Stock Update | Result Update

MIRAE ASSET Sharekhan

KEC International Ltd

Decent Q1; non T&D segment contribution to improve

Capital Goods	Sharekhan code: KEC

Reco/View: Buy	⇔	CMP: Rs. 860	Price Target: Rs. 1,000	⇔

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

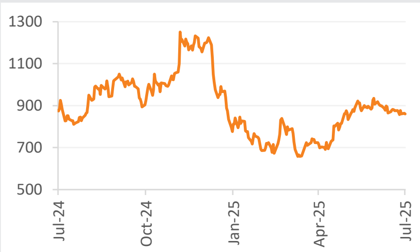
Company details

Market cap:	Rs. 22,145 cr
52-week high/low:	Rs. 1312/605
NSE volume: (No of shares)	30.0 lakh
BSE code:	532714
NSE code:	KEC
Free float: (No of shares)	12.8 cr

Shareholding (%)

Promoters	50.1
FII	16.0
DII	22.6
Others	11.3

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-5.1	20.3	5.9	-1.7
Relative to Sensex	-1.9	19.0	-0.0	-1.7

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Q1FY26 numbers were decent and in line with our estimates, with revenues at Rs 5,073 crore, rising 11% y-o-y, mainly led by the T&D business which grew 26% y-o-y. EBITDA margins rose ~98 bps y-o-y to 7.0%. As a result, PAT rose 42% y-o-y to Rs 125 crore.
- YTD FY26 order inflows stood at Rs 5,517 crore. Management highlighted a slowdown in tendering activities but expects it to be pick up going ahead. Order book stands at Rs 40,000 crore (incl. L1 of more than Rs 6,000 crore).
- Management highlighted that the non-T&D business has been lacklustre from past 3-4 quarters due to shortage of labour, collections issues in water segment, slowdown in railways will be picking up from next quarter.
- We retain a Buy rating with a PT of Rs. 1,000 backed by an improving margin trajectory, robust order pipeline / order book and strong earnings outlook.

YTDFY26 order intake touched Rs. 5,517 crore, primarily from the T&D segment (Rs. 3,255 crore) and civil (Rs 2,096 crore). The management has maintained its guidance of revenue growth of 15% with margins at 8.5% and order inflows of Rs 30,000 crore. T&D and renewables segments showed strong growth but was compensated for civil, transportation and oil & gas pipeline segments leading to an 11% growth. The company has initiated the capacity expansion at Butibori tower manufacturing plant in Nagpur after capacity enhancements at Dubai, Jaipur, and Jabalpur plants. The management sees a great opportunity for T&D business in the Middle East, and Saudi Arabia. In the cables business, the company has commissioned the first phase of the aluminium conductor plant and initiated the process of doubling capacity. The capex for the e-Beam facility and elastomeric cables is progressing well.

Key positives

- T&D segment performance (26% y-o-y) was backed by strong execution of order book.
- The shortage of labor issues is getting sorted and the civil business is expected to pick up in coming quarters.

Key negatives

- Railways remained flat and oil & gas segment have clocked a subdued performance by degrowing 52%.

Management Commentary

- Management highlighted that the non T&D business which was not performing will pick up in coming quarters.
- Management guided the tendering activities to pick up in coming quarters.
- The management has maintained its guidance of revenue growth of 15% with margins at 8.5% and order inflows of Rs 30,000 crore.
- Tenders under evaluation/ pipeline of Rs 1.8 lakh crore of which 70% is contributed by the T&D segment.

Our Call

Maintain Buy with a PT of Rs. 1,000: Strong order book of ~Rs. 40,000 crore (including L1) bodes well for revenue growth. We expect ~15% revenue growth for FY2025-27E with a sequential improvement in its margins. KEC trades at a P/E of ~19`x its FY2027E EPS, which provides room for an upside, given its healthy order backlog and order pipeline and the possibility of margin revival. Hence, we maintain a Buy with a revised price target (PT) of Rs. 1,000.

Key Risks

Slowdown in tendering activities could impact its execution. Further, escalation in input costs and supply-side constraints are key challenges.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Net Sales	17,282	19,914	21,847	25,232	28,900
OPM (%)	4.8	6.1	6.9	8.3	8.8
Adj Net Profit	176	347	571	974	1,234
% y-o-y growth	-53.1	97.0	56.1	70.7	26.7
Adj EPS (Rs)	6.8	13.5	22.2	36.5	46.2
PER (x)	126.2	54.2	38.9	23.7	18.7
P/BV (x)	5.9	5.4	4.2	3.7	3.1
EV/EBITDA (x)	30.2	18.4	17.1	12.3	10.1
ROCE (%)	10.5	14.9	16.8	21.5	24.0
ROE (%)	4.8	8.8	12.1	16.8	18.2

Source: Company; Mirae Asset Sharekhan estimates

Key Highlights

Order book: YTDFY26 order intake stood at Rs 5,517 crore with significant contribution from T&D and Civil segment. KEC currently has order book of Rs 40,000 crore (including L1 position), which offers revenue visibility for the next 2-3 years. The management has guided a revenue growth of 15% with margins of 8.5% and order inflows of Rs 30,000 crore.

T&D segment: Revenues strongly grew by 26% y-o-y driven by order book execution. Significant traction is seen in T&D ordering activities leading to an order intake of Rs 3,255 crore. SAE business reported revenue of Rs 359 Cr for Q1FY26 growing by 4% y-o-y. The marginal revenue growth was on impact of steep depreciation of the Brazilian currency against the US Dollar. The business is witnessing significant traction current order book remains at Rs 3,200 crore. These orders are for the supply of towers, hardware, and poles across the US, Mexico, and Brazil.

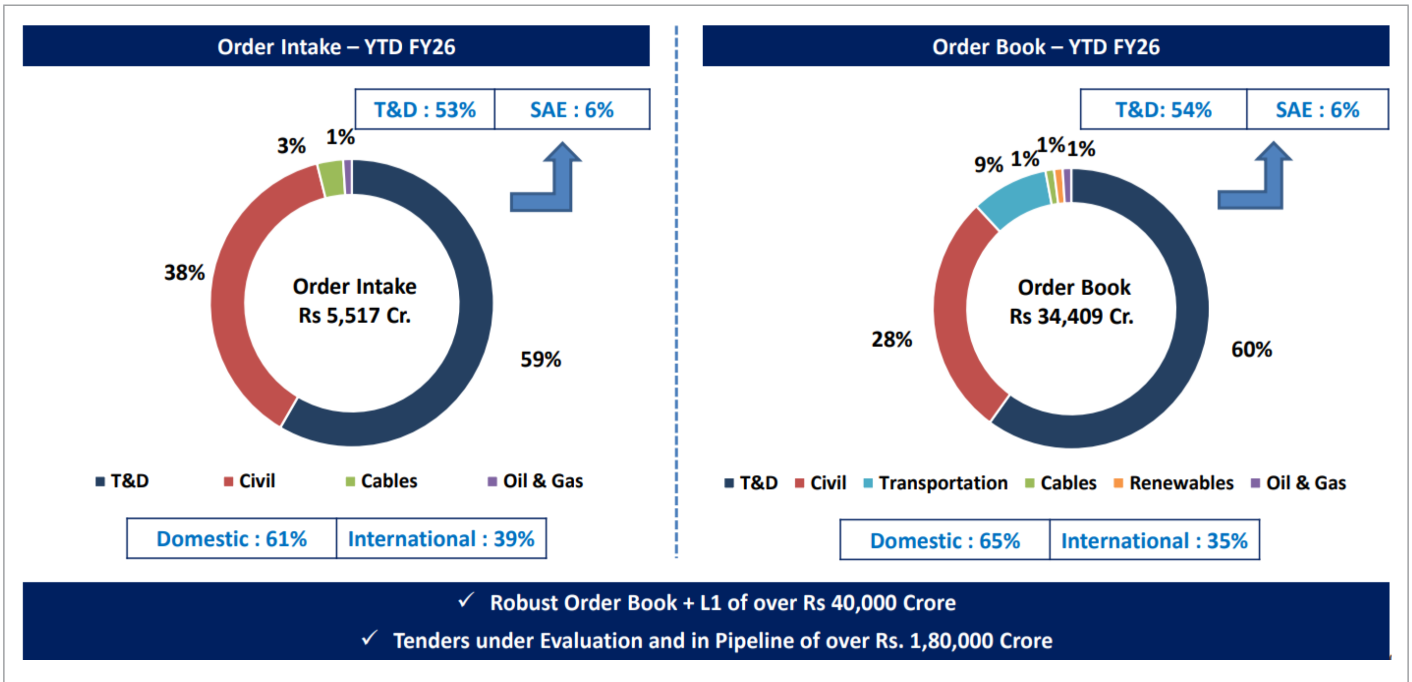
Civil segment: The segment revenues were down by 11% impacted by shortage of labor and receivables issues in water segment. With an order book plus L1 of Rs 10,000 crore, the company is confident that the Civil business will continue to be a key growth driver.

Results (Consolidated) Rs cr

Particulars	Q1FY26	Q1FY25	Y-o-Y (%)	Q4FY25	QoQ (%)
Net Sales	**5,023**	**4,512**	**11.3**	**6,872**	**-26.9**
Operating profit	**350**	**270**	**29.5**	**539**	**-35.0**
Other income	5	43	-87.5	20	-73.3
Interest	151	155	-2.5	170	-11.3
Depreciation	46	47	-1.4	47	-1.4
PBT	**159**	**112**	**41.5**	**342**	**-53.7**
Tax	34	24	38.6	74	-54.1
Adj PAT	**125**	**88**	**42.3**	**268**	**-53.5**
EPS	4.8	3.4	42.3	10.4	-53.5
Margin			**bps**		**bps**
OPM (%)	7.0	6.0	98	7.8	(87)
NPM (%)	2.5	1.9	54	3.9	(142)

Source: Company; Mirae Asset Sharekhan Research

Consolidated Order Intake & Order Book



Source: Company presentation

Outlook and Valuation

Sector Outlook – Ample levers offer scope for growth

The government's rising focus on infrastructure availability, affordable housing, thrust on rural electrification, 100% electrification of the railway network by 2025, and increasing metro rail to 25 cities by 2025 are expected to propel growth for user industries. The government has envisaged Rs. 111 lakh crore of capital expenditure in the infrastructure sector from FY2020 to FY2025. Sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of projected infrastructure investments. The government's continued thrust on infrastructure investments is expected to improve demand across railways, metros, roads, healthcare, and real estate, providing ample opportunities for KEC. India's focus on becoming a $5 trillion economy, building industries to drive manufacturing-led growth, and goals on sustainable energy will ensure significant investments in the power sector. India's power-generation capacity is expected to reach 777 GW by 2030 and the development of a high-voltage transmission grid will need to keep pace with generation capacity. Other factors that will drive growth in the T&D sector are the need for setting up of inter-regional grid capacity to ensure seamless flow of power from one region to another, evacuation infrastructure for renewables and cross-border interconnections with SAARC countries. With the setting up of a cross-country national grid, states are planning huge investments to improve connectivity, reliability, and affordability. An increase in large-size transmission lines, as well as substation tenders from state utilities can thus benefit companies such as KEC.

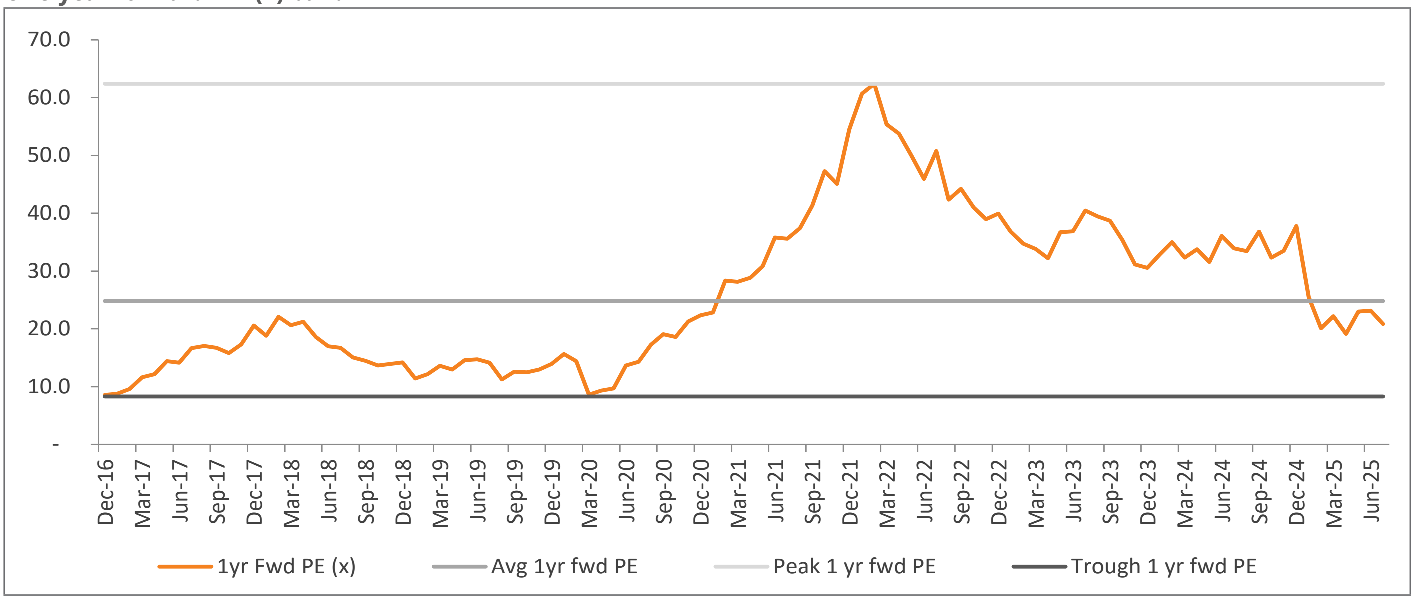
Company Outlook – Long-term prospects bright

Ordering activity is gradually gaining momentum, with tendering visibility remaining healthy in the Railways, international T&D, and the civil segments. The management sees a Rs. 1,30,000 crore project pipeline across businesses. The international T&D pipeline is very strong in the Middle East, the Americas, Bangladesh, and the Far East. The company expects execution to pick up going ahead for FY2024, with a scale-up in execution in international T&D orders, civil, and oil & gas, while domestic T&D is expected to remain flat. Sluggishness in domestic T&D project awards is well compensated through opportunities in international T&D segment (across the MENA region, Bangladesh, the Far East and North and West Africa), with a good chunk of tenders being floated. The green energy corridor is also a potential business opportunity for KEC.

Valuation – Maintain Buy with a PT of Rs. 1,000

Strong order book of ~Rs. 40,000 crore (including L1) bodes well for revenue growth. We expect ~15% revenue growth for FY2025-27E with a sequential improvement in its margins. KEC trades at a P/E of ~19`x its FY2027E EPS, which provides room for an upside, given its healthy order backlog and order pipeline and the possibility of margin revival. Hence, we maintain a Buy with a revised price target (PT) of Rs. 1,000.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

KEC is a global power transmission infrastructure EPC major. The company is in the power T&D, cables, railways, renewable (solar energy), smart infra, and civil construction businesses. Globally, the company has powered infrastructure development in more than 61 countries. KEC is a leader in power transmission EPC projects and has over seven decades of experience. Over the years, the company has grown through the organic and inorganic routes.

Investment theme

T&D spend in India is expected to be around Rs. 2,300 billion over FY2018-FY2023E, up 28% over FY2012-FY2017. Much of this spending will likely come from state electricity boards. Additionally, ordering for the Green Energy Corridor will likely provide ample opportunities in the domestic market. Moreover, expansion in the regional transmission network in Africa, SAARC, and CIS countries will likely supplement domestic demand and present a large business opportunity. KEC has significantly scaled up the non-T&D segments (railways, civil, and cables segments), and margins in these segments have improved significantly. The opportunity size remains high in the non-T&D segment to provide enough opportunity to ramp up its total order outstanding for the business. KEC's order book remains strong, providing strong revenue visibility; and order inflow visibility remains healthy in international T&D, railways, and civil segments. Stability in the margins going forward would be a key re-rating trigger for the stock.

Key Risks

- Slower-than-expected project execution in domestic and international markets due to various reasons is expected to affect performance.
- Slowdown in tendering activities, especially in T&D, railways, and overseas orders.

Additional Data

Key management personnel

Name	Designation
Harsh Vardhan Goenka	Non-Executive - Non-Independent Director-Chairperson
Vimal Kejriwal	Managing Director & CEO
Rajeev Aggarwal	Chief Financial Officer
Ajit Tekchand Vaswani	Non-Executive - Independent Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.36
2	Nippon Life India Asset Management	2.29
3	DSP Investment Managers Pvt Ltd	2.21
4	L&T Mutual Fund Trustee Ltd/India	2.04
5	Vanguard Group Inc/The	2.02
6	Kotak Mahindra Asset Management Co	1.74
7	Norges Bank	1.72
8	IDFC Mutual Fund/India	1.38
9	Blackrock Inc	1.32
10	Tata Asset Management Pvt Ltd	0.91

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

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