

India

ADD (no change)

Consensus ratings*: Buy 11 Hold 5 Sell 7	
Current price:	Rs771
Target price:	Rs850
Previous target:	Rs850
Up/downside:	10.2%
InCred Research / Consensus:	10.4%
Reuters:	KECL.NS
Bloomberg:	KECI IN
Market cap:	US\$2,729m
	Rs198,177m
Average daily turnover:	US\$7.2m
	Rs521.5m
Current shares o/s:	257.1m
Free float:	48.1%
*Source: Bloomberg	



Price performance	1M	3M	12M
Absolute (%)	2.5	10.1	44.6
Relative (%)	0.4	8.7	21.7

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

Healthy outlook with double-digit margin in FY26F

- KEC is looking at an order inflow of ~Rs250bn (Rs181bn in FY24) and revenue growth of 15% in FY25F. Also, KEC plans to prioritize margins and profitability.
- EBITDA margin improvement is likely to ~7.5% in FY25F and to 10% in FY26F as its current orders have significantly higher margins than those in the past.
- We expect the company to report healthy revenue growth. Retain ADD rating on KEC with a target price of Rs850, valuing the stock at 20x FY26F EPS.

Healthy revenue and order inflow growth to continue

KEC International (KEC) is looking at an order inflow of ~Rs250bn (Rs181bn in FY24) and revenue growth of 15% in FY25F. Also, the company plans to prioritize margins and profitability over revenue growth. KEC is selective in taking new orders and focuses on order quality. It expects net working capital or NWC days to reduce from 112 in FY24 to less than 100 in FY25F, while debt is likely to remain high because of strong execution likely in the coming years. KEC received Rs4.2bn pending receivables from Afghanistan which will help in improving the working capital position. The order book, including L1 status orders, are at an all-time high of Rs380bn.

Existing policies to continue even with new government at the Centre

KEC has L1 status orders worth Rs90bn, of which 50% is the from domestic market. They may slow down for some more time but are expected to pick up in the near term. Some tweaking may happen in capex, but not too much change in the policies. Indian Railways may see an uptick as the last two years' railway capex had its focus mainly on Vande Bharat trains and stations while infrastructure investment took a backseat, which is likely to pick up with a new government at the Centre. The average speed of Vande Bharat trains is 85km, which can increase to 150km going ahead. KEC has started execution of a project in Bangladesh. The TCAS projects under 'KAVACH' have also been commissioned partly.

Gradual recovery in margins

KEC's management has given guidance about EBITDA margin improvement from 6.3% in FY24 to ~7.5% in FY25F and to 10% in FY26F as the current orders have significantly higher margins than those in the past, and the SAE Towers subsidiary is performing well. The T&D orders are improving further, with higher margins expected to be close to double digits this year. The value of contracts for the transmission sector is increasing, and the competitive intensity has reduced in the case of large orders.

Retain ADD rating with a higher target price of Rs850

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 retain ADD rating on KEC with a target price of Rs850, 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	224,795	251,438
Operating EBITDA (Rsm)	9,035	8,297	12,145	17,261	20,349
Net Profit (Rsm)	3,321	1,761	3,468	8,633	10,926
Core EPS (Rs)	14.3	6.8	13.5	33.6	42.5
Core EPS Growth	(33.4%)	(52.2%)	97.0%	149.0%	26.6%
FD Core P/E (x)	59.68	112.57	57.16	22.96	18.14
DPS (Rs)	4.0	4.0	3.0	5.0	5.0
Dividend Yield	0.52%	0.52%	0.39%	0.65%	0.65%
EV/EBITDA (x)	24.89	27.32	19.23	12.91	10.72
P/FCFE (x)	48.38	5.15	27.47	(216.26)	21.83
Net Gearing	73.8%	75.6%	86.4%	51.2%	34.3%
P/BV (x)	5.47	5.25	4.84	4.10	3.42
ROE	10.6%	4.8%	8.8%	19.3%	20.6%
% Change In Core EPS Estimates				(0.49%)	0.15%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Investor conference-call highlights

- **Overview:** KEC continues to have a diverse presence across various sectors, including T&D, railways, civil, urban infrastructure, solar, oil & gas pipelines, and cables. The company is currently executing projects in over 30 countries. T&D business will drive most of the growth in the coming quarters while the civil, renewable and railway sectors are also witnessing improved growth. The overall tender pipeline in the T&D space is ~Rs600bn+, with strong inflows expected in India, Middle East and Africa.
- **Guidance:** KEC is targeting order inflow worth Rs 250bn and revenue growth of 15%, with the EBITDA margin at 7.5% in FY25F while a similar revenue growth with double-digit margin is expected in FY26F.
- **Margin:** KEC is well positioned to achieve sustained growth in the coming quarters. Management stated that double-digit margins will primarily be due to a) current orders having significantly higher margins than those in the past, and b) the company performing well in the case of its SAE Towers subsidiary. The T&D orders are improving further, with higher margins expected to be close to double-digit this year. The value of contracts for the transmission sector is increasing, and competitive intensity has reduced for large orders.
- **Private capex unlikely to be affected significantly:** The company expects infrastructure spending to continue, with some potential tweaking in project priorities based on changes in the ministry. For example, a change in the power ministry may lead to shifting of private capex from one state to another. Most capex is still happening in metals and mining, which is expected to continue
- **Uptick in railway orders likely:** The railway sector is expected to pick up. The company has commenced execution of a project in Bangladesh. The TCAS projects under 'KAVACH' have also been commissioned partly. While the margins were impacted in FY24, the company expects an improvement in FY25F led by faster project closures, release of working capital and being selective in taking orders in India and overseas.
- **Order book on track:** KEC has a YTD order book consisting of + L1 orders worth ~Rs380bn. The company recently secured orders worth ~Rs10bn from the civil and construction sectors. The civil sector business has an order book worth ~Rs105bn. Management said the railway business is selective in taking orders, focusing on opportunities in India. The oil & gas pipelines sector has secured a maiden order in Africa, and the cable business is progressing well by setting up its aluminum conductor business. 45% of the order book comprises orders from India. Of the international orders, 19% are from the Middle East, 16% from Americas, 11% from Africa and 9% from other countries.
- **International business remains healthy:** The company is receiving traction from Abu Dhabi, which continues to focus on the oil sector, and the company received some orders during Apr 2024. It also received some tenders from Dubai. Large supply orders were bagged in the US where the company is not currently present as an EPC player. In Australia, the company received several EPC orders where one such project required 85,000t of tower supply.
- **Debt:** KEC's debt is expected to remain at the Rs50bn level in FY25F. NWC days are expected to come under 100 days.

Figure 1: Strong order book and book-to-bill ratio of 1.9x

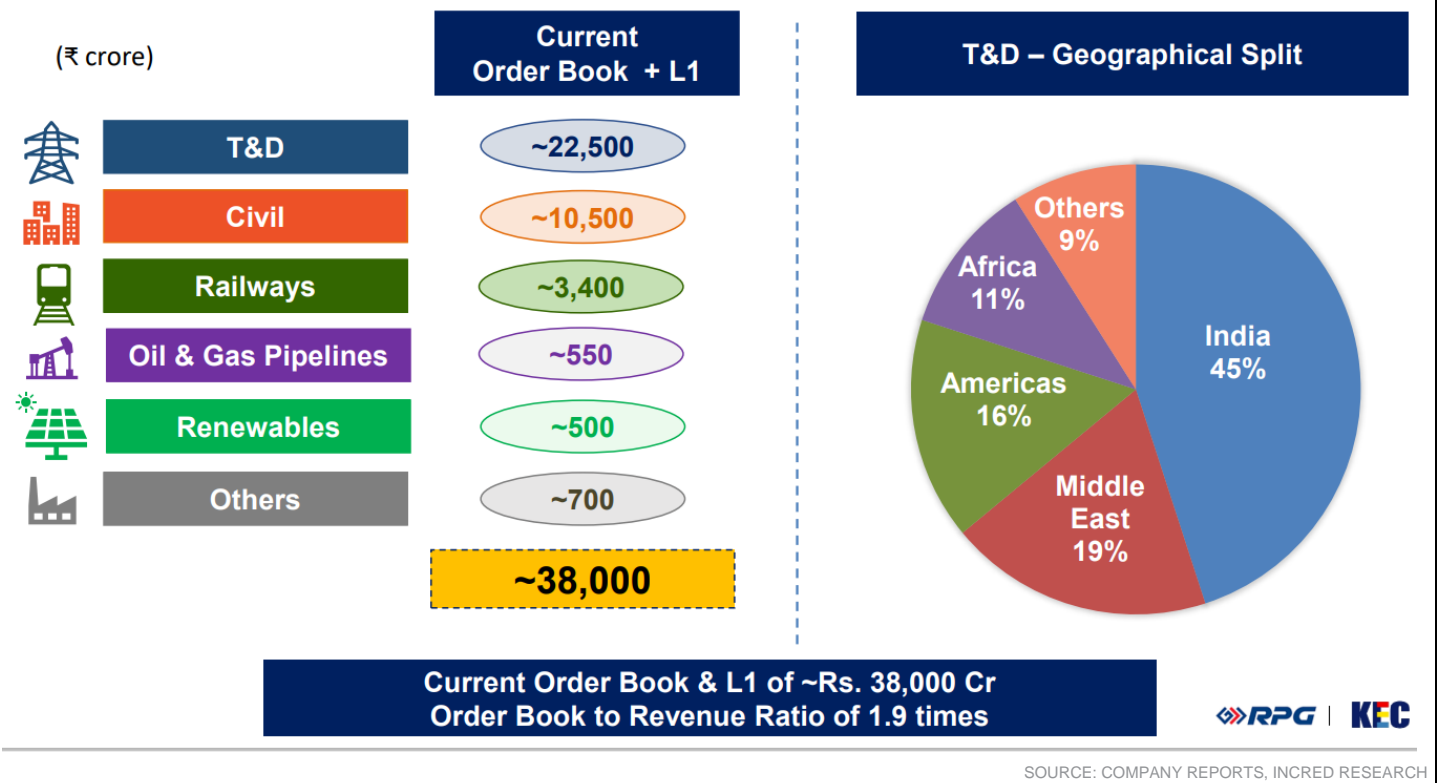


Figure 2: Healthy performance in FY24

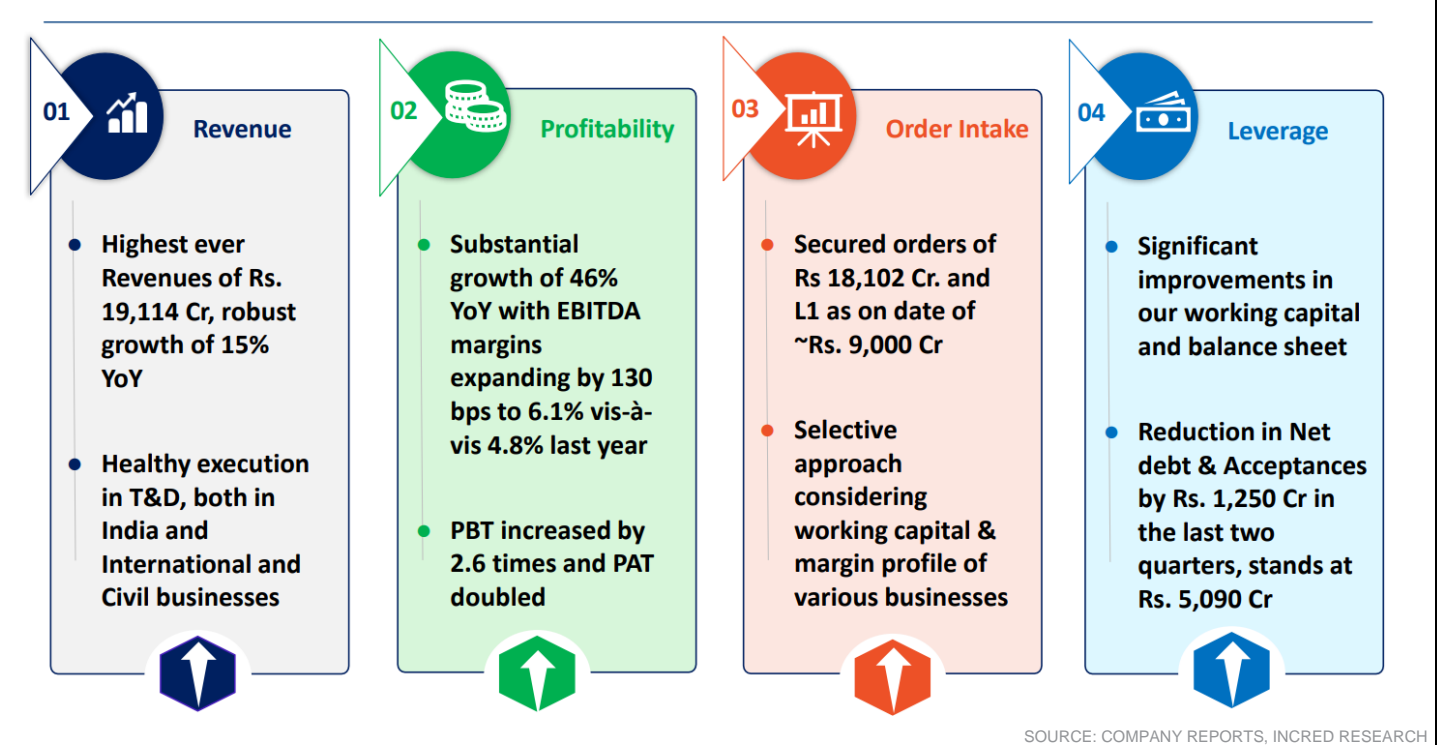
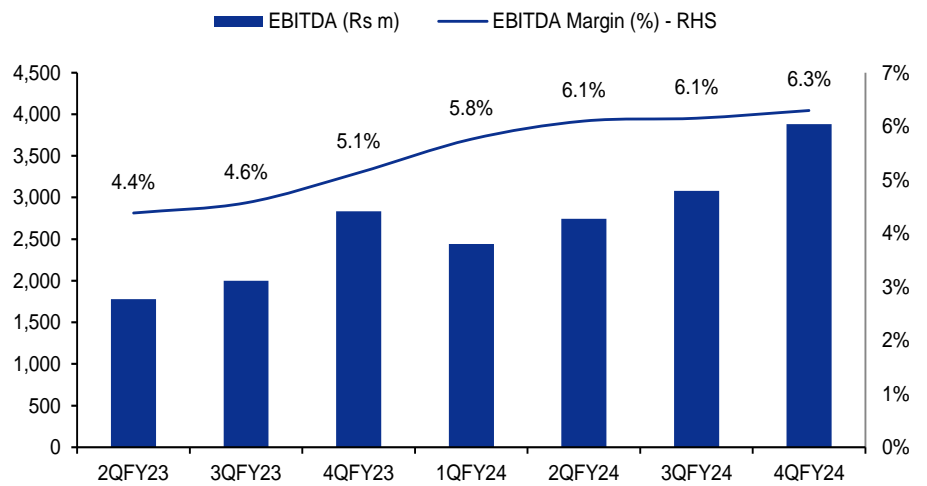
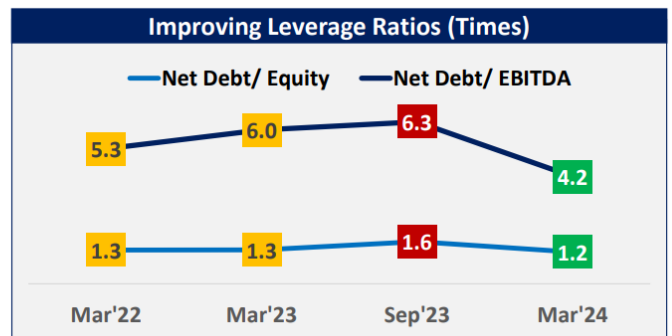
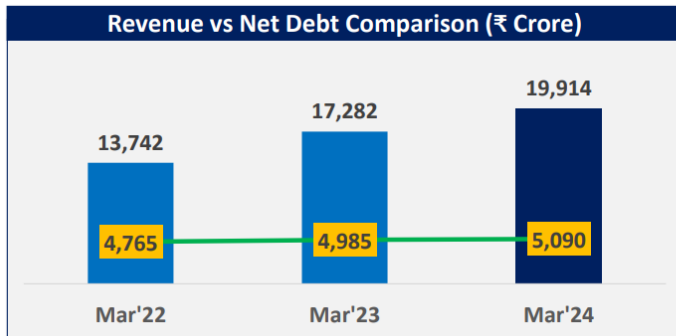


Figure 3: Higher margin sustained in the past few quarters



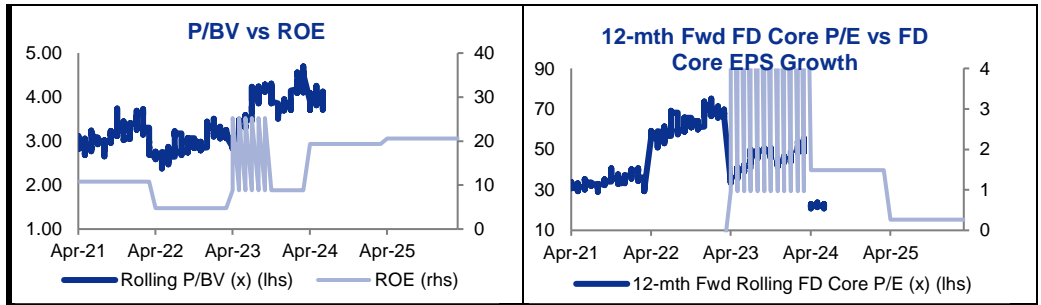
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 4: Strengthening balance sheet



SOURCE: COMPANY REPORTS, INCRED RESEARCH

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	224,795	251,438
Gross Profit	32,841	36,609	43,294	51,253	57,076
Operating EBITDA	9,035	8,297	12,145	17,261	20,349
Depreciation And Amortisation	(1,579)	(1,615)	(1,854)	(2,052)	(2,193)
Operating EBIT	7,456	6,683	10,292	15,209	18,156
Financial Income/(Expense)	(3,160)	(5,386)	(6,551)	(4,077)	(3,937)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	134	313	524	535	545
Profit Before Tax (pre-EI)	4,431	1,610	4,265	11,666	14,764
Exceptional Items	(436)				
Pre-tax Profit	3,994	1,610	4,265	11,666	14,764
Taxation	(674)	151	(797)	(3,033)	(3,839)
Exceptional Income - post-tax					
Profit After Tax	3,321	1,761	3,468	8,633	10,926
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,321	1,761	3,468	8,633	10,926
Recurring Net Profit	3,684	1,761	3,468	8,633	10,926
Fully Diluted Recurring Net Profit	3,684	1,761	3,468	8,633	10,926

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	9,035	8,297	12,145	17,261	20,349
Cash Flow from Invt. & Assoc.	(5,714)	(6,687)	(7,881)	(5,595)	(5,585)
Change In Working Capital	(9,253)	29,398	(8,711)	(4,579)	(4,878)
(Incr)/Decr in Total Provisions	282				
Other Non-Cash (Income)/Expense	1,579	1,615	1,854	2,052	2,193
Other Operating Cashflow	1,042				
Net Interest (Paid)/Received	(3,054)	(5,073)	(6,027)	(3,543)	(3,392)
Tax Paid	(2,863)	151	(797)	(3,033)	(3,839)
Cashflow From Operations	(2,837)	37,846	2,637	9,649	11,632
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	535	545
Cash Flow From Investing	(2,047)	(1,973)	(1,601)	(1,565)	(1,555)
Debt Raised/(repaid)	8,980	2,592	6,179	(9,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,025)	(1,029)	(772)	(1,286)	(1,286)
Preferred Dividends					
Other Financing Cashflow	(2,996)	(5,386)	(6,551)	(4,077)	(3,937)
Cash Flow From Financing	4,959	(3,822)	(1,144)	(14,363)	(6,223)
Total Cash Generated	75	32,051	(108)	(6,279)	3,855
Free Cashflow To Equity	4,096	38,465	7,215	(916)	9,077
Free Cashflow To Firm	(1,724)	41,259	7,588	12,161	14,015

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	4,386	8,241
Total Debtors	51,061	42,817	41,366	46,191	51,665
Inventories	10,665	11,372	12,133	13,549	17,222
Total Other Current Assets	81,375	86,726	104,456	117,688	131,636
Total Current Assets	145,720	144,356	160,688	181,814	208,764
Fixed Assets	12,904	13,629	13,950	13,998	13,905
Total Investments	126				
Intangible Assets					
Total Other Non-Current Assets		9,214	8,778		
Total Non-current Assets	15,528	25,528	25,449	16,719	16,627
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	46,955	83,883	92,070	80,064	92,997
Other Current Liabilities	48,770	17,536	17,679	44,578	49,862
Total Current Liabilities	95,725	101,419	109,749	124,642	142,859
Total Long-term Debt	29,352	31,945	38,123	29,123	28,123
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,674	1,636	1,486		
Total Non-current Liabilities	31,027	33,581	39,609	29,123	28,123
Total Provisions					
Total Liabilities	126,752	135,000	149,358	153,765	170,983
Shareholders Equity	36,199	37,714	40,957	48,305	57,945
Minority Interests					
Total Equity	36,199	37,714	40,957	48,305	57,945

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	4.8%	25.8%	15.2%	12.9%	11.9%
Operating EBITDA Growth	(20.8%)	(8.2%)	46.4%	42.1%	17.9%
Operating EBITDA Margin	6.6%	4.8%	6.1%	7.7%	8.1%
Net Cash Per Share (Rs)	(103.98)	(110.86)	(137.65)	(96.21)	(77.33)
BVPS (Rs)	140.80	146.69	159.30	187.88	225.38
Gross Interest Cover	2.36	1.24	1.57	3.73	4.61
Effective Tax Rate	16.9%		18.7%	26.0%	26.0%
Net Dividend Payout Ratio	27.4%	58.4%	22.3%	14.9%	11.8%
Accounts Receivables Days	139.32	99.14	77.15	71.08	71.03
Inventory Days	33.31	29.53	27.52	27.01	28.89
Accounts Payables Days	163.07	175.31	206.04	181.02	162.50
ROIC (%)	11.3%	9.0%	12.6%	16.3%	19.4%
ROCE (%)	12.8%	10.3%	14.5%	20.4%	23.2%
Return On Average Assets	4.2%	3.8%	4.9%	6.1%	6.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.