

India

ADD (no change)

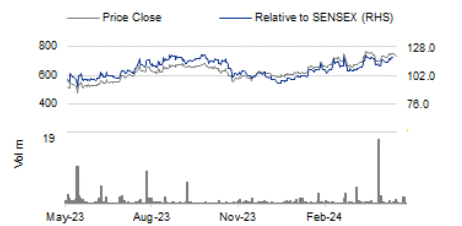
Consensus ratings*: Buy 14 Hold 4 Sell 7

Current price:	Rs737
Target price: ▲	Rs850
Previous target:	Rs800
Up/downside:	15.3%
InCred Research / Consensus:	17.8%
Reuters:	KECL.NS
Bloomberg:	KECI IN
Market cap:	US\$2,269m Rs189,474m
Average daily turnover:	US\$5.9m Rs494.0m
Current shares o/s:	257.1m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

- Raise FY25F/26F revenue by 0.4%/2.2%.
- Raise FY25F/26F PAT by 1.5%/6.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.2)	11.6	44.9
Relative (%)	(0.6)	8.7	21.8

Major shareholders	% held
Promoters	51.9
HDFC Mutual Fund	8.8
Kotak Flexicap Fund	3.2

Research Analyst(s)



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KEC International Ltd

Profitable trend to continue

- 4Q EBITDA saw a 37% YoY jump to Rs3.9bn (+12% QoQ), in line with our estimate but 10% below consensus. EBITDA margin up 116bp YoY at 6.3%.
- Management maintains its 15%+ revenue growth for FY25F. Margins are expected to be in the range of 7.5%-8% in FY25F and 9-10% in FY26F.
- We raise earnings estimates by 2% for FY25F and by 6% for FY26F, factoring in healthy order pipeline. We retain our ADD rating with a higher TP of Rs850.

Core T&D business drives the growth

4QFY24 revenue of KEC International (KEC) grew by 12% YoY (23% QoQ) to Rs61.6bn, largely in line with our/Bloomberg consensus estimates. The revenue growth was led by the T&D segment (+24% YoY at Rs29.2bn) followed by the oil & gas segment, up 40% YoY, while the railway segment's revenue fell by 27% YoY. EBITDA witnessed a 37% YoY jump to Rs3.9bn (+12% QoQ), in line with our estimate and 10% below Bloomberg consensus estimate. The EBITDA margin rose by 116bp YoY to 6.3%. PAT jumped 110% YoY (57% QoQ) to Rs1.5bn, aided by higher other income & healthy operating performance.

Healthy order prospects

Management gave guidance of a healthy order pipeline worth Rs1,300bn, 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 Rs370bn. Order inflow fell by 19% in FY24 to Rs181bn, lower than management's guidance of Rs250bn, but management expects a pick-up in the coming quarters.

Guidance

KEC maintains its 15%+ revenue growth guidance for FY25F. Margins are expected to be in the range of 7.5%-8% in FY25F and 9-10% in FY26F. Net working capital or NWC days are likely to be below 100 days while interest costs should reduce to 2.5% of sales from the 3%+ level currently. Net debt, including acceptances, stood at Rs50.9bn as of 4QFY24-end, down by ~Rs9.6bn YoY. Net working capital requirement reduced by 21 days, standing at 112 days as of Mar 2024-end vs. a peak level of 133 days as of Sep 2023-end.

Outlook & valuation

The T&D business posted a healthy revenue growth of 22% in FY24, with good traction in tower supply, which includes the largest tower supply order from the US and a maiden order from Europe. SAE Brazil delivered positive PBT across all the four quarters in FY24. We expect the company to report healthy revenue growth on the back of a robust order book and healthy tender pipeline. We raise earnings estimates by 2% for FY25F and by 6% for FY26F, factoring in a healthy order pipeline. We retain ADD rating on KEC with a higher target price of Rs850 (Rs800 earlier), valuing the stock at 20x FY26F EPS. Downside risks: Slower-than-expected recovery in standalone margins and higher working capital requirement.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	137,423	172,817	199,142	224,869	252,044
Operating EBITDA (Rsm)	9,035	8,297	12,145	17,208	20,425
Net Profit (Rsm)	3,321	1,761	3,468	8,675	10,909
Core EPS (Rs)	14.3	6.8	13.5	33.7	42.4
Core EPS Growth	(33.4%)	(52.2%)	97.0%	150.2%	25.7%
FD Core P/E (x)	57.06	107.63	54.65	21.84	17.37
DPS (Rs)	4.0	4.0	3.0	4.0	4.0
Dividend Yield	0.54%	0.54%	0.41%	0.54%	0.54%
EV/EBITDA (x)	23.93	26.27	18.52	12.90	10.76
P/FCFE (x)	46.26	4.93	26.26	26.34	27.01
Net Gearing	73.8%	75.6%	86.4%	66.7%	51.9%
P/BV (x)	5.23	5.02	4.63	3.90	3.24
ROE	10.6%	4.8%	8.8%	19.4%	20.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 conference-call highlights

- **Overview:**

- KEC posted a healthy revenue growth of ~12% in 4QFY24 and 15% in FY24. The civil and T&D businesses received good traction. FY24 order inflow stood at Rs181bn, with T&D (61%) and civil businesses (23%) being the major contributors. The order book at the end of FY24 stood at Rs296bn. Orders comprised supply of products like towers, cables, hardware and poles.
- The EBITDA margin expanded to 6.1% in FY24 from 4.8% in FY23. The company received orders worth ~Rs65bn in 4QFY24. The order momentum is expected to continue, with the company announcing new orders worth Rs10.4bn so far in 1QFY25.

- **Guidance:** While there are supply chain bottlenecks, the company maintains its 15%+ revenue growth for FY25F. Margins are expected to be in the range of 7.5%-8% in FY25F and 9-10% in FY26F. NWC days are expected to be below 100 days and interest costs should reduce to 2.5% of sales from the 3%+ level currently.

- **Segments:**

- **T&D:** The segment posted strong growth of ~21% backed by healthy order execution momentum in India, Middle East, America and the SAARC region. In India, the business has a strong order book with multiple orders for transmission lines and sub-stations from the Power Grid Corporation of India or PGCIL, state utilities, private developers and power producers. In India, the power sector will witness growth, with transmission infrastructure planned for major renewable energy potential zones such as Rajasthan, Gujarat, Andhra Pradesh and Tamil Nadu to support the target of achieving 500GW of non-fossil fuel power by 2030F. The business saw good traction in tower supply, which includes the largest tower supply order from the US and a maiden order from Europe. SAE Brazil delivered positive PBT across all the four quarters in FY24. The progress in collections from Afghanistan continues as the company realized an amount of Rs1.1bn in the first week of Apr 2024.
- **Civil:** The segment secured multiple orders across sectors like FMCG, metals and mining, residential and commercial buildings, and data centres. In 4Q, Prime Minister Narendra Modi inaugurated the Kochi Metro phase which includes a viaduct and a station built by KEC. The business outlook remains healthy across segments, with a robust and diversified order book and L1 orders worth Rs100bn+.
- **Railways:** The company successfully commissioned a tunnel ventilation project in Jammu Kashmir. Execution of TCAS (train collision avoidance system) project or the 'Kavach' project is on track. During the quarter, the company enabled coverage system on 70 route km and another 100 route km is planned during the month. The margins of this business continue to be impacted by the delay in execution on account of various factors like availability of blocks, design issues, etc.
- **Oil & Gas:** The oil and gas segment delivered a growth of 30% YoY. The business has forayed into the international market by bagging its maiden order in Africa. The company is also exploring opportunities in the growing storage tank market. The oil and gas segment has strengthened its composite station works portfolio by securing one more order.
- **Cables:** The cable business maintained strong performance, achieving its highest-ever revenue, order intake, and profitability. The progress continues in establishing a fully integrated manufacturing line for aluminum conductors, as previously announced. Orders for the supply of power transmission conductors ACSR and AL-59 have already been secured from both government utilities and private sector TBCB developers. This

- initiative is expected to significantly boost revenue and margins of the cable business.
- **Solar power:** In the solar power segment, KEC is progressing well with the execution 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 working capital reduced by 21 days, standing at 112 days as of Mar 2024-end compared to a peak level of 133 days as of Sep 2023-end. Borrowings reduced by Rs12bn as compared to Sep 2023. Management expects continuous improvement in debt and NWC level to below 100 days in the coming years.

Figure 1: Quarterly snapshot

Y/E Mar (Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Total Revenue	61,648	55,250	11.6%	50,067	23.1%	1,99,142	1,72,817	15.2%
Net Raw Material Costs	49,646	44,614	11.3%	39,724	25.0%	1,55,848	1,36,208	14.4%
Other Expenses	4,680	4,394	6.5%	3,640	28.6%	16,742	14,749	13.5%
Personnel Costs	3,443	3,408	1.0%	3,624	(5.0%)	14,407	13,562	6.2%
Total Expenditure	57,768	52,415	10.2%	46,988	22.9%	1,86,996	1,64,520	13.7%
EBITDA	3,880	2,835	36.9%	3,079	26.0%	12,145	8,297	46.4%
Depreciation	483	415	16.3%	488	(1.1%)	1,854	1,615	14.8%
EBIT	3,397	2,420	40.4%	2,591	31.1%	10,292	6,683	54.0%
Interest	1,543	1,616	(4.6%)	1,644	(6.1%)	6,551	5,386	21.6%
Other Income	78	55	41.1%	260	(70.0%)	524	313	67.3%
PBT	1,933	859	125.1%	1,207	60.1%	4,265	1,610	164.9%
Less: Total Tax	415	137	203.4%	239	74.2%	797	-151	(629.3%)
PAT	1,517	722	110.2%	969	56.7%	3,467	1,761	97.0%
PAT Excl. EOI	1,517	722	110.2%	969	56.7%	3,467	1,761	97.0%
EPS (Rs)	5.9	2.8	110.2%	3.8	56.7%	13.5	6.8	97.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

(% of sales)	4QFY24	4QFY23	YoY bps chg	3QFY24	QoQ bps chg	FY24	FY23	YoY bps chg
Raw Material Costs	80.5%	80.7%	-22	79.3%	119	78.3%	78.8%	-56
Other Expenses	7.6%	8.0%	-36	7.3%	32	8.4%	8.5%	-13
Personnel Costs	5.6%	6.2%	-58	7.2%	-165	7.2%	7.8%	-61
EBITDA Margin	6.3%	5.1%	116	6.1%	14.4	6.1%	4.8%	130
EBIT Margin	5.5%	4.4%	113	5.2%	34	5.2%	3.9%	130
PBT Margin (%)	3.1%	1.6%	158	2.4%	72	2.1%	0.9%	121
NPM	2.5%	1.3%	115	1.9%	53	1.7%	1.0%	72

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Order details

(Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Order inflow	51,200	60,187	-15%	40,000	28%	1,81,200	2,23,780	-19%
Order backlog	2,96,440	3,05,530	-3%	3,01,610	-2%	2,96,440	3,05,530	-3%

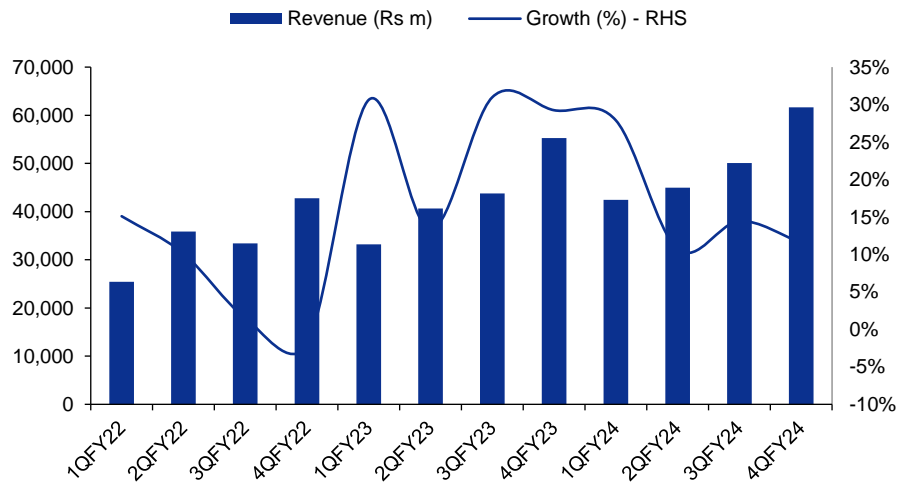
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Segmental revenue

(Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Total T&D	33,840	27,310	23.9%	27,230	24.3%	1,05,040	86,120	22.0%
T&D (Domestic)	29,180	23,380	24.8%	23,830	22.5%	90,560	73,880	22.6%
SAE Towers	4,660	3,930	18.6%	3,400	37.1%	14,480	12,240	18.3%
Railways	9,220	12,660	(27.2%)	6,530	41.2%	31,150	37,640	(17.2%)
Civil	12,620	11,350	11.2%	10,990	14.8%	43,700	33,180	31.7%
Cables	4,610	4,390	5.0%	3,830	20.4%	16,460	16,160	1.9%
Oil & Gas Pipeline	2,120	1,510	40.4%	1,820	16.5%	6,250	4,830	29.4%
Total	61,650	55,260	11.6%	50,050	23.2%	1,99,130	1,72,160	15.7%

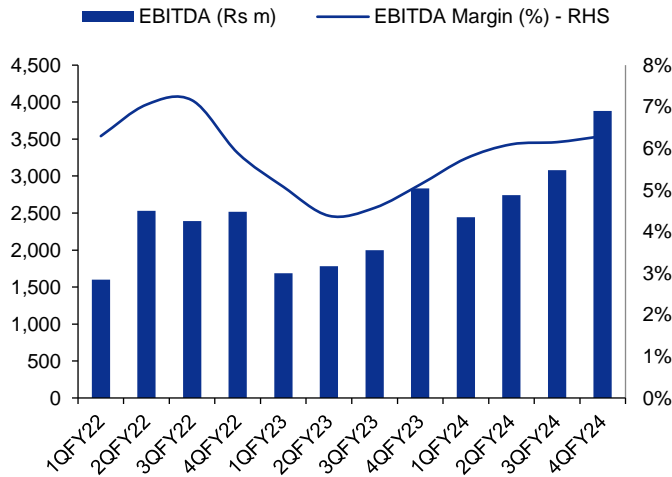
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



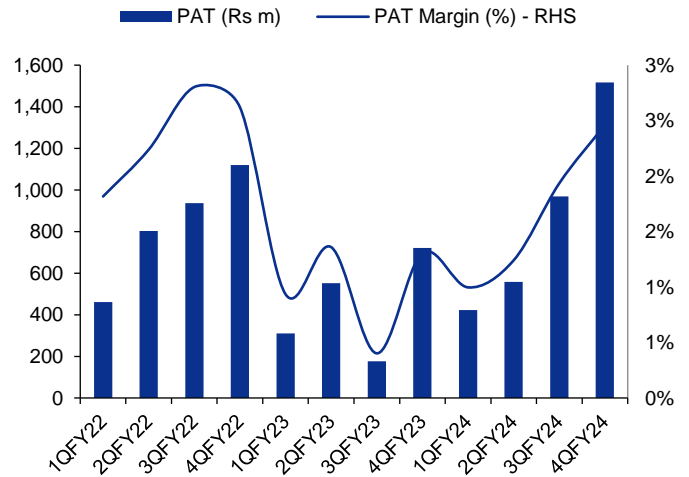
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



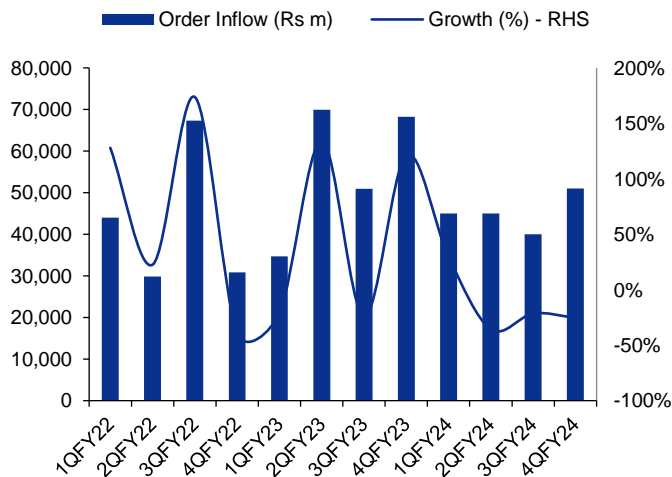
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



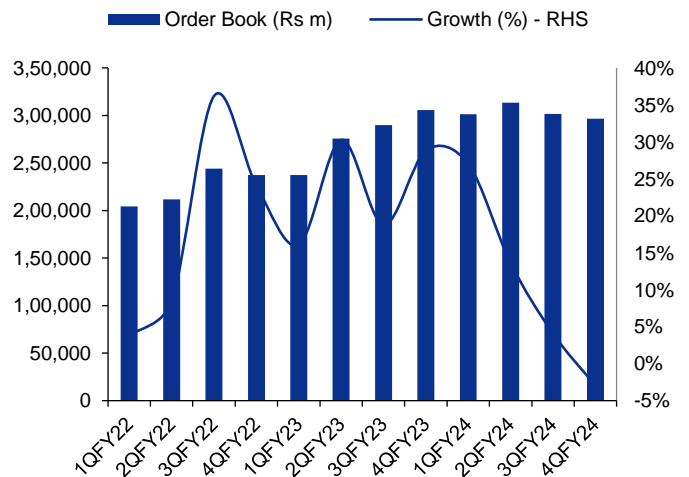
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Order inflow trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Order book trend



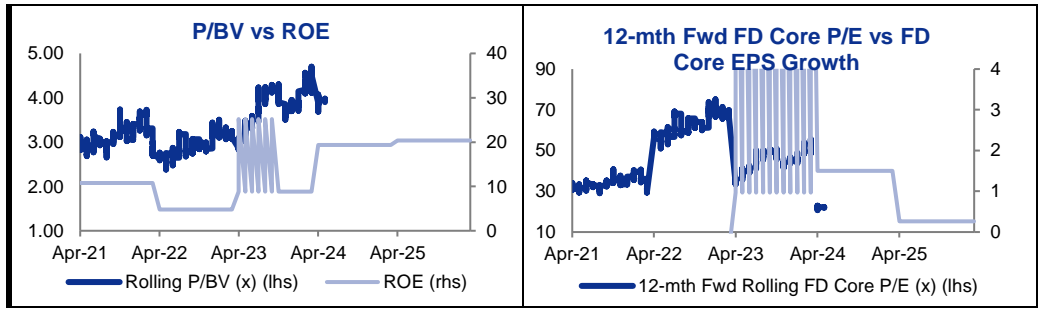
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Earnings revision table

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Revenue	2,24,028	2,46,685	2,24,869	2,52,044	0.4%	2.2%
EBITDA	17,043	19,377	17,208	20,425	1.0%	5.4%
PAT	8,545	10,273	8,675	10,909	1.5%	6.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	137,423	172,817	199,142	224,869	252,044
Gross Profit	32,841	36,609	43,294	51,720	57,970
Operating EBITDA	9,035	8,297	12,145	17,208	20,425
Depreciation And Amortisation	(1,579)	(1,615)	(1,854)	(1,991)	(2,127)
Operating EBIT	7,456	6,683	10,292	15,218	18,298
Financial Income/(Expense)	(3,160)	(5,386)	(6,551)	(5,186)	(5,262)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	134	313	524	561	600
Profit Before Tax (pre-EI)	4,431	1,610	4,265	10,593	13,636
Exceptional Items	(436)				
Pre-tax Profit	3,994	1,610	4,265	10,593	13,636
Taxation	(674)	151	(797)	(1,917)	(2,727)
Exceptional Income - post-tax					
Profit After Tax	3,321	1,761	3,468	8,675	10,909
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,321	1,761	3,468	8,675	10,909
Recurring Net Profit	3,684	1,761	3,468	8,675	10,909
Fully Diluted Recurring Net Profit	3,684	1,761	3,468	8,675	10,909

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	9,035	8,297	12,145	17,208	20,425
Cash Flow from Invt. & Assoc.	(5,714)	(6,687)	(7,881)	(6,616)	(6,789)
Change In Working Capital	(9,253)	29,398	(8,711)	(5,212)	(7,837)
(Incr)/Decr in Total Provisions	282				
Other Non-Cash (Income)/Expense	1,579	1,615	1,854	1,991	2,127
Other Operating Cashflow	1,042				
Net Interest (Paid)/Received	(3,054)	(5,073)	(6,027)	(4,625)	(4,662)
Tax Paid	(2,863)	151	(797)	(1,917)	(2,727)
Cashflow From Operations	(2,837)	37,846	2,637	10,079	9,861
Capex	(1,431)	(2,160)	(2,125)	(2,100)	(2,100)
Disposals Of FAs/subsidiaries	15				
Acq. Of Subsidiaries/investments	(569)				
Other Investing Cashflow	(61)	187	524	561	600
Cash Flow From Investing	(2,047)	(1,973)	(1,601)	(1,539)	(1,500)
Debt Raised/(repaid)	8,980	2,592	6,179	(1,345)	(1,345)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,025)	(1,029)	(772)	(1,028)	(1,028)
Preferred Dividends					
Other Financing Cashflow	(2,996)	(5,386)	(6,551)	(5,186)	(5,262)
Cash Flow From Financing	4,959	(3,822)	(1,144)	(7,559)	(7,635)
Total Cash Generated	75	32,051	(108)	981	726
Free Cashflow To Equity	4,096	38,465	7,215	7,195	7,016
Free Cashflow To Firm	(1,724)	41,259	7,588	13,726	13,623

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	2,619	3,442	2,733	4,354	5,080
Total Debtors	51,061	42,817	41,366	49,286	55,243
Inventories	10,665	11,372	12,133	13,554	17,263
Total Other Current Assets	81,375	86,726	104,456	123,887	145,764
Total Current Assets	145,720	144,356	160,688	191,081	223,351
Fixed Assets	12,904	13,629	13,950	14,059	14,032
Total Investments	126				
Intangible Assets					
Total Other Non-Current Assets		9,214	8,778	8,778	8,778
Total Non-current Assets	15,528	25,528	25,449	25,558	25,531
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	46,955	83,883	92,070	88,715	107,033
Other Current Liabilities	48,770	17,536	17,679	44,593	49,982
Total Current Liabilities	95,725	101,419	109,749	133,309	157,015
Total Long-term Debt	29,352	31,945	38,123	36,778	35,433
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,674	1,636	1,486	1,486	1,486
Total Non-current Liabilities	31,027	33,581	39,609	38,264	36,919
Total Provisions					
Total Liabilities	126,752	135,000	149,358	171,572	193,934
Shareholders Equity	36,199	37,714	40,957	48,604	58,485
Minority Interests					
Total Equity	36,199	37,714	40,957	48,604	58,485

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	4.8%	25.8%	15.2%	12.9%	12.1%
Operating EBITDA Growth	(20.8%)	(8.2%)	46.4%	41.7%	18.7%
Operating EBITDA Margin	6.6%	4.8%	6.1%	7.7%	8.1%
Net Cash Per Share (Rs)	(103.98)	(110.86)	(137.65)	(126.11)	(118.06)
BVPS (Rs)	140.80	146.69	159.30	189.05	227.48
Gross Interest Cover	2.36	1.24	1.57	2.93	3.48
Effective Tax Rate	16.9%		18.7%	18.1%	20.0%
Net Dividend Payout Ratio	27.4%	58.4%	22.3%	11.9%	9.4%
Accounts Receivables Days	139.32	99.14	77.15	73.57	75.69
Inventory Days	33.31	29.53	27.52	27.07	28.98
Accounts Payables Days	163.07	175.31	206.04	190.55	184.07
ROIC (%)	11.3%	9.0%	12.6%	16.9%	18.3%
ROCE (%)	12.8%	10.3%	14.5%	19.3%	21.2%
Return On Average Assets	4.2%	3.8%	4.9%	6.4%	6.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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