

June 16, 2023

Analyst Meet Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	578		559	
Sales (Rs. m)	1,99,083	2,27,312	1,99,083	2,22,077
% Chng.	-	2.4		
EBITDA (Rs. m)	13,777	21,708	13,777	21,208
% Chng.	-	2.4		
EPS (Rs.)	20.9	44.5	20.9	43.0
% Chng.	-	3.4		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,37,423	1,72,817	1,99,083	2,27,312
EBITDA (Rs. m)	9,035	8,297	13,777	21,708
Margin (%)	6.6	4.8	6.9	9.6
PAT (Rs. m)	3,684	1,760	5,375	11,430
EPS (Rs.)	14.3	6.8	20.9	44.5
Gr. (%)	(33.4)	(52.2)	205.3	112.7
DPS (Rs.)	4.0	1.0	3.3	9.8
Yield (%)	0.7	0.2	0.6	1.8
RoE (%)	10.6	4.8	13.4	24.5
RoCE (%)	10.3	10.6	12.2	18.2
EV/Sales (x)	1.2	1.0	0.9	0.8
EV/EBITDA (x)	18.8	20.8	12.5	7.9
PE (x)	38.5	80.6	26.4	12.4
P/BV (x)	3.9	3.8	3.4	2.8

Key Data

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52-W High / Low	Rs.586 / Rs.352	
Sensex / Nifty	62,918 / 18,688	
Market Cap	Rs.142bn/ \$ 1,727m	
Shares Outstanding	257m	
3M Avg. Daily Value	Rs.432.99m	

Shareholding Pattern (%)

Promoter's	51.88
Foreign	12.61
Domestic Institution	25.79
Public & Others	9.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.6	15.2	47.7
Relative	2.7	13.1	23.3

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Healthy tender pipeline, margin revival on cards

We attended KEC analyst meet wherein the management highlighted that traction continues from both T&D (domestic as well as international markets) and Civil segment. Company will continue to focus on revenue growth, profitability and better working capital management. Tender pipeline stands at ~Rs1trn. Margins are expected to gradually improve from H1FY24 and likely to reach ~7% in FY24 with completion of legacy orders and improvement in SAE performance. Order book including L1 stands strong at ~Rs340bn as on FY23. Given strong order book position management will be selective in bidding orders and only bid for order with minimum margin threshold and cash flow visibility. Management guided revenue of Rs200bn, with order inflow of Rs250bn and EBITDA margin of ~7% for FY24.

We remain positive on KEC for long term given its 1) strong OB, 2) healthy execution momentum, 3) strong T&D outlook and 4) revenue visibility from non-T&D segments like Civil, Railways, Oil & Gas etc. We revise our estimate by ~3.4% for FY25, driven by strong tender pipeline in T&D (domestic & international), strong traction in Civil segment and focus on international markets for non T&D segment. The stock is trading at PE of 26.4x/12.4x FY24/25E. Maintain 'Accumulate' rating on stock with revised TP of Rs578 (Rs559 earlier), valuing it at 13x FY25E.

Healthy order and tender pipeline provides growth visibility: Order book stands at ~Rs305bn, (1.8x TTM revenue), majorly comprising of T&D (47%), Civil (33%) and Railways (13%). Tender pipeline remains strong at Rs1trn from domestic as well as international market providing order inflow visibility, going forward. Demand remains strong from urban infra, water pipelines, domestic & international T&D, technologically enabled segments of metros/railways and Oil & Gas (O&G) sectors. While on exports front traction continues from geographies such as Middle East, Americas, Brazil and SAARC.

Increasing focus on international markets for Non-T&D segment: Currently export orders only comprise of T&D segment. Going forward, management will be looking to leverage its strong T&D position in exports market to enter other segments such as Railway, Civil and O&G. Management targets to bag at least one international order for non-T&D segment in FY24.

Margins to revive gradually: Margins are likely to gradually improve from Q1FY24 and reach ~7% by end of FY24 owing to 1) completion of legacy orders (expected to be completed in H1FY24), 2) improving SAE performance with execution of high margin tower supply order and 3) execution of newer orders.

Net working capital days to further reduce to 110 days: Net working capital days declined to 118 days as on Mar'23 vs 137days as on Mar'22, mainly driven by reduction in inventory level, GST balance collection and better net working capital in water segment. Management targets to further bring it down to 110 days in FY24. Net debt is likely to remain at same level of ~Rs50bn as on FY23, despite healthy revenue growth expected in FY24.

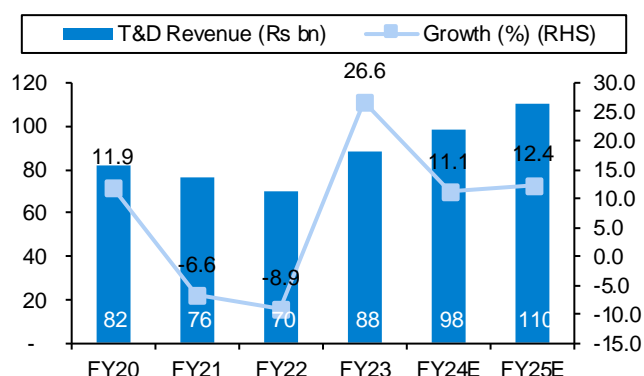
T&D: Strong domestic and international prospects: Traction continues from domestic as well as exports market. Order inflows continued to witness traction in FY23 and reported a ~42% YoY growth to Rs105bn driven by order win in India, Middle East, SAARC Far East, Africa and Americas. Going forward, we believe that growth will be driven by renewables energy evacuation in domestic market as well as strong traction in key exports market such as Saudi Arabia, SAARC, Americas and Africa.

India T&D: Order inflow came in at Rs40bn up 2.8x YoY, mainly driven by renewables energy. During the year, KEC forayed into emerging areas of Digital Gas Insulated substations and HVDC terminal stations. Additionally, also expanded its customer base to include power producers and refineries, beyond the existing Power Grid (PGCIL), state utilities and private developers. Traction continues from states such as Rajasthan, Gujarat and Andhra Pradesh.

International T&D: Strong traction has been witnessed in tower supply order and orders worth Rs20bn are bagged from Middle East, North and South Americas. Saudi accounts for largest market for international T&D with revenue of ~Rs15-20bn as on FY23.

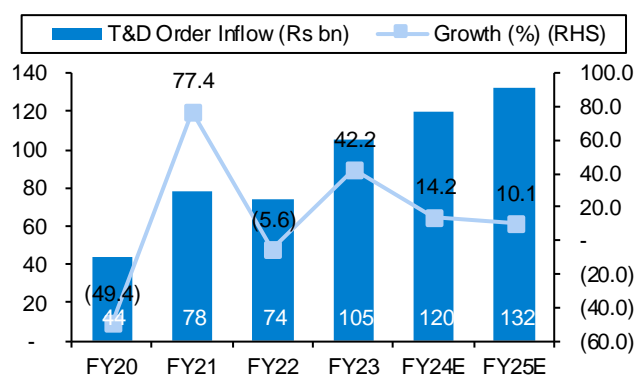
SAE Towers: All legacy EPC contracts were completed in Q3FY23 and reported a positive EBITDA in Q4FY23. Going forward, management expect to report ~8-9% EBITDA margin in SAE tower with new orders for supply of towers kicking in. Revenue reported a strong growth of 50% to Rs13.2bn in FY23. Order inflow came in at Rs15bn in FY23 for supply of towers, hardware & poles and engineering & testing of towers (No EPC orders) and order book including L1 stands at Rs16bn. Interest cost has come down to ~14% vs 18% earlier, due to debt refinancing and declining interest rate. Management further expects to bring it down to 12% resulting in saving of ~Rs300-400mn.

Exhibit 1: T&D revenue to report ~12% CAGR – FY23-25E



Source: Company, PL

Exhibit 2: Order inflows to report ~12% CAGR - FY23-25E



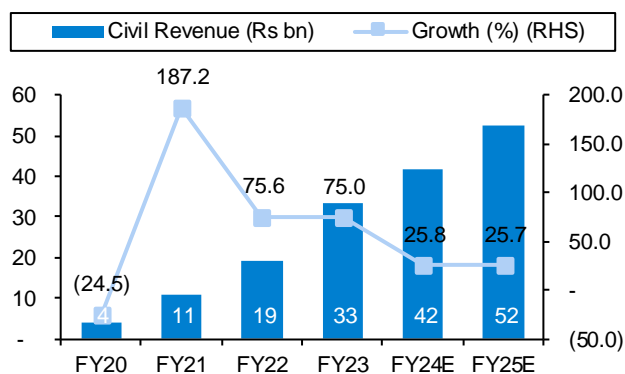
Source: Company, PL

Civil – Strong growth prospects: Civil segment is KEC's key growth driver and we expect growth rate of 20-25% in the near term. Segment reported a strong revenue growth of ~75% to Rs33.2bn, with order inflow growing by 14.8% to Rs67bn in FY23. For FY24 management expects healthy revenue growth with atleast one international order in FY24; the company will be targeting neighboring countries.

Civil segment comprises of Urban infra, Water, Building and Factories and Data center

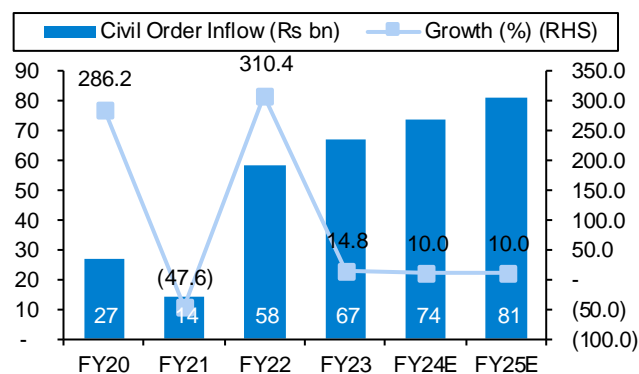
- **Urban Infra:** Currently executing 9 large civil projects in Urban infra (7 Metro and 2 Depot projects).
- **Water:** Bagged single largest order worth Rs206bn in water segment. Order book of stand ~Rs40bn comprising - intake well, water treatment plants, pumping stations, reservoirs and cross-country water pipelines.
- **Buildings and Factories:** Strengthened foothold in Residential buildings with multiple orders and forayed into commercial buildings. Order book stands strong at Rs25bn.
- **Data Centres:** Pipeline continues to remain significant for large scale projects. Currently executing 4 data centre projects.

Exhibit 3: Revenue to report ~26% CAGR – FY23-25E



Source: Company, PL

Exhibit 4: Order inflows to report ~10% CAGR – FY23-25E



Source: Company, PL

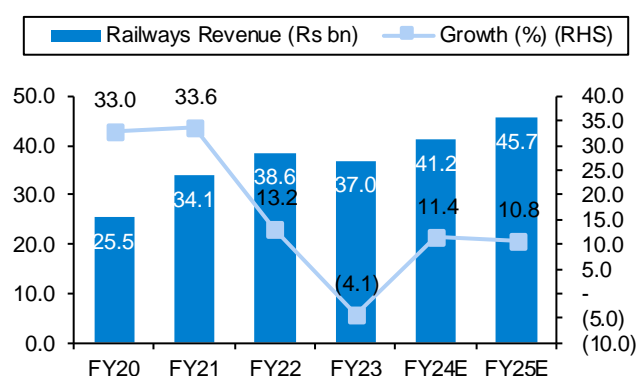
Railways – Diversifying into Emerging Areas: Order inflows came in at Rs29bn in FY23 below management expectation mainly due to increasing completion from road EPC players, change in railway ordering policy and low spending on infrastructure space where KEC has presence. Revenue came in at Rs37bn in FY23 (down 4% YoY). Tender pipeline is expected to improve with increase in capital allocation in finance budget. Management expects to bag atleast one order from international market.

KEC's diversifications:

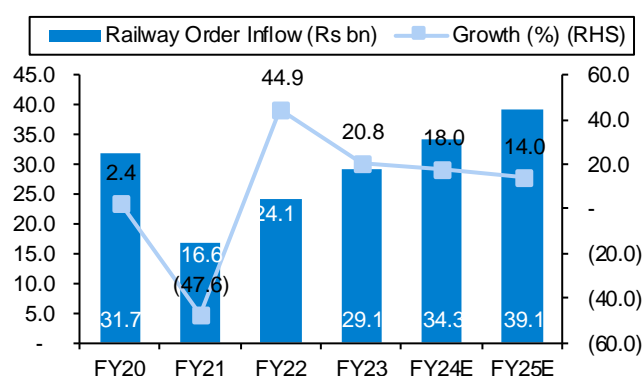
- Train Collision Avoidance System (TCAS) under 'KAVACH' and Automatic Block Signaling (ABS). Total opportunity from Kavach stands at ~Rs250-300bn over next 3 years.

- Strengthened foothold in speed upgradation with orders under 'Mission Raftaar'.
- Expanded presence in tech-enabled areas of metros and currently executing 12 projects for metro system packages including overhead electrification, Power supply, Third rail, etc.

We believe diversification into newer vertical such as metro, TCAS, speed upgradation to be key growth driver going forward.

Exhibit 5: Revenue to report ~11% CAGR – FY23-25E


Source: Company, PL

Exhibit 6: Order inflows to report 16% CAGR – FY23-25E


Source: Company, PL

Cables: Gaining momentum: Reported highest ever revenue and order inflows at Rs16bn (up 6% YoY) and Rs11bn (up 8% YoY) respectively in FY23. Domestic market share stands ~3-4 in cables division. Strategic partner to Railways and T&D businesses. Strengthened backward integration with commissioning of PVC compounding plant at Vadodara to improve profitability. Margins still continue to be lower for this segment (compared to competitor). The company has launched large transformation program for profitability improvement with a global management consultant. Focus continues to remain on new product development; developed 10 new products in FY23. We believe new product launches along with backward integration likely to drive healthy growth going forward.

Oil & Gas Pipelines – Scaling up: Revenue came in at Rs4.8bn up 167% YoY. Order inflow came in ~Rs4.5bn up 30% YoY, which was below management expectation. Current order book including L1 stands at Rs10bn comprising of order from government as well as private player. Management targets order inflow of ~Rs8-10bn for FY24 and is exploring opportunity in international markets. We believe strong order book including L1 position of Rs10bn along with increasing focus on international market will drive growth in near to medium term.

Solar – Refocusing on the segment: With governments renewed thrust on Solar & Wind power and government target of 125 GW of renewable energy by 2030, KEC has re-entered the Solar business. KEC has secured a mega solar project of 500 MW in Karnataka; one of the largest tracker-based project in India. Outlook for the sector is healthy and we expect healthy growth, going forward.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	1,37,423	1,72,817	1,99,083	2,27,312
YoY gr. (%)	4.8	25.8	15.2	14.2
Cost of Goods Sold	59,490	70,686	89,388	1,00,017
Gross Profit	77,932	1,02,131	1,09,695	1,27,294
Margin (%)	56.7	59.1	55.1	56.0
Employee Cost	12,587	13,562	15,927	18,867
Other Expenses	5,956	6,540	8,959	10,911
EBITDA	9,035	8,297	13,777	21,708
YoY gr. (%)	(20.8)	(8.2)	66.0	57.6
Margin (%)	6.6	4.8	6.9	9.6
Depreciation and Amortization	1,579	1,615	1,753	1,918
EBIT	7,456	6,683	12,023	19,790
Margin (%)	5.4	3.9	6.0	8.7
Net Interest	3,160	5,386	5,177	4,873
Other Income	134	313	338	364
Profit Before Tax	3,994	1,610	7,185	15,281
Margin (%)	2.9	0.9	3.6	6.7
Total Tax	674	(151)	1,811	3,851
Effective tax rate (%)	16.9	(9.3)	25.2	25.2
Profit after tax	3,321	1,760	5,375	11,430
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,684	1,760	5,375	11,430
YoY gr. (%)	(33.4)	(52.2)	205.3	112.7
Margin (%)	2.7	1.0	2.7	5.0
Extra Ord. Income / (Exp)	(363)	-	-	-
Reported PAT	3,321	1,760	5,375	11,430
YoY gr. (%)	(39.9)	(47.0)	205.3	112.7
Margin (%)	2.4	1.0	2.7	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,321	1,760	5,375	11,430
Equity Shares O/s (m)	257	257	257	257
EPS (Rs)	14.3	6.8	20.9	44.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	21,594	23,594	25,594	27,594
Tangibles	21,594	23,594	25,594	27,594
Intangibles	-	-	-	-
Acc: Dep / Amortization	9,161	10,776	12,529	14,447
Tangibles	9,161	10,776	12,529	14,447
Intangibles	-	-	-	-
Net fixed assets	12,433	12,818	13,065	13,147
Tangibles	12,433	12,818	13,065	13,147
Intangibles	-	-	-	-
Capital Work In Progress	2,968	3,125	3,125	4,329
Goodwill	-	-	-	-
Non-Current Investments	410	762	-	-
Net Deferred tax assets	1,703	3,201	3,201	3,201
Other Non-Current Assets	3,890	4,859	6,371	6,819
Current Assets				
Investments	126	-	-	-
Inventories	10,665	11,372	12,000	13,701
Trade receivables	55,738	72,554	76,361	85,320
Cash & Bank Balance	2,619	3,442	3,894	5,205
Other Current Assets	10,368	10,424	12,542	15,344
Total Assets	1,61,248	1,83,412	1,93,452	2,12,057
Equity				
Equity Share Capital	514	514	514	514
Other Equity	35,685	37,200	41,715	50,630
Total Network	36,199	37,714	42,229	51,144
Non-Current Liabilities				
Long Term borrowings	5,607	6,563	6,563	8,563
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	25,039	27,270	27,270	27,270
Trade payables	68,473	83,883	87,269	96,530
Other current liabilities	27,632	31,182	33,321	31,751
Total Equity & Liabilities	1,61,248	1,83,412	1,93,452	2,12,057

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	3,994	1,610	7,185	15,281
Add. Depreciation	1,579	1,615	1,753	1,918
Add. Interest	3,160	5,386	5,177	4,873
Less Financial Other Income	134	313	338	364
Add. Other	546	(73)	-	-
Op. profit before WC changes	9,279	8,537	14,115	22,072
Net Changes-WC	(9,253)	(255)	(3,815)	(8,318)
Direct tax	(2,863)	(2,215)	(1,811)	(3,851)
Net cash from Op. activities	(2,837)	6,067	8,489	9,903
Capital expenditures	(1,417)	(1,626)	(2,000)	(3,204)
Interest / Dividend Income	106	234	-	-
Others	(736)	40	-	-
Net Cash from Invt. activities	(2,047)	(1,352)	(2,000)	(3,204)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,567	3,145	-	2,000
Dividend paid	(1,025)	(1,029)	(860)	(2,515)
Interest paid	(2,725)	(5,344)	(5,177)	(4,873)
Others	7,141	(781)	-	-
Net cash from Fin. activities	4,959	(4,008)	(6,036)	(5,388)
Net change in cash	75	707	452	1,311
Free Cash Flow	(4,269)	4,284	6,489	6,699

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	14.3	6.8	20.9	44.5
CEPS	20.5	13.1	27.7	51.9
BVPS	140.8	146.7	164.3	198.9
FCF	(16.6)	16.7	25.2	26.1
DPS	4.0	1.0	3.3	9.8
Return Ratio(%)				
RoCE	10.3	10.6	12.2	18.2
ROIC	10.8	11.1	12.9	19.4
RoE	10.6	4.8	13.4	24.5
Balance Sheet				
Net Debt : Equity (x)	0.8	0.8	0.7	0.6
Net Working Capital (Days)	125	103	97	98
Valuation(x)				
PER	38.5	80.6	26.4	12.4
P/B	3.9	3.8	3.4	2.8
P/CEPS	27.0	42.0	19.9	10.6
EV/EBITDA	18.8	20.8	12.5	7.9
EV/Sales	1.2	1.0	0.9	0.8
Dividend Yield (%)	0.7	0.2	0.6	1.8

Source: Company Data, PL Research

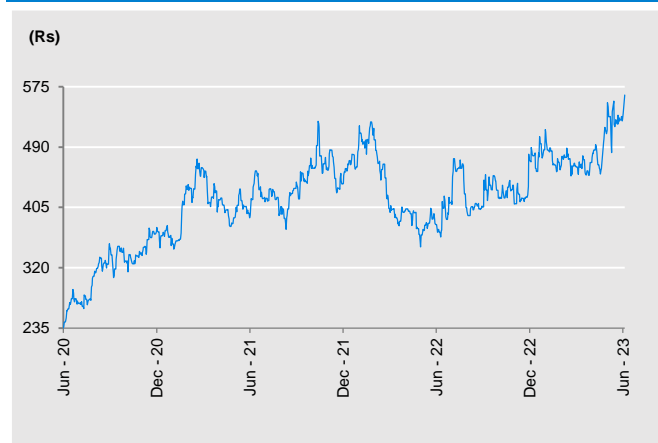
Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	33,181	40,640	43,746	55,250
YoY gr. (%)	30.6	13.3	31.0	29.2
Raw Material Expenses	13,139	16,611	17,289	23,647
Gross Profit	20,042	24,029	26,457	31,603
Margin (%)	60.4	59.1	60.5	57.2
EBITDA	1,684	1,780	1,999	2,835
YoY gr. (%)	5.3	(29.7)	(16.4)	12.6
Margin (%)	5.1	4.4	4.6	5.1
Depreciation / Depletion	393	399	408	415
EBIT	1,291	1,381	1,591	2,420
Margin (%)	3.9	3.4	3.6	4.4
Net Interest	1,000	1,277	1,493	1,616
Other Income	80	161	17	55
Profit before Tax	371	266	114	859
Margin (%)	1.1	0.7	0.3	1.6
Total Tax	61	(287)	(62)	137
Effective tax rate (%)	16.4	(107.9)	(54.0)	15.9
Profit after Tax	310	552	176	722
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	310	552	176	722
YoY gr. (%)	(32.8)	(52.0)	(81.2)	(35.6)
Margin (%)	0.9	1.4	0.4	1.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	310	552	176	722
YoY gr. (%)	(32.8)	(31.2)	(81.2)	(35.6)
Margin (%)	0.9	1.4	0.4	1.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	310	552	176	722
Avg. Shares O/s (m)	257	257	257	257
EPS (Rs)	1.2	2.1	0.7	2.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-May-23	Accumulate	559	514
2	11-Apr-23	Accumulate	505	473
3	01-Feb-23	Accumulate	500	457
4	04-Jan-23	Accumulate	495	474
5	08-Nov-22	Accumulate	495	435
6	04-Oct-22	Accumulate	473	440
7	14-Sep-22	Accumulate	473	434
8	04-Aug-22	Accumulate	473	444
9	05-Jul-22	Accumulate	451	397
10	29-Jun-22	Accumulate	451	415

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	BUY	3,725	2,993
3	Bharat Electronics	BUY	125	109
4	BHEL	Reduce	67	79
5	Cummins India	Accumulate	1,750	1,649
6	Engineers India	Accumulate	116	111
7	GE T&D India	Hold	184	188
8	Harsha Engineers International	Accumulate	475	436
9	KEC International	Accumulate	559	514
10	Larsen & Toubro	BUY	2,615	2,364
11	Praj Industries	BUY	475	374
12	Siemens	Accumulate	4,018	3,723
13	Thermax	BUY	2,613	2,280
14	Triveni Turbine	Accumulate	416	398
15	Voltamp Transformers	Hold	3,961	3,871

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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