

KEC International

Result Update

CMP	146
Target Price	165
Previous Target Price	-
Upside	13%
Change from Previous	-

Market Data

BSE Code	532714
NSE Symbol	KEC
52wk Range H/L	153/97
Mkt Capital (Rs Cr)	3,744
Av. Volume	30699
Nifty	8191

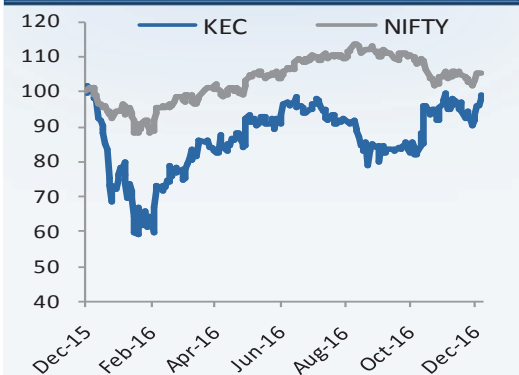
Stock Performance

	1Month	3 Month	1Year
Absolute	4.2	15.4	-8.0
Rel.to Nifty	3.5	21.4	-10.9

Share Holding Pattern-%

	2QFY17	1QFY17	4QFY16
Promoters	51%	51%	51%
Public	49%	49%	49%

Company Vs NIFTY



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KEC's Management, in its recent interview, has said that the Q3 will not be great in terms of revenue growth. The company's domestic business was impacted due to non availability of labour and trucks. Management is not sure enough to achieve its revenue guidance of 10% growth in FY17. But management is confident to maintain 8.5% of EBITDA margin in current fiscal year. According to our view, in short run, company's revenue growth will remain lackluster but medium to long run growth remains intact.

Robust Revenue visibility in Railway:-

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. Order Intake in Railway segment is up by 158% in H1FY17 and it is the lowest bidder in 400 Cr of orders. Railway ministry's focus on execution helps contractor to execute project smoothly and timely. We expect improvement in EBITDA margin based on increase volume and speedy execution.

Reduction in Debt through efficient working capital management:-

KEC has reduced gross debt by Rs. 300 cr with the help of better AR management (reduction of Rs 485 Cr). Working capital days improved to 229 days from 246 days. Management expects to release retention money from project in Saudi as project gets completed in next 2-3 months. Hence, it will lead to further reduction in working capital days. Company aims to bring it down to 180 days by the year end.

Outlook and Valuation

In short run, company's revenue growth will remain lackluster but medium to long-term growth remains intact. Efficient working capital management strengthened balance sheet position and we expect it to continue going forward. We expect to ramp up in an execution of substation (T&D) projects and railway projects. Robust opportunity in railway segment with improving margin will help KEC to post healthy numbers going forward. But considering the short-term uncertainty, we maintain "HOLD" on the stock with unchanged target price of Rs. 164

Financials	In Rs. Cr				
	Q2FY16	Q1FY17	Q2FY17	YoY %	QoQ %
Sales	2021	1785	2121	5%	19%
EBITDA	155	150	185	20%	24%
Net Profit	44	31	65	47%	110%
EBIDTA%	7.7%	8.4%	8.7%		
PAT	2.2%	1.7%	3.1%		

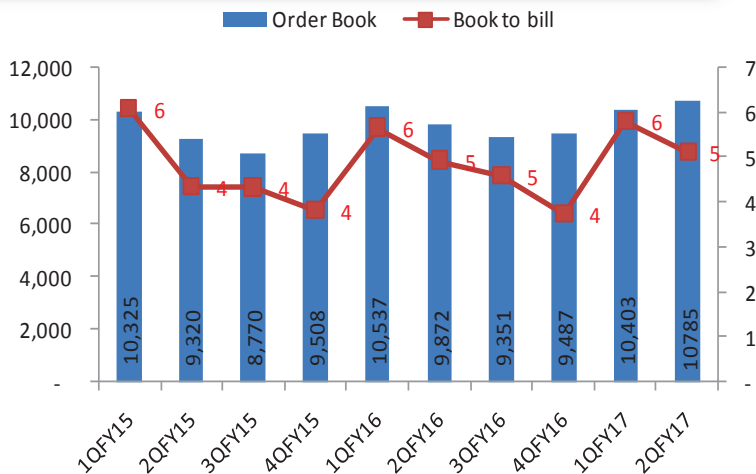
Result Highlights Q2FY17 & H2FY17

- ◆ Revenue grew by 5% YoY and de-grew by 1% YoY in Q2FY17 and H1FY17 respectively. Delay in conversation of L1 order into firm orders, back ended execution project and weak execution led to muted revenue growth in Q2FY17 and H1FY17.
- ◆ EBITDA grew by 49% YoY and 13% to Rs. 185 cr and Rs. 335 Cr in Q2FY17 and H1FY17 respectively. Strong double digit and increased EBITDA margin of SEA and railway business respectively support the EBITDA margin.
- ◆ PAT margin reported robust growth of 47% YoY and 96% YoY to 72 Cr , 119 Cr in Q2FY17 and H1FY17 respectively. Lower interest out go, strong performance at revenue and EBITDA level helped to grow higher.
- ◆ SAE revenue grew by 30% YoY to Rs. 261 cr as compared to Rs. 201 Cr in same period last year with strong double digit EBITDA margin. SAE business current order book stands at Rs. 1510 Cr (1.8x of FY16 revenue) and expect huge demand going
- ◆ Railway business reported robust revenue growth of 94% YoY to Rs. 66 Cr as against Rs. 34 Cr in same period last year. Railway's current order book stands at Rs. 1186 Cr (7x of FY16 Revenue) and management expects to close order book around Rs. 1200 Cr by year end.

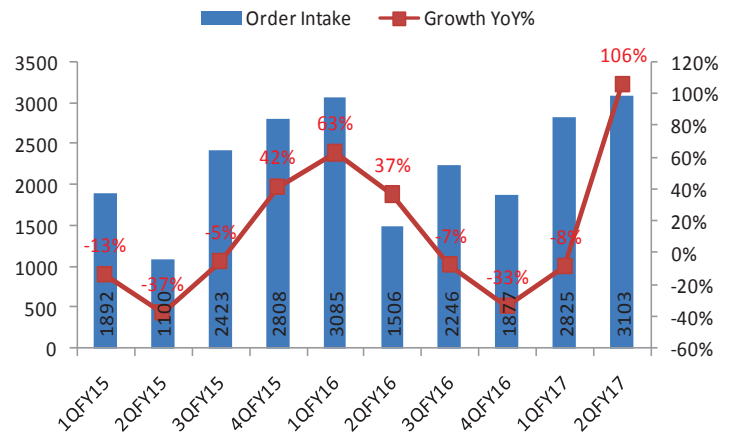
Management / Concall Update

- ◆ Management is not sure to achieve 10% revenue growth in FY17. If things pick up immediately than KEC might able to achieve revenue growth
- ◆ Maintain 8.5% EBITDA margin
- ◆ KEC managed to collect Rs.1000 Cr of debtors from Saudi Arabia in Q2FY17 and it overall reduced debtors by Rs. 500 Cr and gross debt by Rs. 150 Cr. Expect to complete 3-4 projects in Saudi in coming quarter.
- ◆ Working capital days reduce to 229 days from 246 days and it will further reduce to 180 days by year end. Expect to release retention money from Saudi project. This will reduce working capital requirement.
- ◆ SAE reported double digit EBITDA margin. Current order stands at Rs. 1500 Cr executable over next 2 years.
- ◆ **Cable Business:** - Positive on EBITDA level but still negative on PBT level due to high depreciation. Management expects to turn positive on PBT level by year and EBITDA margin will be accretive from next year. EHV and Solar cable is key driver for the future growth.
- ◆ **International Orders:-** Rs. 2500 Cr out of 3800 cr of L1 orders belongs to international market.
- ◆ **T &D:-** Management see huge opportunity in domestic T&D market. Growth will driven by Karnataka, Tamilnadu, Rajasthan, West Bengal and Telengana SEBs.
- ◆ Normal tax rate in FY17 (35%-36%)
- ◆ Interest cost will be 3% of sales in FY17 and 2.7% of sales in FY18

Order Book



Order Intake

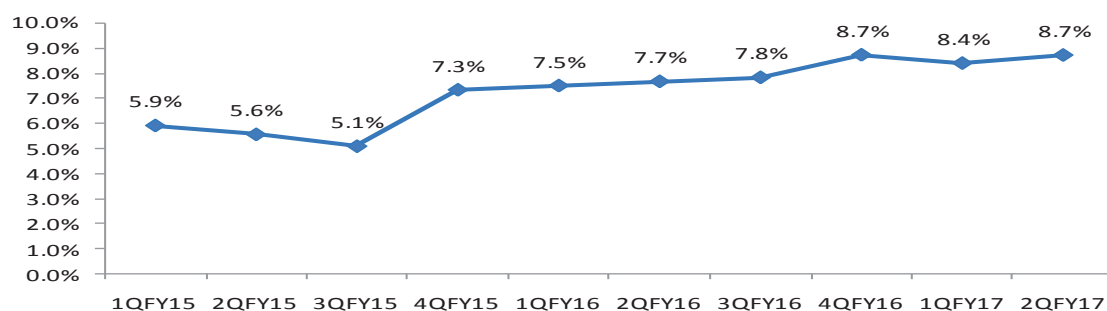


Segmental Revenue

Segmental Revenues (Cr.)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Transmission-Rest	1284	1692	1531	1976	1355	1506	1531	1887	1184	1529
Transmission SAE	184	184	214	222	186.6	201	177	266	255	261
Cables	198	237	254	217	258.9	262	217	292	245	228
Railway	23	29	22	58	45.4	34	80	50	70	66
Water	32	30	32	38	31.8	21	14	37	18	19
Solar				9	0.3	0	41	52	14	26
Total	1721	2172	2053	2520	1878	2024	2060	2584	1786	2129

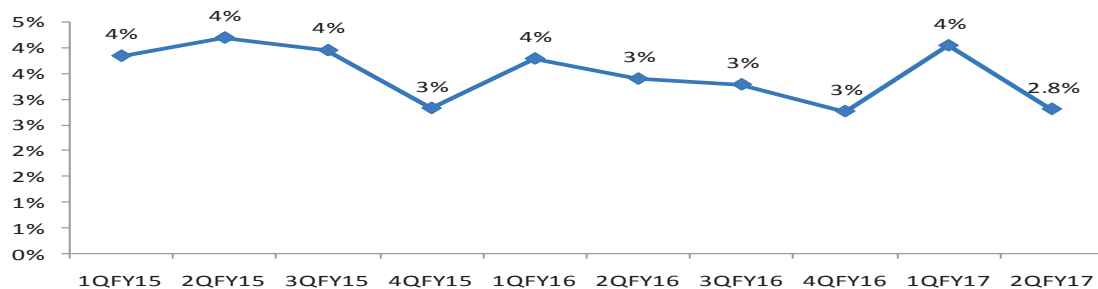
Maintain 10% revenue growth and 8.5% EBITDA margin for the FY17

EBITDA margin



Management guided 8.5% EBITDA margin for the FY17

Finance Cost As % of Sales



Finance cost will be 3% and 2.7% of sales in FY17 & FY18 respectively.

About the Company

KEC International Limited is an India-based company, engaged in infrastructure engineering, procurement and construction (EPC). The Company is also a manufacturer of power cables and telecom cables in India. The Company operates in four business verticals, which include power transmission and distribution, cables, railways and water. The Company is also a provider of turnkey solution in the railway infrastructure EPC space. The Company has powered infrastructure development across 50 countries in developed, developing and emerging economies of South Asia, the Middle East, Africa, Central Asia, the United States and South East Asia. The Company has eight manufacturing facilities for lattice towers, monopoles, hardware and cables. The Company's manufacturing facilities located at Vadodara (Gujarat), Mysore (Karnataka) and Silvassa (Union Territory) in India.

Financials Snap Shot

	INCOME STATEMENT					RATIOS			
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16	FY17E
Revenue	7902	8468	8516	8943	EPS	2.6	6.3	7.4	10.4
Other Income	14	146	10	10	Book Value	46.3	51.7	58.8	66.1
Total Revenue	7916	8614	8527	8954	DPS	0.6	0.7	2.2	3.1
COGS	4099	4566	4148	4561	Payout (incl. Div. Tax.)	23%	11%	30%	30%
GPM	48%	46%	51%	51%	Valuation(x)				
Other Expenses	883	917	975	1020	P/E	26.0	12.8	16.4	15.8
EBITDA	493	512	679	760	Price / Book Value	1.5	1.5	2.1	2.5
EBITDA Margin (%)	6%	6%	8%	9%	Dividend Yield (%)	0.87%	0.88%	1.82%	1.88%
Depreciation	71	88	88	84	Profitability Ratios				
EBIT	423	424	592	676	RoE	6%	12%	13%	16%
Interest	263	309	277	274	RoCE	24%	20%	28%	29%
PBT	173	261	325	412	Turnover Ratios				
Tax	88	100	133	144	Asset Turnover (x)	1.1	1.1	1.0	1.1
Tax Rate (%)	51%	38%	41%	35%	Debtors (No. of Days)	175.9	166.1	192.6	193.0
Reported PAT	67	161	192	268	Inventory (No. of Days)	45.0	38.1	37.8	38.0
Dividend Paid	15	18	57	80	Creditors (No. of Days)	148.4	143.3	126.0	126.0
No. of Shares	26	26	26	26	Net Debt/Equity (x)	0.51	0.55	0.40	0.35

	BALANCE SHEET					CASH FLOW			
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16	FY17E
Share Capital	51	51	51	51	OP/(Loss) before Tax	155	261	325	412
Reserves	1140	1278	1460	1648	Depreciation	71	88	88	84
Net Worth	1192	1330	1512	1700	Direct Taxes Paid	113	122	135	144
Long term Debt	603	737	602	602	Op. before WC Change	499	596	853	770
Short term Debt	1207	1308	1723	1723	CF from Op. Activity	(9)	153	(51)	478
Deferred Tax	73	70	66	66	Capex	161	90	78	0
Total Capital Employed	1794	2067	2114	2302	CF from Inv. Activity	(136)	125	18	0
Net Fixed Assets	992	881	860	860	Repayment of LTB	305	640	264	0
Capital WIP	18	16	12	0	Interest Paid	263	309	277	274
Debtors	3808	3853	4495	4729	Divd Paid (incl Tax)	15	17	58	80
Cash & Bank Balances	144	206	111	0	CF from Fin. Activity	132	(216)	(63)	(354)
Trade payables	3213	3325	2939	3087	Inc/(Dec) in Cash	(14)	62	(96)	124
Total Provisions	125	122	114	114	Add: Opening Balance	146	132	194	111
Net Current Assets	1374	1668	2151	2187	Closing Balance	132	194	98	235
Total Assets	7411	7745	8138	8322					