

Stock Update

Positive outlook reinstated, maintain Buy

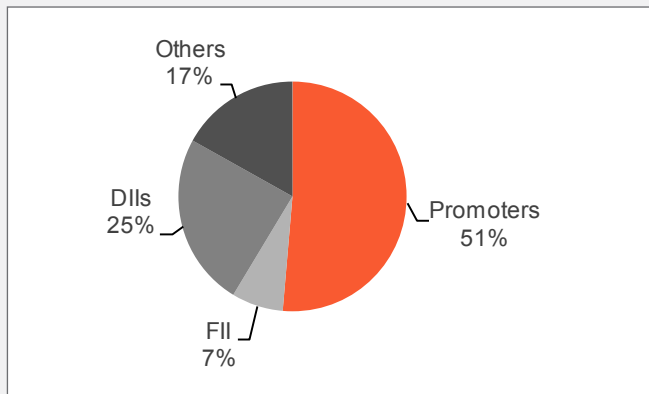
KEC International

Reco: Buy | CMP: Rs323

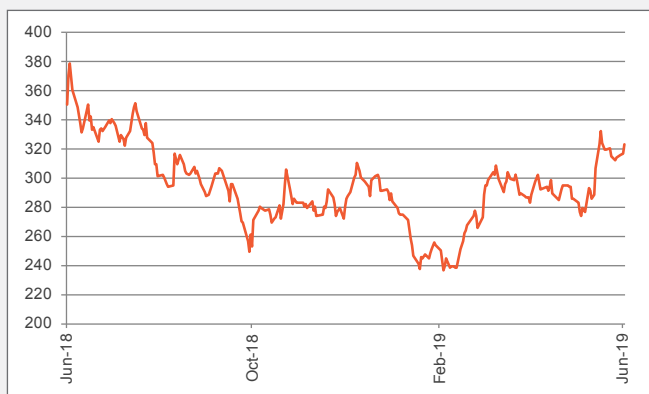
Company details

Price target:	Rs375
Market cap:	Rs8,310 cr
52-week high/low:	Rs384/230
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	11.2	16.3	12.8	-8.5
Relative to Sensex	4.1	7.6	-1.1	-19.7

Key points

- Management reiterates guidance and positive outlook:** We met the management of KEC International Limited (KEC), updating ourselves with respect to 1) the company's domestic as well as international order pipeline both in T&D (SEBs tendering activity) and non-T&D segments and 2) its expansion into newer territories. Management highlighted about its strategy of increasing its revenue contribution from the non-T&D space gradually and maintaining growth in the T&D vertical through selective domestic bidding and increasing international contribution. Overall, management has maintained its revenue guidance, backed by strong order backlog and stable operating margin.
- Focus on increasing share of non-T&D, especially railways and civil divisions over 2-3 years:** KEC's addressable market is estimated at Rs. 25,000 crore-30,000 crore out of Rs. 1.57 lakh crore allocated to railways during the interim budget for FY2020. KEC wants to double its addressable market by diversifying technological applications to segments such as high-speed trains and infrastructure within the railways domain. Re-appointment of the railway minister should aid in expediting the finalisation of project awarding by Q2FY2020. Hence, management has guided for 20-25% revenue growth for the railway segment for FY2020. In civil, KEC would be focusing on industrial and government projects. KEC would be bidding for airports (EPC work), government contracts in commercial buildings such as educational institutions (IITs and IIMs) and hospitals. Overall, KEC expects to increase its revenue share from the non-T&D space from 36% currently to 40-45% over the long term.
- T&D to grow with selective picking in domestic orders and improving international market:** KEC would be selectively eyeing State Electricity Board (SEBs) projects depending on the financial health of states (such as Gujarat, Orissa and Bihar) and adequate funding availability (preferably through external agencies such as GICA, KFW and multilateral funding agencies). Additionally, KEC sees domestic opportunities arising from the green energy segment and power-for-all policy. Internationally, KEC expanded into five new countries, including Nicaragua (Americas) and Papua New Guinea (Oceania), while it

significantly strengthened its presence in SAARC region (\$6.5 billion opportunities over three years from Bangladesh and Afghanistan combined), widened its Middle East portfolio and maintained its share in SAE region (\$3 billion-4 billion market size in Brazil). Overall, due to domestic execution headwinds in private projects, KEC would be focusing on international markets for order intake. Currently, overall KEC's T&D order backlog plus L1 stand at Rs. 18,000 crore plus orders, which should aid in 15% revenue growth for the T&D segment in FY2020.

- ◆ **Maintain Buy with an unchanged PT of Rs. 375:** KEC has a strong overall order backlog of Rs. 20,307 crore (up 17% y-o-y), which led to management reiterating its revenue guidance of 15-20% for FY2020, led by scalability in the non-T&D business 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 18% and 21%, respectively, over FY2019-FY2021E. We reiterate our Buy rating on the stock with an unchanged price target (PT) of Rs. 375.

Valuation (Consolidated)

Particulars	Rs cr			
	FY18	FY19	FY20E	FY21E
Net Sales	10,058	11,001	12,946	15,289
Growth (%)	17.2	9.4	17.7	18.1
Operating Profit	1,006	1,150	1,351	1,595
OPM (%)	10.0	10.5	10.4	10.4
Net Profit	460	486	605	715
EPS (Rs)	17.9	18.9	23.5	27.8
EPS Growth (%)	51.1	5.7	24.3	18.2
PER (x)	18.0	17.1	13.7	11.6
P/BV (x)	4.2	3.4	2.9	2.4
EV/EBITDA (x)	9.7	8.5	7.7	6.7
Dividend Yield (%)	0.6	0.8	0.9	0.9
ROCE (%)	25.1	26.4	25.0	24.4
ROE (%)	25.7	21.9	22.9	22.8
RoIC (%)	26.7	28.2	27.8	27.1

Source: Company, Sharekhan Research

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