

# KEC INTERNATIONAL LTD

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

## Higher Interest cost dented the bottom line Growth

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>237</b>
<b>Price Target</b>	<b>348</b>
<b>Potential Upside</b>	<b>47%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↓

### Stock Info

52wk Range H/L	442/233
Mkt Capital (Rs Cr)	6093
Free float (%)	49%
Avg. Vol 1M (,000)	260
No. of Shares (Crore)	26
Promoters Pledged %	0

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### Q3FY19 Result Update

- ❑ Company witnessed a sales growth of 10% YoY with major contribution coming from railway which grew 164.6% YoY and the civil business which grew 27.2% YoY.
- ❑ EBITDA during the quarter grew by the 15.1% YoY in line with revenue growth.
- ❑ PAT during the quarter was on par YOY with minute degrowth of -.30% with higher interest cost as % of sale which stood 3.2% and increase of 70 bps YoY.
- ❑ The EBITDA Margins in Q3FY19 grew by 40 bps while the PAT margins went down by 40 bps on account of higher finance cost.
- ❑ The order inflow during the quarter grew up stood at Rs 3598 Cr with transmission business contributing 58% and railway business contributing 18% to the total Order inflow.
- ❑ The order book at the end of Q3FY19 was Rs 20592 and L1 status of around 1800 Cr taking the total Order book over Rs 22400.
- ❑ Company has received the approvals regarding the Bikaner Sikar deal and the deal is expected to be completed in a week time.

### View and Valuation

KEC continue to leveraging its capabilities in non T&D business, revenue from non T&D was up by 60% YoY. Going forward we believe that the non T&D business will continue to outperform the T&D business. International T&D business will gradually gaining the traction and from next year SEA business will led the show. We expect that the pressure on working capital will be ease out in Q4FY19 as the 1) KEC has collected around Rs.270 Cr from Saudi post Q3FY19 2) Sale of BoT assets will fund the working capital requirement 3) large advances is expected to receive in Q4FY19. Management expects to bring down interest cost as % of sales at 2.7x from 3.2x in Q4FY19. However, we have trickle down our revenue estimates by 3/5% for FY19/20E on account of slow execution of T&D projects (Domestic and International).

**We value the stock at 14x FY20E EPS and maintained our BUY rating with target price of Rs.348 per share.**

### Key Risks to our rating and target

- ❑ Slowdown in government capex
- ❑ Company and its JV partner in Africa has lost arbitration award worth Rs.62 Cr and company has challenged the order in Africa High court. So any negative outcome of the order may adversely impact the profitability.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8710	8755	10096	11249	13114
EBITDA	692	818	1006	1171	1363
EBIT	561	688	896	1050	1242
PAT	148	305	460	520	638
EPS (Rs)	6	12	18	20	25
EPS growth (%)	-8%	106%	51%	13%	23%
ROE (%)	11%	19%	23%	21%	21%
ROCE (%)	30%	29%	33%	33%	33%
BVPS	50	62	78	95	117
P/B (X)	2.4	3.4	5.0	2.5	2.0
P/E (X)	21.2	17.6	21.7	11.7	9.5

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## 3Q FY 19 Results

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	9MFY18	9MFY19	YoY %
Sales	2,405	3,664	2,105	2,408	2,646	10%	10%	6,432	7,160	11.3%
Other Income	12	13	18	2	4	-71%	108%	28	23	-18.2%
COGS	1,172	2,113	1,012	1,206	1,258	7%	4%	3,031	3,477	14.7%
Emp. Exp.	192	221	203	207	211	10%	2%	578	621	7.6%
Sub Contra.	566	677	514	509	642	13%	26%	1,450	1,666	14.9%
Other Exp.	231	283	158	233	254	10%	9%	699	645	-7.8%
Total Exp.	2,161	3,294	1,889	2,155	2,365	9%	10%	5,796	6,409	10.6%
EBITDA	244	370	216	253	281	15%	11%	636	751	17.9%
Depreciation	27	27	30	30	30	11%	-1%	82	83	0.4%
EBIT	217	342	186	223	251	16%	13%	554	747	34.9%
Intreset	61	66	69	77	86	41%	12%	181	183	1.4%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
PBT	169	289	135	148	169	0%	14%	401	594	48.3%
Tax	57	93	48	51	57	1%	12%	137	197	44.0%
PAT	112	196	87	96	111	0%	16%	264	397	50.5%

**Stable Revenue Growth with below par PAT**

Q3FY19 was a decent quarter for the company it witnessed Revenue growth of 10% YoY with strong performance from the railway and civil segment which are grew by 164.6% and 27.2% respectively. The quarter saw a muted performance from the T&D Segment largely on account of delay in environment clearance in international project and Brazil SAE. The solar segment witnessed a degrowth of 54% but with tax related anomaly being cleared company expects certain improvements. The EBITDA during the quarter grew by 15.1% on account of increased revenue and currency exchange gains. The Pat went down by .30% on account of increased finance cost. The Net Debt levels during the quarter stood at Rs 3077 Cr rising 15%% YoY from Rs 2668 Cr last year. The order inflow during the quarter stood at Rs 3598 Cr with transmission and railway contributing 86% to the total. The order inflow was 48:52 domestic and international respectively .The Order book at the end of Q3FY19 was 20592 Cr and L1 Status in Rs 1800 Cr worth project.

**Working Capital to improve going forward**

The Q3FY19 saw working capital days of 145 being at par with FY18 which is expected to improve in Q4FY19. The management stated that working capital position is expected to normalize going forward as 1) KEC has collected around Rs.270 Cr from Saudi post Q3FY19 2) Sale of BoT assets will fund the working capital requirement 3) Large advances is expected to receive in Q4FY19 4) Company is streamlining its vendors base 5) Improving borrowing mix along with improving interest rate scenario in India will help to ease pressure on bottom line. Management expects the debt levels to come down to Rs 2500 Cr by the year end. As result of it interest cost as % of sales will come down to 2.7% from 3.2%.

**Non T&D Business continue to be growth booster**

The Non T&D sector contributed about 35% to the company's revenue in 3QFY19 in comparison to 24% in Q3FY18 and also if we compare 9MFY19 the non T&D business has contributed about 38% to the revenue as compared to 23% in 9MFY18. The Railways business registered a growth of 164% YoY and civil business had a growth of 27% YoY. Cable has registered growth of 13% YoY. The management is witnessing the lot of enquiries in civil space in regards to Cement, Auto, and Textile sector. The company also sees Rs.60000 Cr opportunity in electrification of railway further to boost the scenario the tax anomaly in solar is resolved recently and company expects positives from it too. With Non T&D business contributing 27% to the order book and further opportunity sees in the segment it is expected to play a major role in growth story of the company going forward. The management expects 20-25% growth in the railway segment in FY20 and expects to do double revenue in civil business.

## Concall Highlights

- The growth in the transmission and distribution was muted largely on account of delay in environment clearance in international project and Brazil SAE.
- The management is confident of achieving the full year Revenue target of 12.5% to 15% growth on the back large T&D order book and also in case of non T&D business i.e. civil and railway it expects to achieve the guidance of Rs 1700 Cr and Rs 500 Cr in railway and civil respectively
- Company has started the smart infrastructure last year and is bidding for project related to smart cities.
- In the international market management has seen growth in Abu Dhabi, Jordan, Dubai, Egypt also in Thailand.
- In the civil space company has got enough queries from cement, auto, and textile sector.
- The Saudi market has still not bounced back and management expects it to take some time but is confident of Middle East.
- In case of Solar Company expects to see certain positives in the upcoming quarter as the tax related anomaly have been cleared recently.
- The management has guided that order inflow in Q4FY19 depends on the tender that the company has quoted get awarded before the code of conduct sets in and expect drop in domestic T&D orders between March to May .
- The management expects 20-25% growth in the revenue from the railway segment in FY20, thereafter how quickly the orders are released by the new government would determine the growth.
- The management expects the growth in SAE will pick up from end of Q4FY19. The execution in SAE was impacted due to delay in execution in EPC project and some project company supplies towers the site were not available on part of client so the delivery was deferred.
- Management expect to reduce interest cost as % of sales to come significantly down in Q4 with it streamlining terms with vendors and improving borrowing mix also improving interest rate scenario in India thereby leading to better working capital position. The management has guided for full year interest cost as % sales at 2.7% and the targeted debt levels for the company at the end of the year is Rs 2500 Cr aided by Bot sale of Bikaner Sikar and advances to come in with large orders being received.
- The management has guided for revenue growth of 15-20% in FY20 on the back of strong order book.
- The company had currency gains of around 15-20 Cr during the quarter.
- The Capex guidance for FY19 is at Rs 125 Cr and Rs 175 Cr for FY20.
- Overall order intake in domestic market has slowed down on account of the selected order intake in railway segment by the company due to large order book and lack of orders from private players.

**Segment Revenue**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,334	1,461	1,532	2,468	1,007	1,335	1,563	2%	17%
Transmission SAE	151	248	319	307	270	183	195	-39%	7%
Cables	220	239	272	278	259	265	310	14%	17%
Railway	158	119	208	359	313	421	551	165%	31%
Civil/Water	15	40	87	126	119	106	106	22%	0%
Solar	21	44	34	189	160	133	16	-53%	-88%
<b>Total</b>	<b>1,899</b>	<b>2,151</b>	<b>2,452</b>	<b>3,727</b>	<b>2,128</b>	<b>2,443</b>	<b>2,741</b>	<b>12%</b>	<b>12%</b>

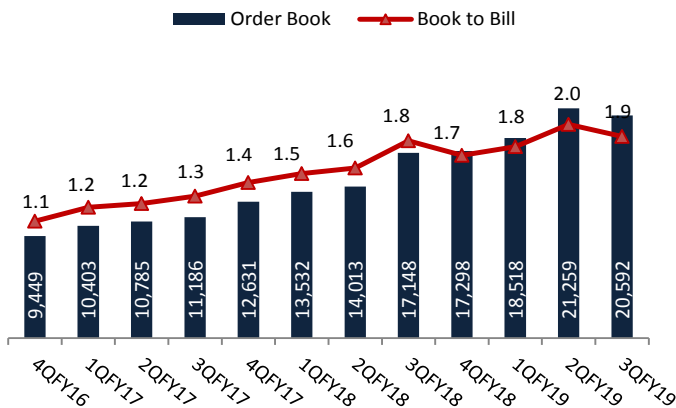
**Order Book Break Up**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Transmission	2,093	1,833	3,443	2,051	1,360	2,748	2,087	-39%	-24%
Transmission SAE	1,218	2,102	1,715	1,903	1,837	2,121	2,059	20%	-3%
Cables	271	280	343	346	255	404	412	20%	2%
Railway	1,353	1,401	3,601	4,152	4,730	5,449	4,674	30%	-14%
Civil/Water	406	420	343	346	418	572	412	20%	-28%
Solar	406	280	343	173	364	386	62	-82%	-84%
<b>Total</b>	<b>13,532</b>	<b>14,013</b>	<b>17,148</b>	<b>17,298</b>	<b>18,518</b>	<b>21,259</b>	<b>20,592</b>	<b>20%</b>	<b>-3%</b>

**Order Inflow Break Up**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Transmission	2,093	1,833	3,443	2,051	1,360	2,748	2,087	-39%	-24%
Transmission SAE	140	562	1,055	380	33	467	360	-66%	-23%
Cables	335	325	611	266	203	415	288	-53%	-31%
Railway	-	59	111	987	929	1,140	648	483%	-43%
Civil/Water	223	148	278	114	212	259	144	-48%	-44%
Solar	-	30	56	11	11	156	72	30%	-54%
<b>Total</b>	<b>2,790</b>	<b>2,957</b>	<b>5,553</b>	<b>3,809</b>	<b>2,748</b>	<b>5,184</b>	<b>3,598</b>	<b>-35%</b>	<b>-31%</b>

**Exhibit: Order book and book to bill trend**



**Exhibit: Interest Cost as % of Sales**

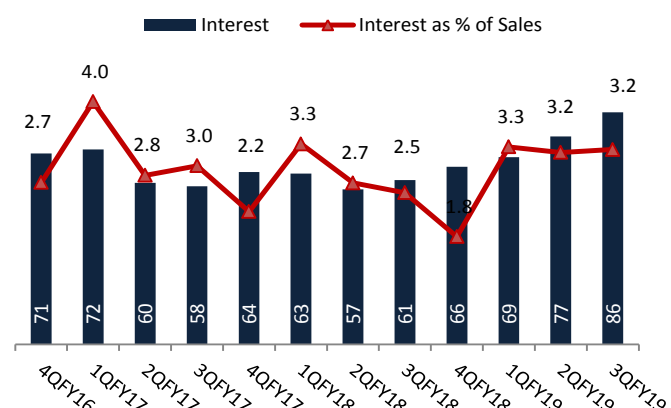


Exhibit: Railway Business Order book and growth %

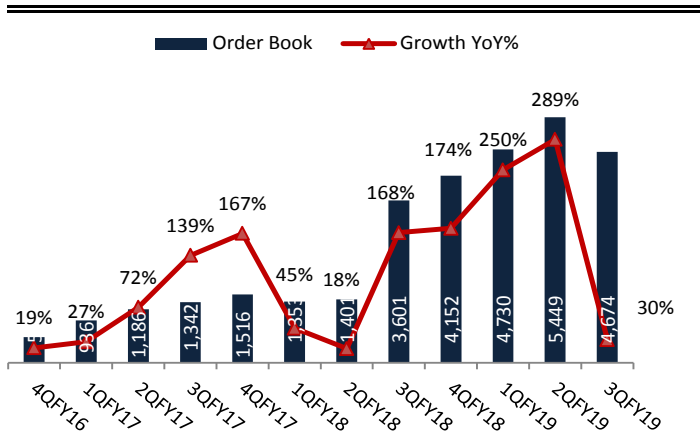


Exhibit: Railway Business Revenue and Growth %

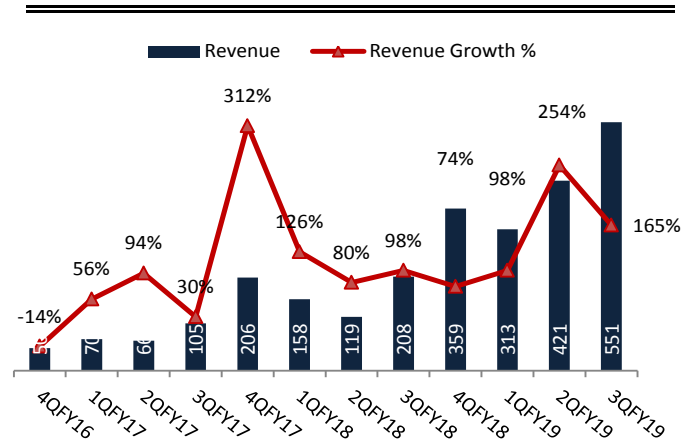


Exhibit: Civil Business Order Book and Growth %

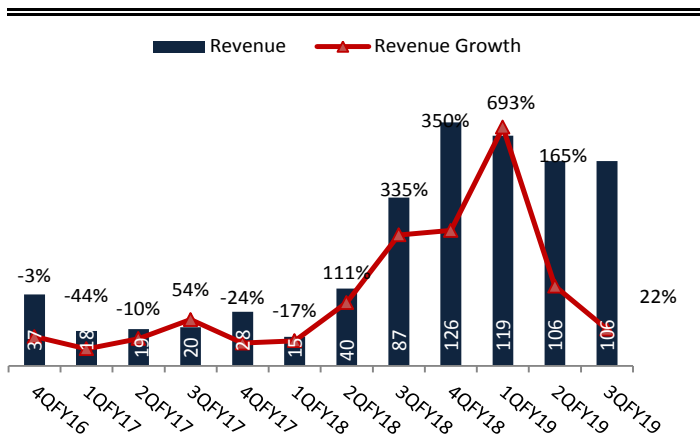


Exhibit: Civil Business Revenue and Growth %

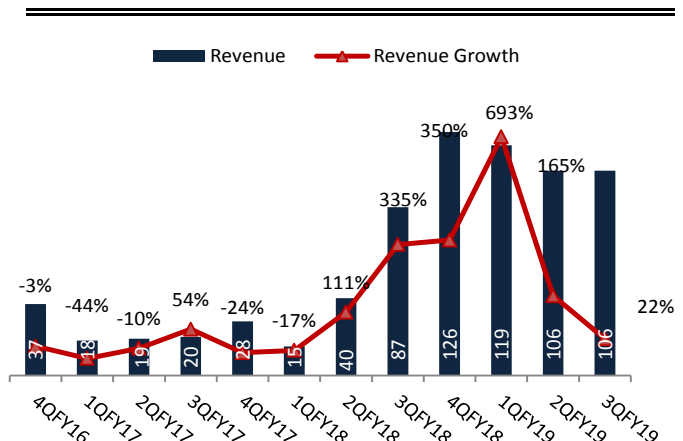


Exhibit: Order Book Break Up

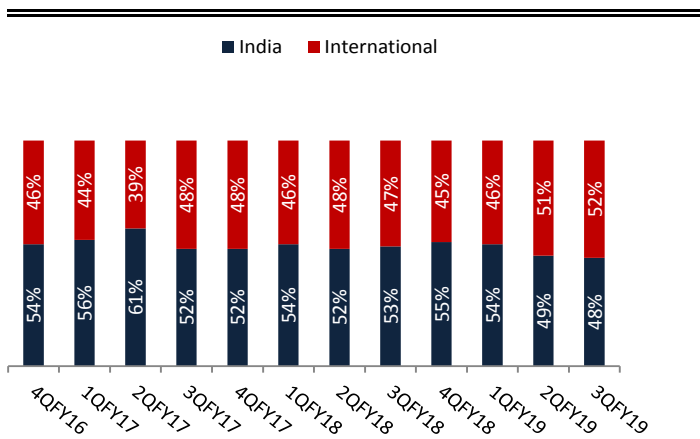
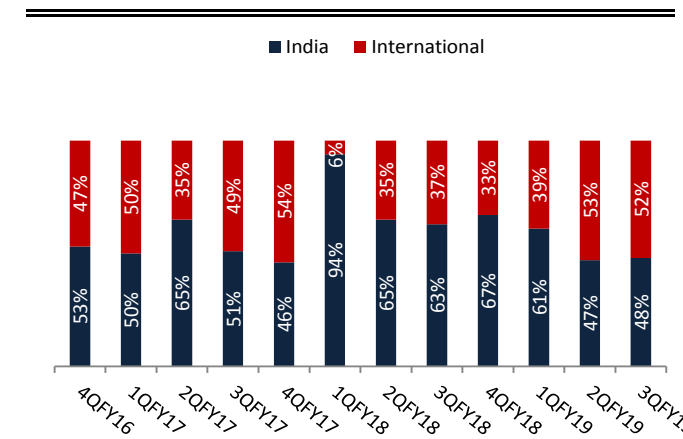


Exhibit: Order Inflow Break Up



## 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	11,249	13,114
Change (%)	20%	14%	7%	1%	1%	15%	11%	17%
<b>EBITDA</b>	<b>381</b>	<b>493</b>	<b>512</b>	<b>692</b>	<b>818</b>	<b>1,006</b>	<b>1,171</b>	<b>1,363</b>
Change (%)	-19%	29%	4%	35%	18%	23%	16%	16%
Margin (%)	5%	6%	6%	8%	9%	10%	10%	10%
Depr & Amor.	56	71	88	132	130	110	121	121
<b>EBIT</b>	<b>325</b>	<b>423</b>	<b>424</b>	<b>561</b>	<b>688</b>	<b>896</b>	<b>1,050</b>	<b>1,242</b>
Int. & other fin. Cost	194	263	309	279	254	247	309	301
Other Income	16	14	146	10	29	40	40	40
<b>EBT</b>	<b>147</b>	<b>173</b>	<b>261</b>	<b>291</b>	<b>463</b>	<b>690</b>	<b>781</b>	<b>982</b>
Exp Item	0	18	-	-	-	-	-	-
Tax	82	88	100	144	159	230	261	344
Minority Int & P/L share of Ass.	-	0	0	(0)	-	-	-	-
<b>Reported PAT</b>	<b>65</b>	<b>67</b>	<b>161</b>	<b>148</b>	<b>305</b>	<b>460</b>	<b>520</b>	<b>638</b>
<b>Adjusted PAT</b>	<b>65</b>	<b>58</b>	<b>161</b>	<b>148</b>	<b>305</b>	<b>460</b>	<b>520</b>	<b>638</b>
Change (%)		-11%	178%	-8%	106%	51%	13%	23%
Margin(%)	1%	1%	2%	2%	3%	5%	5%	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	2,399	2,955
Networth	1,147	1,192	1,183	1,290	1,586	1,997	2,451	3,007
Debt	1,456	1,809	2,702	3,023	2,008	1,639	2,870	2,782
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	3,189	3,745
Net Fixed Assets (incl CWIP)	1,008	992	1,039	1,011	963	998	1,022	1,080
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	1,276	1,334
Inventory	396	505	390	360	395	627	699	815
Debtors	2,887	3,808	3,846	4,658	4,200	5,039	5,614	6,545
Cash & Bank	156	144	185	75	176	193	138	201
Other Curr Assets	1,212	1,234	1,807	1,919	496	667	743	866
Curr Assets	4,650	5,691	6,227	7,012	5,266	6,526	7,194	8,427
Creditors	2,467	3,213	1,997	2,027	3,167	4,657	3,698	4,312
Provisions	79	115	76	83	103	83	93	108
Other Curr Liab	1,004	989	882	1,262	1,552	1,746	1,687	1,967
Curr Liabilities	3,550	4,317	2,955	3,372	4,822	6,487	5,479	6,387
Net Curr Assets	1,101	1,374	3,272	3,640	444	39	1,716	2,040
Total Assets	6,253	7,411	8,180	8,891	8,728	10,539	11,215	12,591

## Financial Details

## Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	147	155	261	148	305	460	781	982
(inc)/Dec in Working Capital	(391)	(396)	(321)	(835)	703	(234)	(1,731)	(262)
Non Cash Op Exp	56	71	88	132	130	110	121	121
Int Paid (+)	194	263	309	279	254	247	309	301
Tax Paid	98	113	122	133	104	230	261	344
others	5	10	(62)	190	215	76	-	-
CF from Op. Activities	(87)	(9)	153	(75)	1,662	660	(781)	798
(inc)/Dec in FA & CWIP	(142)	(146)	117	(23)	(67)	(136)	(144)	(179)
Free Cashflow	(229)	(155)	269	(99)	1,595	524	(925)	619
(Pur)/Sale of Inv	0	-	-	-	-	612	37	(78)
others	6	1	0	(3)	(24)	4	(22)	-
CF from Inv. Activities	(122)	(136)	125	(23)	(183)	(4)	(129)	(257)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	395	410	106	306	(1,122)	(365)	1,231	(88)
Int. Paid	(198)	(263)	(305)	276	(256)	(221)	(309)	(301)
Div Paid (inc tax)	(36)	(15)	(17)	58	(1)	(41)	(67)	(82)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	161	132	(216)	639	(1,379)	(638)	854	(471)
Inc(Dec) in Cash	(48)	(14)	62	541	100	17	(55)	70
Add: Opening Balance	194	146	132	185	75	176	231	176
Closing Balance	146	132	194	741	176	193	176	246

## 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%	33%	33%
Asset Turnover	1.14	1.09	1.06	0.98	1.00	0.96	1.00	1.04
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	120	120
Int Coverage	2	2	1	2	3	4	3	4
P/E	23.3	26.0	12.8	21.2	17.6	21.7	11.7	9.5
Price / Book Value	1.3	1.5	1.7	2.4	3.4	5.0	2.5	2.0
EV/EBITDA	5.4	4.5	5.1	5.3	7.3	10.5	5.7	4.9
FCF per Share	(9)	(7)	2	(7)	62	20	(36)	24
Div Yield	0.0%	0.5%	0.5%	0.0%	0.0%	0.0%	0.9%	1.1%

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