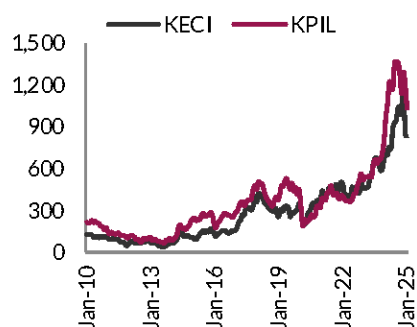
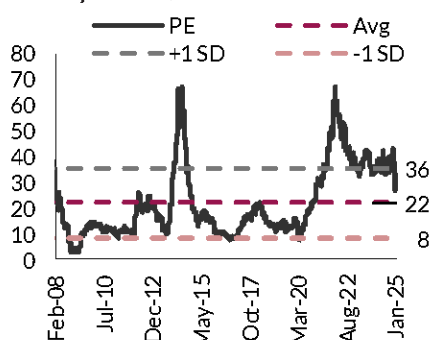


KECI &amp; KPIL stock prices (Rs/share)



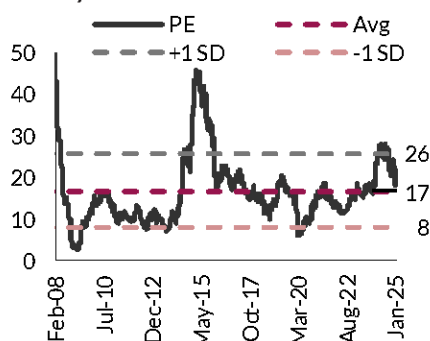
Source: Axis Capital, Bloomberg

KECI 1-yr fwd. P/E at 27x vs. 22x mean



Source: Axis Capital

KPIL 1-yr fwd. P/E at 18x vs. 17x mean



Source: Axis Capital

The KECI/KPIL stock prices correlation over the past 15 years has been remarkably high at 95%. Both stocks have yielded good returns (~14/12% CAGRs over past 15 years, ~22/26% CAGR over past five years for KECI/KPIL). We see a multi-year growth opportunity for EPC across transmission, real estate, water, railways, and urban infra – the main constituents of both companies' order books. Our comparative analysis yields broadly similar narratives on growth and profitability, with KPIL having an edge over KECI on quite a few parameters fundamentally, though the concern around promoter pledge is a dampener specific to KPIL. We are constructive on both these EPS compounders over the medium term, though prevailing valuations afford higher upside over a year (and lower downside) for KPIL (BUY, TP Rs 1,312) vs KECI (ADD, Rs 894).

### Comparative on four pillars of E&C business

- **1. Orders.** KPIL's latest OB at Rs 606 bn (45% overseas) is 2.2x since FY21; KECI's OB at Rs 374 bn (33% overseas) is 2.0x. T&D OBs of both are at ~Rs 220 bn, at 59/37% shares for KECI/KPIL. An upcycle in water (from cashflow/execution standpoint) and railways (from a margin standpoint) will benefit both companies – KPIL/KECI have 23/19% OB exposures to these two. Over FY25-27E, we expect ~17/~14% CAGRs in order inflows for KPIL/KECI. KPIL has a better track record of meeting inflow growth guidance vs KECI, seen over the past eight years.
- **2. Execution.** Both companies have long and established execution track records both in India and various other countries, with their current promoters at the helm since the early 1980s (KECI established in 1945). KPIL's revenue saw ~15% CAGR over FY22-24 and is expected to be ~16% over FY24-27E. For KECI, temporary factors have weighed on execution in FY25, and mid-teen revenue growth is expected over FY26-27E. Both companies have patchy records of meeting revenue growth guidance, but KECI's misses have disappointed more.
- **3. Margins.** EBITDA margin troughs post Covid were limited to 8.0% for KPIL (in FY22; -440 bps from FY19 peak of 12.4%) vs a lower trough of 4.8% for KECI (in FY23; -570 bps from FY19 peak of 10.5%); KPIL's conservative provisioning and selective order intake worked better. Completion of legacy jobs, execution of higher-margin jobs, and recovery in the water segment are likely to drive improvement for both. We estimate 9.7/8.9% margins for KPIL/KECI in FY27E, +140/+280 bps over FY24 levels. Both KPIL/KECI are EPS compounders with 38/50% profit CAGRs over FY24-27E.
- **4. Working capital.** KPIL's divestment of non-core assets (~Rs 12-13 bn) dragged on, but favorable traction is visible now. Recent QIP proceeds, stable working capital performance, and improving performance of international subsidiaries are already reflected in lower leverage for both companies (higher ongoing net-D/E reduction for KPIL). This, along with core business growth, will aid RoE expansion for KECI/KPIL from 9/10% in FY14 to 18/17% by FY27E.

### Valuation and risk perspective

KECI's 1-year-forward P/E premium over KPIL expanded sharply over FY20-23 (mainly as margins disappointed for KECI in FY23), backdropped by promoter stake sale and pledging as regular features for KPIL. The premium came off post FY23, partly on KPIL's more reliable business performance and as promoter pledge reduced from 57% of stake held in FY20 to 23.5% in Dec'24 (and likely to come off further if Kalpataru's realty arm lists). KPIL trades at 18x 1-year-forward P/E, close to post-2008 1-year-forward mean (17x) vs KECI at 27x (mean 22x). We value KPIL at an implied multiple of ~16.6x FY27E EPS (TP Rs 1,312, 26% upside) and KECI at 20x FY27E EPS (TP Rs 894, 8% upside). Any execution delays and slip in capex sentiment are common risks for both. For P/E re-rating in KPIL, promoter pledge needs to keep reducing (with a stable promoter stake).

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