

HOLD

TP: Rs 670 | ▲ 8%

KECI INTERNATIONAL

| Capital Goods

| 02 November 2023

Interest cost mars quarter; strong pipeline for H2

- Q2 saw in-line margins but PAT was impacted by high interest cost; margins expected to improve in H2
- H1 order intake at Rs 45bn; guidance reiterated for FY24 order inflow of Rs 250bn, revenue of Rs 200bn and EBITDA margin of ~7%
- Post Q2, we pare FY24/FY25 EPS by 7%/1% though our TP rises to Rs 670 (vs. Rs 630) on rollover – retain HOLD

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In-line margins; interest cost high: KECI's Q2FY24 revenue grew 11% YoY to Rs 45bn with a gross margin of 23.2%. EBITDA margin stood at 6.1% (+170bps YoY), taking the H1FY24 print to 5.9% – in line with management's 6% guidance at the start of the year. KECI reiterated expectations of a ~7% margin for FY24 led by a stronger H2 than last year as legacy orders exit the book. A 39% YoY spike in interest cost coupled with tax writebacks in the year-ago quarter kept PAT flat YoY at Rs 558mn.

Strong order flow: Order intake was Rs 45bn and KECI closed Q2 at a Rs 313bn order book, split equally between transmission and distribution (T&D) and other orders. If we include projects where the company is the lowest bidder, the book rises to Rs 350bn. Management retained FY24 revenue guidance of Rs 200bn backed by order flow expectations of Rs 250bn. KECI's current addressable order pipeline is Rs 1.2tn (vs. Rs 1tn in Q1), with Rs 750bn in T&D, Rs 200bn in rail and Rs 200bn in civil segments.

T&D and civil prospects bright: T&D has seen a pickup in tendering activities with more tariff-based competitive bid (TBCB) projects. The international order book comprises entirely of T&D projects and KECI indicated that ~Rs 500bn of its Rs 750bn T&D pipeline is non-domestic. Its civil business is seeing traction from the FMCG, metals, data centre, and water segments, with KECI securing its first order to set up the entire manufacturing infrastructure for a global FMCG major.

Interest cost remains elevated: Interest cost increased 39% YoY to Rs 1.8bn in Q2, with 65% attributed to the rise in rates and 35% due to elevated working capital debt. Debt stood at Rs 63.3bn at the end of Q2 (vs. Rs 57bn in Q1FY24). KECI expects to end FY24 with interest cost at 3-3.25% of sales. Net working capital cycle is guided to improve to 140 days in Q2 with a long-term target of <100 days.

Maintain HOLD: We pare our FY24/FY25 EPS estimates by 7%/1% on account of the sustained, high interest costs but bake in the improved H2FY24 margin outlook by raising our target P/E to 16x (vs. 15x), a 15% discount to the 5Y average. On rolling valuations over to Sep'25E, we have a new TP of Rs 670 (vs. Rs 630). The stock has run up 36% in FY24 YTD and carries little upside, leading us to retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KECI IN/Rs 621
Market cap	US\$ 1.9bn
Free float	47%
3M ADV	US\$ 4.8mn
52wk high/low	Rs 748/Rs 405
Promoter/FPI/DII	52%/13%/26%

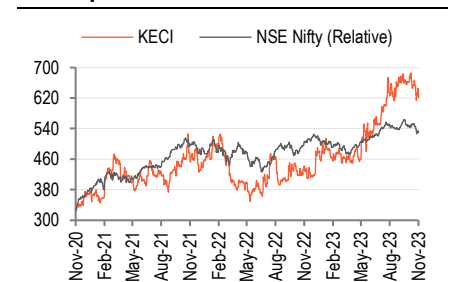
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	172,817	202,357	236,340
EBITDA (Rs mn)	8,297	14,423	19,543
Adj. net profit (Rs mn)	1,760	5,244	9,342
Adj. EPS (Rs)	6.8	20.4	36.3
Consensus EPS (Rs)	6.8	22.2	37.2
Adj. ROAE (%)	4.8	13.2	20.4
Adj. P/E (x)	90.8	30.5	17.1
EV/EBITDA (x)	15.9	9.0	7.0
Adj. EPS growth (%)	(53.2)	197.9	78.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

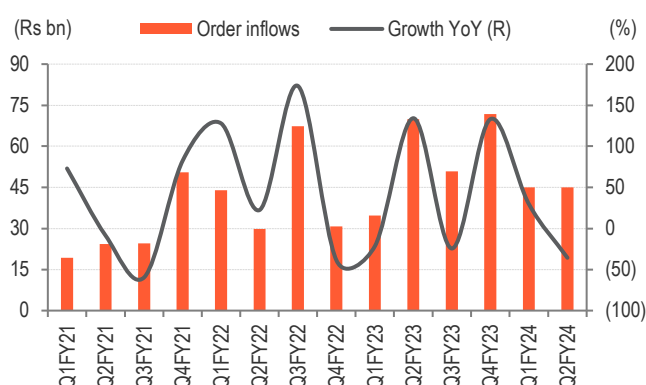


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY23	QoQ (%)	H1FY24	1HFY23	YoY (%)
Revenue	44,990	40,640	10.7	42,436	6.0	87,426	73,821	18.4
EBITDA	2,743	1,780	54.2	2,444	12.3	5,187	3,464	49.7
EBITDA Margin (%)	6.1	4.4	170bps	5.8	30bps	5.9	4.7	120bps
Depreciation	465	399		418		883	792	
Interest	1,778	1,277		1,587		3,365	2,276	
Other Income	158	161		28		187	241	
PBT	658	266	147.6	467	40.9	1,125	637	76.6
Tax	100	-287		44		143	-226	
Adjusted PAT	558	552	1.1	423	31.9	982	863	13.8
Exceptional item	0	0		0		0	348	
Reported PAT	558	552	1.1	423	31.9	982	863	13.8
Adj. PAT Margin (%)	1.2	1.4	(10bps)	1.0	20bps	1.1	1.2	0bps
EPS (Rs)	2.2	2.1		1.6		3.8	3.4	

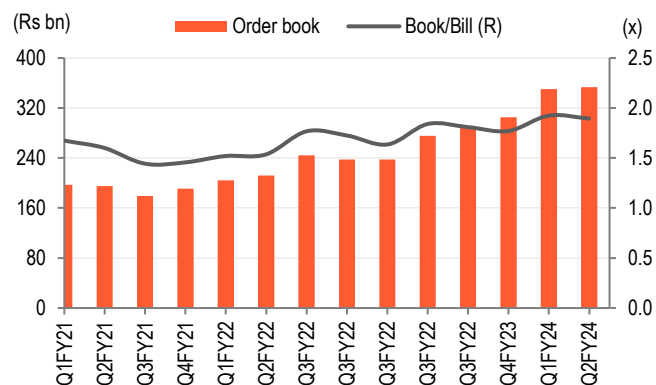
Source: Company, BOBCAPS Research

Fig 2 – Order inflows



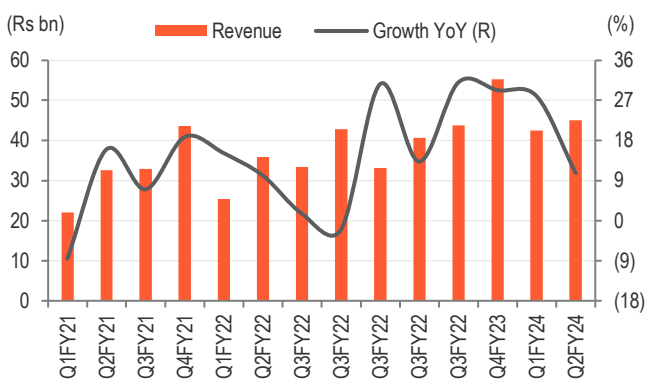
Source: Company, BOBCAPS Research

Fig 3 – Order backlog



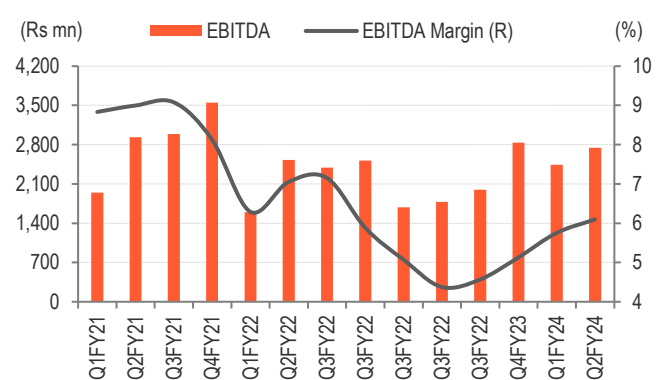
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth



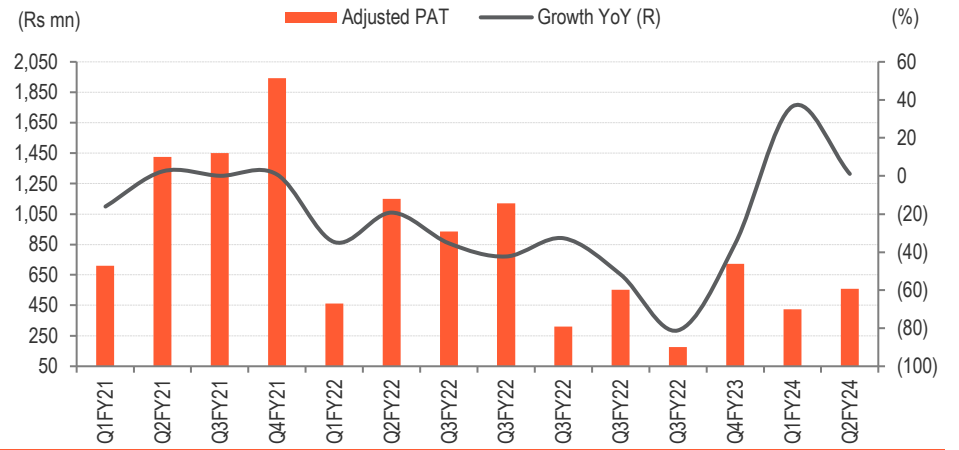
Source: Company, BOBCAPS Research

Fig 5 – EBITDA growth



Source: Company, BOBCAPS Research

Fig 6 – Profit growth



Source: Company, BOBCAPS Research

Valuation methodology

We pare our FY24/FY25 EPS estimates by 7%/1% on account of the sustained, high interest costs but bake in the improved H2FY24 margin outlook by raising our target P/E multiple to 16x (vs. 15x), a 15% discount to the five-year average. We also introduce FY26 forecasts in this report. On rolling valuations over to Sep'25E, we have a new TP of Rs 670 (vs. Rs 630). The stock has run up 36% in FY24 YTD and carries little upside, leading us to retain our HOLD rating.

Fig 7 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	202,357	236,340	202,357	236,340	0.0	0.0
EBITDA	14,423	19,543	13,747	18,742	4.9	4.3
PAT	5,244	9,342	5,647	9,450	(7.1)	(1.1)
EPS	20.4	36.3	22.0	36.8	(7.1)	(1.1)
EBITDA Margin (%)	7.1	8.3	6.8	7.9	30bps	30bps

Source: Company, BOBCAPS Research

Key risks

- Above-anticipated margin recovery is a key upside risk to our estimates.
- Weakness in margins and elevated working capital are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.5	4,055	4,400	HOLD
AIA Engineering	AIAE IN	4.2	3,679	4,000	BUY
Cummins India	KKC IN	5.6	1,674	2,110	BUY
Hitachi Energy	POWERIND IN	2.1	4,154	4,400	HOLD
KEC International	KECI IN	1.9	621	670	HOLD
Larsen & Toubro	LT IN	49.5	2,895	3,500	BUY
Siemens India	SIEM IN	14.4	3,326	3,900	HOLD
Thermax	TMX IN	4.2	2,886	2,600	HOLD

Source: BOBCAPS Research, NSE | Price as of 1 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	137,423	172,817	202,357	236,340	276,515
EBITDA	9,035	8,297	14,423	19,543	24,044
Depreciation	1,579	1,615	1,679	1,747	1,816
EBIT	7,456	6,682	12,744	17,796	22,228
Net interest inc./(exp.)	3,160	5,386	6,071	5,672	6,360
Other inc./(exp.)	134	313	338	365	395
Exceptional items	0	0	0	0	1
EBT	4,431	1,610	7,011	12,490	16,263
Income taxes	674	(151)	1,767	3,147	4,098
Extraordinary items	436	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,321	1,760	5,244	9,342	12,164
Adjustments	436	0	0	0	0
Adjusted net profit	3,757	1,760	5,244	9,342	12,164

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	68,473	83,883	94,248	110,076	128,788
Other current liabilities	27,490	30,937	38,808	45,326	53,030
Provisions	0	0	0	0	1
Debt funds	30,646	33,834	25,500	17,500	17,500
Other liabilities	580	318	372	435	508
Equity capital	514	514	514	514	514
Reserves & surplus	35,685	37,200	41,287	49,473	60,480
Shareholders' fund	36,199	37,714	41,802	49,987	60,995
Total liab. and equities	163,389	186,686	200,730	223,324	260,822
Cash and cash eq.	2,619	3,442	1,597	2,291	4,840
Accounts receivables	51,061	68,961	74,290	82,881	96,970
Inventories	10,665	11,372	14,414	16,835	19,697
Other current assets	72,524	74,482	79,544	87,722	102,634
Investments	0	0	0	0	0
Net fixed assets	15,377	15,828	16,149	16,402	16,586
CWIP	25	115	115	115	115
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	11,119	12,487	14,622	17,077	19,980
Total assets	163,389	186,686	200,730	223,324	260,821

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	(2,837)	6,067	11,727	14,244	8,535
Capital expenditures	(1,986)	(1,626)	(2,000)	(2,000)	(2,000)
Change in investments	(116)	126	0	0	0
Other investing cash flows	55	147	(2,080)	(2,393)	(2,829)
Cash flow from investing	(2,047)	(1,352)	(4,080)	(4,393)	(4,829)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	8,709	2,365	(8,334)	(8,000)	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(3,750)	(6,373)	(1,157)	(1,157)	(1,157)
Cash flow from financing	4,959	(4,008)	(9,491)	(9,157)	(1,157)
Chg in cash & cash eq.	75	707	(1,844)	694	2,549
Closing cash & cash eq.	2,619	3,442	1,597	2,291	4,840

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	12.9	6.8	20.4	36.3	47.3
Adjusted EPS	14.6	6.8	20.4	36.3	47.3
Dividend per share	4.0	3.0	4.5	4.5	4.5
Book value per share	140.8	146.7	162.6	194.4	237.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.0	0.8	0.6	0.6	0.5
EV/EBITDA	15.8	15.9	9.0	7.0	6.0
Adjusted P/E	42.5	90.8	30.5	17.1	13.1
P/BV	4.4	4.2	3.8	3.2	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	84.8	109.3	74.8	74.8	74.8
Interest burden (PBT/EBIT)	59.4	24.1	55.0	70.2	73.2
EBIT margin (EBIT/Revenue)	5.4	3.9	6.3	7.5	8.0
Asset turnover (Rev./Avg TA)	84.1	92.6	100.8	105.8	106.0
Leverage (Avg TA/Avg Equity)	4.7	5.1	5.0	4.9	4.7
Adjusted ROAE	10.8	4.8	13.2	20.4	21.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	4.8	25.8	17.1	16.8	17.0
EBITDA	(20.8)	(8.2)	73.8	35.5	23.0
Adjusted EPS	(32.0)	(53.2)	197.9	78.1	30.2
Profitability & Return ratios (%)					
EBITDA margin	6.6	4.8	7.1	8.3	8.7
EBIT margin	5.4	3.9	6.3	7.5	8.0
Adjusted profit margin	2.7	1.0	2.6	4.0	4.4
Adjusted ROAE	10.8	4.8	13.2	20.4	21.9
ROCE	17.6	15.0	27.9	33.6	34.7
Working capital days (days)					
Receivables	136	146	134	128	128
Inventory	28	24	26	26	26
Payables	182	170	170	170	170
Ratios (x)					
Gross asset turnover	5.0	5.8	6.4	7.0	7.7
Current ratio	1.1	1.1	1.1	1.1	1.1
Net interest coverage ratio	2.4	1.2	2.1	3.1	3.5
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

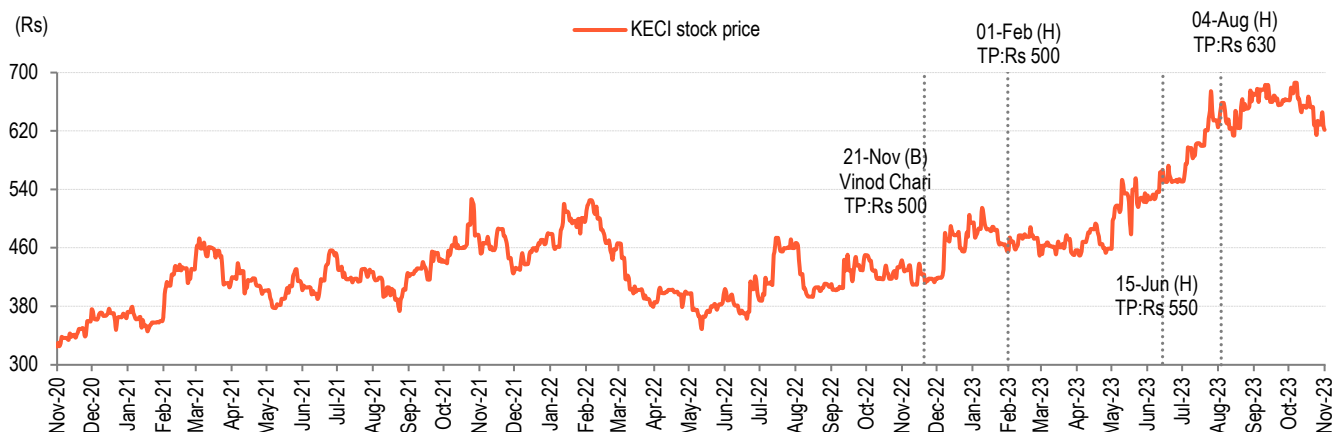
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): KEC INTERNATIONAL (KECI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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