong revenue growth. KEC has received multiple orders from Power Grid Corporation of India or PGCIL and on the international front, the company has secured significant orders, especially in the UAE through its Dubai subsidiaries. The company is confident of posting strong revenue growth in the coming quarters on the back of a robust order book, incl. L1 orders worth over Rs380bn, and a healthy tender pipeline. We cut our earnings estimates by 13% for FY24F and by 5% for FY25F, factoring in lower margins. We introduce FY26F EPS of Rs40. We retain our ADD rating on KEC with a higher target price of Rs800 (Rs700 earlier), valuing the stock at 20x FY26F EPS. Downside risks: Slower-than-expected recovery in standalone margins and higher working capital requirements.

<b>Financial Summary</b>	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	137,423	172,817	200,430	224,028	246,685
Operating EBITDA (Rsm)	9,035	8,297	12,861	17,043	19,377
Net Profit (Rsm)	3,321	1,761	4,424	8,545	10,273
Core EPS (Rs)	14.3	6.8	17.2	33.2	40.0
Core EPS Growth	(33.4%)	(52.2%)	151.3%	93.1%	20.2%
FD Core P/E (x)	50.92	96.04	38.22	19.79	16.46
DPS (Rs)	4.0	4.0	5.0	5.0	5.0
Dividend Yield	0.61%	0.61%	0.76%	0.76%	0.76%
EV/EBITDA (x)	21.67	23.81	16.75	12.09	10.55
P/FCFE (x)	41.28	36.54	26.36	28.63	51.52
Net Gearing	73.8%	75.6%	113.4%	76.9%	61.8%
P/BV (x)	4.67	4.48	4.14	3.51	2.96
ROE	10.6%	4.8%	11.3%	19.2%	19.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 3QFY24 conference-call highlights

- **Overview:** KEC posted a consolidated revenue growth of ~14% for the quarter, mainly led by the civil and T&D businesses. The YTD order intake stood at ~Rs130bn, and 25% of these orders comprised supply of products like towers, cables, hardware etc. The YTD order book and the L1 order position at Rs380bn provides a healthy revenue visibility for the next few quarters.
- **Guidance:** The EBITDA margin has improved over the past few quarters and in 3QFY24 it improved by 160bp YoY to 6.1%. In 3QFY24, some supply chain issues, which resulted in higher freight costs and a longer turnaround time for global shipping routes, limited the margin expansion. The order pipeline remains strong. The company maintains its revenue guidance of ~Rs200bn for FY24F. It has given guidance of ~7% margins, with a possible 20-30bp dip due to supply chain problems.
- **Segments:**
  - **T&D:**
    - The transmission and distribution or T&D segment posted strong growth backed by healthy order execution momentum in India, Middle East, Africa, Europe, Australia and Americas, with the YTD order inflow at Rs75bn. In India, the segment saw multiple orders from PGCIL and on the international front, it secured significant orders, especially in the UAE through its Dubai subsidiaries.
    - During the quarter, the segment received the largest power supply order from the US. In Afghanistan, the progress on the collection continues, as the company realized an amount of Rs550m during the quarter.
    - The global demand for aluminium conductors has witnessed a substantial increase in recent years, following the need for new transmission lines worldwide.
    - KEC is looking to expand the product portfolio of its Vadodara cable plant by setting up a fully integrated manufacturing line for making aluminum conductors. The capex requirement for this expansion is ~Rs600m.
    - In the domestic market, there are opportunities worth over Rs250bn for T&D projects relating to renewable energy, including a large HVDC scheme across the states of Gujarat, Rajasthan and Madhya Pradesh.
  - **Civil:** The civil segment secured multiple orders, especially L1 orders across sectors like metals and mining, residential and commercial buildings, defence and water supply. The company is now developing more than 50 high-rise buildings across India for marquee real estate developers. The business outlook remains healthy, with a robust and diversified order book and L1 orders worth over Rs110bn.
  - **Railways:** The company partnered with Siemens India and Dedicated Freight Corridor Corporation to commission the signaling and telecom system for the new Pandit Deen Dayal Freight Corridor Project in Uttar Pradesh. In terms of order intake, the challenge continues in Tier-II and Tier-III EPC contractors. and the shift in the clientele from railway public sector undertakings to zonal railways.
  - **Oil & Gas:** The oil and gas business garnered a revenue of Rs1.8bn, posting a growth of 15% YoY. The segment strengthened its order book by securing its second order for composite station works. The company is also exploring international opportunities and has been approved by a leading global energy company based in the Middle East. The segment has a strong order book, including L1 status orders worth over Rs9bn, from government and private players.

- **Cables:** The segment continues to post improved margins led by an improved product mix. It has also achieved the highest-ever profitability in 9MFY24. In line with its strategy to enhance the portfolio of niche products and cater to emerging market segments, KEC has developed two new products, electric vehicle or EV charging cables and green cables.
- **Solar:** In the solar power segment, KEC is progressing well with the exhibition of its largest 600MW solar project in Karnataka. The company continues to bid actively for select opportunities, in line with the sustained commitment of the government to promote renewable energy.
- **Debt & NWC:** Net debt, including acceptances, stands at Rs60.5bn as of 3QFY24-end, declining by ~Rs3bn QoQ. The company aims to further reduce its debt by the end of the year. Net working capital or NWC stands at 129 days as of 3QFY24-end, a reduction by four days QoQ. KEC is looking to reduce its NWC days to ~110 by FY24F from 118 days in FY23.

Figure 1: Quarterly results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)	InCred Estimates	InCred Diff	Consensus Estimate	Consensus Diff
<b>Total Revenue</b>	<b>50,067</b>	<b>43,746</b>	<b>14.4%</b>	<b>44,990</b>	<b>11.3%</b>	<b>1,37,493</b>	<b>1,17,567</b>	<b>16.9%</b>	<b>47,884</b>	<b>4.6%</b>	<b>49,635</b>	<b>0.9%</b>
Net Raw Material Costs	39,724	35,152	13.0%	34,541	15.0%	1,06,203	91,595	15.9%				
Other Expenses	3,640	3,391	7.3%	3,906	(6.8%)	12,062	10,355	16.5%				
Personnel Costs	3,624	3,204	13.1%	3,800	(4.6%)	10,964	10,155	8.0%				
<b>Total Expenditure</b>	<b>46,988</b>	<b>41,747</b>	<b>12.6%</b>	<b>42,247</b>	<b>11.2%</b>	<b>1,29,228</b>	<b>1,12,104</b>	<b>15.3%</b>				
<b>EBITDA</b>	<b>3,079</b>	<b>1,999</b>	<b>54.0%</b>	<b>2,743</b>	<b>12.2%</b>	<b>8,265</b>	<b>5,463</b>	<b>51.3%</b>	<b>3,424</b>	<b>(10.1%)</b>	<b>3,387</b>	<b>(9.1%)</b>
Depreciation	488	408	19.5%	465	4.9%	1,371	1,200	14.3%				
<b>EBIT</b>	<b>2,591</b>	<b>1,591</b>	<b>62.9%</b>	<b>2,278</b>	<b>13.7%</b>	<b>6,894</b>	<b>4,263</b>	<b>61.7%</b>				
Interest	1,644	1,493	10.1%	1,778	(7.6%)	5,009	3,770	32.9%				
Other Income	260	17	1410.5%	158	64.2%	446	258	72.9%				
<b>PBT</b>	<b>1,207</b>	<b>114</b>	<b>956.2%</b>	<b>658</b>	<b>83.5%</b>	<b>2,332</b>	<b>751</b>	<b>210.4%</b>				
Less: Total Tax	239	-62	(486.5%)	100	139.7%	382	-288	(232.8%)				
<b>PAT</b>	<b>969</b>	<b>176</b>	<b>450.4%</b>	<b>558</b>	<b>73.5%</b>	<b>1,950</b>	<b>1,039</b>	<b>87.8%</b>				
<b>PAT Excl. EOI</b>	<b>969</b>	<b>176</b>	<b>450.4%</b>	<b>558</b>	<b>73.5%</b>	<b>1,950</b>	<b>1,039</b>	<b>87.8%</b>	<b>872</b>	<b>11.1%</b>	<b>1,008</b>	<b>(3.9%)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

Margin Analysis	3QFY24	3QFY23	YoY bp chg	2QFY24	QoQ bp chg	9MFY24	9MFY23	YoY bp chg
Raw Material Costs	79.3%	80.4%	-101	76.8%	257	77.2%	77.9%	-67
Other Expenses	7.3%	7.8%	-48	8.7%	-141	8.8%	8.8%	-4
Personnel Costs	7.2%	7.3%	-9	8.4%	-121	8.0%	8.6%	-66
<b>EBIDTA Margin</b>	<b>6.1%</b>	<b>4.6%</b>	<b>158</b>	<b>6.1%</b>	<b>5.2</b>	<b>6.0%</b>	<b>4.6%</b>	<b>137</b>
EBIT Margin	5.2%	3.6%	154	5.1%	11	5.0%	3.6%	139
PBT Margin (%)	2.4%	0.3%	215	1.5%	95	1.7%	0.6%	106
NPM	1.9%	0.4%	153	1.2%	69	1.4%	0.9%	53

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Order details

Orders (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Order inflow	40,000	57,216	-30.1%	45,000	-11.1%	1,30,000	1,61,866	-19.7%
Order backlog	3,01,610	2,89,810	4.1%	3,13,200	(=3.7%)	3,01,610	2,81,116	7.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Segment-wise revenue

Revenue (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Total T&amp;D</b>	<b>27,230</b>	<b>21,720</b>	<b>25.4%</b>	<b>22,090</b>	<b>23.3%</b>	<b>71,200</b>	<b>58,810</b>	<b>21.1%</b>
T&D (Domestic)	23,830	19,270	23.7%	18,760	27.0%	61,380	50,500	21.5%
SAE Towers	3,400	2,450	38.8%	3,330	2.1%	9,820	8,310	18.2%
Railway	6,530	9,100	(28.2%)	7,760	(15.9%)	21,930	24,980	(12.2%)
Civil	10,990	8,450	30.1%	10,540	4.3%	31,080	21,830	42.4%
Cable	3,830	3,680	4.1%	4,130	(7.3%)	11,850	11,770	0.7%
Oil & Gas Pipeline	1,820	1,590	14.5%	1,270	43.3%	4,130	3,320	24.4%
<b>Total</b>	<b>51,970</b>	<b>44,810</b>	<b>16.0%</b>	<b>46,540</b>	<b>11.7%</b>	<b>1,42,510</b>	<b>1,21,360</b>	<b>17.4%</b>

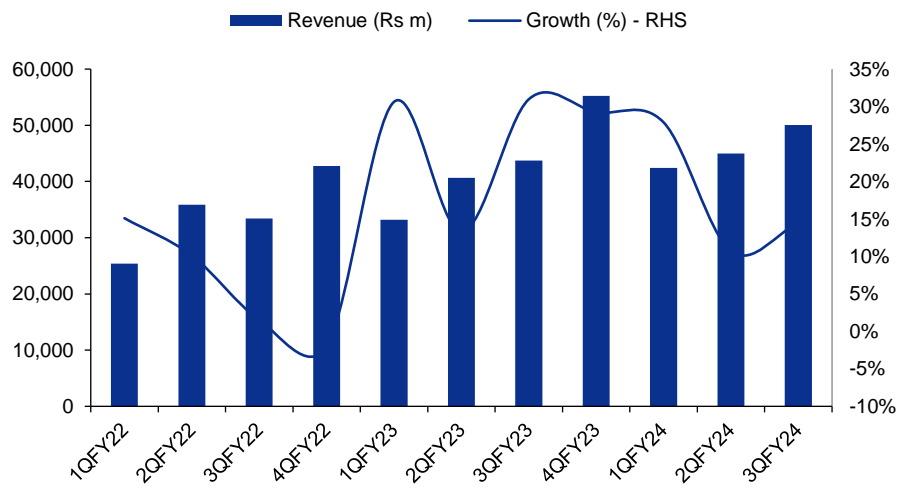
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision summary

(Rs m)	Old Estimates		New Estimates		Change (%)		Introduce
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	
Revenue	1,98,070	2,24,028	2,00,430	2,24,028	1.2%	0.0%	2,46,685
EBITDA	13,295	18,269	12,861	17,043	-3.3%	-6.7%	19,377
PAT	5,111	8,981	4,424	8,545	-13.4%	-4.9%	10,273

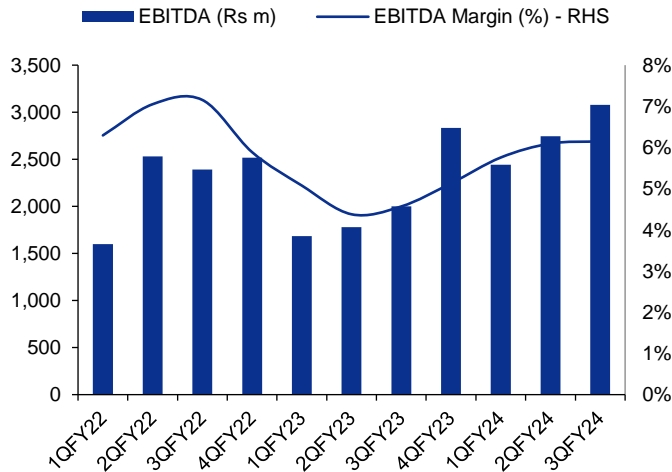
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Healthy revenue growth



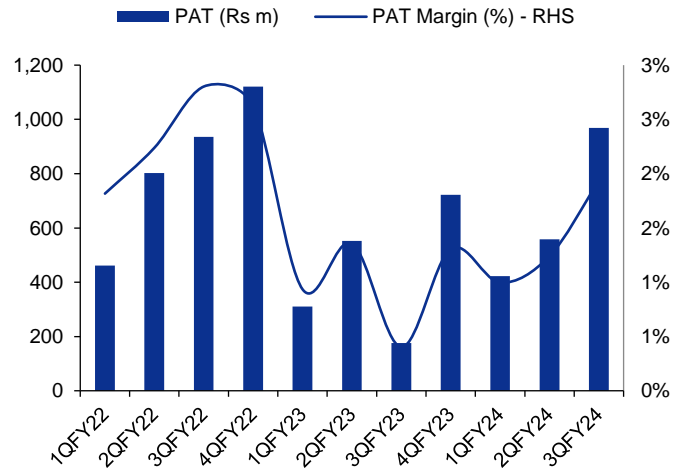
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: EBITDA margin improves in the past few quarters



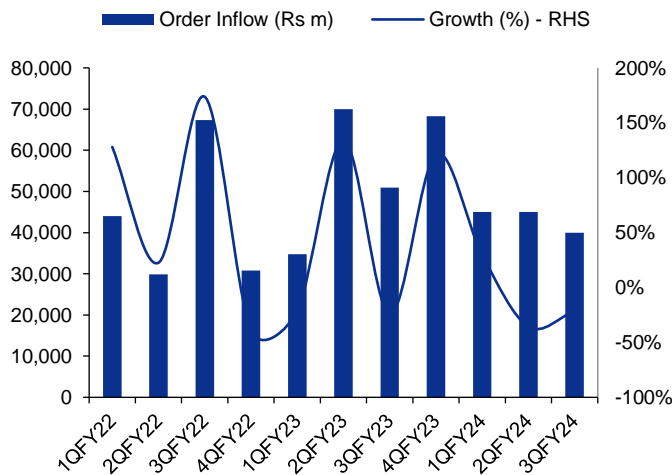
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: PAT likely to witness an uptick in the coming quarters



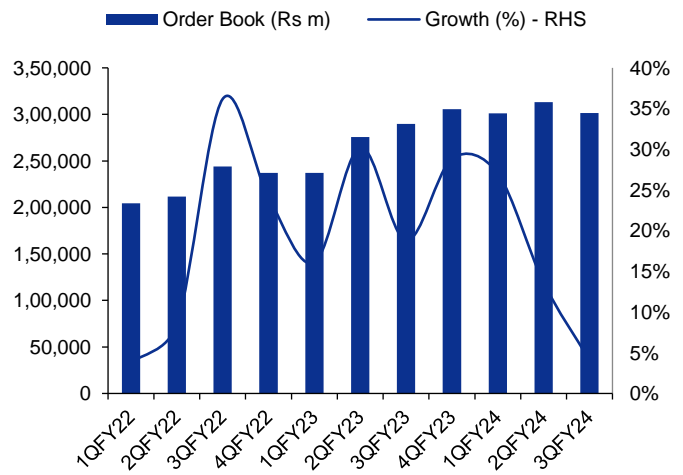
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Healthy quarterly order inflow



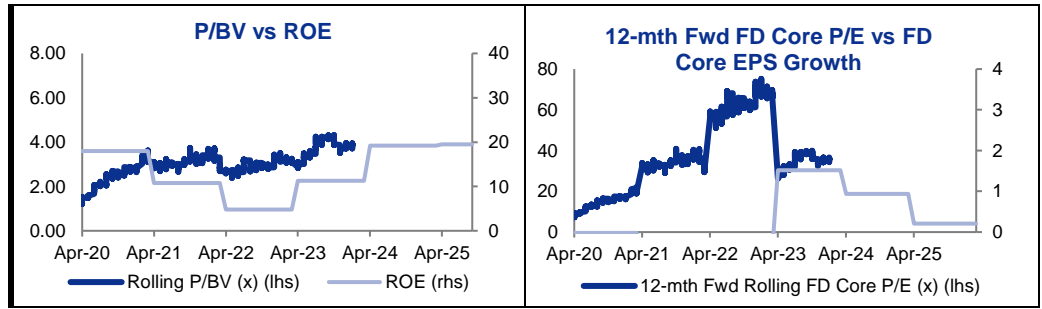
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Order book has good revenue visibility



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	137,423	172,817	200,430	224,028	246,685
<b>Gross Profit</b>	32,841	36,609	44,508	51,527	56,540
<b>Operating EBITDA</b>	9,035	8,297	12,861	17,043	19,377
Depreciation And Amortisation	(1,579)	(1,615)	(1,869)	(1,952)	(2,127)
<b>Operating EBIT</b>	7,456	6,683	10,992	15,091	17,249
Financial Income/(Expense)	(3,160)	(5,386)	(6,324)	(4,238)	(4,074)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	134	313	680	694	708
<b>Profit Before Tax (pre-EI)</b>	4,431	1,610	5,349	11,547	13,883
Exceptional Items	(436)				
<b>Pre-tax Profit</b>	3,994	1,610	5,349	11,547	13,883
Taxation	(674)	151	(925)	(3,002)	(3,609)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	3,321	1,761	4,424	8,545	10,273
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	3,321	1,761	4,424	8,545	10,273
Recurring Net Profit	3,684	1,761	4,424	8,545	10,273
<b>Fully Diluted Recurring Net Profit</b>	3,684	1,761	4,424	8,545	10,273

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	9,035	8,297	12,861	17,043	19,377
Cash Flow from Invt. & Assoc.	(5,714)	(6,687)	(7,512)	(5,496)	(5,494)
Change In Working Capital	(9,253)	(4,440)	(22,053)	2,272	(10,093)
(Incr)/Decr in Total Provisions	282				
Other Non-Cash (Income)/Expense	1,579	1,615	1,869	1,952	2,127
Other Operating Cashflow	1,042				
Net Interest (Paid)/Received	(3,054)	(5,073)	(5,644)	(3,544)	(3,367)
Tax Paid	(2,863)	151	(925)	(3,002)	(3,609)
<b>Cashflow From Operations</b>	<b>(2,837)</b>	<b>4,008</b>	<b>(10,117)</b>	<b>16,313</b>	<b>5,674</b>
Capex	(1,431)	(2,160)	(2,150)	(2,100)	(2,100)
Disposals Of FAs/subsidiaries	15				
Acq. Of Subsidiaries/investments	(569)				
Other Investing Cashflow	(61)	187	680	694	708
<b>Cash Flow From Investing</b>	<b>(2,047)</b>	<b>(1,973)</b>	<b>(1,470)</b>	<b>(1,406)</b>	<b>(1,392)</b>
Debt Raised/(repaid)	8,980	2,592	18,000	(9,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,025)	(1,029)	(1,286)	(1,286)	(1,286)
Preferred Dividends					
Other Financing Cashflow	(2,996)	(5,386)	(6,324)	(4,238)	(4,074)
<b>Cash Flow From Financing</b>	<b>4,959</b>	<b>(3,822)</b>	<b>10,391</b>	<b>(14,523)</b>	<b>(6,360)</b>
Total Cash Generated	75	(1,787)	(1,196)	384	(2,078)
<b>Free Cashflow To Equity</b>	<b>4,096</b>	<b>4,627</b>	<b>6,413</b>	<b>5,907</b>	<b>3,282</b>
<b>Free Cashflow To Firm</b>	<b>(1,724)</b>	<b>7,421</b>	<b>(5,263)</b>	<b>19,145</b>	<b>8,356</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	2,619	3,442	3,619	3,924	4,671
Total Debtors	51,061	68,961	81,270	97,590	110,164
Inventories	10,665	11,372	12,081	13,503	16,896
Total Other Current Assets	81,375	83,696	102,186	106,238	116,307
<b>Total Current Assets</b>	<b>145,720</b>	<b>167,470</b>	<b>199,156</b>	<b>221,256</b>	<b>248,037</b>
Fixed Assets	12,904	13,629	13,910	14,058	14,031
Total Investments	126				
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>15,528</b>	<b>16,314</b>	<b>16,595</b>	<b>16,743</b>	<b>16,716</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	46,955	58,883	60,404	79,791	91,240
Other Current Liabilities	48,770	56,811	67,752	72,353	79,671
<b>Total Current Liabilities</b>	<b>95,725</b>	<b>115,695</b>	<b>128,156</b>	<b>152,144</b>	<b>170,910</b>
Total Long-term Debt	29,352	31,945	49,945	40,945	39,945
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,674	1,632			
<b>Total Non-current Liabilities</b>	<b>31,027</b>	<b>33,576</b>	<b>49,945</b>	<b>40,945</b>	<b>39,945</b>
Total Provisions					
<b>Total Liabilities</b>	<b>126,752</b>	<b>149,271</b>	<b>178,100</b>	<b>193,089</b>	<b>210,855</b>
Shareholders Equity	36,199	37,714	40,853	48,112	57,099
Minority Interests					
<b>Total Equity</b>	<b>36,199</b>	<b>37,714</b>	<b>40,853</b>	<b>48,112</b>	<b>57,099</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	4.8%	25.8%	16.0%	11.8%	10.1%
Operating EBITDA Growth	(20.8%)	(8.2%)	55.0%	32.5%	13.7%
Operating EBITDA Margin	6.6%	4.8%	6.4%	7.6%	7.9%
Net Cash Per Share (Rs)	(103.98)	(110.86)	(180.18)	(143.99)	(137.20)
BVPS (Rs)	140.80	146.69	158.90	187.13	222.09
Gross Interest Cover	2.36	1.24	1.74	3.56	4.23
Effective Tax Rate	16.9%		17.3%	26.0%	26.0%
Net Dividend Payout Ratio	27.4%	58.4%	29.1%	15.0%	12.5%
Accounts Receivables Days	139.32	126.75	136.79	145.71	153.70
Inventory Days	33.31	29.53	27.45	27.07	29.18
Accounts Payables Days	163.07	141.81	139.62	148.32	164.15
ROIC (%)	11.3%	9.1%	12.7%	13.9%	15.4%
ROCE (%)	12.8%	10.3%	14.3%	17.4%	19.2%
Return On Average Assets	4.2%	3.6%	4.8%	5.1%	5.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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