

KEC International

23 November, 2022

Reuters: KECL.BO; Bloomberg: KECI IN

KEC International – Management Meet Update

We hosted management of KEC International Ltd (KEC) as part of our virtual Investor Conference to gain insights into the current business environment, ordering outlook, commodity costs and supply chain headwinds, besides the company's outlook going ahead. The management highlighted that the ordering outlook remains strong with tenders under evaluation and in the pipeline standing at Rs1.1tn. Final legacy projects in Brazil have been completed and the management expects commissioning of the same in 3QFY23 itself. It further expects revival in SAE performance 4QFY23 onwards. KEC's margins were affected mainly by elevated commodity & logistics costs and SAE Brazil's performance. However, with exposure to the legacy projects largely reduced (5% of orderbook), we believe that margins are likely to improve 3QFY23 onwards as KEC starts executing projects booked under the current commodity prices. With the recent correction in the stock price, KEC offers an attractive upside from the current level and hence we upgrade it to BUY (from ACCUMULATE) with an unchanged target price (TP) of Rs480, valuing it at 14x Sept'24E earnings.

Key conference call highlights:

- Management highlighted that ordering outlook remains strong with tender under evaluation and in the pipeline (to be quoted in the next couple of months) standing at Rs1.1tn. Management is seeing opportunities from T&D, Civil and Railway businesses. Conversion rate is expected to be ~15-18%, translating into ~Rs180bn order inflow.
- KEC has completed the last EPC project and expects commissioning of the same by 3QFY23-end. The company further expects revival in the performance of SAE 4QFY23 onwards.
- In the Civil business, KEC is executing eight water projects (mainly in Odisha) worth Rs25bn under the Jal Jeevan Mission. Management highlighted that these businesses are also margin accretive O&M opportunities.
- In the Railways business, KEC has expanded its presence in the emerging areas of TCAS (Train Collision Avoidance System) under 'Kavach'.
- Management highlighted that the Cables business is nearing double-digit margins.
- Management expects to reach revenue of Rs5bn/Rs10bn in the Oil & Gas Pipeline segment in FY23/FY24. It is currently focusing on building capabilities in this segment. It further highlighted that it is currently focusing on the domestic opportunities only.
- Management highlighted that the margins remained under pressure mainly on account of elevated commodity prices & logistics costs and SAE Brazil's performance.
- Given the abundance of ordering opportunity, management will focus on margin expansion and working capital improvement going ahead.
- Management is targeting 130 days/100 days NWC days at the end of FY23/FY24.
- Management is targeting Rs5bn net debt reduction by the end of FY23.
- Fixed Price: Variable Price order book split stood at 20%:80%.

Outlook: We expect revenue/earnings CAGR of 19.3%/43.1% over FY22-FY25E on a low base. Strong order book and scalability potential in Railway and Civil segments are key positives. Falling commodity prices will further aid company's margin profile.

UPGRADE TO BUY

Sector: Capital Goods

CMP: Rs414

Target Price: Rs480

Upside: 15.9%

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Key Data

Current Shares O/S (mn)	257.1
Mkt Cap (Rsbn/US\$bn)	106.8/1.3
52 Wk H / L (Rs)	550/345
Daily Vol. (3M NSE Avg.)	637,043

Price Performance (%)

	1 M	6 M	1 Yr
KEC International	(0.6)	8.4	(12.7)
Nifty Index	3.8	12.5	4.2

Source: Bloomberg

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	131,142	137,423	166,009	197,335	233,043
EBITDA	11,412	9,035	10,791	16,576	22,838
Adjusted net profit	5,527	3,647	3,472	6,949	10,686
Adjusted EPS (Rs)	21.5	14.2	13.5	27.0	41.6
EPS growth (%)	(2.3)	(34.0)	(4.8)	100.2	53.8
EBITDA margin (%)	8.7	6.6	6.5	8.4	9.8
P/E (x)	19.3	29.2	30.7	15.3	10.0
P/BV (x)	3.2	2.9	2.8	2.4	2.0
EV/EBITDA (x)	10.7	14.7	12.9	8.3	5.8
Dividend yield (%)	1.0	1.0	1.4	1.4	1.4
RoCE (%)	19.6	13.0	13.4	20.0	26.8
RoE (%)	18.0	10.5	9.3	17.0	22.2

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)

Exhibit 1: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,31,142	1,37,423	1,66,009	1,97,335	2,33,043
% growth	9.6	4.8	20.8	18.9	18.1
Raw material cost	96,076	1,04,582	1,25,337	1,46,028	1,70,121
Staff cost	11,151	12,587	14,941	17,366	20,042
Other overheads	12,503	11,219	14,941	17,366	20,042
Total Expenditure	1,19,730	1,28,388	1,55,219	1,80,759	2,10,205
EBITDA	11,412	9,035	10,791	16,576	22,838
% growth	(7.5)	(20.8)	19.4	53.6	37.8
EBITDA margin (%)	8.7	6.6	6.5	8.4	9.8
Other income	299	134	166	197	233
Interest	2,627	3,160	4,648	5,328	6,292
Depreciation	1,525	1,579	1,680	1,793	1,937
Profit Before Tax	7,559	4,431	4,629	9,652	14,842
Tax	2,032	674	1,157	2,703	4,156
Extraordinaries	-	(440)	-	-	-
PAT after minority interest	5,527	3,317	3,472	6,949	10,686
Adjusted Net Profit	5,527	3,647	3,472	6,949	10,686
Adjusted PAT margin	4.2	2.7	2.1	3.5	4.6
Adjusted EPS (Rs)	21.5	14.2	13.5	27.0	41.6
% growth	(2.3)	(34.0)	(4.8)	100.2	53.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	514	514	514	514	514
Reserves	33,083	35,685	37,631	43,037	52,181
Net worth	33,597	36,199	38,145	43,552	52,695
Short-term loans	16,247	24,695	29,695	26,695	23,695
Long-term loans	2,187	3,933	6,433	6,433	6,433
Total loans	18,434	28,627	36,127	33,127	30,127
Deferred tax liability (net)	-68	-1,703	-1,703	-1,703	-1,703
Total liabilities	51,963	63,123	72,569	74,975	81,119
Net block	11,158	12,433	12,178	11,684	11,097
Capital work-in-progress	179	25	100	150	200
Goodwill	2,817	2,944	2,944	2,944	2,944
Investments	11	126	126	126	126
Inventories	8,422	10,665	13,645	13,516	14,685
Debtors	80,711	92,550	1,08,247	1,24,348	1,43,657
Cash	2,492	2,619	3,240	2,333	2,997
Other current assets	13,284	15,773	14,941	17,760	20,974
Total current assets	1,04,909	1,21,607	1,40,073	1,57,958	1,82,312
Creditors	61,840	68,473	76,232	90,017	1,06,268
Other current liabilities & provisions	5,271	5,538	6,620	7,869	9,293
Total current liabilities	67,111	74,011	82,852	97,887	1,15,561
Net current assets	37,799	47,596	57,221	60,071	66,752
Total assets	51,963	63,123	72,569	74,975	81,119

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT	9,887	7,456	9,111	14,783	20,901
(Inc.)/dec. in working capital	(2,405)	(9,669)	(9,004)	(3,758)	(6,017)
Cash flow from operations	7,482	(2,213)	107	11,025	14,885
Other income	299	134	166	197	233
Depreciation	1,525	1,579	1,680	1,793	1,937
Tax paid (-)	(2,627)	(2,309)	(1,157)	(2,703)	(4,156)
Net cash from operations	6,679	(2,809)	795	10,313	12,899
Capital expenditure (-)	(1,610)	(2,699)	(1,500)	(1,350)	(1,400)
Net cash after capex	5,069	(5,508)	(705)	8,963	11,499
Interest paid (-)	(2,627)	(3,160)	(4,648)	(5,328)	(6,292)
Dividends paid (-)	(1,028)	(1,028)	(1,543)	(1,543)	(1,543)
Inc./(dec.) in short-term borrowing	(2,844)	8,447	5,000	(3,000)	(3,000)
Inc./(dec.) in long-term borrowing	661	1,746	2,500	-	-
Inc./(dec.) in total borrowings	(2,184)	10,193	7,500	(3,000)	(3,000)
Cash from financial activities	(5,625)	5,889	1,309	(9,871)	(10,835)
Others	1,410	(583)	16	(0)	(0)
Opening cash balance	1,637	2,492	2,619	3,240	2,333
Closing cash balance	2,492	2,619	3,240	2,333	2,997
Change in cash balance	855	128	621	(907)	664

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
Adjusted EPS	21.5	14.2	13.5	27.0	41.6
Book value	130.7	140.8	148.4	169.4	205.0
Valuation (x)					
P/E	19.3	29.2	30.7	15.3	10.0
P/BV	3.2	2.9	2.8	2.4	2.0
EV/EBITDA	10.7	14.7	12.9	8.3	5.8
EV/sales	0.9	1.0	0.8	0.7	0.6
Return ratios (%)					
RoCE	19.6	13.0	13.4	20.0	26.8
RoE	18.0	10.5	9.3	17.0	22.2
RoIC	20.4	13.6	14.1	20.9	27.8
Profitability ratios (%)					
EBITDA margin	8.7	6.6	6.5	8.4	9.8
EBIT margin	7.5	5.4	5.5	7.5	9.0
PAT margin	4.2	2.7	2.1	3.5	4.6
Turnover ratios					
Total asset turnover ratio (x)	2.6	2.4	2.4	2.7	3.0
Debtor days	225	246	238	230	225
Inventory days	23	28	30	25	23
Creditor days	235	239	222	225	228
Solvency ratios (x)					
Debt-equity	0.5	0.8	0.9	0.8	0.6
Interest coverage	3.8	2.4	2.0	2.8	3.3

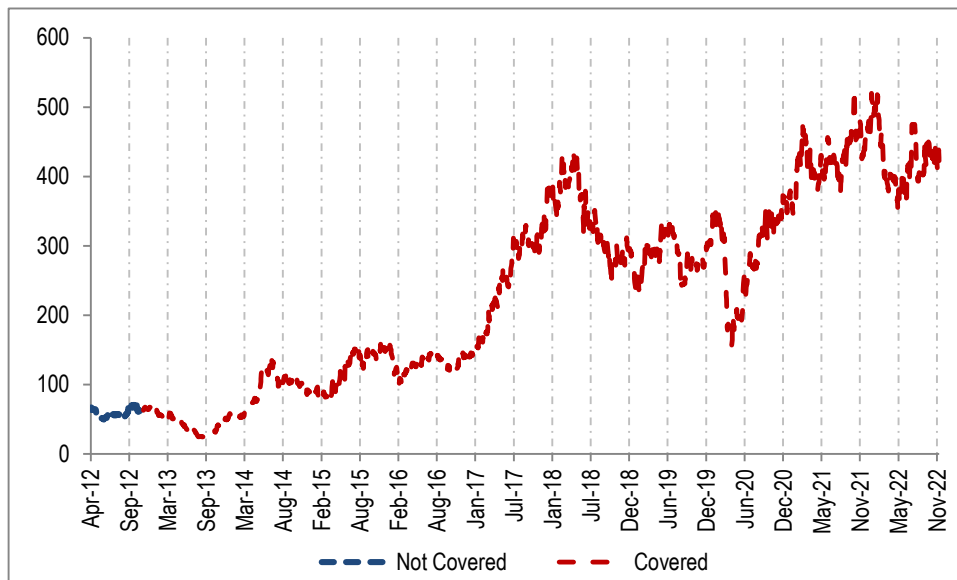
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 November 2012	Buy	62	79
2 January 2013	Buy	67	79
7 January 2013	Buy	68	79
31 January 2013	Buy	61	79
2 April 2013	Buy	57	79
9 April 2013	Buy	55	79
9 May 2013	Buy	49	68
22 May 2013	Buy	47	68
9 July 2013	Buy	32	68
6 August 2013	Buy	25	41
7 October 2013	Buy	29	41
29 October 2013	Buy	34	41
13 February 2014	Buy	54	65
5 May 2014	Hold	77	85
1 August 2014	Accumulate	120	126
9 October 2014	Buy	106	126
3 November 2014	Buy	102	130
9 January 2015	Buy	93	130
6 February 2015	Buy	86	124
27 March 2015	Buy	74	124
15 April 2015	Buy	104	124
8 May 2015	Buy	99	131
9 June 2015	Buy	108	131
28 July 2015	Buy	150	176
12 October 2015	Buy	142	176
29 October 2015	Buy	137	176
8 January 2016	Buy	142	176
5 February 2016	Buy	113	171
12 April 2016	Buy	131	171
10 May 2016	Buy	129	175
29 June 2016	Buy	139	175
12 July 2016	Buy	147	175
1 August 2016	Buy	143	175
13 October 2016	Buy	125	175
9 November 2016	Buy	125	177
10 January 2017	Buy	144	177
1 February 2017	Buy	148	177
14 February 2017	Buy	165	191
7 April 2017	Buy	214	191
22 May 2017	Buy	243	285
6 July 2017	Buy	256	305
3 August 2017	Accumulate	297	305
9 October 2017	Accumulate	302	305
7 November 2017	Accumulate	315	325
9 January 2018	Accumulate	388	325
7 February 2018	Accumulate	344	365
6 April 2018	Accumulate	413	365
15 May 2018	Accumulate	379	390
10 July 2018	Accumulate	338	390
6 August 2018	Buy	327	380
9 October 2018	Buy	250	380
5 November 2018	Buy	305	395
9 January 2019	Buy	284	395
30 January 2019	Buy	237	365
9 April 2019	Buy	286	400
9 May 2019	Buy	293	400
13 June 2019	Buy	323	400
9 July 2019	Buy	319	400
8 August 2019	Buy	293	390
23 September 2019	Buy	288	385
7 October 2019	Buy	265	385

11 November 2019	Buy	265	345
9 January 2020	Buy	311	345
10 February 2020	Buy	346	405
26 March 2020	Buy	175	300
9 April 2020	Buy	158	300
1 June 2020	Buy	197	255
9 July 2020	Buy	272	255
11 August 2020	Buy	293	345
23 September 2020	Buy	313	405
9 October 2020	Buy	341	405
5 November 2020	Buy	338	420
7 January 2021	Buy	371	450
29 January 2021	Buy	355	435
9 April 2021	Buy	426	435
12 May 2021	Accumulate	382	425
02 August 2021	Accumulate	417	425
26 September 2021	Accumulate	451	480
28 October 2021	Accumulate	476	480
1 February 2022	Accumulate	504	500
21 February 2022	Accumulate	467	480
8 May 2022	Accumulate	375	400
4 August 2022	Accumulate	444	460
19 September 2022	Accumulate	435	460
09 November 2022	Accumulate	436	480
23 November 2022	Buy	414	480

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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