

Company Update Post Analyst Meet
Change in Estimates Post Updates
FY25E/FY26E: Revenue: 0%/0%; EBITDA: 0%/10%; PAT: 0%/14%
Recommendation Rationale

- Robust order book & L1 position:** The company has a robust order book position and L1 of Rs 38,000 Cr (2x FY24 revenue) with T&D and Non-T&D share at 57:43. Furthermore, a strong bid pipeline of Rs 1,30,000 Cr is under evaluation. To date, the order intake for FY25 stands at Rs 3,915 Cr and the management is expecting an order intake of Rs 25,000 Cr in FY25. Against this backdrop, the current order book gives revenue visibility for the next 6-8 quarters. The company has guided revenue growth of 15% in FY25. With its established track record of execution excellence and the government's increasing focus on infrastructure development, the company is positioned for steady revenue growth, projecting a 14% CAGR over the period from FY24 to FY26E.
- Large opportunity in Domestic & International T&D:** The company continues to sharply focus on both domestic and international T&D orders as it foresees notable opportunities. With the heightened government thrust on renewables and the increase in power demand, business growth is assured. The company has a tender pipeline of over Rs 60,000 Cr in T&D, both domestic and international, and a current order book and L1 of Rs 22,500 Cr, which is expected to drive sustainable growth. Moreover, the successful turnaround of SAE Towers' business operations provides better headroom for growth with a strong order book and L1 of Rs 3,000 Cr.
- Sequential improvement in EBITDA margin:** EBITDA margins have shown sequential improvement, and the management has guided for 7.5% margins in FY25E and close to double-digit margins in FY26E. This improvement is driven by better project selection, lower costs, and improved execution. A majority of the current order book is aligned with current commodity prices, and hedging of key commodities is expected to result in continuous improvement in margins in the medium to long term.
- Reduction in Finance Charge:** The company expects peak debt, including working capital and acceptances, to remain at the current level of around Rs 5,000 Cr. Additionally, the finance charge as a percentage of revenue is expected to decline to 2.5% from over 3% in FY24.

Sector Outlook: Positive

Company Outlook & Guidance: The management has guided for 15% revenue growth in FY25. The company expects robust order intake as the bidding pipeline continues to be strong in most of the segments.

Current Valuation: 17.5x FY26 EPS (Earlier Valuation: 17x FY26 EPS)

Current TP: Rs 845/share (Earlier TP: Rs 700/share)

Recommendation: We change our rating from **HOLD** to **BUY** based on improvement in margins robust business outlook and lower finance charge.

Outlook: The company has a well-diversified and robust order book plus an L1 position which gives healthy revenue visibility for the next 6-8 quarters. Moreover, favourable government thrust on building infrastructure and the revival of private Capex are boosting the overall sentiments, which augers well for the company moving forward.

Valuation & Recommendation: We expect its Revenues/EBITDA/APAT to grow at a CAGR of 14%/41%/90% respectively over FY23-26E. The stock is currently trading at 16x FY26E EPS. We value KEC International at 17.5x FY26E EPS to arrive at a target price of Rs 845/share, implying an upside of 10% from the CMP. We, therefore, change our rating from **HOLD** to **BUY**.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs)	EPS (x)	PE (%)	ROE (%)	ROCE (x)	EV/EBITDA (x)
FY24	19,914	1,215	347	13	57	9	14	16
FY25E	22,678	1,701	720	28	27	16	18	12
FY26E	25,821	2,350	1,239	48	16	23	23	8

Source: Company, Axis Securities

 (CMP as of 7th June, 2024)

CMP (Rs)	768
Upside /Downside (%)	10
High/Low (Rs)	839/537
Market cap (Cr)	19,753
Avg. daily vol. (6m) Shrs.	7,05,000
No. of shares (Cr)	25.7

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	51.9	51.9	51.9
FIIs	11.3	10.9	12.5
MFs / UTI	25.1	25.2	24.1
Banks / FIIs	0.0	0.0	0.0
Others	11.8	12.0	11.5

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	19,914	22,678	25,821
EBITDA	1,215	1,701	2,350
Net Profit	347	720	1,239
EPS (Rs)	13	28	48
PER (x)	57	27	16
P/BV (x)	4.8	4.2	3.4
EV/EBITDA (x)	16	12	8
ROE (%)	9	16	23

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0%	0%
EBITDA	0%	10%
PAT	0%	14%

ESG disclosure Score**

Environmental Disclosure	25
Social Disclosure Score	27
Governance Disclosure Score	91
Total ESG Disclosure Score	48
Sector Average	49

Source: Bloomberg, Scale: 0,1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Analyst Meet Highlight

- **Order Book:** The company has a robust order book position and L1 of Rs 38,000 Cr (2x FY24 revenue) with T&D and Non-T&D share at 57:43. Furthermore, a strong bid pipeline of Rs 1,30,000 Cr is under evaluation. To date, the order intake for FY25 stands at Rs 3,915 Cr, and the management is expecting an order intake of Rs 25,000 Cr in FY25. Against this backdrop, the current order book gives revenue visibility for the next 6-8 quarters.
- **Revenue Guidance:** FY25 revenue is expected to grow by 15%. Going forward, the management expects EBITDA margins to improve to 7.5% in FY25, and it may exit FY25 at higher levels of 9%. Close to double-digit margin is expected in FY26.
- **Bidding Pipeline:** The company's order book plus L1 position stands at Rs 38,000+ Cr (well diversified in both segments). The current bidding pipeline is over Rs 1,30,000 Cr.
- **Large Opportunity in Domestic & International T&D:** The company continues to sharply focus on both domestic and international T&D orders as it foresees notable opportunities. With the heightened government thrust on renewables and an increase in power demand, business growth is assured. The company has a tender pipeline of over Rs 60,000 Cr in T&D, both domestic and international, and a current order book & L1 of Rs 22,500 Cr is expected to drive sustainable growth. Moreover, the successful turnaround of SAE Towers' business operations provides better headroom for growth with a strong order book and L1 of Rs 3,000 Cr.
- **Focus on Civil Construction Vertical:** In recent years, the company has judiciously increased its focus on the Civil Construction vertical considering the government's increasing spending on Urban and Water Infrastructure, Metro, Data Centres, Industrial Plants & Factories. The company expects this vertical to grow more than 35% in FY25. The company has a robust and diversified order book of Rs 10,500 Cr. Although competitive intensity in this space has increased due to a large number of players, the company can stave off competition by bidding for larger projects having a better margin profile.
- **Cable Business:** During the year, the cable segment delivered impressive performance with the highest-ever revenues, order intake, and profitability. Establishing a fully integrated manufacturing line for aluminium conductors at a capital cost of Rs 60 Cr with future revenue possibilities of Rs 600 Cr - the company has already secured orders for the supply of power transmission conductors (ACSR and AL-59) from government utilities and private TBCB developers.
- **Railways - Muted Performance:** Railways delivered muted performance during the year as margins were impacted by delays in execution. The company is selective in project selection considering the increased competition, customer and margin profile, and working capital requirements.
- **Debt & Finance Charge:** The company expects peak debt, including working capital and acceptances, to be at the current level of ~Rs 5,000 Cr and finance charge as a percentage of revenue is expected to decline to 2.5% from over 3% in FY24.

Key Risks to our Estimates and TP

- Lower order intake may impact revenue growth.
- A rise in commodity prices may impact margins.
- Labour shortage may impact project execution

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	22,678	25,821	22,704	25,821	0%	0%
EBITDA	1,701	2,350	1,701	2,143	0%	10%
PAT	720	1,239	720	1,082	0%	14%

Source: Company, Axis Securities

Result Update Q4FY24

	Quarterly Performance				
	Q4FY24	Q3FY24	Q4FY23	% Change (QoQ)	% Change (YoY)
Sales	6,165	5,007	5,525	23	12
Other Op. Inc	0	0	0		
Total Revenue	6,165	5,007	5,525	23	12
Expenditure					
Cost of material consumed	2700	2253	2257	20	20
Change in Inventory	219	-56	219	(493)	0
Erection and subcontracting expenses	2046	1775	2097	15	(2)
Employee Cost	344	362	341	(5)	1
Other Expenses	468	364	439	29	7
Total Expenditure	5777	4699	5353	23	8
EBITDA	388	308	283	26	37
	6.3%	6.1%	5.1%		
Oth. Inc.	8	26	6	(70)	41
Interest	154	164	162	(6)	(5)
Depreciation	48	49	42	(1)	16
Exceptional Item	0	0	0		
PBT	193	121	86	60	125
Tax	42	24	14	74	203
PAT	152	97	72	57	110
EPS (Rs)	5.9	3.8	2.8	56	110

Source: Company, Axis Securities

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	17,282	19,914	22,678	25,821
Other operating income	0	0	0	0
Total income	17,282	19,914	22,678	25,821
Net Raw material	7,069	8,408	9,071	10,070
Contribution (%)	59.1%	57.8%	60.0%	61.0%
Other Expenses	9,383	10,292	11,906	13,401
Operating Profit	830	1,215	1,701	2,350
Other income	31	52	34	39
PBIDT	861	1,267	1,735	2,389
Depreciation	161	185	213	227
Interest & Fin Chg.	539	655	610	594
E/o income / (Expense)	0	0	0	0
Pre-tax profit	161	427	912	1,568
Tax provision	-15	80	192	329
PAT	176	347	720	1,239
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
Adjusted PAT	176	347	720	1,239
Reported PAT	176	347	720	1,239

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	7,186	8,106	8,723	9,859
Net Block	1,368	1,433	1,420	1,393
Right of use assets	215	195	195	195
CWIP	11	14	13	13
Investments	436	350	350	350
Wkg. cap. (excl cash)	4,876	5,908	6,311	6,935
Cash / Bank balance	281	205	434	973
Misc. Assets	0	0	0	0
Capital employed	7,186	8,105	8,723	9,859
Equity capital	51	51	51	51
Reserves	3,720	4,044	4,662	5,798
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	3,408	4,010	4,010	4,010
Def Tax Liabilities	7	0	0	0

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PAT	176	347	720	1239
Depreciation	161	185	213	227
Interest Expense	539	655	610	594
Changes in Working Capital	(25)	(790)	(403)	(624)
Others	(22)	166	158	290
Tax Paid	(222)	(252)	(192)	(329)
Net Cash from Operations	607	311	1107	1396
Capex	(178)	(237)	(199)	(200)
Investment	13	0	0	0
Others	30	14	34	39
Net Cash from Investing	(135)	(223)	(165)	(161)
Borrowings	381	170	0	0
Interest Expense	(534)	(649)	(610)	(594)
Dividend paid	(103)	(77)	(103)	(103)
Others	(145)	411	0	0
Net Cash from Financing	(401)	(145)	(713)	(697)
Net Change in Cash	70	(56)	229	539
Opening cash	208	281	205	434
Closing cash	281	205	434	973

Source: Company, Axis Securities

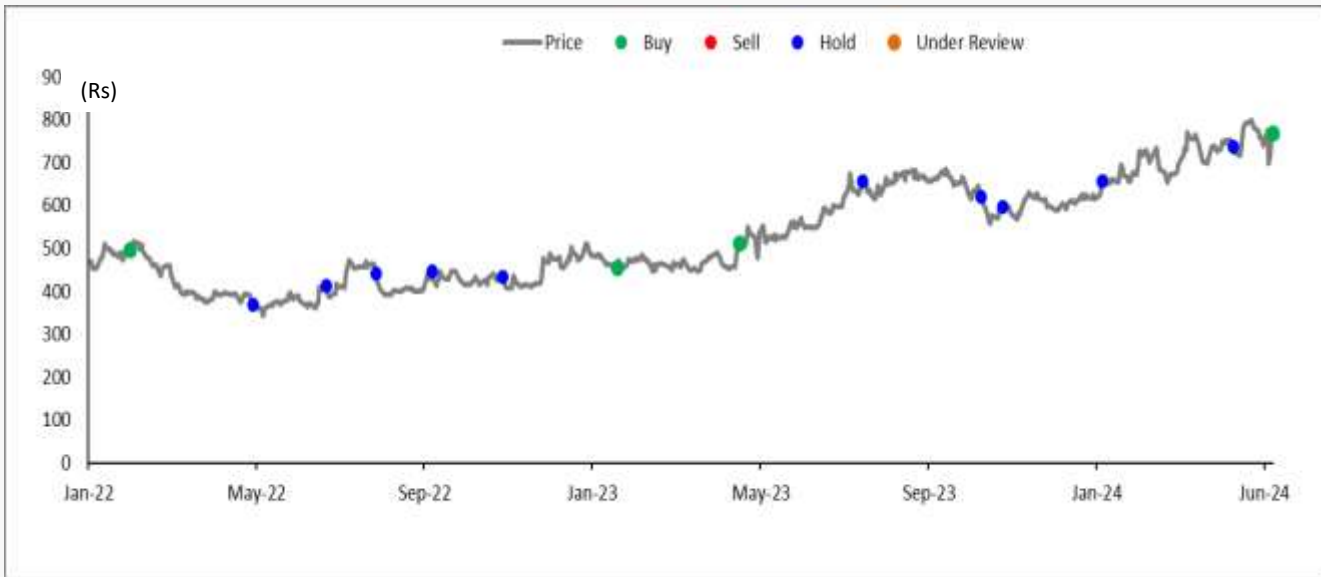
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Sales growth	26	15	14	14
OPM	5	6	8	9
Oper. profit growth	(8.2)	46.4	40.0	38.2
COGS / Net sales	40.9	42.2	40.0	39.0
Overheads/Net sales	54.3	51.7	52.5	51.9
Depreciation / G. block	6.2	6.5	7.0	7.0
Effective interest rate	16.7	17.8	15.3	14.9
Net wkg.cap / Net sales	0.23	0.23	0.23	0.22
Net sales / Gr block (x)	6.7	7.0	7.4	8.0
RoCE	10	14	18	23
Debt / equity (x)	0.90	0.97	0.85	0.68
Effective tax rate	(9)	19	21	21
RoE	5	9	16	23
Payout ratio (Div/NP)	58.4	29.6	14.3	8.3
EPS (Rs)	6.8	13.5	28.0	48.2
EPS Growth	(47.0)	97.1	107.7	71.9
CEPS (Rs)	13.1	20.7	36.3	57.0
DPS (Rs)	4.0	4.0	4.0	4.0

Source: Company, Axis Securities

KEC International Price Chart and Recommendation History



Date	Reco	TP	Research
02-Feb-22	BUY	555	Result Update
04-May-22	HOLD	400	Result Update
29-Jun-22	HOLD	400	AAA
05-Aug-22	HOLD	420	Result Update
16-Sep-22	HOLD	440	Company Update
09-Nov-22	HOLD	405	Result Update
02-Feb-23	BUY	515	Result Update
05-May-23	BUY	570	Result Update
07-Aug-23	HOLD	645	Result Update
02-Nov-23	HOLD	600	Result Update
20-Nov-23	HOLD	600	AAA
01-Feb-24	HOLD	635	Result Update
09-May-24	HOLD	700	Result Update
10-Jun-24	BUY	845	Company Update

Source: Axis Securities

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