

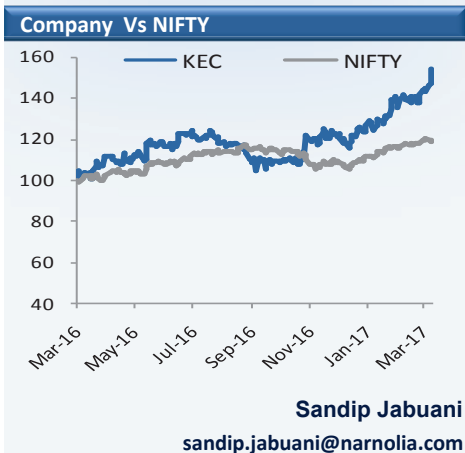
KEC International

Result Update	
CMP	190
Target Price	217
Previous Target Price	185
Upside	14%
Change from Previous	17%

Market Data	
BSE Code	532714
NSE Symbol	KEC
52wk Range H/L	156/97
Mkt Capital (Rs Cr)	4,900
Av. Volume	107057
Nifty	9086

Stock Performance			
	1Month	3 Month	1Year
Absolute	15.1	41.6	59.5
Rel.to Nifty	13.5	27.8	41.7

Share Holding Pattern-%			
	3QFY17	2QFY17	1QFY17
Promoters	51%	51%	51%
Public	49%	49%	49%



KEC has reduced gross debt by Rs. 562 Cr as compared to March 2016 level backed by better Working capital management especially account receivables. Account Receivables days went down from 246 days at the end of March to 218 days at the end of Q3FY17 and further management has guided to bring it down to 180 days level by the year end. The continuous effort on improvement of working capital requirement will result into lower interest outgo going forward. Management has guided that interest cost in FY18 will be around 2.5% of sales as compare to 3.3% of sales in 9MFY17. Recently, KEC has won orders worth of Rs. 1943 Cr in transmission (1408 Cr), EHV Cables (85 Cr) and Solar (450 Cr), which will further strengthen its order book position.

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.

Financials	In Rs. Cr.				
	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.

Management / 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

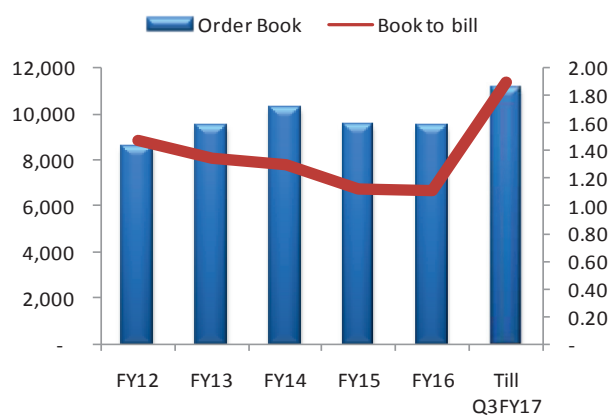
Outlook and Valuation:-

Revenue growth for 9MFY17 was subdued due to lower commodity prices and demonetization. But the operating margin continues to 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. 185 and the stock has achieved our recommended target price. **So we advice our investors to Book part profit at current levels and considering the lower interest outgo, strong revenue growth in Q4FY17 and efficient working capital management, investors may "HOLD Remaining" for the revised target price of Rs.217.**

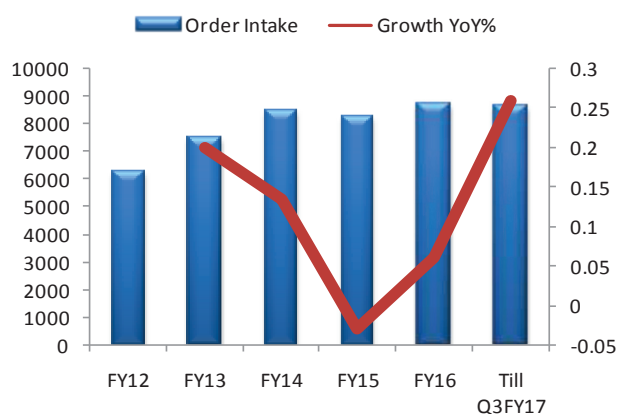
Quarterly Performance	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY%	QoQ%
Net Sales	2,140	2,021	2,491	1,903	1,998	2,076	2,530	1,763	2,098	1,935	-7%	-8%
Other Operating Income	33	32	30	20	23	25	29	22	23	30	19%	27%
Net Sales	2,173	2,053	2,521	1,923	2,021	2,101	2,559	1,785	2,121	1,965	-7%	-7%
Change in Inventory	16	41	76	(13)	(1)	(39)	74	(49)	8	(11)		
RM Cost	1,276	1,053	1,243	900	1,025	924	1,282	870	1,014	854	-8%	-16%
COGS	1,292	1,094	1,318	887	1,024	885	1,356	821	1,022	843	-5%	-18%
Employee Expenses	149	145	144	158	161	155	168	173	187	186	19%	-1%
Other Expenses	225	225	275	203	260	243	279	215	238	243	0%	2%
Erection & Subcontracting	386	485	599	489	421	609	533	390	441	459	-25%	4%
Excise Duty				45		41		36	47	52	27%	11%
Total Expenditure	2,052	1,949	2,336	1,782	1,866	1,934	2,336	1,635	1,936	1,783	-8%	-8%
EBITDA	121	105	185	141	155	167	223	150	185	182	9%	-2%
Depreciation	22	23	22	29	21	31	22	29	31	30	-5%	-4%
EBIT	99	82	162	112	134	136	201	121	154	152	12%	-2%
Intreset	91	81	71	71	68	69	71	72	60	58	-16%	-2%
PBT	9	136	100	44	69	69	132	54	100	101	46%	0%
Tax	(12)	70	37	27	25	43	52	23	35	38	-11%	8%
PAT	20	66	63	17	44	26	80	31	65	63	139%	-4%
Margin Profile											YoY (+/-)	QoQ (+/-)
Gross Margin	40.5%	46.7%	47.7%	53.9%	49.3%	57.0%	47.0%	54.0%	51.8%	57.1%	10	530
EBIDTA	5.6%	5.1%	7.3%	7.3%	7.7%	7.8%	8.7%	8.4%	8.7%	9.3%	150	60
EBIT	4.5%	4.0%	6.4%	5.8%	6.6%	6.7%	7.9%	6.8%	7.3%	7.7%	100	40
PAT	0.9%	3.2%	2.5%	0.9%	2.2%	1.8%	3.1%	1.7%	3.1%	3.2%	140	10
Order Book											YoY%	QoQ%
Transmission	7,356	6,921	7,131	7,903	7,207	7,028	7,087	7,334	7,442	8,054	15%	8%
SAE	931	876	951	948	1,086	937	1,134	1,769	1,510	1,342	43%	-11%
Cables	279	263	570	632	592	469	472	104	216	224	-52%	4%
Railways	279	263	475	738	691	562	567	936	1,186	1,342	139%	13%
Water	466	438	380	316	-	281	189	208	216	112	-60%	-48%
Solar	9	9	-	-	296	75	38	52	183	101	34%	-45%
Total	9,320	8,770	9,508	10,537	9,872	9,351	9,487	10,403	10,753	11,175	20%	4%
Order Intake												
Transmission	583	1,478	1,909	2,375	1,024	1,595	1,370	1,469	1,738	1,651	4%	-5%
SAE	231	485	421	123	181	247	206	678	465	298	20%	-36%
Cables	253	412	393	309	181	270	206	198	279	244	-10%	-13%
Railways	-	48	84	278	90	90	56	424	528	460	412%	-13%
Water	-	-	-	-	-	-	-	-	-	-		
Solar	11	5	3	-	30	45	38	57	93	54	20%	-42%
Total	1,078	2,428	2,811	3,085	1,506	2,246	1,877	2,825	3,103	2,706	20%	-13%

Segment Revenue	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY%	QoQ%
Transmission-Rest	1,692	1,531	1,976	1,355	1,506	1,557	1,887	1,184	1,529	1,273	-18%	-17%
Transmission SAE	184	214	222	187	201	177	266	255	261	227	28%	-13%
Total Transmission	1,876	1,745	2,198	1,542	1,707	1,734	2,153	1,439	1,790	1,500	-13%	-16%
Cables	237	254	217	259	262	230	292	245	228	278	21%	22%
Railway	29	22	58	45	34	81	50	70	66	105	30%	59%
Water	30	32	38	32	21	13	37	18	19	20	54%	5%
Solar			9	0	-	40	52	14	26	59	48%	127%
Total	2,172	2,053	2,520	1,878	2,024	2,098	2,584	1,786	2,129	1,962	-6%	-8%

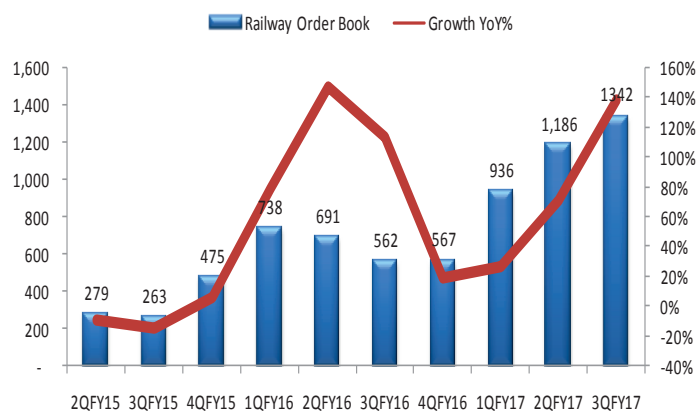
Order Book



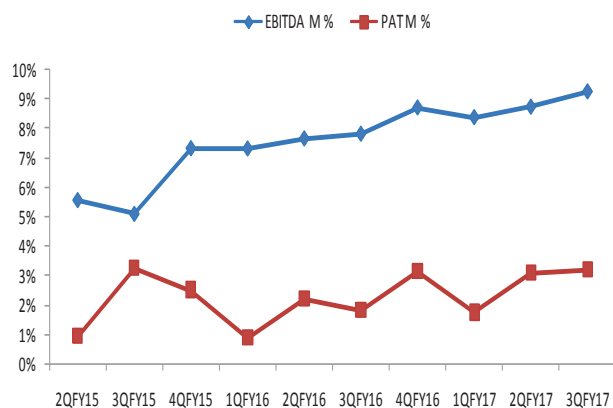
Order Intake



Strong Growth in Railway Segment :-

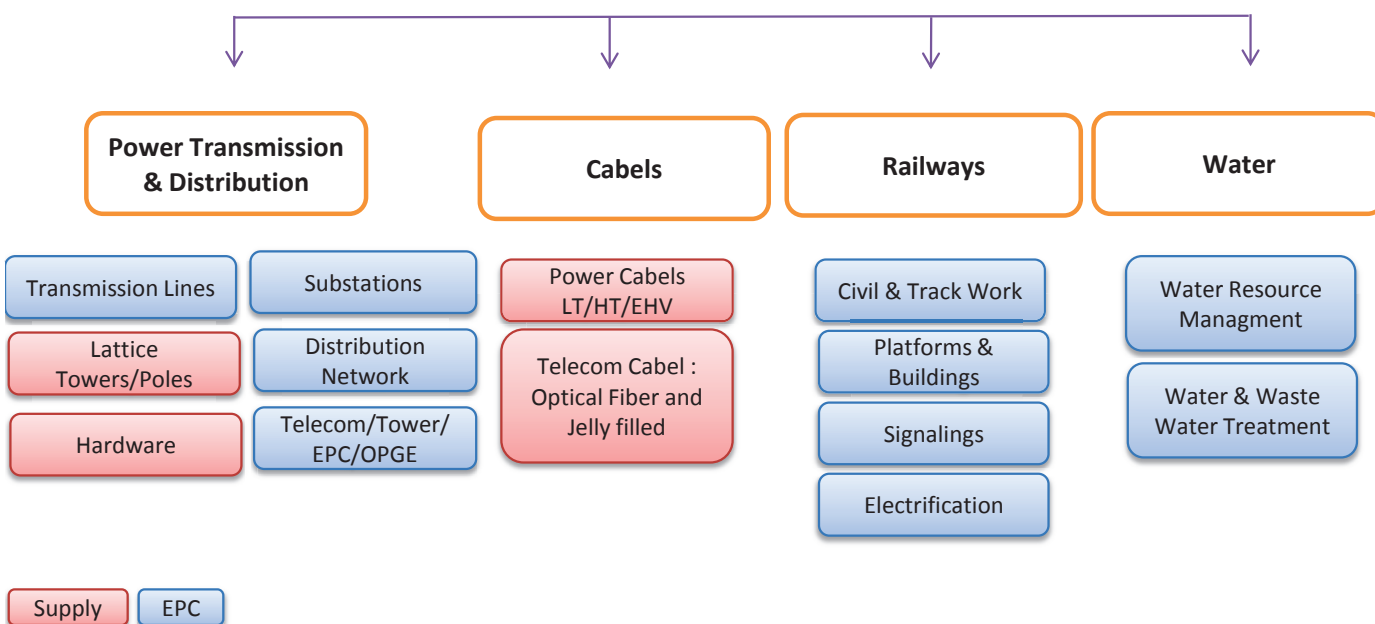


Margin Trend :-



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.



Manufacturing Facilities

Tower Manufacturing
India, Brazil and Mexico
(SAE Annual production capacity 100000 MTs)

Vadodara (Gujarat)
Mysore (Karnataka)
Silvassa (Union Territory)

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	11.5
Other Income	14	146	10	10	Book Value	46.3	51.7	58.8	66.9
Total Revenue	7916	8614	8527	8954	DPS	0.6	0.7	2.2	3.4
EBITDA	493	512	679	760	Payout (incl. Div. Tax.)	23%	11%	30%	30%
EBITDA Margin (%)	6%	6%	8%	9%	Valuation(x)				
Depreciation	71	88	88	84	P/E	26.0	12.8	16.4	16.0
EBIT	423	424	592	676	Price / Book Value	1.5	1.5	2.1	2.8
Interest	263	309	277	274	Dividend Yield (%)	0.87%	0.88%	1.82%	1.86%
PBT	173	261	325	412	Profitability Ratios				
Tax	88	100	133	144	RoE	6%	12%	13%	17%
Tax Rate (%)	1	0	0	0	RoCE	24%	20%	28%	31%
Reported PAT	67	161	192	268	Turnover Ratios				
Dividend Paid	15	18	57	80	Asset Turnover (x)	1.1	1.1	1.0	1.1
No. of Shares	26	26	26	26	Debtors (No. of Days)	176	166	193	193
					Inventory (No. of Days)	45	38	38	38
					Creditors (No. of Days)	148	143	126	126
					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					