

Stock Update

Growth levers intact, maintain Buy

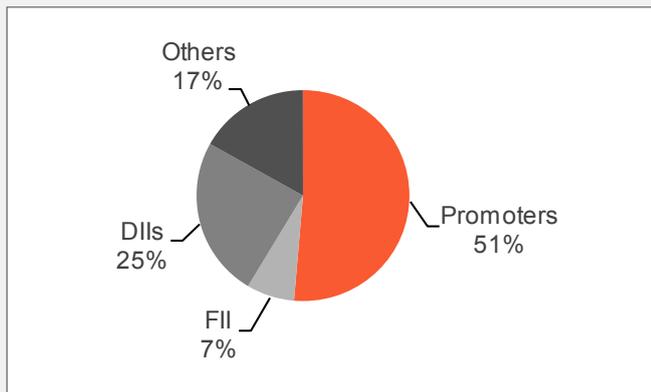
KEC International

Reco: Buy | CMP: Rs294

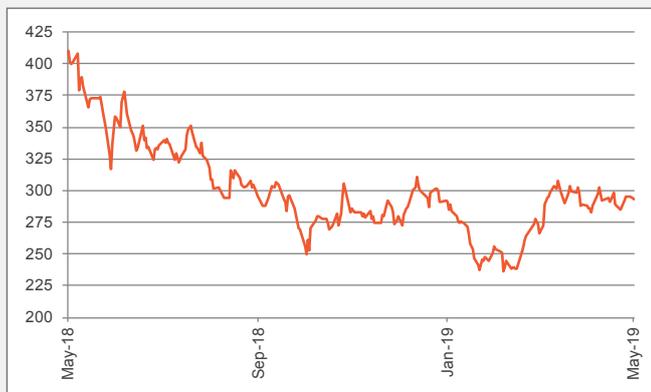
Company details

Price target:	Rs375
Market cap:	Rs7,547 cr
52-week high/low:	Rs420/230
NSE volume: (No of shares)	3.5 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	2.0	15.5	3.3	-27.3
Relative to Sensex	2.7	10.5	-6.6	-35.1

Key points

- Stable operational performance affected by increased interest expense:** KEC International Limited (KEC) showed marginal growth of 5% y-o-y to Rs. 3,841 crore, driven by multifold growth in railway (~2x revenue growth) backed by continued focus on execution. The railways and civil business continued its traction and the cables segment's growth was led by higher sales of HT cables, exports and EHV cables coupled with higher execution. The dominant T&D segment declined by -1.3% y-o-y and the SAE segment reported muted growth of 3.9% y-o-y. Revenue was impacted by delay in approvals in SAE and execution challenges in the domestic private project. OPM expanded by 28.5 BPS to 10.4%, led by cost efficiencies and improvement in non-T&D segment's margins. Hence, operating profit grew by 8% y-o-y to Rs. 399 crore. Interest expense rose by 38% y-o-y but was flat on a q-o-q basis due to controlled working capital. Interest expense stood at 2.2% of sales vs. 1.7% y-o-y and 3.2% q-o-q. Lower other income (-19% y-o-y) and higher taxes impacted consolidated net profit, which stood at Rs. 194 crore for Q4FY2019.
- Overall order book showed healthy growth:** KEC's order inflow decreased by 7% y-o-y mainly due to lower order intake from the domestic T&D segment, but international T&D orders remained strong. Management witnessed traction from other segments of railways, civil and international markets of Africa and SAARC. Going ahead, management expects order inflows from Africa and SAARC countries. Further, Middle East is bouncing back and orders are slowly starting to come from the region coupled with Malaysia and Thailand from where orders can come. Order backlog of the company jumped by 17.4% to Rs. 20,307 crore, providing revenue visibility of approximately two years on TTM revenue. Moreover, KEC stands as the lowest bidder in approximately Rs. 3,700 crore worth of projects; and KEC is selectively bidding for high-margin projects owing to the current large order backlog in hand.
- Debt reduction has been encouraging with focus on reducing working capital:** Net debt including advances has reduced on a q-o-q basis to Rs. 2,800 crore from Rs. 4,000 crore, led by receipt of Saudi retention money, advances

of international projects, sale of BOT assets and reversing trend of vendor financing. Net debt is expected to come down further owing to significant Saudi collections to be received in another two-three months and expected advance payment from few orders. Due to the above taken measures, working capital has normalised. Interest cost to sales is further expected to moderate to 2.5% by FY2020E, considering the expected moderation in net working capital, interest rate softening, Saudi collections and elongated vendor payment terms.

- ◆ **Maintain Buy with an unchanged PT of Rs. 375:**
We have fine tuned our estimates for FY2020-

FY2021, factoring management's revenue guidance and lower interest considering the expected moderation in net working capital, interest rate softening, Saudi collections and elongated vendor payment terms. Management has given revenue guidance of 15-20% and KEC is expected to deliver strong growth visibility owing to increased scalability in non-T&D business, i.e. railways, civil and cables, and stable execution in the T&D segment. Given the healthy order backlog and its ability to ramp-up execution, we expect revenue and earnings CAGR of 17% and 21%, respectively, over FY2019-FY2021E. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 375.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Net Sales	3,841	3,662	5%	2,647	45%
Net raw material	1,933	2,109	-8%	1,258	54%
Erection and subcontracting charges	1,048	680	54%	642	63%
Employee cost	211	221	-5%	211	0%
Other Expenditure	251	283	-11%	254	-1%
Operating Profit	399	370	8%	281	42%
OPM %	10.4%	10.1%		10.6%	
Other Income	6	8	-19%	4	78%
EBITDA	405	378	7%	285	42%
EBITDAM %	10.6%	10.3%		10.8%	
Depreciation	26	27	-5%	31	-16%
Interest	85	61	38%	86	-1%
PBT	295	289	2%	168	75%
Tax Expenses :	101	93	8%	57	76%
Tax rate %	34%	32%		34%	
Net Profit before exceptional items	194	196	-1%	111	75%
Exceptional items	-	-		-	
Net Profit after exceptional items	199	196	1%	112	77%
NPM %	5.2	5.4		4.2	

Valuations (Consolidated)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8,584	10,053	11,001	12,946	15,288
Growth (%)	0.8	17.1	9.4	17.7	18.1
Operating Profit	818	1,006	1,150	1,351	1,595
OPM (%)	9.5	10.0	10.5	10.4	10.4
Net Profit	305	458	486	605	715
EPS (Rs)	11.9	17.8	18.9	23.5	27.8
EPS Growth (%)	106.1	50.4	6.1	24.3	18.3
PER (x)	24.8	16.5	15.5	12.5	10.6
P/BV (x)	4.8	3.8	3.1	2.7	2.2
EV/EBITDA (x)	11.4	8.9	7.8	6.7	5.8
Dividend Yield (%)	-	0.7	0.9	1.0	1.0
ROCE (%)	17.6	24.6	26.4	27.7	29.0
ROE (%)	21.2	25.6	21.9	23.0	22.9
RoIC (%)	18.3	26.1	28.2	29.4	30.3

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