

## Outlook robust ; Margin recovery in the works...

About the stock: KEC International (KEC) is one of the EPC majors in key infrastructure sectors such as power T&D, railways, civil, urban infrastructure, solar, smart infrastructure, oil & gas pipelines and cables.

- A strategic shift in portfolio from T&D to non-T&D (13% contribution in FY16 increased to 46% in H1FY25)
- Strong T&D prospects in domestic and international markets (33% of backlog from international markets)

Q2FY25 performance: Consolidated revenues grew 14% YoY at ₹5113 crore. From a segmental perspective, T&D revenues grew by 28% YoY to ₹2831 crore. On the other hand, civil and cables segment revenues grew by 9% and 7% respectively. On the flip side railways and oil & gas business declined by 35% and 28% respectively. Order inflows for H1FY25 stood at ₹13482 crore while order backlog stood at ₹34,088 crore and L1 position of ~₹8500 crore primarily in the T&D segment. EBITDA margins came in at 6.3% in Q2FY25 which expanded 20 bps YoY. Consequently, PAT grew by 53% led by better operational performance and lower finance costs.

### Investment Rationale

- Domestic T&D to drive revenue growth: The company believes the domestic T&D to grow in the range of 30-40% in FY25E on back of robust order book, bidding pipeline and sectoral tailwind. Overall T&D business is expected to grow by 20% whereas railways business will decline 15-20% (this is a deliberate attempt given strong competitive intensity and higher working capital requirement). In our view other segments like civil will grow in double digits. Hence, we expect revenues to grow by 15.3% CAGR over FY24-FY27E. The company currently has ₹130000 crore of bidding pipeline and the management expects order inflows of ₹ 25000 crore in FY25E.
- Margins to inch up to 9% by FY27E: We build in a margin of 8.7% and 9.1% for FY26E and FY27E. The recovery in margins will emanate from factors like a) strong growth in T&D business which earns double digit margins, b) positive contribution from SAE business, c) run down of low margin railway order and other legacy orders. The management expects exit run rate of margins to be at 9-10% in Q4FY25E thereby FY25E average margins at 7.5%.

### Rating and Target Price

- With strong backlog and bid pipeline of Rs 150000 crore, we believe KEC possess strong revenue growth visibility over the next couple of years. The company is expected to deliver revenue CAGR of 15.3% coupled strong recovery in margins which will drive PAT CAGR at 56% over FY24-FY27E We ascribe Buy rating with a revised target of ₹ 1190 (24x FY27E EPS).



### Market Data

Particular	Rs. in crore
Market Cap	26,118.0
Total Debt (H1FY25)	5,317.0
Cash and Inv (H1FY25)	470.4
EV	30,964.6
52 week H/L (Rs./ share)	1076/551
Equity capital	51.4
Face value (Rs./ share)	2.0

### Shareholding pattern

%	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	51.9	51.9	51.9	50.1
FII	10.9	12.5	12.7	13.6
DII	27.0	25.8	25.3	26.3
Public	10.3	9.8	10.2	10.0

### Price Chart



### Key risks

- Delay in order finalisations and wins
- Rise in input costs can impact margins and impact profitability.

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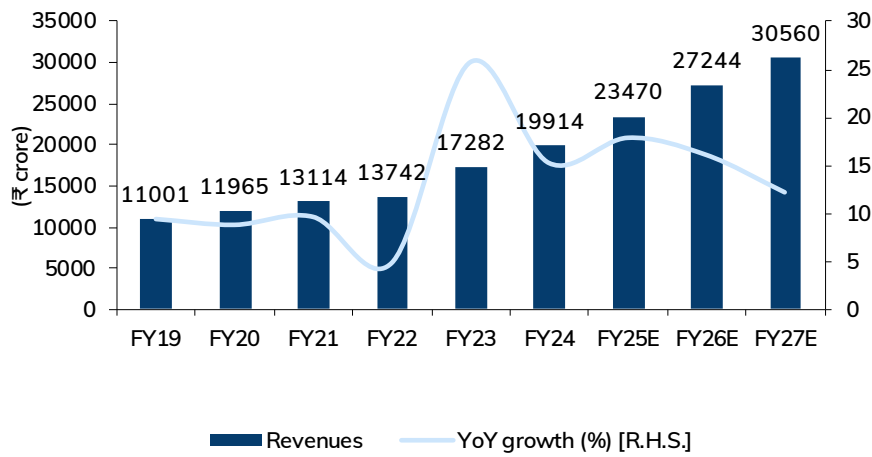
### Key Financial Summary

Particulars (₹ crore)	FY23	FY24	FY25E	5 Year CAGR (FY19-FY24)	FY26E	FY27E	3 Year CAGR (FY24-FY27E)
Net Sales	17,281.7	19,914.2	23,470.3	11.4%	27,244.4	30,505.6	15.3%
EBITDA	829.8	1,214.6	1,797.5	-3.8%	2,363.2	2,785.8	31.9%
EBITDA Margin (%)	4.8	6.1	7.7		8.7	9.1	
Net Profit	176.1	346.8	683.9	-17.5%	1,057.6	1,322.4	56.2%
EPS (₹)	6.6	13.0	25.6		39.6	49.5	
P/E (x)	148.6	75.5	38.3		24.8	19.8	
RoNW (%)	4.7	8.5	15.4		19.7	20.2	
RoCE (%)	10.0	13.7	19.2		22.8	24.0	

## Key result and concall highlights

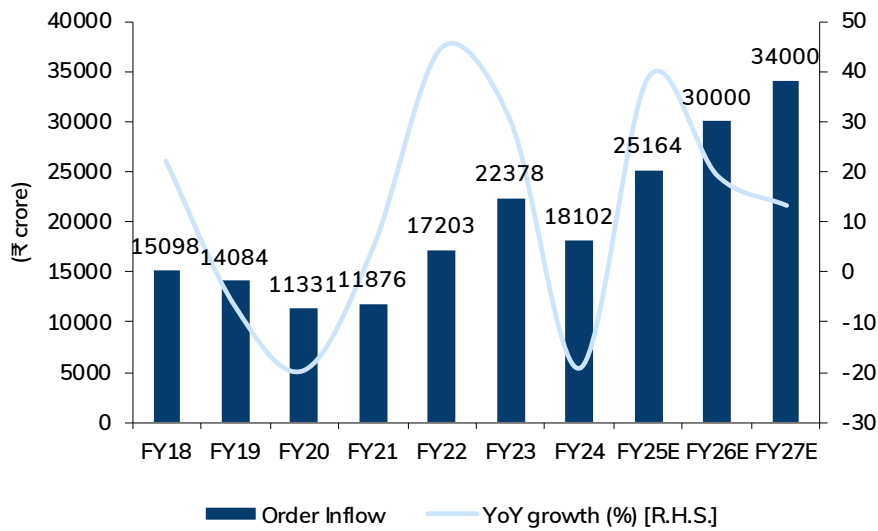
- The company reported a mixed set of results. The order inflows (OI) stood at ₹13,482 crore up 50% YoY, led by T&D which formed 70% of total OI. Additionally, company has L1 position of ₹8,500 crore, primarily in the T&D sector. Order backlog including L1 position as at Q2FY25 is ₹42,500 crore, T&D comprises 61% of total orderbook.
- Consolidated revenues grew 14% to ₹5113 crore in Q2FY25, led by strong execution in the T&D space which grew by 28% YoY, offset by a 35% and 28% decline in Railways and Oil & gas sector. Consolidated EBITDA grew 17% YoY to ₹320 crore and EBITDA margins came in at 6.3% up 20bps YoY. Margins expansion remained slow due to shortage of manpower, heavy rains in Gujarat and Rajasthan and slowdown of water projects due to payment issues. Consequently, PAT came in at ₹85.4 crore, up 53% YoY, PAT margins expanded by 43bps to 1.67%.
- The company has raised ₹870 crore in Q2FY25 via QIP, this placement received demand of about 7 times from domestic and international institutional investors. The proceeds will be used for debt repayment and support ongoing growth initiatives across segments.
- The company plans to invest further ₹90 crore in cables business towards producing ebeam and elastomeric cables, this is expected to commission in Q4FY26. The company expects ₹600 annual revenue from this business segment. As a result of this investment in cables business, the company's planned capex for FY26 will go upto ₹400 crore.
- The company has repaid ~₹1074 crore of debt, the net debt in Q2FY25 stands at ₹5,265 crore. The company has reduced interest cost as a percentage of revenue by 70bps in Q2. The net working capital has been brought down by 3 days to 130 days from 133 days in Q2FY24.
- The company expects to commission aluminum conductor plant in Vadodara in Q3FY25 and generate ~₹200 crore revenue from conductor business in FY25 and ₹600 crore in FY26
- The company has ₹1.5 trillion of ordering prospects with ₹60,000 crore in T&D, ₹50,000 crore in civil business, ₹15000-₹16000 crore in railways and rest from renewables and oil & gas business.
- Management has guided ₹25,000 crore order inflows for FY25, revenue at 15% and EBITDA margins of 7.5% and Net working capital days at 100 days.
- The company is experiencing labour shortage of ~8000 technician workers, it is able to hire 4000 workers, leaving a shortage of 4000 workers primarily in the civil business. The company expects to resolve labor shortage soon.
- The oil and gas business witnessed slowdown due to delay in domestic projects, the company is witnessing a surge in demand from mining companies for slurry pipelines. The company also expects to bag its second order for a composite station works order in Africa.

Exhibit 1: Revenue to grow at 15.3% CAGR over FY24-27E



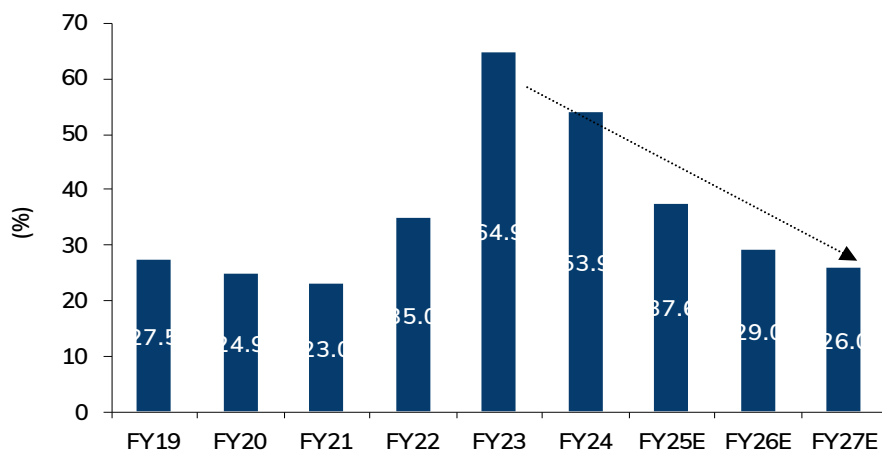
Source: Company, ICICI Direct Research

Exhibit 2: Order inflows to remain strong



Source: Company, ICICI Direct Research

Exhibit 3: Interest cost to EBIDTA to improve meaningfully



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Total operating Income	19,914.2	23,470.3	27,244.4	30,505.6
Growth (%)	15.2	17.9	16.1	12.0
Raw Material Expenses	8,408.0	10,077.5	11,072.3	12,389.5
Employee Expenses	1,440.6	1,712.9	2,032.7	2,223.8
Erecting & Contracting E	7,176.8	7,950.1	9,484.1	10,618.0
Administrative Expense:	1,674.2	1,932.4	2,292.2	2,488.5
Total Operating Expend	18,699.6	21,672.8	24,881.2	27,719.8
EBITDA	1,214.6	1,797.5	2,363.2	2,785.8
Growth (%)	46.4	48.0	31.5	17.9
Depreciation	185.4	293.8	326.9	358.2
Interest	655.1	675.7	686.2	724.3
Other Income	52.4	78.8	60.0	60.0
Exceptional Item	0.0	0.0	0.0	0.0
PBT	426.5	906.8	1,410.1	1,763.2
Total Tax	79.7	222.8	352.5	440.8
PAT	346.8	683.9	1,057.6	1,322.4
Adjusted PAT	346.8	683.9	1,057.6	1,322.4
Growth (%)	96.9	97.2	54.6	25.0
EPS (₹)	13.0	25.6	39.6	49.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	346.8	683.9	1,057.6	1,322.4
Add: Depreciation	185.4	293.8	326.9	358.2
(Inc)/dec in Current Assets	-403.2	-2,964.4	-2,614.6	-2,475.1
Inc/(dec) in CL and Provisior	-557.4	3,041.9	1,343.9	1,528.2
Others	3.3	3.0	5.0	5.0
CF from operating activities	-428.4	1,055.3	113.7	733.7
(Inc)/dec in Investments	-5.2	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-231.8	-339.9	-250.0	-251.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-241.6	-448.9	-359.0	-360.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	618.0	0.0	0.0	0.0
Dividend paid & dividend t	-77.1	-133.6	-133.6	-133.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	594.3	-336.7	-133.6	-133.6
Net Cash flow	-74.4	269.6	-378.8	240.2
Opening Cash	293.2	218.8	488.4	109.6
Closing Cash	218.8	488.4	109.6	349.7

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY25E	FY26E	FY27E
<b>Liabilities</b>				
Equity Capital	51.4	51.4	51.4	51.4
Reserve and Surplus	4,044.3	4,391.5	5,315.5	6,504.4
Total Shareholders fund	4,095.7	4,442.9	5,366.9	6,555.8
Total Debt	3,812.3	3,812.3	3,812.3	3,812.3
Deferred Tax Liability	0.0	5.0	10.0	15.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	8,081.2	8,443.4	9,382.4	10,586.3
<b>Assets</b>				
Gross Block	2,512.0	2,825.8	3,075.8	3,325.8
Less: Acc Depreciation	1,189.1	1,443.6	1,731.2	2,050.1
Net Block	1,322.9	1,382.2	1,344.6	1,275.8
Capital WIP	13.9	40.0	40.0	41.0
Total Fixed Assets	1,336.9	1,422.2	1,384.6	1,316.8
Investments	68.2	88.2	108.2	128.2
Inventory	1,213.3	1,487.4	1,647.6	1,862.6
Debtors	4,136.6	6,430.2	7,464.2	8,357.7
Loans and Advances	148.5	194.2	203.6	241.8
Other Current Assets	10,386.1	10,737.2	12,148.2	13,476.5
Cash	218.8	488.4	109.6	0.0
Total Current Assets	16,103.3	19,337.3	21,573.1	23,938.6
Creditors	9,207.0	10,352.7	12,166.7	13,623.0
Provisions	95.2	124.2	146.0	163.5
Total Current Liabilities	10,950.3	13,992.2	15,336.1	16,864.3
Net Current Assets	5,153.0	5,345.1	6,237.1	7,074.4
Others Assets	0.0	0.0	0.0	0.0
Total Assets	8,081.2	8,443.4	9,382.4	10,236.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Per share data (₹)</b>				
EPS	13.0	25.6	39.6	49.5
Cash EPS	19.9	36.6	51.8	62.9
BV	153.3	166.3	200.9	245.4
DPS	2.9	5.0	5.0	5.0
Cash Per Share	8.2	18.3	4.1	0.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	6.1	7.7	8.7	9.1
PBT / Total Operating incor	2.1	3.9	5.2	5.8
PAT Margin	1.7	2.9	3.9	4.3
Inventory days	22.2	23.1	22.1	22.3
Debtor days	75.8	100.0	100.0	100.0
Creditor days	168.8	161.0	163.0	163.0
<b>Return Ratios (%)</b>				
RoE	8.5	15.4	19.7	20.2
RoCE	13.7	19.2	22.8	24.0
RoIC	16.3	23.8	26.9	28.6
<b>Valuation Ratios (x)</b>				
P/E	75.5	38.3	24.8	19.8
EV / EBITDA	24.5	16.4	12.6	10.8
EV / Net Sales	1.5	1.3	1.1	1.0
Market Cap / Sales	1.3	1.1	1.0	0.9
Price to Book Value	6.4	5.9	4.9	4.0
<b>Solvency Ratios</b>				
Debt/EBITDA	3.1	2.1	1.6	1.4
Debt / Equity	0.9	0.9	0.7	0.6
Current Ratio	1.5	1.3	1.4	1.4
Quick Ratio	1.3	1.2	1.3	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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