

Background & Business

KEC Ltd is flagship company of RPG group which is one of the India's leading business house. KEC is a global EPC player in the Power Transmission and Distribution (T&D) space. The company has over 7 decades of experience in executing power T&D projects on turnkey basis and has the ability to provide end-to-end solutions encompassing designing, manufacturing, supply and construction of power transmission lines. It has interests across Power T&D, Cables, Railways, Telecom, Water and solar sectors. Power sector is the largest contributor to the revenue at 77% followed by cables (10%), railways (8%), civil (3%) and Solar (3%).

Investment Thesis

- a) **Robust sector opportunity:** In the 13th plan, Rs. 2.6 tn of transmission capex is envisaged with PGCIL and SEBs leading the way. KEC being the market leader in the segment with strong execution capabilities, is expected to be a large beneficiary.
- b) **Multiple growth levers:** KEC, predominantly a power T&D EPC player, has diversified itself considerably over the past few years. Its international T&D orders form 50% of total T&D orders and has also won several international solar projects. Domestically, its order book in T&D and non T&D segment stands at 77:23, with increasing bias towards non T&D EPC projects like railways and civil projects to leverage its execution capabilities and intensify growth.
- c) **Strong traction in the order book:** KEC has strong order backlog of Rs. 173 bn, with Order book growing at CAGR of 22% over the past 3 years. Order book/Sales ratio stands at 1.7 providing ample revenue visibility in the medium term given long execution cycle of 18-24 months. Ordering from SEBs is expected to improve going forward.
- d) **Margin expansion underway:** KEC has improved its core operating margins significantly from 6% in FY15 to current 10%. Strong focus on execution, cost control and improvement in SAE operations enabled the company to expand margins. As the company further increases scale, operating leverage will aid the company to maintain margins going forward.

Outlook

Order execution and tendering is expected to remain strong going forward. Scaling up of railways and continued traction in T&D order book will ensure good revenue visibility. We expect KEC to grow its sales and PAT at a CAGR of 14% and 21%, respectively, over the next 5 years. Given the overall favourable environment of the sector and dominant leadership position in the market, we maintain our BUY recommendation on the company.



From : 13-05-2013
 To : 31-05-2018
 Performance : 658%
 Recommendation : OPEN


