

## KEC INTERNATIONAL LTD.

Industry Construction & Engineering  
 Bloomberg KECI IN  
 BSE Code 532714  
 NSE Code KEC

06 August 2018

RATING	NEUTRAL
CMP	327
Price Target	358
Previous Target	405
Potential Upside	9%

## Stock Info

52wk Range H/L	442.60/274.35
Mkt Capital (Rs Cr)	8,424
Free float (%)	49
Avg. Vol 1M (,000)	415
No. of Shares (Crore)	26
Promoters Pledged %	0%

## Key Highlights

- ☑ KEC is one of the established players in T&D business and over years company has leveraged its capabilities and diversified into new segments. Railway and Civil business are growing at 26% and 32% respectively and we expect it will grow 15% and 18% going over FY18-20.
- ☑ KEC is eyeing on Smart Infrastructure projects in India. Management is confident to win at least one project and revenue will start contributing by the year end. This will be new segment for the company.
- ☑ Management expects 15% revenue growth with stable EBITDA margin and 20% order book growth in FY19.
- ☑ RBI has banned roll over/buyer's facilities which led to reduction in acceptance. Acceptance has come down by Rs.652 Cr QoQ and net borrowing has gone up by Rs.1516 Cr sequentially.

## 1Q FY19 Result:

Q1FY19 numbers largely in line with estimates. Sales were up by 13.4% YoY to Rs.2105 Cr (Our expectation of Rs.2128 Cr) compared to Rs.1857 Cr backed by strong execution of railways and civil business. KEC has reported 80 bps improvements in EBITDA margin to 10.3% v/s 9.5% in same period last year. PAT was up by 37.9% YoY to Rs.87 Cr backed by higher EBITDA margin. Lower than expected order inflow from domestic T&D vertical has resulted into flat YoY growth in order inflow. However, Rs.3200 Cr of orders is lying in L1. Order book stands at Rs.18518 Cr which is 1.7x of TTM revenue.

## View and Valuation

Railway and civil continue to be growth engine for the KEC and we believe that in future it continue to led the show. KEC is eyeing on smart infra project and expect to receive at least one project by the year end. This will be new vertical for the company. Strong bid pipeline in T&D business ensure healthy revenue growth. Working capital and borrowings were increased due to ban of roll over/buyer's credit facilities by RBI and tight credit situation in market. However, management believes that it is temporary in nature and will normalize by the year end. **We have factored in higher working capital requirement in our estimates and reduce EPS estimate by 5/2% for FY19/20. We value KEC at 15.5x of FY20 EPS and revised our target price at Rs.358 per share and maintained NEUTRAL rating on the stock.**

KEY	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8657	8710	8755	10096	11731	13798
EBITDA	512	692	818	1006	1148	1362
EBIT	424	561	688	896	1028	1231
PAT	161.0	147.9	304.8	460.4	493.0	590.6
EPS (Rs)	6	6	12	18	19	23
EPS growth (%)	141%	-8%	106%	51%	7%	20%
ROE (%)	14%	11%	19%	23%	20%	20%
ROCE (%)	22%	30%	29%	33%	34%	35%
BVPS	46	50	62	78	94	114
P/B (X)	1.7	2.4	3.4	5.0	3.5	2.9
P/E (X)	12.8	21.2	17.6	21.7	17.1	14.2

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## 1QFY19 Results

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Sales	1,857	2,132	2,405	3,664	2,105	13.4%	-42.6%	8,755	10,096	15.3%
Other Income	10	6	12	13	18	78.5%	39.7%	29	40	40.0%
COGS	826	1,033	1,172	2,113	1,012	22.5%	-52.1%	4,165	5,145	23.5%
Emp. Exp.	191	195	192	221	203	6.3%	-7.9%	733	798	9.0%
Sub Contra.	435	449	566	677	514	18.3%	-24.0%	1,784	2,127	19.2%
Other Exp.	228	240	231	283	158	-30.6%	-44.0%	1,085	982	-9.5%
Total Exp.	1,680	1,916	2,161	3,294	1,889	12.4%	-42.7%	7,937	9,090	14.5%
<b>EBITDA</b>	<b>176</b>	<b>216</b>	<b>244</b>	<b>370</b>	<b>216</b>	<b>22.6%</b>	<b>-41.5%</b>	<b>818</b>	<b>1,006</b>	<b>23.0%</b>
<b>EBITDA M %</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>			<b>9</b>	<b>10</b>	
Depreciation	27	28	27	27	30	9.7%	8.5%	130	110	-15.4%
EBIT	149	188	217	342	186	25.0%	-45.6%	688	896	30.3%
Intreset	63	57	61	66	69	9.5%	5.3%	254	247	-2.8%
Excep. Item	-	-	-	-	-			-	-	
PBT	96	136	169	289	135	40.7%	-53.4%	463	690	48.9%
Tax	33	47	57	93	48	46.0%	-48.5%	159	230	44.8%
PAT	63	89	112	196	87	37.9%	-55.8%	294	452	53.8%
<b>PAT %</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>4</b>			<b>3</b>	<b>4</b>	

## Railway and civil continue to be growth engine

KEC has posted Q1FY19 earning numbers largely in line with our estimates. Sales were up by 13.4% YoY to Rs.2105 Cr v/s our estimate of Rs.2128 Cr. However, revenue from T&D vertical is lower than our expectation (Rs.1007 Cr v/s Rs.1373 Cr) due to election in some of the states and delay in conversion as major order book build up in H2FY18. Railway and civil continue to be growth engine for the company as the revenue was up by 98% and 693% YoY respectively. Cable vertical has shown strong growth after sluggish performance in 8 quarter on back of higher export and growth in HT cables. EBITDA margin was higher by 87 bps on account of better performance from non T&D business and foreign exchange gain. PAT was up by 38% YoY to Rs.87 Cr on back of improved margin.

## Flat Order inflow, pipeline remain strong

Lower than expected order inflow from domestic T&D vertical has resulted into flat YoY growth in order inflow. However, Rs.3200 Cr of orders is lying in L1. KEC has bagged Rs.900 Cr of orders from International Market (America). KEC has forayed into America some time back and this is the first order and management expects strong growth going ahead. In recent times Bangladesh is offering good opportunities and Africa continues to remain attractive. Post the election in some of the states, management expects healthy ordering. Additionally, Government working on some green corridors and PGCIL will come up with tenders in next 3-6 months time. KEC has eyeing international railway orders and has bided tenders in SAARC, Africa and CIS.

## Restriction on roll over/ Buyer's credit, liquidity tightening led to higher Borrowings/ Working capital :-

RBI has banned roll over/buyer's facilities which led to reduction in acceptance. Acceptance has come down by Rs.652 Cr QoQ and for that company need to borrow INR dominated loan. Secondly, due to tight credit term by the bank for MSME led to reduction in payables. Being large party KEC need to provide some cash support to their suppliers. However, this is temporary in nature and management expect normalize situation by the year end. As result of this net borrowing has gone up by Rs.1516 Cr sequentially. Despite this management is confident to maintain interest cost as % of sales at 3-3.5% which will supported by strong 15% revenue growth.

## Concall Highlights:-

- ✓ Shortage of labour in some of the states due to election led to lower execution of domestic T&D business.
- ✓ Management maintains order intake guidance of 15% and 10% EBITDA margin.
- ✓ Working capital and borrowings increase due to some structural change and management expect normal level by the year end.
- ✓ Expect Rs.1600/2200 Cr of revenue from railway in FY19/20.
- ✓ Capex requirement in FY19 is 140-150 Cr.

### Segment Revenue

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,273	2,043	1,334	1,709	1,532	2,468	1,007	-25%	-59%
Transmission SAE	227	259	151	248	319	307	270	79%	-12%
Cables	278	303	220	239	272	278	259	18%	-7%
Railway	105	206	158	119	208	359	313	98%	-13%
Civil/Water	20	28	15	40	87	126	119	693%	-6%
Solar	59	60	21	44	34	189	160	662%	-15%
<b>Total</b>	<b>1,962</b>	<b>2,899</b>	<b>1,899</b>	<b>2,399</b>	<b>2,452</b>	<b>3,727</b>	<b>2,128</b>	<b>12%</b>	<b>-43%</b>

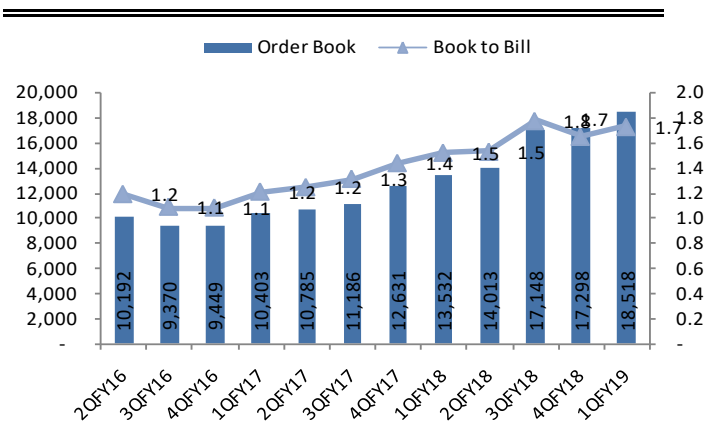
### Order Book Break Up

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,947	2,395	2,093	1,833	3,443	2,051	1,360	-35%	-34%
Transmission SAE	1,342	1,263	1,218	2,102	1,715	1,903	1,837	51%	-3%
Cables	224	126	271	280	343	346	255	-6%	-26%
Railway	1,342	1,516	1,353	1,401	3,601	4,152	4,730	250%	14%
Civil/Water	112	126	406	420	343	346	418	3%	21%
Solar	112	505	406	280	343	173	364	-10%	110%
<b>Total</b>	<b>11,186</b>	<b>12,631</b>	<b>13,532</b>	<b>14,013</b>	<b>17,148</b>	<b>17,298</b>	<b>18,518</b>	<b>37%</b>	<b>7%</b>

### Order Inflow

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,947	2,395	2,093	1,833	3,443	2,051	1,360	-35%	-34%
Transmission SAE	61	657	140	562	1,055	380	33	-76%	-91%
Cables	244	212	335	325	611	266	203	-39%	-24%
Railway	460	15	-	59	111	987	929	NA	-6%
Civil/Water	-	-	223	148	278	114	212	NA	86%
Solar	(5)	445	-	30	56	11	11	NA	-4%
<b>Total</b>	<b>2,706</b>	<b>3,724</b>	<b>2,790</b>	<b>2,957</b>	<b>5,553</b>	<b>3,809</b>	<b>2,748</b>	<b>-2%</b>	<b>-28%</b>

### Exhibit: Order Book and Book to Bill trend



### Exhibit: Interest Cost as % of Sales

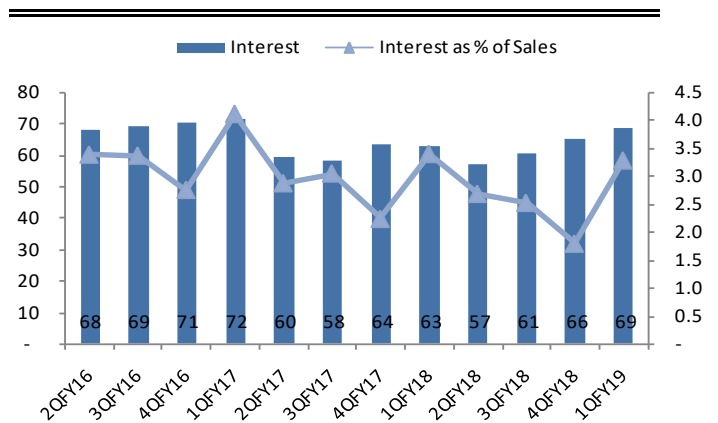


Exhibit: Railway Business Order book and growth %

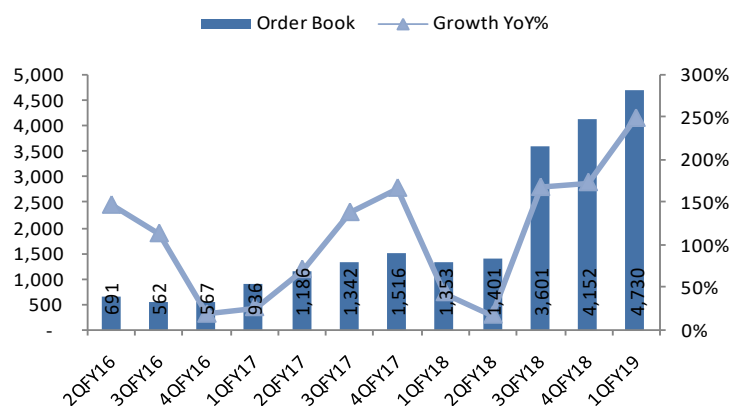


Exhibit: Railway Business Revenue and Growth %

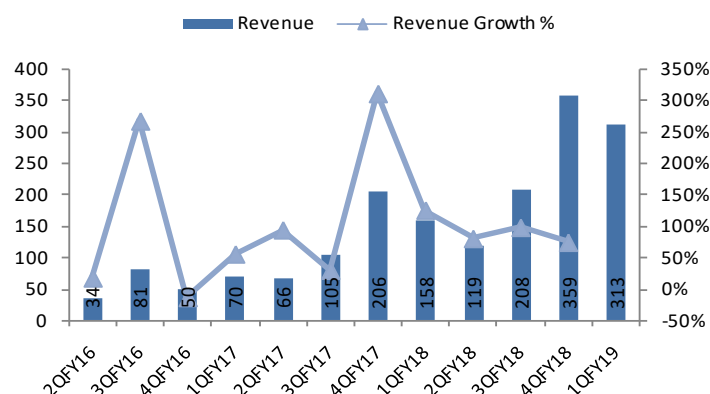


Exhibit: Civil Business Order Book and Growth %

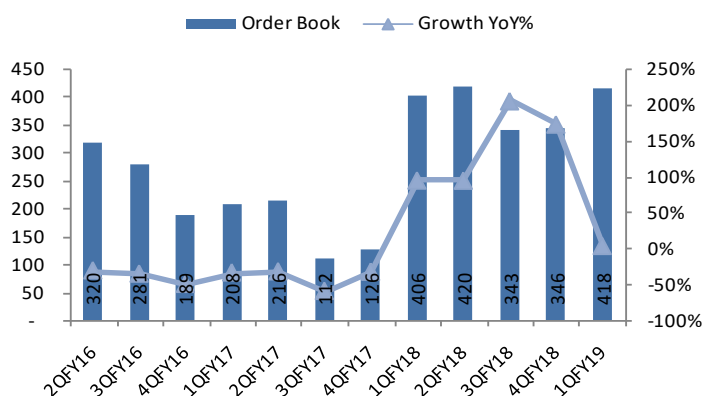
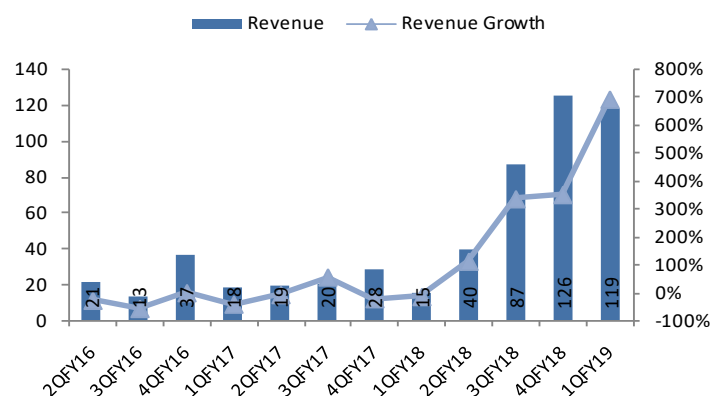


Exhibit: Civil Business Revenue and Growth %



## Financials 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	11,731	13,798
Change (%)	20%	14%	7%	1%	1%	15%	16%	18%
<b>EBITDA</b>	<b>381</b>	<b>493</b>	<b>512</b>	<b>692</b>	<b>818</b>	<b>1,006</b>	<b>1,148</b>	<b>1,362</b>
Change (%)	-19%	29%	4%	35%	18%	23%	14%	19%
Margin (%)	5%	6%	6%	8%	9%	10%	10%	10%
Depr & Amor.	56	71	88	132	130	110	120	131
<b>EBIT</b>	<b>325</b>	<b>423</b>	<b>424</b>	<b>561</b>	<b>688</b>	<b>896</b>	<b>1,028</b>	<b>1,231</b>
Int. & other fin. Cost	194	263	309	279	254	247	310	363
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>758</b>	<b>909</b>
Exp Item	0	18	-	-	-	-	-	-
Tax	82	88	100	144	159	230	265	318
Min. 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>493</b>	<b>591</b>
<b>Adjusted PAT</b>	<b>65</b>	<b>58</b>	<b>161</b>	<b>148</b>	<b>305</b>	<b>460</b>	<b>493</b>	<b>591</b>
Change (%)		-11%	178%	-8%	106%	51%	7%	20%
Margin(%)	1%	1%	2%	2%	3%	5%	4%	4%

## 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	2,375	2,890
<b>Networth</b>	<b>1,147</b>	<b>1,192</b>	<b>1,183</b>	<b>1,290</b>	<b>1,586</b>	<b>1,997</b>	<b>2,427</b>	<b>2,941</b>
<i>Debt</i>	<i>1,456</i>	<i>1,809</i>	<i>2,702</i>	<i>3,023</i>	<i>2,008</i>	<i>1,639</i>	<i>2,614</i>	<i>3,114</i>
Other Non Cur Liab	100	93	135	141	152	145	145	145
<i>Total Capital Employed</i>	<i>1,855</i>	<i>1,794</i>	<i>1,910</i>	<i>1,883</i>	<i>2,362</i>	<i>2,736</i>	<i>3,041</i>	<i>3,555</i>
<i>Net Fixed Assets (incl CWIP)</i>	<i>1,008</i>	<i>992</i>	<i>1,039</i>	<i>1,011</i>	<i>963</i>	<i>998</i>	<i>1,098</i>	<i>1,171</i>
<i>Non Cur Investments</i>	<i>-</i>	<i>-</i>	<i>0</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Other Non Cur Asst</i>	<i>252</i>	<i>351</i>	<i>295</i>	<i>297</i>	<i>222</i>	<i>254</i>	<i>254</i>	<i>254</i>
Non Curr Assets	1,260	1,343	1,334	1,308	1,185	1,252	1,352	1,425
Inventory	396	505	390	360	395	627	729	857
<i>Debtors</i>	<i>2,887</i>	<i>3,808</i>	<i>3,846</i>	<i>4,658</i>	<i>4,200</i>	<i>5,039</i>	<i>5,855</i>	<i>6,887</i>
<i>Cash &amp; Bank</i>	<i>156</i>	<i>144</i>	<i>185</i>	<i>75</i>	<i>176</i>	<i>193</i>	<i>181</i>	<i>150</i>
<b>Other Curr Assets</b>	<b>1,212</b>	<b>1,234</b>	<b>1,807</b>	<b>1,919</b>	<b>496</b>	<b>667</b>	<b>774</b>	<b>911</b>
<i>Curr Assets</i>	<i>4,650</i>	<i>5,691</i>	<i>6,227</i>	<i>7,012</i>	<i>5,266</i>	<i>6,526</i>	<i>7,539</i>	<i>8,805</i>
Creditors	2,467	3,213	1,997	2,027	3,167	4,657	4,339	4,347
<i>Provisions</i>	<i>79</i>	<i>115</i>	<i>76</i>	<i>83</i>	<i>103</i>	<i>83</i>	<i>97</i>	<i>114</i>
Other Curr Liab	1,004	989	882	1,262	1,552	1,746	1,760	2,070
Curr Liabilities	3,550	4,317	2,955	3,372	4,822	6,487	6,195	6,531
<b>Net Curr Assets</b>	<b>1,101</b>	<b>1,374</b>	<b>3,272</b>	<b>3,640</b>	<b>444</b>	<b>39</b>	<b>1,344</b>	<b>2,274</b>
<b>Total Assets</b>	<b>6,253</b>	<b>7,411</b>	<b>8,180</b>	<b>8,891</b>	<b>8,728</b>	<b>10,539</b>	<b>11,651</b>	<b>13,002</b>

## Financials Details

## Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	147	155	261	148	305	460	758	909
(inc)/Dec in Working Capital	(391)	(396)	(321)	(835)	703	(234)	(1,317)	(961)
Non Cash Op Exp	56	71	88	132	130	110	120	131
Int Paid (+)	194	263	309	279	254	247	310	363
Tax Paid	98	113	122	133	104	230	265	318
others	5	10	(62)	190	215	76	-	-
CF from Op. Activities	(87)	(9)	153	(75)	1,662	660	(394)	123
(inc)/Dec in FA & CWIP	(142)	(146)	117	(23)	(67)	(136)	(219)	(204)
Free Cashflow	(229)	(155)	269	(99)	1,595	524	(613)	(81)
(Pur)/Sale of Inv	0	-	-	-	-	612	0	(11)
others	6	1	0	(3)	(24)	4	-	-
CF from Inv. Activities	(122)	(136)	125	(23)	(183)	(4)	(219)	(215)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	395	410	106	306	(1,122)	(365)	975	500
Int. Paid	(198)	(263)	(305)	276	(256)	(221)	(310)	(363)
Div Paid (inc tax)	(36)	(15)	(17)	58	(1)	(41)	(64)	(76)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	161	132	(216)	639	(1,379)	(638)	601	61
Inc(Dec) in Cash	(48)	(14)	62	541	100	17	(12)	(31)
Add: Opening Balance	194	146	132	185	75	176	231	219
Closing Balance	146	132	194	741	176	193	219	188

\* FY18 numbers are estimated

## Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	6%	6%	14%	11%	19%	23%	20%	20%
ROCE	18%	24%	22%	30%	29%	33%	34%	35%
Asset Turnover	1.14	1.09	1.06	0.98	1.00	0.96	1.01	1.06
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	135	115
Int Coverage	1.67	1.61	1.37	2.01	2.71	3.64	3.31	3.39
P/E	23	26	13	21	18	22	17	14
Price / Book Value	1	1	2	2	3	5	3	3
EV/EBITDA	5	4	5	5	7	10	8	7
FCF per Share	(9)	(7)	2	(7)	62	20	(24)	(3)
Div Yield	0%	0%	1%	0%	0%	0%	1%	1%

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