

# Stock Update

## Order wins improve growth outlook, retain Buy

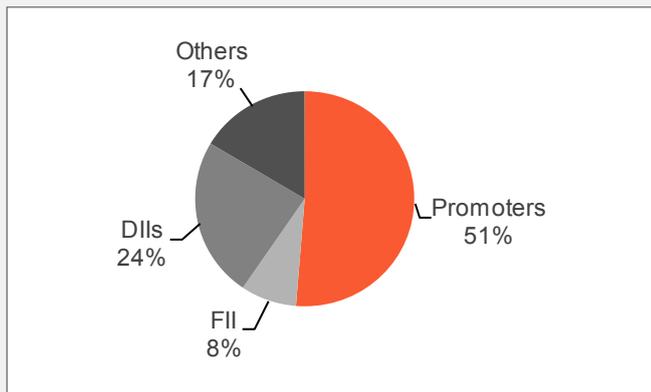
### KEC International

Reco: Buy | CMP: Rs295

#### Company details

Price target:	Rs375
Market cap:	Rs7,571 cr
52-week high/low:	Rs443/230
NSE volume: (No of shares)	3.9 lakh
BSE code:	532714
NSE code:	KEC
Sharekhan code:	KEC
Free float: (No of shares)	12.5 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	15.3	0.8	-0.1	-25.2
Relative to Sensex	11.0	-4.0	0.1	-33.3

#### Key points

- Execution momentum to remain strong:** KEC International Limited's (KEC) order backlog remains at an all-time high of around Rs. 21,000 crore, which gives us strong revenue visibility ahead. Execution pick-up in delayed projects and new orders entering into the execution stage will help KEC report high double-digit revenue growth in Q4FY2019. In the non-T&D segment, execution has remained strong in 9MFY2019 on account of healthy order backlog from railways and momentum is expected to continue going ahead. Further, management expects the Power T&D business to bounce back, especially in international markets. However, domestic T&D scenario is expected to remain slow due to lower order for state electricity boards. Operating margin is expected to remain stable due to easing input cost and improvement in railways and civil margins. Management is optimistic of 15-20% revenue growth in FY2020E, owing to better execution.
- Order book remains strong; Order inflow visibility remains healthy:** KEC's recent order win of Rs. 1,323 crore across its various segments, majorly in railways (Rs. 644 crore), T&D (Rs. 287 crore) and smart infra (Rs. 233 crore), strengthens its order backlog, which stands at around Rs. 21,000 crore, which is at an all-time high. The current order book provides revenue visibility of approximately two years on TTM revenue. Management continues to witness traction from segments such as railways and expects tendering opportunity of around Rs. 60,000 crore in relevant railway orders next year. On the international front, KEC is witnessing significant opportunities from SAARC and West Africa, both in railways as well as T&D. Moreover, KEC stands as the lowest bidder in approximately Rs. 2,200 crore worth of projects, which was Rs. 1,800 crore at the end of Q3FY2019. KEC is selectively bidding for high-margin projects owing to the current large order backlog in hand.
- Net debt intensity to come down, net working capital to moderate further:** Net debt is expected to come down by Rs. 400 crore-500 crore to Rs. 2,500 crore owing to significant Saudi collections (Rs. 275 crore) received post Q3FY2019 and more expected to be received soon from the sale of Bikaner Sikar BOT asset

and expected advance payment from few orders. While working capital continues to be an area of focus, the situation is expected to normalise in Q4FY2019. Interest cost to sales increased by 90 BPS to 3.2%. This is expected to moderate to 2.7% by FY2019E and 2.5-2.6% by FY2020E, considering the expected moderation in net working capital, interest rate softening, Saudi collections and elongated vendor payment terms.

- ◆ **Maintain Buy with a revised PT of Rs. 375:** KEC is expected to deliver strong growth

visibility owing to the expected improvement in T&D and increased scalability in non-T&D business, i.e. railways, civil and cables. Strong order book, collections from Saudi, interest cost and debt moderation are expected to support earnings growth. We have also rolled forward our estimates and have introduced FY2021E numbers. Given the healthy order backlog and its ability to ramp up execution, we expect revenue and earnings CAGR of 15% and 17% over FY2018-FY2021E. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 375.

#### Valuation (Consolidated)

Particulars	Rs cr					
	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	8,518	8,584	10,058	11,473	13,236	15,311
Growth (%)	0.6	0.8	17.2	14.1	15.4	15.7
Operating Profit	692	818	1,006	1,182	1,390	1,654
OPM (%)	8.1	9.5	10.0	10.3	10.5	10.8
Net Profit	148	305	460	511	599	728
EPS (Rs.)	5.8	11.9	17.9	19.9	23.3	28.3
EPS Growth (%)	470.4	106.1	51.1	11.0	17.2	21.4
PER (x)	51.0	24.8	16.4	14.8	12.6	10.4
P/BV (x)	5.8	4.8	3.8	3.2	2.7	2.2
EV/EBITDA (x)	15.1	11.4	8.9	8.5	7.5	6.6
Dividend Yield (%)	0.3	-	0.7	1.0	1.0	1.0
ROCE (%)	14.5	17.6	25.1	24.5	23.7	25.3
ROE (%)	11.3	21.2	25.7	23.4	23.0	23.1
RoIC (%)	15.1	18.3	26.7	25.5	23.8	24.2

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