Narnolia™

KEC INTERNATIONAL LTD

Industry	Eng. & Cons.
Bloomberg	KECI IN
BSE CODE	532714

Focused on Working Capital Improvement

RATING	BUY
CMP	305
Price Target	351
Potential Upside	15%

Rating Change	⟺
Estimate Change	⟺
Target Change	⟺

Stock Info

52wk Range H/L	442.60/244.20
Mkt Capital (Rs Cr)	8424
Free float (%)	49%
Avg. Vol 1M (,000)	415
No. of Shares	26
Promoters Pledged %	0

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Key Highlights -

- As part of management strategy to streamline supply chain, KEC has started to manufacturing structure and some of the product for Railway business.
- Working capital continuously remains higher on account of reduction in Acceptance and payables. Payable days during the quarter were down to 121 days from 168 days in FY18. As result of it interest as % of sales has increase to 3.2% vis-a-vis 2.7%.
- KEC is pushing the big vendors to come into supply chain which will help in to improve credit terms, similarly large items for hardware in railways which were manufactured by NON T&D manufacturers are now being done by large T&D manufacturers, so company can get into standard payment terms.

2Q FY19 Results-

KEC International registered a healthy revenue growth of 13% YoY from Rs 2132 Cr in Q2FY18 to Rs 2408 Cr in Q2 FY19. The growth was mainly led by Railway and Civil business. Revenue from Railway was more than two fold and Civil up by 163% YoY. The EBITDA grew by 17.3% YoY to Rs 256 Cr with railway segment contribution being key factor this quarter, The EBIDTA margins were too up by 40 bps with railway segment approaching double digit margin. The interest cost in 2QFY19 as a percent as sale went up to 3.2% as compared to 2QFY18 which had 2.7% on account of higher working capital requirement. As result of this PAT is just up by 8% YoY. Strong spending by Government into railway and healthy traction from International Power T&D has led to robust order inflow of Rs.3684 Cr, up by 25% YoY. Order book stood at Rs. 24135 Cr including L1 orders of Rs. 4000 Cr.

View and Valuation

Railway and civil continue to be growth engine for the KEC and we believe that in future it will continue to led the show. T&D business was soft during the quarter but we expect pick up in revenue as the back ended orders will start picking up pace in H2FY19. KEC has started manufacturing structures and other products for railway business as part of management strategy for backward integration which is expected to improve profitability and ease out credit terms. Additionally, Railways is pushing big vendors to come into supply chain which will help contactors to normalize payable days going ahead. Management is confident to maintain debt under control and Interest as % of sales at 3%. **We largely maintain our estimates and value stock at 14x FY20 EPS and arrived at target price of Rs.351. Maintain Buy rating on the stock.**

Key Risks to our rating and target

- Slow down in Capex Cycle
- Raising Interest rate

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8710	8755	10096	11636	13861
EBITDA	692	818	1006	1195	1434
EBIT	561	688	896	1083	1316
PAT	148	305	460	517	644
EPS (Rs)	6	12	18	20	25
EPS growth (%)	-8%	106%	51%	12%	25%
ROE (%)	11%	19%	23%	21%	21%
ROCE (%)	30%	29%	33%	34%	35%
BVPS	50	62	78	95	117
P/B (X)	2.4	3.4	5.0	3.2	2.6
P/E (X)	21.2	17.6	21.7	15.3	12.2

2Q FY 19 Results
In line Result

Stabel Performance

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	H1FY18	H1FY19	YoY %
Sales	2,132	2,405	3,664	2,105	2,408	13%	14%	4,027	4,513	12.1%
Other Income	6	12	13	18	2	-70%	-90%	16	19	23.7%
COGS	1,033	1,172	2,113	1,012	1,206	17%	19%	1,859	2,219	19.3%
Emp. Exp.	195	192	221	203	207	6%	2%	386	410	6.3%
Sub Contra.	449	566	677	514	509	14%	-1%	883	1,024	15.9%
Other Exp.	240	231	283	158	233	-3%	47%	468	391	-16.5%
Total Exp.	1,916	2,161	3,294	1,889	2,155	12%	14%	3,635	4,044	11.2%
EBITDA	216	244	370	216	253	17%	17%	392	469	19.7%
Depreciation	28	27	27	30	30	9%	2%	55	60	9.4%
EBIT	188	217	342	186	223	19%	20%	337	409	21.4%
Intreset	57	61	66	69	77	34%	11%	120	146	21.2%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
PBT	136	169	289	135	148	8%	10%	232	283	21.6%
Tax	47	57	93	48	51	9%	7%	80	99	24.2%
PAT	89	112	196	87	96	8%	11%	152	183	20.3%

Stable Revenue Growth, Working capital requirement remain high

Revenue during the quarter was up by 13% YoY to Rs.2408 Cr which is in line with our estimates. Revenue growth was mainly led by Railway and Civil business. Railway revenue was more than two fold and Civil up by 163% YoY on account of strong order backlog. While core T&D business was down by 9% YoY due to back ended projects. However, execution is expected to pick up in H2FY19. Revenue from SAE tower was also down by 26% YoY as the execution of current order book is back ended. Cable business has reported growth of 11% YoY on account of higher export and strong demand of HT/EHV cables. Execution of APGENCO has helped to post robust growth of 202% in Solar business. EBITDA has improved by 40 bps as the Railway business is approaching towards double digit margin on account of increase volume growth. PAT was up by 8% YoY to Rs96 Cr. The order book during the quarter went up 43% YoY to Rs 20135 Cr. The order inflow on YTD basis was Rs 7932 Cr with International T&D contributing 53% on account of strong traction from Brazil & new Geographies vis-a-vis 37% last year.

Focus on improving working capital

Working capital continuously remains higher on account of reduction in Acceptance and payables. Payable days during the quarter were down to 121 days from 168 days in FY18. As result of it interest as % of sales has increase to 3.2% vis-a-vis 2.7%. Company is focusing on to improve working capital days. KEC is pushing the big vendors to come into supply chain which will help in to improve credit terms, similarly large items for hardware in railways which were manufactured by NON T&D manufacturers are now being done by large T&D manufacturers, so company can get into standard payment terms. Management is confident that the working capital requirement will ease out by the year end.

Execution boosted by backward integration

As part of management strategy to streamline supply chain, KEC has started to manufacturing structure and some of the product for Railway business. The backward integration has helped the company in execution as earlier it was difficult to get 300-400 tones of structures every month but now with the in house production own factory is supplying around 3000-3500 tones structures a month, which is reflective in robust execution and good margins. Further the focus is also to improve by pushing the big vendors to come into supply chain which will help in improving the credit terms.

Concall Highlights

- In Railway Segment Management is focusing on the domestic conventional Railway to build up order book while it continues to look at opportunities in international space.
- The management is looking to focus on Quality orders as at present it has a large order backlog of Rs 24000 CR Including L1.
- In civil space company continues to look at existing verticals of industrial factories and building , while looking out at opportunities in residential EPC space on selective basis.
- International T&D business bounced back on account of additional geography and continual attraction from Africa and SAARC.
- Companies continue to maintain its focus on TBCB and SEB in the domestic market.

- Management has seen continued opportunities in SAARC and Brazil in terms of T&D business in International market while Saudi Arabia is expected as future prospect
- Railway is pushing big vendor for supplying the transformers, with the changing vendor base it is expected that credit terms will ease on.
- Working capital days are expected to stabilize with collections from Saudi Arabia in last week of September, advances from international projects and streamlining of Railway supply chain.
- The Debt consists of 40% foreign currency debt and 60% rupee debt at present. The current cost of debt stands at 7-7.5%.
- The company expects to reduce the borrowing levels below Rs 3000 Cr till the end of the Financial Year.

Segment Revenue

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-
Transmission	2,043	1,334	1,461	1,532	2,468	1,007	1,335	-9%	33%
Transmission SAE	259	151	248	319	307	270	183	-26%	-32%
Cables	303	220	239	272	278	259	265	11%	2%
Railway	206	158	119	208	359	313	421	254%	35%
Civil/Water	28	15	40	87	126	119	106	165%	-11%
Solar	60	21	44	34	189	160	133	202%	-17%
Total	**2,899**	**1,899**	**2,151**	**2,452**	**3,727**	**2,128**	**2,443**	**14%**	**15%**

Order Book Break Up

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-
Transmission	2,395	2,093	1,833	3,443	2,051	1,360	1,816	-1%	33%
Transmission SAE	1,263	1,218	2,102	1,715	1,903	1,837	1,960	-7%	7%
Cables	126	271	280	343	346	255	262	-7%	3%
Railway	1,516	1,353	1,401	3,601	4,152	4,730	5,057	261%	7%
Civil/Water	126	406	420	343	346	418	482	15%	15%
Solar	505	406	280	343	173	364	333	19%	-9%
Total	**12,631**	**13,532**	**14,013**	**17,148**	**17,298**	**18,518**	**19,490**	**39%**	**5%**

Order Inflow Break Up

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-
Transmission	2,395	2,093	1,833	3,443	2,051	1,360	1,816	-1%	33%
Transmission SAE	657	140	562	1,055	380	33	306	-46%	828%
Cables	212	335	325	611	266	203	272	-16%	34%
Railway	15	-	59	111	987	929	748	1165%	-19%
Civil/Water	-	223	148	278	114	212	170	15%	-20%
Solar	445	-	30	56	11	11	102	245%	828%
Total	**3,724**	**2,790**	**2,957**	**5,553**	**3,809**	**2,748**	**3,684**	**25%**	**34%**

Exhibit: Order book and book to bill trend

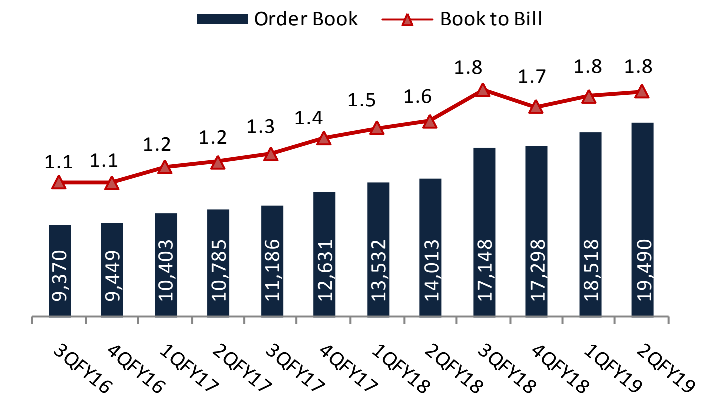


Exhibit: Interest Cost as % of Sales

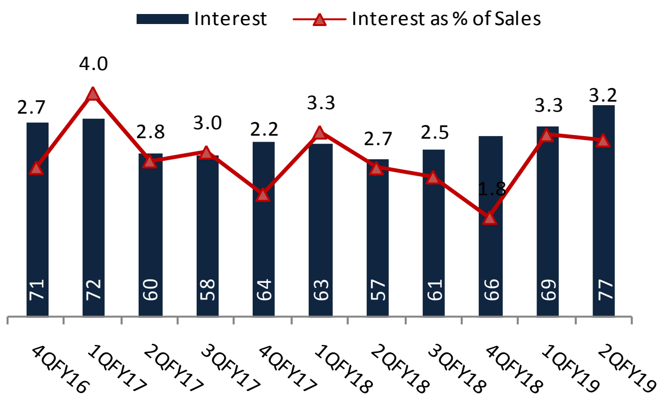


Exhibit:Railway Business Order book and growth %

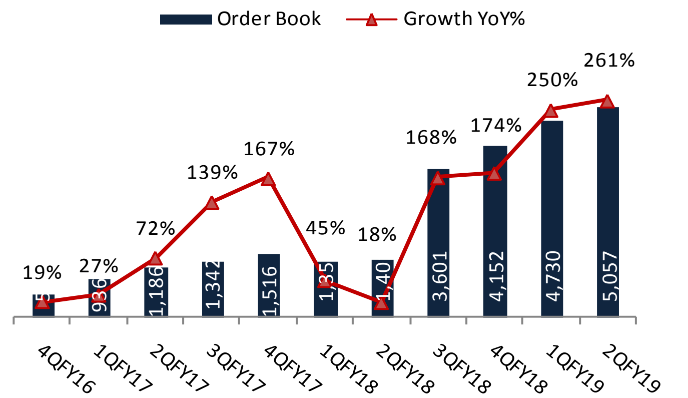


Exhibit: Railway Business Revenue and Growth %

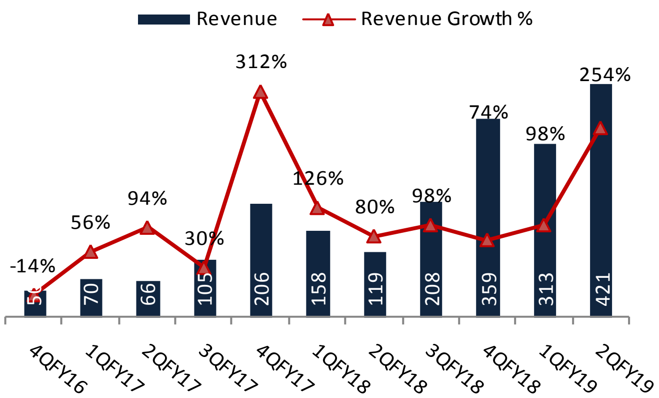


Exhibit:Civil Business Order Book and Growth %

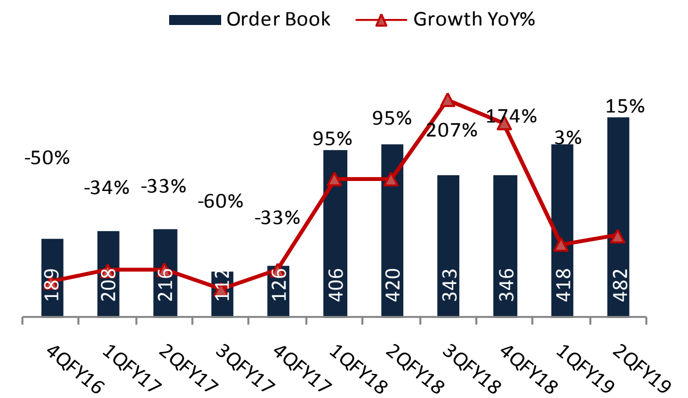


Exhibit: Civil Business Revenue and Growth %

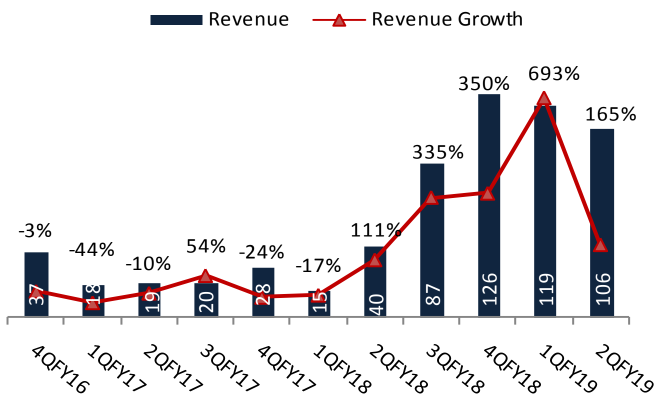


Exhibit: Order Book Break Up

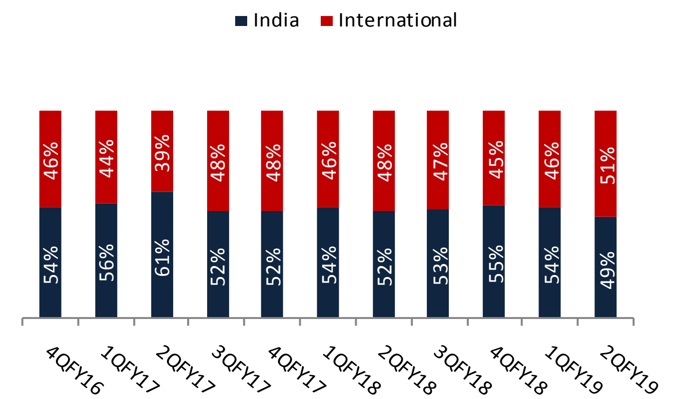
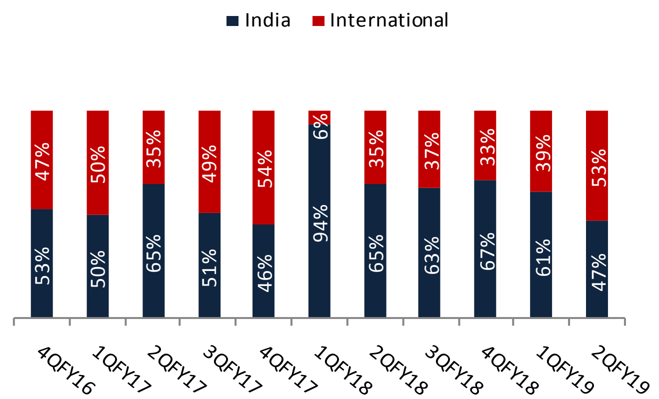


Exhibit: Order Inflow Break Up



Financial Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	**7,119**	**8,093**	**8,657**	**8,710**	**8,755**	**10,096**	**11,636**	**13,861**
Change (%)	*20%*	*14%*	*7%*	*1%*	*1%*	*15%*	*15%*	*19%*
EBITDA	**381**	**493**	**512**	**692**	**818**	**1,006**	**1,195**	**1,434**
Change (%)	-19%	29%	4%	35%	18%	23%	19%	20%
Margin (%)	**5%**	**6%**	**6%**	**8%**	**9%**	**10%**	**10%**	**10%**
Depr & Amor.	56	71	88	132	130	110	112	118
EBIT	***325***	***423***	***424***	***561***	***688***	***896***	***1,083***	***1,316***
Int. & other fin. Cost	*194*	*263*	*309*	*279*	*254*	*247*	*331*	*365*
Other Income	*16*	*14*	*146*	*10*	*29*	*40*	*40*	*40*
EBT	**147**	**173**	**261**	**291**	**463**	**690**	**792**	**991**
Exp Item	0	18	-	-	-	-	-	-
Tax	**82**	**88**	**100**	**144**	**159**	**230**	**275**	**347**
Minority Int & P/L share of Ass.	-	0	0	(0)	-	-	-	-
Reported PAT	**65**	**67**	**161**	**148**	**305**	**460**	**517**	**644**
Adjusted PAT	***65***	***58***	***161***	***148***	***305***	***460***	***517***	***644***
Change (%)		-11%	178%	-8%	106%	51%	12%	25%
Margin(%)	*1%*	*1%*	*2%*	*2%*	*3%*	*5%*	*4%*	*5%*

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	51	51	51	51	51	51	51	51
Reserves	1,096	1,140	1,132	1,239	1,535	1,946	2,396	2,957
Networth	1,147	1,192	1,183	1,290	1,586	1,997	2,448	3,009
Debt	1,456	1,809	2,702	3,023	2,008	1,639	2,938	3,258
Other Non Cur Liab	100	93	135	141	152	145	145	145
Total Capital Employed	1,855	1,794	1,910	1,883	2,362	2,736	3,186	3,747
Net Fixed Assets (incl CWIP)	1,008	992	1,039	1,011	963	998	1,075	1,111
Non Cur Investments	-	-	0	-	-	-	-	-
Other Non Cur Asst	252	351	295	297	222	254	254	254
Non Curr Assets	1,260	1,343	1,334	1,308	1,185	1,252	1,329	1,365
Inventory	396	505	390	360	395	627	723	861
Debtors	2,887	3,808	3,846	4,658	4,200	5,039	5,807	6,918
Cash & Bank	156	144	185	75	176	193	268	287
Other Curr Assets	1,212	1,234	1,807	1,919	496	667	768	915
Curr Assets	4,650	5,691	6,227	7,012	5,266	6,526	7,566	8,981
Creditors	2,467	3,213	1,997	2,027	3,167	4,657	4,144	4,937
Provisons	79	115	76	83	103	83	96	114
Other Curr Liab	1,004	989	882	1,262	1,552	1,746	2,012	2,397
Curr Liabilities	3,550	4,317	2,955	3,372	4,822	6,487	6,253	7,449
Net Curr Assets	1,101	1,374	3,272	3,640	444	39	1,314	1,533
Total Assets	6,253	7,411	8,180	8,891	8,728	10,539	12,054	14,121

Financial Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	147	155	261	148	305	460	792	991
(inc)/Dec in Working Capital	(391)	(396)	(321)	(835)	703	(234)	(1,525)	(777)
Non Cash Op Exp	56	71	88	132	130	110	112	118
Int Paid (+)	194	263	309	279	254	247	331	365
Tax Paid	98	113	122	133	104	230	275	347
others	5	10	(62)	190	215	76	-	-
CF from Op. Activities	(87)	(9)	153	(75)	1,662	660	(565)	351
(inc)/Dec in FA & CWIP	*(142)*	*(146)*	*117*	*(23)*	*(67)*	*(136)*	*(189)*	*(154)*
Free Cashflow	*(229)*	*(155)*	*269*	*(99)*	*1,595*	*524*	*(754)*	*197*
(Pur)/Sale of Inv	*0*	-	-	-	-	*612*	*0*	-
others	*6*	*1*	*0*	*(3)*	*(24)*	*4*	-	-
CF from Inv. Activities	*(122)*	*(136)*	*125*	*(23)*	*(183)*	*(4)*	*(189)*	*(154)*
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	*395*	*410*	*106*	*306*	*(1,122)*	*(365)*	*1,299*	*320*
Int. Paid	*(198)*	*(263)*	*(305)*	*276*	*(256)*	*(221)*	*(331)*	*(365)*
Div Paid (inc tax)	*(36)*	*(15)*	*(17)*	*58*	*(1)*	*(41)*	*(67)*	*(83)*
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	*161*	*132*	*(216)*	*639*	*(1,379)*	*(638)*	*901*	*(128)*
Inc(Dec) in Cash	*(48)*	*(14)*	*62*	*541*	*100*	*17*	*147*	*69*
Add: Opening Balance	*194*	*146*	*132*	*185*	*75*	*176*	*231*	*378*
Closing Balance	*146*	*132*	*194*	*741*	*176*	*193*	*378*	*447*

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	6%	6%	14%	11%	19%	23%	21%	21%
ROCE	18%	24%	22%	30%	29%	33%	34%	35%
Asset Turnover	1.14	1.09	1.06	0.98	1.00	0.96	0.97	0.98
Debtor Days	148	172	162	195	175	182	182	182
Inv Days	20	23	16	15	16	23	23	23
Payable Days	126	145	84	85	132	168	130	130
Int Coverage	2	2	1	2	3	4	3	4
P/E	23	26	13	21	18	22	15	12
Price / Book Value	1	1	2	2	3	5	3	3
EV/EBITDA	5	4	5	5	7	10	7	6
FCF per Share	(9)	(7)	2	(7)	62	20	(29)	8
Div Yield	0.0%	0.5%	0.5%	0.0%	0.0%	0.0%	0.7%	0.9%

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Analyst's ownership of the stocks mentioned in the Report	NIL

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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