

India

ADD (no change)

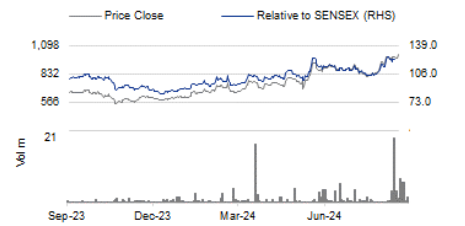
Consensus ratings*: Buy 15 Hold 5 Sell 4

Current price:	Rs1,013
Target price: ▲	Rs1,125
Previous target:	Rs1,035
Up/downside:	11.1%
InCred Research / Consensus:	19.9%
Reuters:	KECL.NS
Bloomberg:	KECI.IN
Market cap:	US\$3,110m Rs260,495m
Average daily turnover:	US\$12.6m Rs1053.4m
Current shares o/s:	257.1m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

- ▶ We retain our ADD rating on KEC International with a higher target price of Rs1,125, valuing the stock at 25x (from 23x) Sep 2026F EPS.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	24.0	8.7	51.7
Relative (%)	20.5	1.5	23.8

Major shareholders	% held
Promoters	51.9
HDFC Mutual Fund	7.9
Kotak Mutual Fund	3.2

Research Analyst(s)



Arafat SAIYED
T (91) 22 4161 1542
E arafat.saiyed@incredcapital.com

Anirvan DIVAKERA
T (91) 02241611548
E anirvan.divakera@incredresearch.com

KEC International Ltd

Riding on sectoral tailwinds

- The order book of KEC's India T&D business grew 3x+ in the last two years to Rs88bn from Rs30bn in FY22. YTD total inflow grew 75% YoY to Rs113bn.
- The company is looking at an order inflow of ~Rs250bn (Rs181bn in FY24). The EBITDA margin is likely to improve to ~7.5% in FY25F and to 10% in FY26F.
- We expect the company to post healthy revenue growth. Retain ADD rating on it with a new target price of Rs1,125, valuing the stock at 25x Sep 2026F EPS.

Healthy order inflow growth likely to continue

KEC International (KEC) is on track to achieve its FY25F order inflow guidance of ~Rs250bn (Rs181bn in FY24) and revenue growth of 15%. Also, KEC plans to prioritize margins and profitability over revenue growth. The company is selective in taking new orders and is focusing on the order quality, but despite all this its YTD inflow grew 75% YoY to Rs113bn. KEC expects its net working capital or NWC requirement to reduce from 112 days in FY24 to less than 100 days in FY25F, while debt is likely to remain high because of strong execution expected in the coming years. KEC received Rs4.2bn of pending receivables from Afghanistan which will help in improving its working capital position. The order book stands at Rs327bn (51% from the T&D business).

Leveraging on market tailwinds

The order book of KEC's India T&D business grew 3x+ in the last two years to Rs88bn from Rs30bn in FY22. The rising demand for electric vehicles (EV), coupled with the growth in residential/industrial activities, led to significant growth in the T&D segment. Also, the demand was aided by the government's push for renewable energy, and the requirement of large transmission lines, sub-stations and underground cabling. As much as 53% of the order book comprises domestic orders. Of the international orders, 21% are from the Middle East, 11% from Americas, 5% from Africa and 10% from other countries.

Margin expansion likely to continue

The EBITDA margin is likely to improve from 6.3% in FY24 to ~7.5% in FY25F and to 10% in FY26F, as current orders have significantly higher margins than those of the past, and the company's subsidiary, SAE Towers, is also performing well. The T&D orders are improving further, with the margins expected to be close to double digits this year.

Retain ADD rating on the stock with a higher target price of Rs1,125

The T&D business is likely to report an 18% growth in FY25F led by a strong order book and a Rs600bn pipeline, with good traction in tower supply. In FY24, KEC executed the largest tower order from the US and a maiden order from Europe. SAE Brazil posted positive PBT over the past few quarters. We expect KEC to post an EBITDA & PAT CAGR of 24% and 56%, respectively, over FY24-27F. We retain ADD rating on KEC with a higher target price of Rs1,125, (Rs1,035 earlier) valuing the stock at 25x (from 23x) Sep 2026F EPS, a 10% premium to the mean P/E of 22.5x. Downside risks: Slower-than-expected recovery in standalone margins and higher working capital requirement.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	172,817	199,142	218,788	249,636	282,386
Operating EBITDA (Rsm)	8,297	12,145	15,946	19,144	23,080
Net Profit (Rsm)	1,760	3,468	7,575	9,993	13,172
Core EPS (Rs)	6.8	13.5	29.5	38.9	51.2
Core EPS Growth	(52.2%)	97.0%	118.5%	31.9%	31.8%
FD Core P/E (x)	147.99	75.13	34.39	26.07	19.78
DPS (Rs)	4.0	3.0	6.5	8.6	11.3
Dividend Yield	0.39%	0.30%	0.64%	0.84%	1.11%
EV/EBITDA (x)	34.83	24.36	18.63	15.59	12.99
P/FCFE (x)	35.29	37.43	35.73	34.99	32.65
Net Gearing	75.6%	86.4%	77.9%	69.3%	60.6%
P/BV (x)	6.91	6.36	5.56	4.77	4.01
ROE	4.8%	8.8%	17.3%	19.7%	22.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Multi-year opportunity in power T&D segment

Figure 1: Opportunities in power T&D segment

Growing demand for electricity	Increase in organic demand for power, rising electric vehicle (EV) growth and increase in residential & industrial demand.
Focus on renewable energy	Significant demand in T&D segment, given the push for renewable energy and requirement of large transmission lines, sub-stations and underground cabling.
Technological developments	Focus on technology-enabled power quality improvement – providing the opportunity for high voltage/ digital sub-stations, STATCOM and HVDC.
Electrification of energy & urbanization	Government's vision of 30% EV penetration by 2030F. Rapid urbanization – growth of high-speed rail, metro rail networks, and data centres.
International opportunities	Cross-border transmission lines and multilateral power trade, especially in ASEAN countries.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

The global T&D market is estimated to grow from US\$330bn in 2023 to US\$432bn by 2030F, driven by investments in modernizing infrastructure, expansion of grid capacity and incorporating advanced technologies. The High Voltage Direct Current (HVDC) transmission and smart grid solutions offer lower transmission losses and improve the ability to transmit power over long distances. As utilities and governments seek turnkey solutions for complex grid expansion and modernization projects, companies with diverse capabilities across the T&D value chain or offer end-to-end solutions will be well-positioned to secure large contracts.

India's power T&D capex of Rs4.8tr over FY24-28F

India's T&D sector is likely to benefit from higher electricity demand, investment in infrastructure and the integration of renewable energy sources. As of FY24-end, the total transmission line length stood at 220kV, with 486,517 circuit kilometres (ckm), with substantial growth in alternating current (AC) and high-voltage direct current (HVDC) sub-station capacities. The inter-regional transfer capacity has seen a significant increase, reaching 118,740MW. The total capex in India power T&D business is expected at Rs4,758bn over FY24-28F. This strategic investment focuses on both inter-state and intra-state transmission networks to ensure a robust and efficient power grid. Of the total capex, Rs3.1tr (66% of the total capex) is earmarked for enhancing the inter-state transmission system. The remaining Rs1.7tr (34%) will be allocated to strengthening the intra-state transmission system. This balanced approach will ensure comprehensive development across all levels of the power transmission infrastructure. In terms of physical infrastructure, the Central Electricity Authority or CEA has set ambitious targets - the addition of 1,23,577 circuit kilometers (ckm) of transmission lines and 7,22,940 megavolt-amperes (MVA) of transformation capacity by FY23-FY27F. This expansion is crucial for meeting the rising energy demand and facilitating the efficient distribution of power across regions, ultimately contributing to a more resilient and reliable electricity network.

Figure 2: Planned transmission capacity addition by 2030F

Transmission type/voltage class	Unit	Capacity addition till 2030F
(a) + 800kV	ckm	6,200
(b) + 350kV	ckm	1,920
(c) 765kV	ckm	25,960
(d) 400kV	ckm	15,758
(e) 220kV cable	ckm	1,052
Total transmission lines	ckm	50,890
(a) + 800kV	MVA	20,000
(b) + 350kV	MVA	5,000
(c) 765kV	MVA	2,74,500
(d) 400kV	MVA	1,34,075
(e) 220kV cable	MVA	0
Total sub-stations	MVA	4,33,575

SOURCE: CEA, COMPANY REPORTS, INCRED RESEARCH

Demand for data centres

Data centres are becoming a significant driver of electricity demand growth in many countries including India, with global electricity consumption by data centres, artificial intelligence and cryptocurrencies expected to touch 800-1,050 TWh (terawatt-hour) by 2026F, up from 460TWh in 2022. The rapid expansion of data centres is increasing the demand for T&D grids. In countries like Ireland, data centres are expected to account for 32% of total electricity demand by 2026F. This reflects the need for grid operators to carefully plan for and manage this growing load.

Renewable energy

The integration of renewable energy sources is a key trend influencing the T&D sector. The robust and flexible T&D infrastructure becomes critical, especially the development of interconnected grids to facilitate efficient sharing of energy resources and the integration of energy storage solutions to manage the intermittent nature of renewable energy generation. To meet national climate targets, grid investment needs to increase two-fold by 2030F, touching over US\$600bn per year. The International Energy Agency or IEA assesses the need for over 80mkm of grids around the world by 2040F. Additionally, there is an estimated 1,500GW of advanced renewable projects waiting in the grid connection queue.

Key initiatives and investments

The Indian government has launched several initiatives to strengthen the transmission and distribution or T&D sector.

- Approved an investment of Rs8.3bn in Oct 2023 for the Green Energy Corridor Phase-II, which aims to support 13GW of renewable energy projects in Ladakh.
- The Revamped Distribution Sector Scheme is designed to ensure reliable power supply and enhance grid efficiency. It has been allocated US\$37bn, with US\$11.8bn support from the Central government.
- The National Electricity Plan (NEP) outlines a requirement for 16.1GW of energy storage by FY26F-27F to support the integration of renewable energy. This includes both pumped storage hydropower and battery storage solutions, vital for managing the variability of renewable energy sources.

Figure 3: Transmission lines and sub-station capacity addition by FY27F

Transmission Type	Unit	At the end of FY17	Addition in FY17-22	At the end of FY22	Likely addition in FY22-27F	Likely at the end of FY27F
Transmission lines						
(a) HVDC ± 320kV/ 500kV/800kV bipole	ckm	15,556	3,819	19,375	4,300	23,675
(b) 765kV	ckm	31,240	19,783	51,023	35,005	86,028
(c) 400kV	ckm	1,57,787	36,191	1,93,978	38,245	2,32,223
(d) 230/220kV	ckm	1,63,268	29,072	1,92,340	46,027	2,38,367
Total transmission lines	ckm	3,67,851	88,865	4,56,716	1,23,577	5,80,293

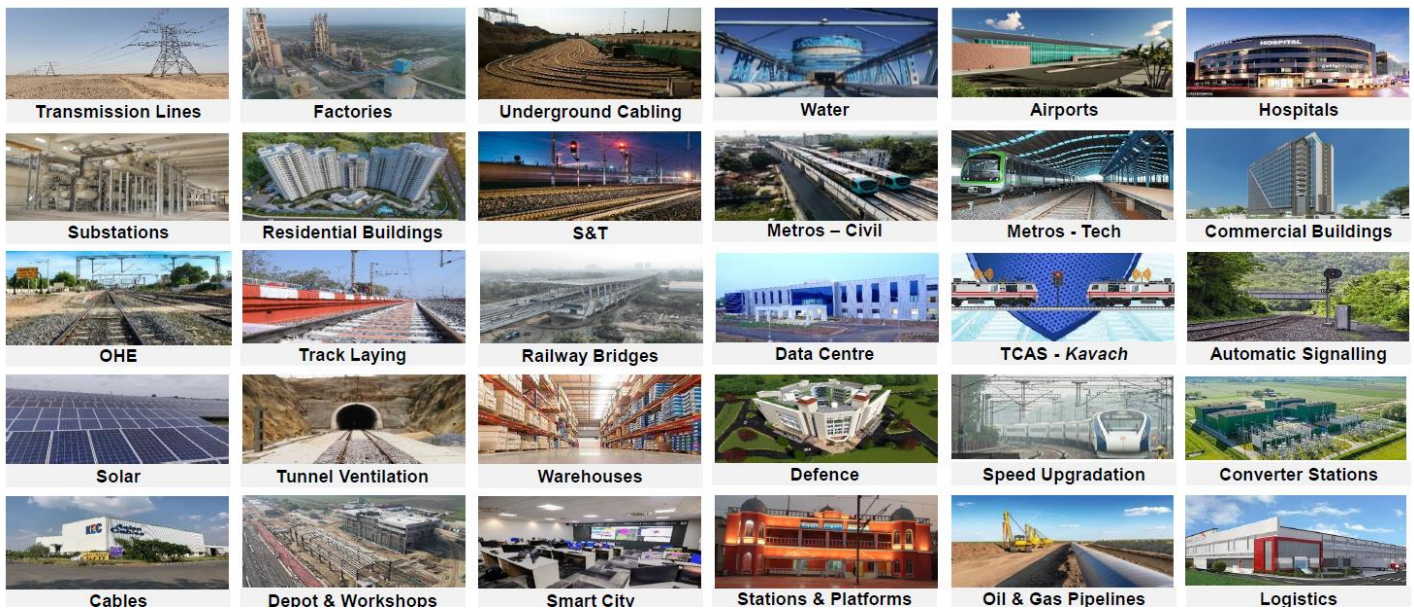
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 4: EC International's key strategy

Grow T&D business - leverage market tailwinds	Total T&D order book grew 1.5x to Rs165bn. India T&D order book grew 3x in the last two years.
International expansion of non-T&D businesses	Railway & oil & gas business segments have started executing international orders.
Foray into new segments	Secured orders from hospitals, commercial buildings, FMCG companies, logistics parks, with orders also received for HVDC converter stations and automatic block signalling.
Increase the business from products (non-EPC)	Significant increase in orders for products (towers, hardware, poles, cables) – their share in the order intake increased to 21% in FY24, up from 15% in FY23.
Expand tower manufacturing capabilities	Increase tower manufacturing capacity at Dubai and Jaipur plants by ~20%.
Establish manufacturing facility for HTLS conductors	Expected to be commissioned in 3QFY25F - already secured orders for supply of power transmission conductors (ACSR and AL-59) from government utility/ private TBCB developer.
Subsidiarization of cable business	Transfer the cable business to a subsidiary to capitalize on its strong performance and market potential and bring sharper focus.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 5: Diversified offerings of KEC International



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Manufacturing capabilities of KEC International



✓ 8 Manufacturing Facilities – 6 for Towers and 2 for Cables; 5 in India and 3 Overseas
 ✓ Global Tower Manufacturing Capability of more than 4 lac MTPA including over 2.5 lac MTPA in India

SOURCE: COMPANY REPORTS, INCRED RESEARCH

- SAE Towers close to achieving double-digit EBITDA margin.
- Well-positioned for securing orders for towers and hardware, with some of the auction winners in Brazil.
- North America Electricity Transmission market expected to post ~6% CAGR to touch ~US\$29bn by CY29F, while the Latin America market to grow by ~6.0% CAGR to touch ~US\$8.2bn over the same period.

Figure 7: SAE Towers' capabilities



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Cable segment

- This segment posted a healthy performance, with the highest-ever revenue, order intake and profitability in FY24.
- Executed a large transformation program for profitability improvement.
- Strengthened backward integration - commissioned PVC compounding plant at Vadodara in Gujarat to improve profitability.
- Establishing a fully integrated manufacturing line for aluminium conductors - already secured orders for supply of power transmission conductors (ACSR and AL-59) from government utility/private TBCB developer.
- Focus on increasing exports - obtained approval for cable exports to the US.
- New products developed such as EV charging cables, green cables (ROHS & REACH complied), hybrid cables, etc.
- Transfer of cable business to one of its subsidiaries for enhanced focus on the business.

Figure 8: Railway projects business



- KEC provides complete turnkey solutions in the railway infrastructure EPC space.
- Selective approach in order intake, considering the increased competition, customer and margin profile/ working capital requirement.
- Order book subdued at Rs33bn.
- Focus on fast-tracking project closure, releasing working capital & pursuing select opportunities in India as well as in the international market.

The civil segment, which was started in FY18, now contributes a revenue of Rs44bn (21% of total) with an order book of Rs101bn (34% of total).

Figure 9: Offerings in civil segment



Figure 10: Offerings in urban infrastructure space



SOURCE: COMPANY REPORTS, INCRED RESEARCH

- KEC is executing projects in the urban infrastructure space across Delhi, Chennai, Kochi, Mumbai, Kolkata, Patna, Indore and Bengaluru, spanning 55 km of viaduct, 43 metro rail stations, 3 depots, 150km of metro rail track laying, 100km of electrification, etc.

Projects inaugurated recently:

- The priority section, between Sahibabad to Duhai, of India's first RRTS, now renamed as the RAPIDX project.
- The Kochi Metro Rail Phase-1B, including a 1.16km viaduct and Thripunithura station, was built by KEC. Incidentally, the ballast-less track works for Kochi metro rail was also executed by the company.
- Trial run of the Bhopal metro rail project.

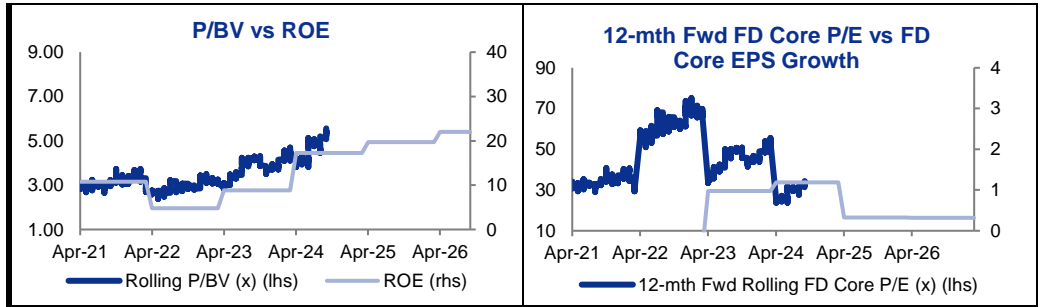
Renewable energy

- Secured its largest order in the solar energy space for a 625MWp solar PV project in Rajasthan.
- Executing a 600MWp solar project in Karnataka and setting up solar projects for a leading auto-ancillary company in India.
- Order book worth Rs13bn.
- Building significant capabilities across solar, wind and green hydrogen segments.
- Bidding for select renewable energy opportunities, in line with sustained commitment of the government to promote renewable energy.

Oil & gas pipelines

- KEC is currently executing 20+ projects in the oil & gas pipeline and slurry pipeline space, and composite station work projects.
- It has forayed into the international market by bagging a maiden order in Africa.
- It has also widened its portfolio by:
 - Securing two orders for composite station work.
 - Providing slurry pipeline for iron ore as well as a water pipeline.
 - Bidding for manufacturing oil & gas storage tanks.
- Sustained focus on enhancing pre-qualifications to expand the size of the addressable market.

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	172,817	199,142	218,788	249,636	282,386
Gross Profit	36,609	43,294	49,009	55,918	64,949
Operating EBITDA	8,297	12,145	15,946	19,144	23,080
Depreciation And Amortisation	(1,615)	(1,854)	(1,991)	(2,127)	(2,291)
Operating EBIT	6,683	10,292	13,955	17,017	20,790
Financial Income/(Expense)	(5,386)	(6,551)	(5,643)	(5,493)	(5,343)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	313	524	706	663	617
Profit Before Tax (pre-EI)	1,610	4,265	9,018	12,187	16,063
Exceptional Items					
Pre-tax Profit	1,610	4,265	9,018	12,187	16,063
Taxation	151	(797)	(1,443)	(2,194)	(2,891)
Exceptional Income - post-tax					
Profit After Tax	1,760	3,468	7,575	9,993	13,172
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,760	3,468	7,575	9,993	13,172
Recurring Net Profit	1,760	3,468	7,575	9,993	13,172
Fully Diluted Recurring Net Profit	1,760	3,468	7,575	9,993	13,172

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	8,297	12,145	15,946	19,144	23,080
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(255)	(7,902)	(5,379)	(7,549)	(10,183)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	240	1,389	459	374	282
Net Interest (Paid)/Received					
Tax Paid	(2,215)	(2,521)	(1,443)	(2,194)	(2,891)
Cashflow From Operations	6,067	3,111	9,584	9,776	10,288
Capex	(1,626)	(2,336)	(2,517)	(2,613)	(2,613)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	274	105	(1,682)	(1,719)	(1,798)
Cash Flow From Investing	(1,352)	(2,231)	(4,199)	(4,332)	(4,411)
Debt Raised/(repaid)	2,666	6,080	1,906	2,001	2,102
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,029)	(772)	(1,666)	(2,198)	(2,898)
Preferred Dividends					
Other Financing Cashflow	(5,617)	(6,949)	(5,624)	(5,247)	(5,081)
Cash Flow From Financing	(3,980)	(1,641)	(5,385)	(5,444)	(5,878)
Total Cash Generated	735	(761)			
Free Cashflow To Equity	7,381	6,960	7,291	7,445	7,979
Free Cashflow To Firm	4,715	881	5,385	5,444	5,878

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	3,442	2,733	3,506	4,133	4,783
Total Debtors	68,961	41,366	44,956	51,979	58,798
Inventories	11,372	12,133	13,187	15,730	17,794
Total Other Current Assets	74,482	105,346	113,290	127,212	145,448
Total Current Assets	158,256	161,579	174,940	199,054	226,823
Fixed Assets	13,258	13,701	14,226	14,712	15,035
Total Investments			22	25	28
Intangible Assets					
Total Other Non-Current Assets	12,487	12,314	14,221	16,226	18,355
Total Non-current Assets	28,430	28,736	31,191	33,685	36,139
Short-term Debt	27,013	35,595	37,374	39,243	41,205
Current Portion of Long-Term Debt					
Total Creditors	83,883	92,070	95,308	108,746	123,012
Other Current Liabilities	30,250	16,482	20,980	23,938	27,078
Total Current Liabilities	141,146	144,146	153,662	171,926	191,295
Total Long-term Debt	4,932	2,529	2,655	2,788	2,927
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,877	1,731	1,750	1,997	2,259
Total Non-current Liabilities	6,809	4,260	4,405	4,785	5,186
Total Provisions					
Total Liabilities	147,955	148,406	158,067	176,711	196,481
Shareholders Equity	37,714	40,957	46,865	54,660	64,934
Minority Interests					
Total Equity	37,714	40,957	46,865	54,660	64,934

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	25.8%	15.2%	9.9%	14.1%	13.1%
Operating EBITDA Growth	(8.2%)	46.4%	31.3%	20.1%	20.6%
Operating EBITDA Margin	4.8%	6.1%	7.3%	7.7%	8.2%
Net Cash Per Share (Rs)	(110.86)	(137.65)	(142.06)	(147.41)	(153.05)
BVPS (Rs)	146.69	159.30	182.28	212.60	252.56
Gross Interest Cover	1.24	1.57	2.47	3.10	3.89
Effective Tax Rate		18.7%	16.0%	18.0%	18.0%
Net Dividend Payout Ratio	58.4%	22.3%	22.0%	22.0%	22.0%
Accounts Receivables Days	126.75	101.11	72.01	70.87	71.59
Inventory Days	29.53	27.52	27.22	27.24	28.14
Accounts Payables Days	204.14	206.04	201.42	192.24	194.52
ROIC (%)	8.6%	11.7%	12.9%	14.2%	15.5%
ROCE (%)	9.9%	13.8%	16.8%	18.5%	20.2%
Return On Average Assets	3.6%	4.7%	5.9%	6.4%	6.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.