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KEC

BOOK PROFIT

KEC International

5-Apr-17

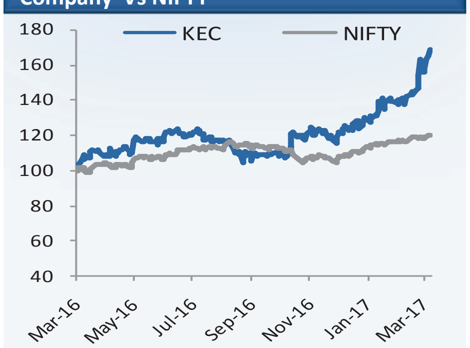
Result Update	
CMP	219
Target Price	NA
Previous Target Price	
Upside	
Change from Previous	

Market Data	
BSE Code	532714
NSE Symbol	KEC
52wk Range H/L	222/111
Mkt Capital (Rs Cr)	5,639
Av. Volume	259102
Nifty	9265

Stock Performance	1Month	3 Month	1Year
Absolute	31.4	57.2	72.4
Rel.to Nifty	27.8	43.9	53.0

Share Holding Pattern-%	3QFY17	2QFY17	1QFY17
Promoters	51%	51%	51%
Public	49%	49%	49%
Others	0%	0%	0%
Total	**100%**	**100%**	**100%**

Company Vs NIFTY



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Recent Development:-

KEC has received Rs. 1781 Cr worth of Orders in Transmission and cable on 4th April 2017. KEC has secured 1270 Cr transmission orders from international market (Middle East, Africa, Sri Lanka and Americas), Rs. 432 Cr from India market and Rs. 79 Cr of order for EHV cable supply. Company's efforts on growing in EPC business in Brazil is clearly paying off. In last one month, KEC has received orders worth of Rs.2494 Cr from international market which has strengthened the international order book. Current order book stands at Rs.11628 Cr which implies strong revenue visibilities of 1.26x of TTM revenue with improving operating margin. Fundamentally we remain bullish on the stock but valuation is little stretched.

Healthy Order Book:-

Current order book stands at Rs. 11175 Cr i.e. 1.3x of the trailing twelve months revenue with Rs. 3800 Cr of orders in L1 position. Order intake during the 9 months stood at Rs. 8634 Cr, up by 26% YoY. Management expects healthy orders from SEBs and railways which will provide robust revenue visibility going ahead. Currently, SEA plant (Brazil) is running at 100% capacity utilization with 2 years orders in hand.

Operating Margin continues to be strong:-

EBITDA margin in Q3FY17 has improved by 135 bps YoY to 9.3%. The Improvement in EBITDA margin was attributable to strong performance by SAE (500 bps up YoY), railway business (negative in Q3FY16) and cable business (negative in Q3FY16). Management is working on cost front in cable business to improve margin and we expect margin improvement in railway business as the revenue increase. Management has guided 9% EBITDA margin in FY17 and improves further in FY18. KEC has bring down account receivables days from 246 days in FY16 to 218 days at the end of the Q3FY17 and we anticipate it to improve further based on retention money release from Saudi project which result into improvement in bottom line going forward.

In Rs. Cr.

Financials	*Q3FY17*	*Q2FY17*	*Q3FY16*	*YoY %*	*QoQ %*
Sales	*1965*	*2121*	*2101*	*-7%*	*-7%*
EBITDA	*182*	*185*	*167*	*9%*	*-2%*
Net Profit*	*47*	*72*	*23*	*102%*	*-35%*
EBIDTA%	*9.3%*	*8.7%*	*8.0%*	***130 bps***	***60 bps***
PAT	*3.2%*	*3.1%*	*1.2%*	***200 bps***	***10 bps***

* Net profit is excluding other comprehensive income

Railway :- Potential Revenue growth driver

Management has cut down the revenue growth to 5% in FY17. But maintain the railway top line guidance of 450-500 Cr in FY17 and Rs.1000 Cr for the FY18E based on the huge opportunity in railway electrification project. Railway Ministry has set target to award 2000 Km, 4000 Km and 6000 km of overhead electrification orders in FY17, FY18 and FY19 respectively. In railways, KEC commands 20% market share, which may translate into approx.2400 Cr of expected new orders in FY18E. Railway ministry's focus on execution helps contractor to execute project smoothly and timely. We expect improvement in EBITDA margin based on incremental volume and speedy execution.

Result Highlights of Q3FY17

♦ Net sales de grew by the 6.5% YoY to Rs. 1965 Cr in Q3FY17 as compared to Rs. 2101 Cr in Q3FY16

♦ EBITDA margin has improved by 135 bsp to Rs. 182 Cr as against Rs 167 Cr on account of 10% plus margin in T&D and improved performance of railway and SAE business.

♦ KEC has reported 102% YoY growth in PAT with 200 bps improvement on back of higher EBITDA

♦During the quarter KEC has secured Rs.2706 Cr of new orders in Q3FY17 (up by 20% YoY) and Rs. 8634 Cr in 9 months of FY17, which is up by 26% YoY

♦ Order book as on 31st December stands at Rs.11175 Cr, ie. 1.3x of TTM revenue.

Managment / Concall Update

♦ Demonetization, delay in conversation of L1 orders into firm order and land acquisition issue at Jammu and Kashmir project led to de growth in revenue

♦ Management has guided 5% and 10-15% revenue growth in FY17 and FY18 respectively.

♦ EBITDA margin in FY17 will be 9% and it will improve further in FY18

♦ EBITDA margin of SAE tower was 8-9% in Q3FY17

♦Faced some serious issue in logistic in November and December month due to demonization but now situation is under control.

♦ Losses in Cable segment has come down significantly on YoY

♦Revenue loss of 50-60 Cr due to demonization

♦ Maintain revenue guidance in railway segment of Rs. 450-500 Cr and Rs.1000 cr in FY18

♦ Interest cost as % of sales will be 2.7% in FY18

♦Significant improvement in solar business from next year as the KEC is in L1 position of large project. EBITDA margin is slightly below than normal margin but cash generating on PBT level

♦Expect to bring down AR collection days to 180 from 218 days based on the release of retention money from Saudi projects

♦ Land acquisition issue at Jammu and Kashmir project has been resolved

♦ Expect more orders from SEBs compare to PGCIL

Outlook and Valuation:-

Revenue growth for 9MFY17 was subdued due to lower commodity prices and demonetization. But the operating margin continues to remain accretive during the same period. We expect 5% and 15% revenue growth in FY17E and FY18E respectively based on the strong traction in Transmission and railway business with strong operating margin. We recommended this stock at Rs. 148 for the target price of Rs. 217 and the stock have achieved our recommended target price. **Fundamentally we remain bullish on the stock based on strong order book position and improving operating margin but on the valuation front, we are not comfortable at current price level (currently stock is trading at 3.2x of P/B of FY17). Hence, we advise our investors to Book profits at the current price.**