

KEC INTERNATIONAL LTD.

Industry Heavy Electrical Equipment
Bloomberg KECI IN
BSE Code 532714
NSE Code KEC

16 May 2018

RATING	NEUTRAL
CMP	378
Price Target	405
Previous Target	361
Potential Upside	7%

Stock Info

52wk Range H/L	442/229
Mkt Capital (Rs Cr)	9739
Free float (%)	49%
Avg. Vol 1M (,000)	501
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.
- ☑ Currently, Government is focused on Infrastructure and affordable housing and increased spending in these segments and we expect it will be continue for the next 2-3 years.
- ☑ Management expects 15% revenue growth with stable EBITDA margin and 20% order book growth in FY19.
- ☑ Recently, 7 employees (6 are Indians and 1 is Afghani) of KEC is kidnap by the local mafia in Afghanistan and top management is in talk with external affairs ministry (India) to take them back safely. KEC's order book exposure in Afghanistan is around 10-12%.

4Q FY18 Result:

KEC has reported robust revenue growth across the segment except cable, backed by the strong order book. The key T&D segment registered revenue of Rs.2468 Cr at a growth of 21% YoY supported by strong execution across the projects. SAE witnessed 19% growth YoY while railway business grows at 74% YoY. Revenue from Civil business became three fold to Rs.126 Cr and clocked Rs.268 Cr of revenue in first year of operation with PBT positive. Revenue from cable business was down by 8% YoY. EBITDA margin remained stable at 10% but bottom line has improved 30 bps on back of lower Depreciation and Interest cost. Interest cost as % of sales was down to 1.8% v/s 2.2%.

View and Valuation

KEC has leveraged its capabilities and successfully diversified into railways and civil segment. Now, KEC is in sweet spot to capitalize rising opportunities from railway and civil segments. We believe that the railway and civil will be the key revenue growth drivers for the company as the government has increased its spending in these sectors. We expect healthy revenue growth with stability in operating margins. KEC's order book exposure in Afghanistan is 10-12%; execution may delay due to current employees kidnapping case. Considering the expensive valuation we are NEUTRAL on the stock with revised target price of Rs.405 (15.5x FY20 EPS of Rs.26).

Key Risks to our rating and target

- ◆ Sharp increase in commodity prices

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8468	8710	8755	10096	12105	14695
EBITDA	512	692	818	1006	1222	1486
EBIT	424	561	688	896	1102	1355
PAT	161.0	147.9	304.8	460.4	566.8	684.2
EPS (Rs)	6	6	12	18	22	26
EPS growth (%)	141%	-8%	106%	51%	23%	21%
ROE (%)	12%	11%	19%	23%	23%	23%
ROCE (%)	20%	30%	29%	33%	37%	39%
BVPS	52	50	62	78	95	116
P/B (X)	1.5	2.4	3.4	2.7	4.0	3.3
P/E (X)	12.8	21.2	17.6	11.6	17.1	14.2

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4QFY18 Results

Strong Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Sales	2,849	1,857	2,132	2,405	3,664	28.6%	52.4%	8,755	10,096	15.3%
Other Income	11	10	6	12	13	10.3%	1.9%	29	40	40.0%
COGS	1,479	826	1,033	1,172	2,113	42.9%	80.3%	4,165	5,145	23.5%
Emp. Exp.	186	191	195	192	221	18.5%	15.3%	733	798	9.0%
Sub Contra.	494	435	449	566	677	37.1%	19.6%	1,784	2,127	19.2%
Other Exp.	389	228	240	231	283	-27.2%	22.4%	1,085	982	-9.5%
Total Exp.	2,548	1,680	1,916	2,161	3,294	29.3%	52.5%	7,937	9,090	14.5%
EBITDA	301	176	216	244	370	22.8%	51.5%	818	1,006	23.0%
EBITDA M %	11	9	10	10	10			9	10	
Depreciation	41	27	28	27	27	-32.6%	1.2%	130	110	-15.4%
EBIT	260	149	188	217	342	31.5%	57.8%	688	896	30.3%
Intreset	64	63	57	61	66	3.0%	8.1%	254	247	-2.8%
Excep. Item	-	-	-	-	-			-	-	
PBT	208	96	136	169	289	39.1%	71.6%	463	690	48.9%
Tax	63	33	47	57	93	48.8%	63.7%	159	230	44.8%
PAT	146	63	89	112	196	34.9%	75.6%	294	452	53.8%
PAT %	5	3	4	5	5			3	4	

Strong Revenue Performance across the segments

KEC has reported robust revenue growth across the segment except cable, backed by the strong order book. The key T&D segment registered revenue of Rs.2468 Cr at a growth of 21% YoY supported by strong execution across the projects. SAE witnessed 19% growth YoY while railway business grows at 74% YoY. Revenue from Civil business became three fold to Rs.126 Cr and clocked Rs.268 Cr of revenue in first year of operation with PBT positive. Revenue from cable business was down by 8% YoY as company shut down its Silvasa facility and transfer operation at Vadodra Plant. Order Inflow was flat at 2% YoY to Rs.3809 Cr in Q4FY18 but registered 22% growth for the full year FY18.

Stability in Margins

EBITDA margin remained stable at 10.1% during the quarter and 10% for the full year FY18. From last 3-4 quarter margin has shown stable trend. While, PAT improved by 30 bps during the quarter on account of lower depreciation and interest. T&D performing well in terms of margin and reported 11% plus. While civil segment has shown promising trend in margin and reported positive PBT in first year of operation. Management expects the railway and civil businesses margin will improve once the volume increased. However, the management has guided 10% EBITDA margin for FY19 conservatively considering volatility in commodity prices and reviews the situation after 3-4 months.

Healthy Bid Pipeline

Order inflow for the quarter was Rs.3809 Cr, 2% YoY but reported 22% YoY growth for the full year FY18. At the movement bid pipeline remained healthy and management expect strong uptick from Africa and election in Brazil will trigger larger EPC orders. Bid pipeline in Saudi is strong but does not converting into firm orders. Domestic T&D segment continue to drive by SEBs and private players. Management expect 20% growth in order book.

Concall Highlights:-

- ✓ Management has guided 15% YoY revenue growth conservatively with 10% EBITDA margin.
- ✓ Order book will grow at 20% YoY backed by strong orders from Brazil, Africa and SEBs.
- ✓ Management expects to do double revenue from Railway and Civil business.
- ✓ PGCIL has signed MoU with government for spending 25000 Cr in FY19.
- ✓ Currently very small portion of order book is fixed price contracts. So upsurge in commodity prices will not hurt the margin.
- ✓ KEC's Order book exposure in Afghanistan is 10-12%.
- ✓ Capex requirement in FY19 will by Rs.200 Cr.
- ✓ Net working capital days have improved to 98 days and no further room for improvement.
- ✓ Debt will not grow from here on and expect Interest cost as % of sales at 2.25-2.3%.
- ✓ Company has shut down its Silavassa cable plant and shift operation at Vadodra plant and expects better utilization of machinery. Management focuses on export and EHV cables and target 20% revenue growth in FY19.

Segment Revenue

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Transmission	1,529	1,273	2,043	1,334	1,709	1,532	2,468	21%	61%
Transmission SAE	261	227	259	151	248	319	307	19%	-4%
Cables	228	278	303	220	239	272	278	-8%	2%
Railway	66	105	206	158	119	208	359	74%	73%
Civil/Water	19	20	28	15	40	87	126	350%	45%
Solar	26	59	60	21	44	34	189	215%	456%
Total	2,129	1,962	2,899	1,899	2,399	2,452	3,727	29%	52%

Order Book Break Up

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Transmission	1,851	1,947	2,395	2,093	1,833	3,443	2,051	-14%	-40%
Transmission SAE	1,510	1,342	1,263	1,218	2,102	1,715	1,903	51%	11%
Cables	216	224	126	271	280	343	346	174%	1%
Railway	1,186	1,342	1,516	1,353	1,401	3,601	4,152	174%	15%
Civil/Water	216	112	126	406	420	343	346	174%	1%
Solar	216	112	505	406	280	343	173	-66%	-50%
Total	10,785	11,186	12,631	13,532	14,013	17,148	17,298	37%	1%

Order Inflow

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Transmission	1,851	1,947	2,395	2,093	1,833	3,443	2,051	-14%	-40%
Transmission SAE	211	61	657	140	562	1,055	380	-42%	-64%
Cables	336	244	212	335	325	611	266	26%	-56%
Railway	584	460	15	-	59	111	987	6405%	789%
Civil/Water	-	-	-	223	148	278	114	NA	-59%
Solar	121	(5)	445	-	30	56	11	-97%	-79%
Total	3,103	2,706	3,724	2,790	2,957	5,553	3,809	2%	-31%

Exhibit:Order Book and Book to Bill trend

Book to bill has shown improving trend from last 7-8 quarters which ensure healthy revenue growth

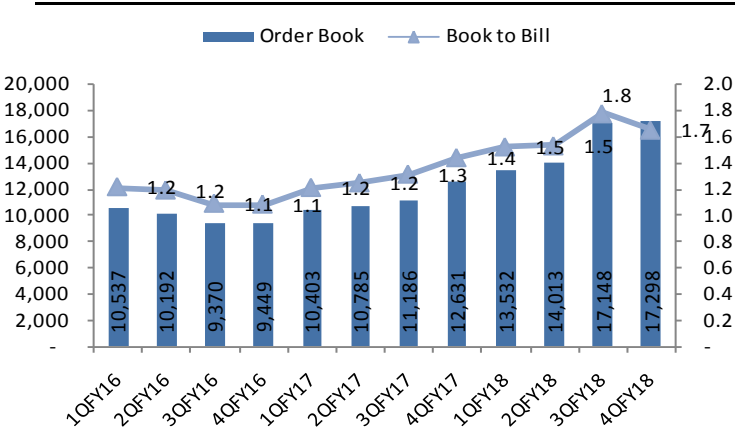


Exhibit: Interest Cost as % of Sales

Interest as percentage of sales improved to 2.4% and will improve further to 2.25-2.3%

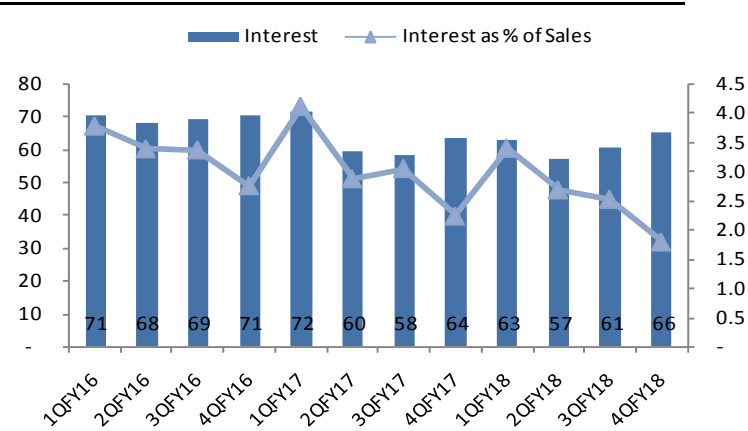


Exhibit:Railway Business Order book and growth %
Government spending lead to strong growth in order book

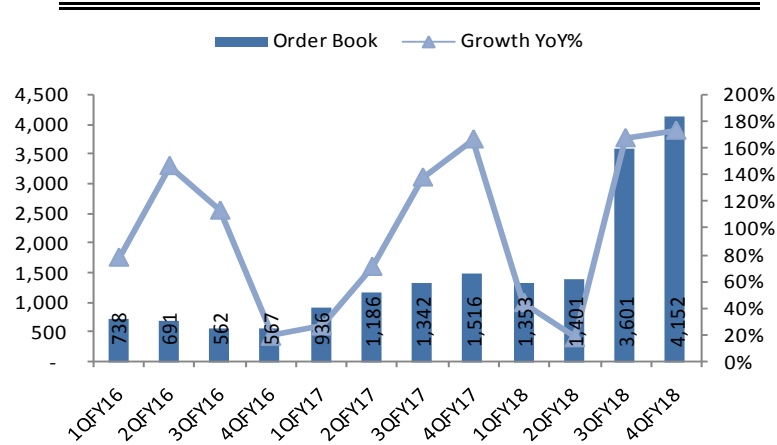


Exhibit: Railway Business Revenue and Growth %
Management expect to double revenue in FY19

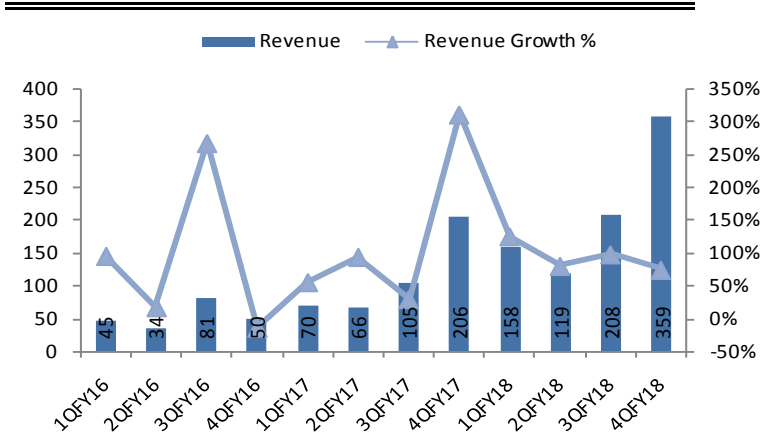


Exhibit:Civil Business Order Book and Growth %
KEC has entered civil segment in last year and growing at high speed. Aiming affordable housing projects.

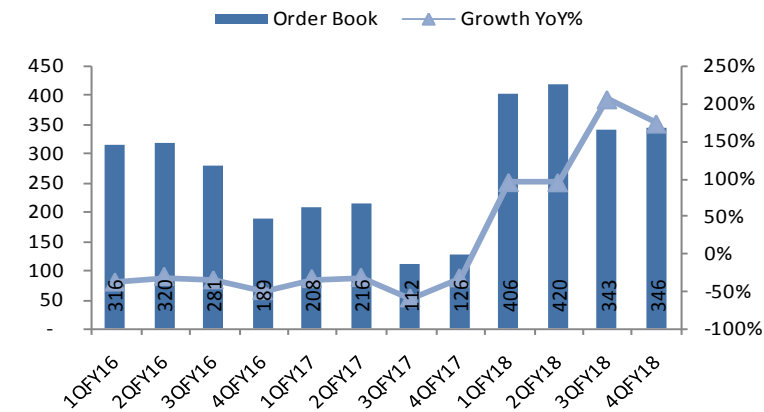
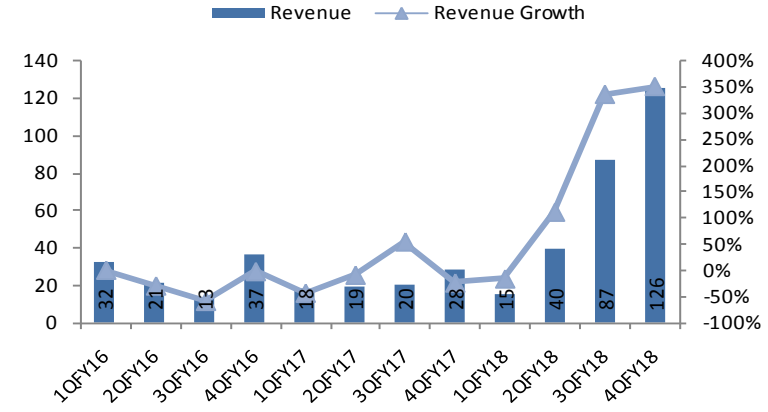


Exhibit: Civil Business Revenue and Growth %
In first year of operation KEC reported robust revenue growth and management expect to do double revenue in FY19



Financials Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	6,979	7,902	8,468	8,710	8,755	10,096	12,105	14,695
Change (%)	20%	13%	7%	3%	1%	15%	20%	21%
EBITDA	381	493	512	692	818	1,006	1,222	1,486
Change (%)	-19%	29%	4%	35%	18%	23%	21%	22%
Margin (%)	5%	6%	6%	8%	9%	10%	10%	10%
Depr & Amor.	56	71	88	132	130	110	120	131
EBIT	325	423	424	561	688	896	1,102	1,355
Int. & other fin. Cost	194	263	309	279	254	247	270	343
Other Income	16	14	146	10	29	40	40	40
EBT	147	173	261	291	463	690	872	1,053
Exp Item	0	18	-	-	-	-	-	-
Tax	82	88	100	144	159	230	305	368
Min. Int & P/L share of Ass.	-	0	0	(0)	-	-	-	-
Reported PAT	65	67	161	148	305	460	567	684
Adjusted PAT	65	58	161	148	305	460	567	684
Change (%)		-11%	178%	-8%	106%	51%	23%	21%
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	1,278	1,239	1,535	1,946	2,390	2,927
Networth	1,147	1,192	1,330	1,290	1,586	1,997	2,442	2,978
<i>Debt</i>	<i>1,456</i>	<i>1,809</i>	<i>2,045</i>	<i>3,023</i>	<i>1,998</i>	<i>1,639</i>	<i>2,176</i>	<i>2,868</i>
Other Non Cur Liab	100	93	91	141	182	145	145	145
<i>Total Capital Employed</i>	<i>1,855</i>	<i>1,794</i>	<i>2,067</i>	<i>1,883</i>	<i>2,352</i>	<i>2,736</i>	<i>2,981</i>	<i>3,518</i>
<i>Net Fixed Assets (incl CWIP)</i>	<i>1,008</i>	<i>992</i>	<i>881</i>	<i>1,011</i>	<i>922</i>	<i>998</i>	<i>1,137</i>	<i>1,210</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>523</i>	<i>297</i>	<i>262</i>	<i>254</i>	<i>254</i>	<i>254</i>
Non Curr Assets	1,260	1,343	1,404	1,308	1,184	1,252	1,391	1,464
Inventory	396	505	476	360	395	627	752	913
<i>Debtors</i>	<i>2,887</i>	<i>3,808</i>	<i>3,853</i>	<i>4,658</i>	<i>4,200</i>	<i>5,039</i>	<i>5,306</i>	<i>6,643</i>
<i>Cash & Bank</i>	<i>156</i>	<i>144</i>	<i>206</i>	<i>75</i>	<i>176</i>	<i>193</i>	<i>190</i>	<i>230</i>
Other Curr Assets	1,212	1,234	1,411	1,919	1,951	667	799	970
<i>Curr Assets</i>	<i>4,650</i>	<i>5,691</i>	<i>5,947</i>	<i>7,012</i>	<i>6,722</i>	<i>6,526</i>	<i>7,048</i>	<i>8,756</i>
Creditors	2,467	3,213	3,325	2,027	2,198	4,657	4,311	4,630
<i>Provisions</i>	<i>79</i>	<i>115</i>	<i>111</i>	<i>83</i>	<i>70</i>	<i>83</i>	<i>100</i>	<i>121</i>
Other Curr Liab	1,004	989	843	1,262	1,552	1,746	1,816	2,204
Curr Liabilities	3,550	4,317	4,278	3,372	3,820	6,487	6,227	6,955
Net Curr Assets	1,101	1,374	1,668	3,640	2,902	39	821	1,801
Total Assets	6,253	7,411	7,745	8,891	8,728	10,539	11,260	13,216

Financials Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	147	155	261	148	305	690	872	1,053
(inc)/Dec in Working Capital	(391)	(396)	(321)	(835)	703	(136)	(785)	(940)
Non Cash Op Exp	56	71	88	132	130	110	120	131
Int Paid (+)	194	263	309	279	254	247	270	343
Tax Paid	98	113	122	133	104	305	305	368
others	5	10	(62)	190	215	214	-	-
CF from Op. Activities	(87)	(9)	153	(75)	1,662	848	173	218
(inc)/Dec in FA & CWIP	(142)	(146)	117	(23)	(67)	(186)	(259)	(204)
Free Cashflow	(229)	(155)	269	(99)	1,595	662	(86)	14
(Pur)/Sale of Inv	0	-	-	-	-	91	(61)	(175)
others	6	1	0	(3)	(24)	(1)	-	-
CF from Inv. Activities	(122)	(136)	125	(23)	(183)	(96)	(320)	(379)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	395	410	106	306	(1,122)	(332)	536	692
Int. Paid	(198)	(263)	(305)	276	(256)	(270)	(270)	(343)
Div Paid (inc tax)	(36)	(15)	(17)	58	(1)	(99)	(122)	(148)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	161	132	(216)	639	(1,379)	(728)	143	202
Inc(Dec) in Cash	(48)	(14)	62	541	100	24	(3)	40
Add: Opening Balance	194	146	132	185	75	208	231	228
Closing Balance	146	132	194	741	176	232	228	268

* FY18 numbers are estimated

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	6%	6%	12%	11%	19%	23%	23%	23%
ROCE	18%	24%	20%	30%	29%	33%	37%	39%
Asset Turnover	1.12	1.07	1.09	0.98	1.00	0.96	1.08	1.11
Debtor Days	151	176	166	195	175	182	160	165
Inv Days	21	23	21	15	16	23	23	23
Payable Days	129	148	143	118	132	168	130	115
Int Coverage	1.67	1.61	1.37	2.01	2.71	3.64	4.08	3.95
P/E	23	26	13	21	18	12	17	14
Price / Book Value	1	1	2	2	3	3	4	3
EV/EBITDA	5	4	5	5	7	6	8	7
FCF per Share	(9)	(7)	2	(7)	62	26	(3)	1
Div Yield	1%	1%	1%	1%	0.0%	1.5%	1.0%	1.3%

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