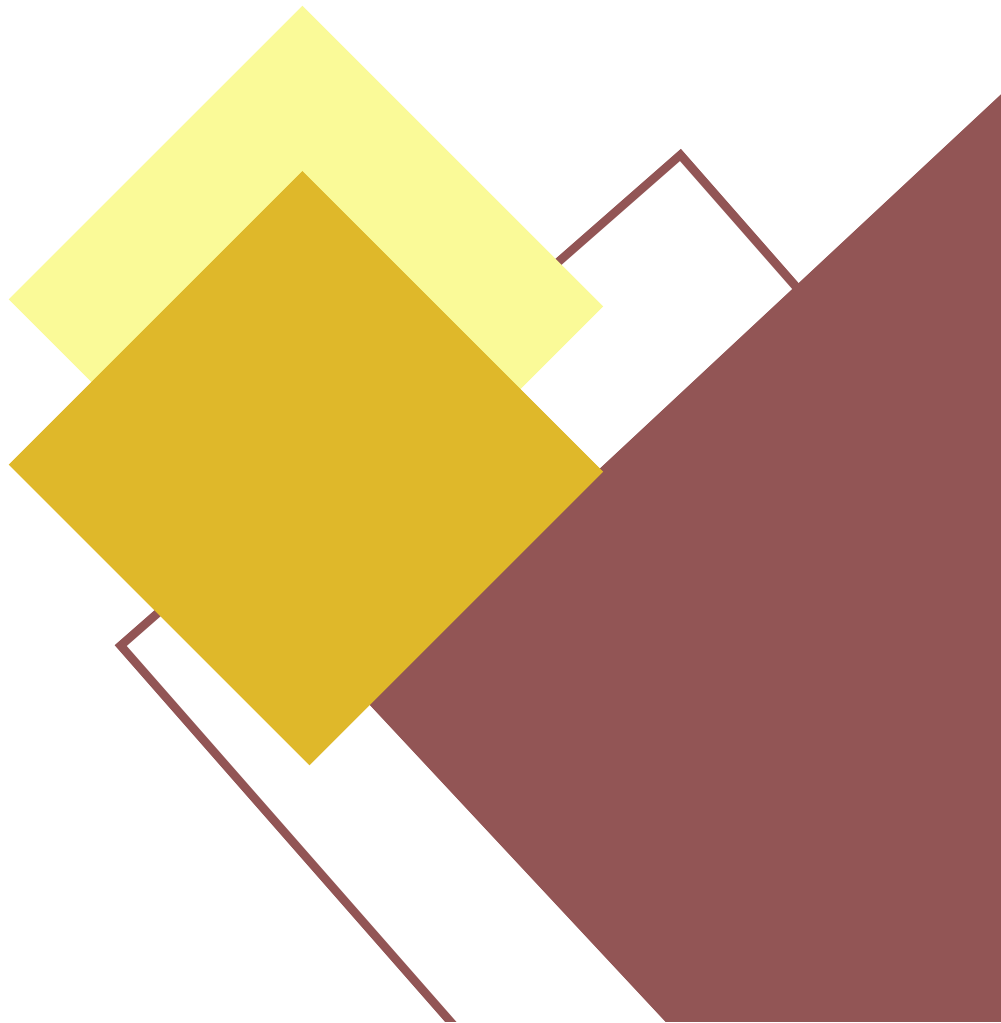




KEC INTERNATIONAL





MARKET CAPITAL: ₹ 12,769.58 CR
ENTERPRISE VALUE: ₹14,358.54 CR
NO. OF SHARES: ₹ 25.71 CR

52 WEEK HIGH: ₹ 550
52 WEEK LOW: ₹ 349.50
FACE VALUE: ₹ 2.00

We recommend a Buy position on KEC International with a medium to long-term view owing to strong government push, the future of precast projects, prudent capital allocation, and new policies.

SECTOR OVERVIEW

The real estate industry is one of the most well-known in the world. Housing, retail, hospitality, and business are the four subsectors. After agriculture, the real estate sector creates the second-highest number of jobs in India.

CURRENT SCENARIO

The COVID-induced lockdowns in 2020 suffocated the real estate industry, effectively halting all property transactions. Despite the steep decline, the market made significant progress toward recovery in 2021, with strong sales and new project launches. This is reflected by the strong performance of the residential and commercial property segments in the July-September quarter. After a halt in the April-June quarter caused by the pandemic's return and limitations imposed by various state governments, record-low house loan interest rates and sops provided by real estate developers enabled top Indian property markets move upward.

- House sales in the top seven Indian property markets climbed by over 124 percent year on year to 32,358 flats. Also 92 percent growth in housing sales across eight cities to over 64,010 units.
- Private equity inflows into India's real estate sector totaled US\$ 3.3 billion between January 2021 and September 2021.
- Institutional real estate investment in India increased by 7% year on year in the third quarter of 2021. Investment totaled US\$ 2,977 million in the first nine months of 2021, compared to US\$ 1,534 million the previous year.
- In the third quarter of 2021, the top three cities—Mumbai (39 percent), NCR-Delhi (19 percent), and Bengaluru (19 percent)—attracted 77 percent of all investment.



GROWTH POTENTIAL

The growth of this sector is aided by the expansion of the corporate environment, which has increased demand for office space as well as urban and semi-urban lodging. The country is experiencing a housing shortage as a result of its large population. In India, there is also a growing trend of people migrating from rural to urban areas in search of work. The need for homes is also fueled by the migrant population. This sector is also likely to attract greater non-resident Indian (NRI) investment, both in the short and long term.

The pandemic has changed real estate trends, with developers emphasising individuality and customer-centricity as primary priorities. Working from home has become a prominent trend, influencing homeowner preferences. These pandemic-inspired trends, together with low mortgage rates, affordability, and other positive variables, fueled real estate growth in tier 2/3 cities, which is expected to continue to lead the industry in the coming years.

Not just in the metro, but also in tier 2 cities, the pandemic-induced shifts have fueled demand for flexible office space and hybrid models. The amalgamation of commercial real estate, coworking spaces, and grade-A offices with well-connected infrastructure has gained high momentum which have pushed the large market players to adopt new business models with advanced technologies and smarter offerings. THUS, Innovation & digital transformation will drive the boom of this industry.





COMPANY OVERVIEW

The RPG Group's flagship company, KEC International Limited, is based in Mumbai, India. It is a USD 1.8 billion Engineering, Procurement, and Construction (EPC) company that specialises in

- Power transmission and distribution,
- Railways,
- Civil and urban infrastructure,
- Solar,
- Smart infrastructure,
- Oil and gas pipelines, and
- Cables.

From 'concept to commissioning,' its comprehensive and integrated capabilities encompass the full EPC value chain. With the help of strong engineering, procurement, execution, and project management capabilities, it has successfully completed complicated projects in some of the world's most difficult terrains and circumstances. It has a significant manufacturing presence in India, Dubai, Brazil, and Mexico. Its global presence has allowed it to build a reliable and flexible supply network that spans six continents and more than 105 nations.

It has been known for its unrivalled experience in EPC for over 75 years, driven by a strong customer-centric approach, a strive for world-class quality, and a 'safety-first' mindset. The cornerstones of its corporate responsibility are integrity in its actions and respect for people, the environment, and its stakeholders. It constructs infrastructure for the world of tomorrow, fueled by a desire to exceed and succeed.



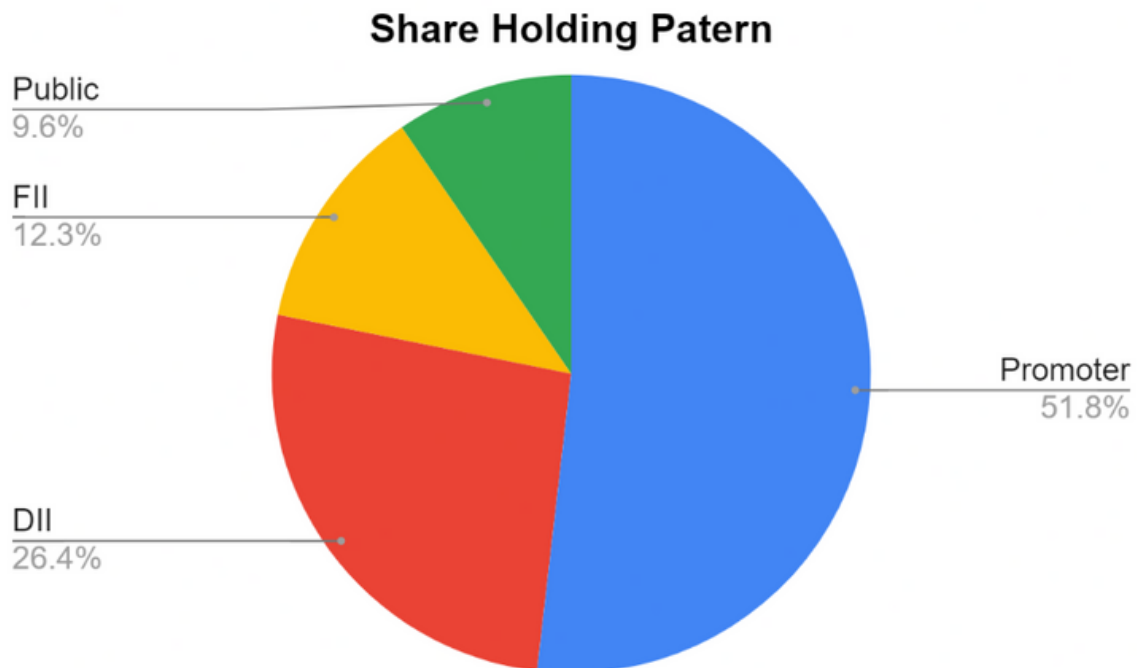
COMPANY FINANCIALS

CONSOLIDATED(CR)	FY2021	FY2020	FY2019
BASIC EPS	21.5	22	19.28
P/E	19.11	8.43	15.55
GROSS PROFIT MARGIN (%)	8.93	10.4	10.65
CURRENT RATIO	1.16	1.13	1.19
D/E	0.55	0.74	0.7
ROE	16.45	20.21	20.35
Return on Assets(%)	3.93	4.39	4.23
Asset Turnover Ratio (%)	93.35	92.92	94.06
Dividend/Share (Rs.)	4	3.4	2.7



SHARE HOLDING PATTERN

Promoter	51.82%
DII	26.35%
FII	12.25%
Public	9.58%
Others	0.00%





INVESTMENT HYPOTHESIS

PERFORMANCE RECORD:

Superior project management, execution expertise, and technical prowess in large project management

Project execution in unfavourable environments has a proven track record of success (seas, rivers, mountains, hills, deserts and forests). Ability to overcome problems posed by harsh environmental circumstances (projects completed in temperatures ranging from +40°F in the Middle East to -40°F in the CIS) Quick mobilisation of resources for project implementation around the world.

Only company in the world with four tower testing stations, capable of testing towers up to 1,200 kV, largest internationally functioning lattice transmission tower production capacity Certified to ISO 9001, ISO 14001, and OHSAS18001 Workplace that is multicultural, with a talent pool of people from many cultures from all over the world.

Multilingual Communication in the Workforce (English, Spanish, Portuguese, French, Arabic, Russian and Indian languages amongst others)

FAVOURABLE STATISTICS:

The Intrinsic Value is less than the current price. Infrastructure and commercial access are excellent in India and other countries. Power Transmission is a good example of diversified business income. Civil construction, cable manufacturing, and solar installation are three of our specialties. In comparison to industry PE, this is a very attractive PE ratio. In every way, there is progress. (Growth in sales, profit, and earnings per share). Little beta (below 0.90) indicates low volatility. Promoters control 51.59 percent (without any pledge) while mutual funds have increased their holdings from 20.97 percent to 27.82 percent. As a result, this stock has piqued the curiosity of major investment managers.



Recent Projects:

- It has bagged new orders worth Rs 1,065 crore across various businesses. Its Transmission & Distribution (T&D) business has secured orders for projects in India, the Middle East, Africa, and Americas.
- While the railways business has secured an order for construction of railway siding in the conventional segment in India, the civil business bagged an order for infra works in the water pipeline segment in the country.
- The oil & gas pipelines business has secured an order for laying of oil and gas pipeline, through the company's wholly-owned subsidiary, Spur Infrastructure Pvt Ltd, it said in a statement.
- The cable business has bagged orders for various types of cables in India and overseas.

GOVERNMENT INITIATIVES

Government of India along with the governments of respective States has taken several initiatives to encourage development in the sector. The Smart City Project, with a plan to build 100 smart cities, is a prime opportunity for real estate companies. Below are some of the other major Government initiatives:

- In October 2021, the RBI announced to keep the benchmark interest rate unchanged at 4%, giving a major boost to the real estate sector in the country. The low home loan interest rates regime is expected to drive the housing demand and increase sales by 35-40% in the festive season in 2021.
- The Atmanirbhar Bharat 3.0 package announced by Finance Minister Mrs. Nirmala Sitharaman in November 2020 included income tax relief measures for real estate developers and homebuyers for primary purchase/sale of residential units of value (up to Rs. 2 crore (US\$ 271,450.60) from November 12, 2020 to June 30, 2021).
- In order to revive around 1,600 stalled housing projects across top cities in the country, the Union Cabinet has approved the setting up of Rs. 25,000 crore (US\$ 3.58 billion) alternative investment fund (AIF).
- Government has created an Affordable Housing Fund (AHF) in the National Housing Bank (NHB) with an initial corpus of Rs. 10,000 crore (US\$ 1.43 billion) using priority sector lending short fall of banks/financial institutions for micro financing of the HFCs.



PROJECTS

Power transmission and distribution

KEC is a global pioneer in the Power Transmission & Distribution EPC area, with over seven decades of experience. KEC has acquired unrivalled capability in surveying, designing, and engineering of complicated and huge towers, aided by a pool of highly experienced specialists that are continually devoted to delivering projects ahead of schedule. The Company's strong design and engineering skills, execution expertise, and significant experience have enabled it to create optimised substation solutions for its clients. To deliver these projects according to the customer's needs, the company has strong in-house design and engineering capabilities for electrical, structural, and civil works, as well as a global supply chain management team and a highly experienced project management team. It has more than 30 international offices located all over the world.

Railways

KEC is a complete turnkey solution provider for all types of railway contracts in the Railway EPC business. KEC was one of the early entries into the railway electrification field, electrifying approximately 40% of the Indian Railway Network to date, spanning over 17,000 kilometres. For private customers, the company also performs railway infrastructure work. CORE, RVNL, IRCON, RITES, and PGCIL are among KEC's many clients. Jay Signaling Private Limited, an Indian railway signalling automation and technology business, was bought by KEC in September 2010. The acquisition bolstered the company's signalling capabilities, allowing it to expand its service offerings for railway projects all over the world.



Civil and urban infrastructure

The Civil business of KEC focuses on the construction of factories, warehouses, residential buildings, railway stations, metros, and sewage and water treatment plants, and is divided into four verticals:

Infrastructure & Heavy Civil (Metro & Water Projects),

- Industrial & Hydrocarbon (Factories),
- Residential & Public Spaces (Buildings, Commercial Spaces), and
- Defense (Civil projects in Defence sector).

It offers professional EPC services in a market dominated by small, unorganised competitors or a small number of large corporations. It is currently working on over 20 turnkey EPC projects, including metros, factories, data centres, townships, and residential structures, for a variety of clients in industries including Metro Rail, Cement, Auto & Auto ancillaries, Metals & Mining, FMCG, Real Estate, and Defense.

Solar

Solar EPC services are provided by KEC for major solar PV projects produced by private parties as well as roof-top PV solutions for industrial and commercial consumers. Design & Engineering, Project Execution, Project Management, Bid Management, and Project Feasibility Analysis for large-scale Solar Photovoltaic Power Plants for both land-mounted and roof-top Solar PV projects are among the services provided under this vertical.

Smart Infrastructure

The Indian government is constructing 100 Smart Cities, which will use cutting-edge technology in areas such as utilities, traffic management, surveillance, banking, mobility, education, and healthcare. RPG Smart Infra, a branch of KEC International Ltd., assists cities with the installation, commissioning, and operation and maintenance of these technologies, as well as educating city managers to manage the infrastructure. KEC brings decades of experience in utilities, trains, solar, and civil infrastructure projects, as well as strong financial underpinnings and a desire to take on large-scale projects, to the table.



Oil & Gas Pipelines

This business focuses on the construction of Oil & Gas cross-country pipelines in India as well as in international markets. Spur Infrastructure Private Limited (Spur Infra) was bought by KEC in October 2021. Spur Infra has a profitable track record and an annual turnover of more than Rs. 100 crore in the last three years. Presently, the Company is executing various projects such as the Tundla-Gawria pipeline project for IOCL, KGPL pipeline project for IHB Ltd., Sultanpur-Jhajjar-Hissar pipeline project (Spread-A) for GAIL India and BGRL projects for Ahmednagar/Sangli gas authorities. Additionally, Spur Infra is also executing City Gas Distribution projects for IGL/Torrent Gas & Think Gas.

Cables

In India, KEC is a significant manufacturer of power and telecom cables. In 2010, KEC acquired RPG Cables, which allowed it to enter the cable market. RPG Cables is one of India's oldest and largest fully integrated cable producers, having over six decades of experience. It was the first company in India to manufacture XLPE cables. It serves a wide range of sectors, including power, oil and gas, steel, engineering, and energy distribution. The company is also one of India's biggest cable exporters. The company has testing facilities that meet a variety of national and international standards.

PEER COMPARISON

company	MCAP	P/B	P/E	EPS	ROE(%)	ROCE(%)	P/S
PSP Projects Ltd.	1823.76 Cr	3.12	14	36.19	16.24%	21.44%	1.48
KNR Constructions	8847.64 Cr	4.36	27.41	11.48	13.99%	23.22%	3.27
PNC Infratech	7891.14 Cr	2.53	17.11	17.98	13.27%	20.57%	1.6
G R Infraprojects ltd	18,745.58 Cr.	4.72	24.01	80.73	24.27%	27.36%	2.59

PSP Projects Ltd.

REVENUE: 1240 CR
NET PROFIT: 83 CR
EMPLOYEES: 5849

The Company was incorporated as PSP Projects Private Limited on August 26, 2008, as a private limited company under the Companies Act, 1956, with the Registrar of Companies, Gujarat at Ahmedabad (the “RoC”). PSP Projects Limited is a multidisciplinary construction company offering a diversified range of construction and allied services across industrial, institutional, government, government residential and residential projects in India. It provides its services across the construction value chain, ranging from planning and design to construction and post-construction activities, including MEP work and other interior fit outs to private and public sector enterprises. Historically, it was more focused on projects in the Gujarat region. More recently, it has actively expanded its geographical presence to other states and diversified its portfolio of services.



KNR Constructions

REVENUE: 2903 CR
NET PROFIT: 375 CR
EMPLOYEES: 1964

KNRCL incorporated in 1995 by professionals having experience in the field of infrastructure development. In 1997, KNRCL acquired at their book values the assets and liabilities of M/s K. Narasimha Reddy & Co. ("partnership firm") started by Shri K. Narasimha Reddy who is a promoter of KNRCL, this partnership firm was engaged in the business of undertaking civil and mechanical contract works since 1979. In the year 2008 KNRCL had opened up for Initial Public Issue and raised Rs.1338.67 millions and got itself listed on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE).

PNC Infratech

REVENUE: 5787 CR
NET PROFIT: 492 CR
EMPLOYEES: 3196

The Company was incorporated as 'PNC Construction Company Private Limited' on August 9, 1999 under the Companies Act 1956, with the Registrar of Companies, Uttar Pradesh at Kanpur. PNC Infratech has been played a crucial role in India's infrastructural growth particularly in highway and airport sectors. The Company provides end-to-end infrastructure implementation solutions that includes EPC services on a fixed-sum turnkey basis as well as on an item-rate basis. The Company also executes and implements projects on Design-Build-Finance-Operate Transfer (DBFOT) basis, Operate-Maintain-Transfer (OMT) basis and other public-private partnership formats. It is one of the few infrastructure companies in India that have proven investment, development, construction and management capabilities.



GGR Infraprojects Ltd.

REVENUE: 7372 CR
NET PROFIT: 780.61 CR
EMPLOYEES: 2500

The G R Infraprojects Limited (GRIL) is a national company specializing in the infrastructure sector. Their operations are spread in Rajasthan, Gujarat, Madhya Pradesh, Haryana, Uttar Pradesh, Bihar, Himanchal Pradesh, Jharkhand etc. The G R Infraprojects Limited has been working in the field of Infrastructure development in India for 50 years, since 1964. They extend EPC services ranging from Highways, Flyovers, Bridges, Buildings, Air Field Developments, Irrigation, Mega Highways, Road Upgradations, Geometrical Improvements, Implementation of (B.O.T.) Projects and Assets preservation, Maintenance etc. Their quality standards, Construction and project managements techniques is reflection of our business excellence. they have grown to become national class construction entrepreneur.



RELATED TO INDUSTRY

Industries related to real estate sector are:

Ports, roads and railways Industry

Growth potential and Private sector participation in the road sector, construction of new roads, railway tracks and railway stations, development of airports along with addition of new runways and terminal buildings and different government policies favouring the infrastructure development serves as various opportunities for real estate firms.

Agriculture and allied industries

Different firms engaged in construction of pipelines and agricultural developments are benefited from development in the agriculture sector

Steel, Cement, Metals and mining

Real estate sector has a high dependence on these industries as the raw materials for construction includes steel, cement and different metals. Hence, the real estate sector is sensitive to price and quantity supply fluctuations in steel and cement industries.

Chemical and paint

Real Estate industry has a low dependence on Chemical and paint industry as they provide some raw materials used in construction activities.

Entertainment (hotels etc.)

Hospitality real estate market growth is directly inclined to the tourism industry. Currently, key themes shaping the sector include globalisation, technology, innovation, and consolidation. Large-scale mergers & acquisitions, cross-border investments, and technology, such as data analytics, have changed the global landscape for hospitality real estate.

The large presence of technology in real estate

New technologies pervade both commercial and residential real estate every year, albeit commercial real estate moves at a slower pace than most other businesses. Given that real estate is the world's largest commodity, the real estate market stands out as a significant outlier in IT.



Demographic

Important property market movements are heavily influenced by demographic and socioeconomic factors. Knowing who lives in a given region is useful information, especially for millennials who are likely starting families and starting their professions, or for baby boomers who are nearing retirement. Gaining an understanding of this is extremely beneficial, as it can assist investors and developers in better understanding potential purchasers or tenants.

Government Initiatives

When considering property investment, government policies are a significant consideration. Legislation can have a significant impact on property prices and demand. Government intervention in the form of tax credits, deductions, and subsidies could temporarily enhance real estate demand. It's critical to comprehend the current political context in order to spot supply and demand shifts and make informed investment decisions.

RISK AND MITIGATION

PANDEMIC RISK:

The Company is primarily involved in construction and manufacturing activities. Due to the onset of the COVID-19 pandemic in FY21, there is an inherent risk to health and safety of the employees and workers, and risk of disruption in production due to lockdown.

- **Mitigation:** The Company is complying with all MHA guidelines and KEC Standard Operating Procedures (SOP) introduced during the pandemic, with concurrent audits being conducted by Internal Audit department to review the adherence to MHA guidelines. The Company has institutionalised a Work From Home (WFH) policy since March 2020 for all corporate offices and standard operating procedures are rolled out for employees working from home. Each site is manned by a supervisor, who monitors the work done as per the SOP, along with a Safety Officer deployed at each site.



GEOPOLITICAL RISKS:

Unexpected political unrest or change in some of the developed/developing countries, trade barriers, increasing conflict in the Middle East are some of the risks that the Company faces.

- **Mitigation:** The Company monitors such risks and develops suitable mitigation strategies addressing the feasibility of operating in the country, strategic sourcing options, and regularly monitors international sanctions and funding to cover its exposure in the local markets

DEMAND RISK:

Infrastructure investment slowdown can lead to lower order intake and lower sales.

- **Mitigation:** The Company's robust global presence helps it minimise the impact on business during a slowdown in investment in a country or region. It has a significant presence in several underdeveloped and emerging economies, where infrastructure investment remains a key priority for sustainable growth. Further, the Company has diversified its business portfolio to include Substations, Railways, Civil, Solar, Urban Infrastructure, Oil & Gas Pipelines, Smart Infrastructure, and Cables, all of which provide ample growth opportunities in the future.

CYBER-SECURITY:

Cyber-attacks and threats may impact the security of IT infrastructure and critical IT assets of the Company.

- **Mitigation:** The Company's IT systems are protected with anti-virus and its network security through firewall to avert any cyber-attacks. The Company had engaged an external specialist to carry out a cyber security audit, post which, audit recommendations and suggestions were implemented to further strengthen the IT security.



SUCCESSION PLANNING RISK:

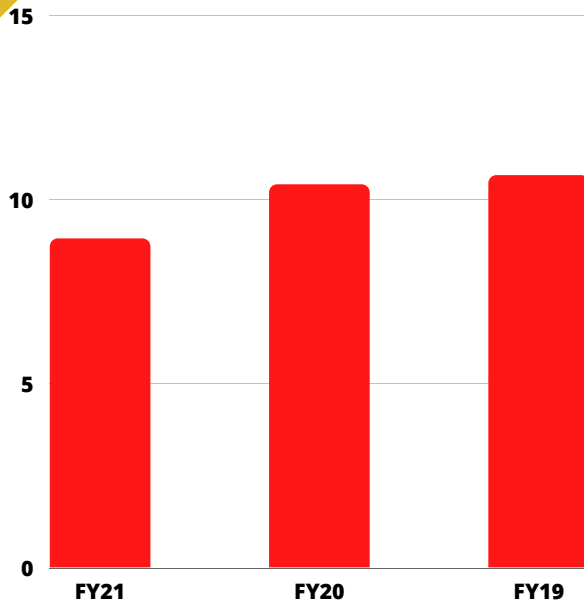
Risk of inadequate succession planning for key personnel posing challenges to long-term sustainability and growth.

- **Mitigation:** Top talent and critical positions are identified annually in the organisational management review. The leadership pipeline has been strengthened and proper processes are implemented for hiring and retaining the best talent. Additionally, the Company periodically reviews the succession plan for its senior management team to ensure continuity in leadership

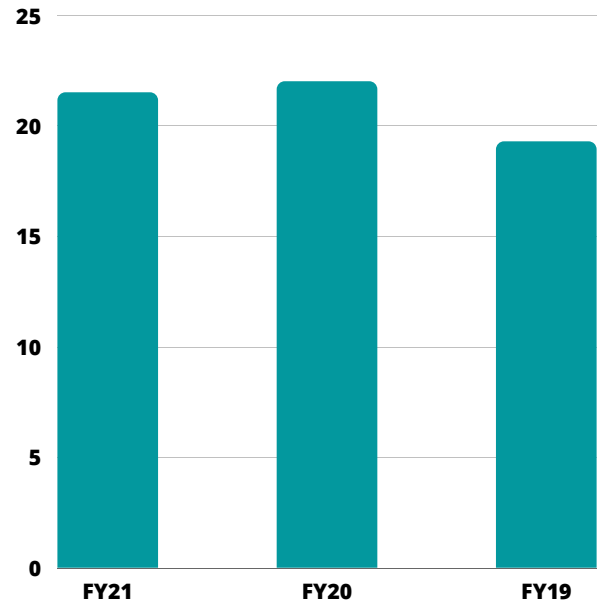




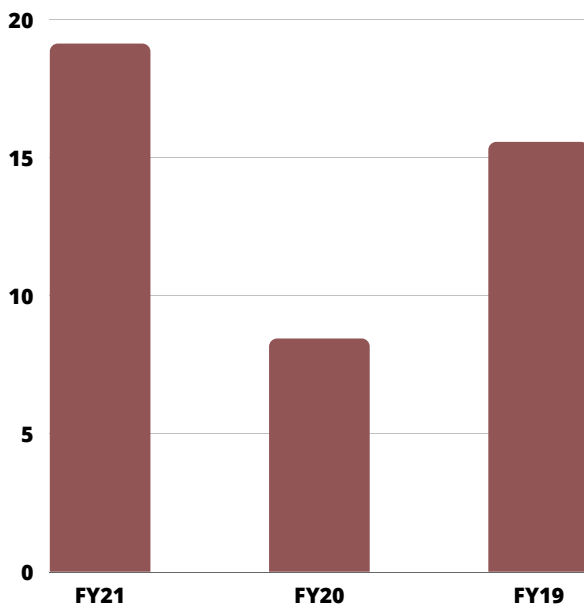
■ GROSS PROFIT MARGIN(%)



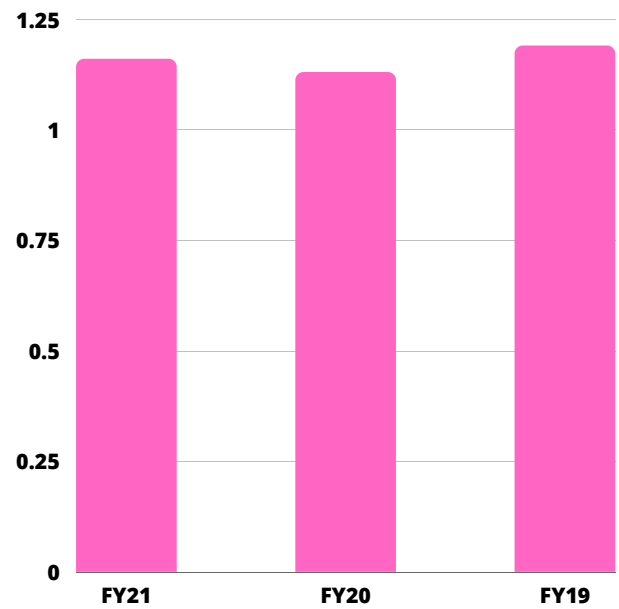
■ BASIC EPS

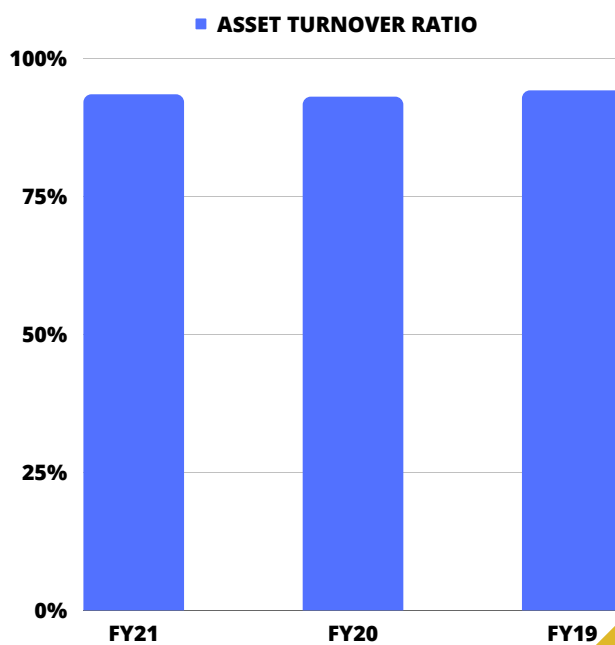
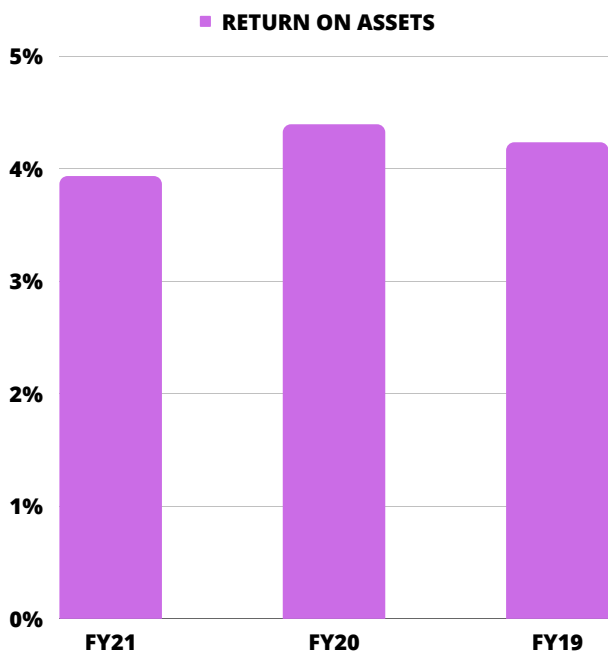
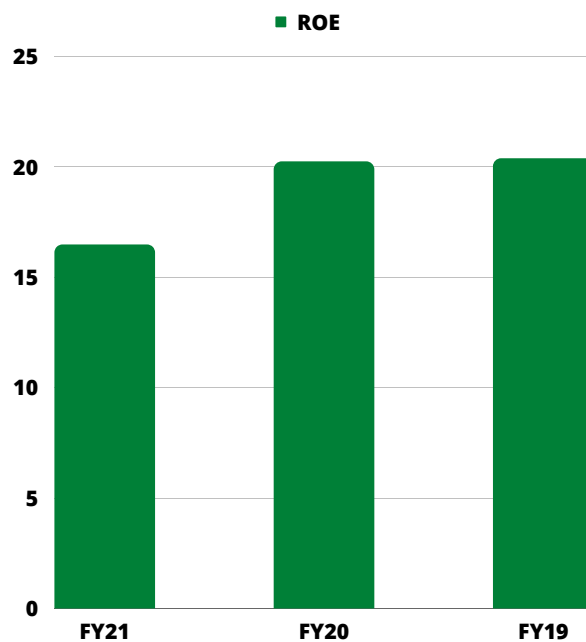
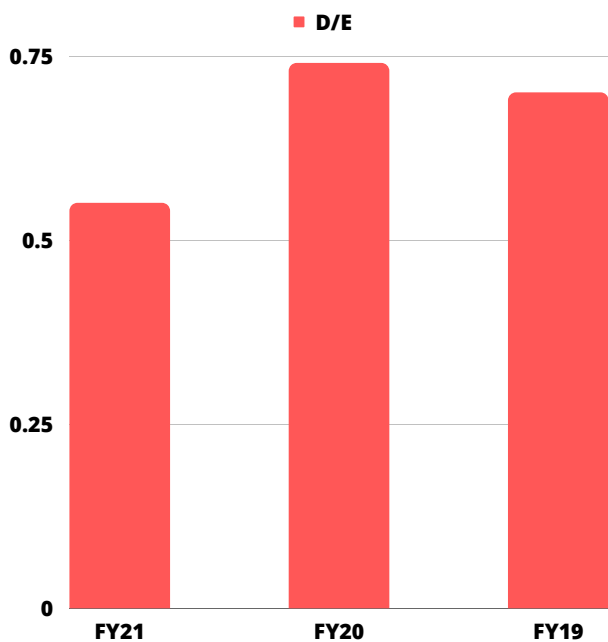


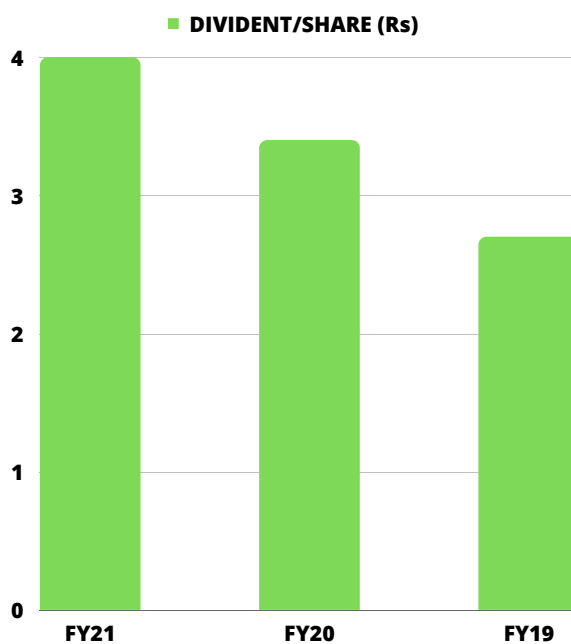
■ P/E



■ CURRENT RATIO







KEC International Ltd NSE:KEC





Summing Up

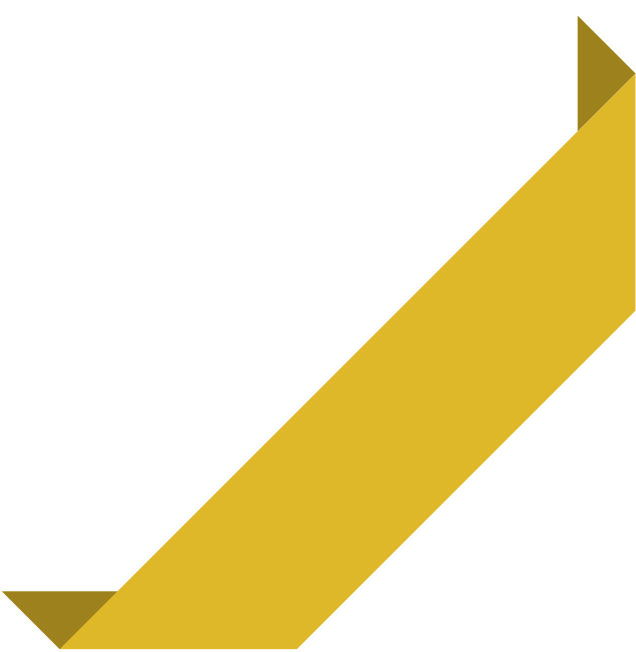
We recommend a BUY position on KEC International with a medium to long term view owing to the following:

- **PERFORMANCE RECORD**
- **FAVOURABLE STATISTICS**
- **GOVERNMENT INITIATIVES**

After looking at sector growth from recent years, and policies that the government has made recently, we expect high growth in the Real estate sector. Any major change in these sectors will strongly affect the growth of the Real estate industry:-

- Communications
- Technology hardware, Instruments, and components
- IT service
- Internet software and services

KEC International is strongly placed to face the competition and its management is constantly trying to come up with new policies to take its growth further.

- Ports, roads and railways Industry
 - Agriculture and allied industries
 - Steel, Cement, Metals and mining
 - Chemical and paint
 - Entertainment (hotels etc.)
- 



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