

KEC International

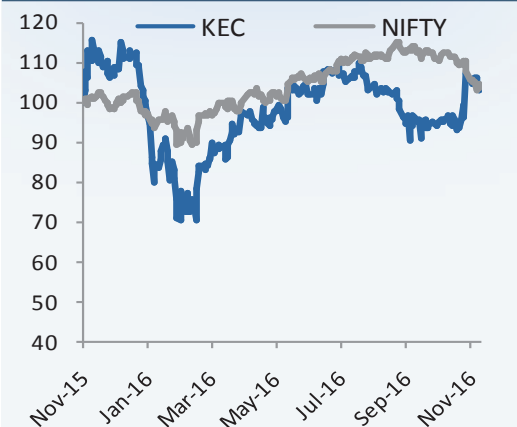
Result Update	
CMP	124
Target Price	165
Previous Target Price	-
Upside	33%
Change from Previous	-

Market Data	
BSE Code	532714
NSE Symbol	KEC
52wk Range H/L	164/97
Mkt Capital (Rs Cr)	3,597
Av. Volume	142197
Nifty	7966

Stock Performance			
	1Month	3 Month	1Year
Absolute	6.8	-1.0	-17.0
Rel.to Nifty	-7.5	-7.7	1.5

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoters	51%	51%	51%
Public	49%	49%	49%

Company Vs NIFTY



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KEC reported mix set of numbers in Q2FY17. The company posted moderate revenue growth of 5% YoY but healthy improvement in EBITDA margin. Revenue remains flat in H1FY17 compared to H1FY16. EBITDA margin improved by 100 bps YoY to 8.7% on account of continued better performance of SAE and Railway business. SAE reported healthy EBITDA margin of 14.2% in Q2FY17. PAT grew by the 47% YoY to Rs. 72 Cr as against Rs. 44 Cr in corresponding period. Lower interest outgo helped to post handsome growth in PAT. KEC witnessed strong order intake of Rs. 3103 Cr. Current order book stands at Rs. 10785 Cr with 3800 Cr plus L1 orders.

In Q2FY17 railway segment has shown strong revenue growth of 30% and order intake increased around 6 times compared to Q2FY16 with increased margin. Margin will further improve as the quantum of revenue increases. We expect continuing healthy ordering activity from SEBs (Karnataka, Tamilnadu, Rajasthan, West Bengal, Andhra Pradesh and Telenga).EHV cable and solar cable is key growth drivers for the cable business going forward. KEC is well on track to achieve its revenue guidance based on ramp up in execution of back ended substation project worth Rs. 1500-1700 Cr during H2FY17.

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

Efficient working capital management boosted earnings and strengthened balance sheet position and we expect it to continue going forward. Considering the ramp up in execution of substation (T&D) project, healthy SAE order book & margin level and huge potential in railway business will help KEC to perform better in H2FY17. But considering the current macroeconomic condition we recommend "HOLD" on the stock with unchanged target price of Rs. 164/-

	In Rs. Cr				
Financials	FY13	FY14	FY15	FY16	FY17E
Sales	6979	7902	8468	8516	9369
EBITDA	381	493	512	679	796
Net Profit	65	67	161	192	287
EBIDTA%	5.5%	6.2%	6.0%	8.0%	8.5%
EV/EBITDA	5.4	4.5	5.1	5.4	

(Source: Company/Eastwind)

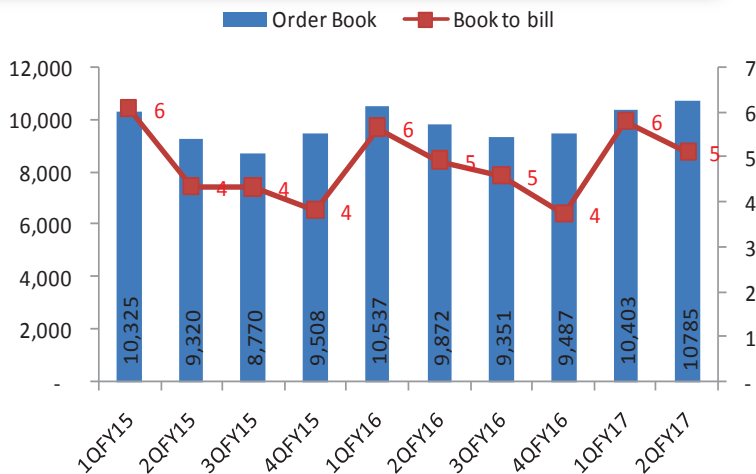
Result Highlights Q2FY17 & H2FY17

- ◆ 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.

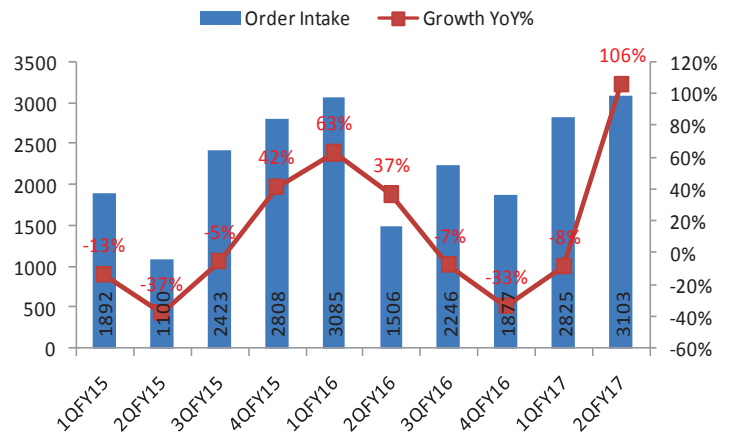
Managment / Concall Update

- ◆ KEC maintain 10% revenue growth and 8.5% EBITDA margin for the FY17
- ◆ Current Order book stands at Rs. 10785 Cr with 3800 cr plus L1 orders.
- ◆ 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

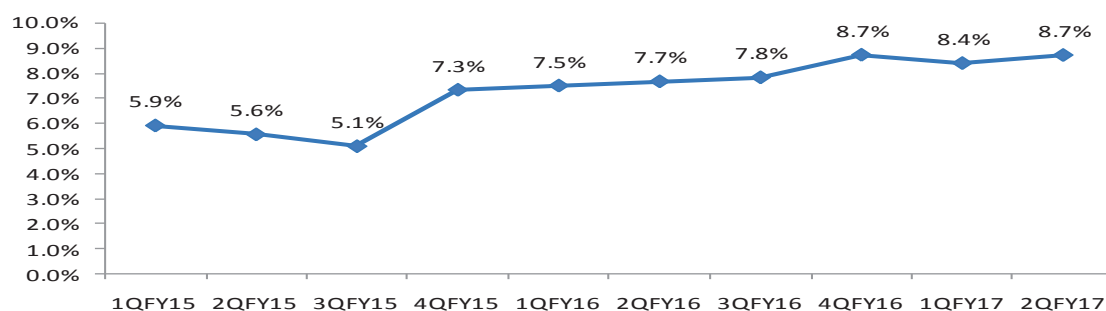


Segmental Revenue

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

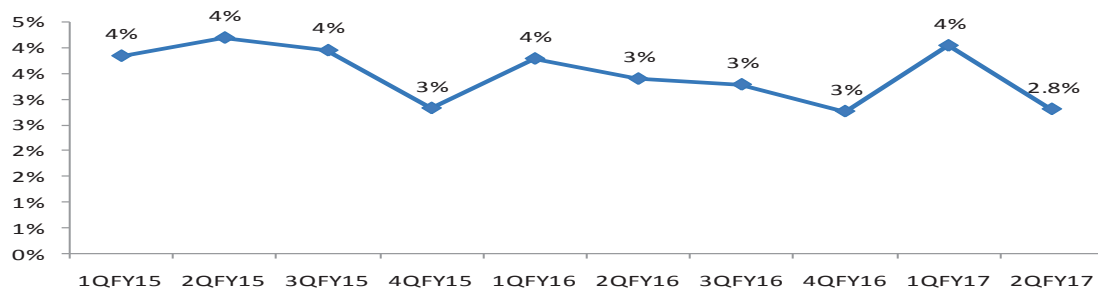
Maintain 10% revenue growth and 8.5% EBITDA margin for the FY17

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

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	6979	7902	8468	8516
Other Income	16	14	146	10
Total Revenue	6996	7916	8614	8527
COGS	3836	4099	4566	4148
GPM	1	1	1	0
Other Expenses	785	883	917	975
EBITDA	381	493	512	679
EBITDA Margin (%)	5%	6%	6%	8%
Depreciation	56	71	88	88
EBIT	325	423	424	592
Interest	194	263	309	277
PBT	147	173	261	325
Tax	82	88	100	133
Tax Rate (%)	56%	51%	38%	41%
Reported PAT	65	67	161	192
Dividend Paid	36	15	18	57
No. of Shares	26	26	26	26

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	2.5	2.6	6.3	7.4
Book Value	44.6	46.3	51.7	58.8
DPS	1.4	0.6	0.7	2.2
Payout (incl. Div. Tax.)	55%	23%	11%	30%
Valuation(x)				
P/E	23.3	26.0	12.8	16.4
Price / Book Value	1.3	1.5	1.5	2.1
Dividend Yield (%)	2.38%	0.87%	0.88%	1.82%
Profitability Ratios				
RoE	6%	6%	12%	13%
RoCE	18%	24%	20%	28%
Turnover Ratios				
Asset Turnover (x)	1.1	1.1	1.1	1.0
Debtors (No. of Days)	151.0	175.9	166.1	192.6
Inventory (No. of Days)	37.7	45.0	38.1	37.8
Creditors (No. of Days)	129.0	148.4	143.3	126.0
Net Debt/Equity (x)	0.62	0.51	0.55	0.40

Source: Eastwind/Company

Balance Sheet

	FY13	FY14	FY15	FY16
Share Capital	51	51	51	51
Reserves	1096	1140	1278	1460
Net Worth	1147	1192	1330	1512
Long term Debt	708	603	737	602
Short term Debt	748	1207	1308	1723
Deferred Tax	80	73	70	66
Total Capital Employed	1855	1794	2067	2114
Net Fixed Assets	1008	992	881	860
Capital WIP	30	18	16	12
Debtors	2887	3808	3853	4495
Cash & Bank Balances	156	144	206	111
Trade payables	2467	3213	3325	2939
Total Provisions	89	125	122	114
Net Current Assets	1101	1374	1668	2151
Total Assets	6253	7411	7745	8138

Source: Eastwind/Company

Cash Flow Statement

	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	147	155	261	325
Depreciation	56	71	88	88
Direct Taxes Paid	98	113	122	135
Operating profit before w	402	499	596	853
CF from Op. Activity	(87)	(9)	153	(51)
Capital expenditure on fix	150	161	90	78
CF from Inv. Activity	(122)	(136)	125	18
Repayment of Long Term	125	305	640	264
Interest Paid	194	263	309	277
Divd Paid (incl Tax)	36	15	17	58
CF from Fin. Activity	161	132	(216)	(63)
Inc/(Dec) in Cash	(48)	(14)	62	(96)
Add: Opening Balance	194	146	132	194
Closing Balance	146	132	194	98

Source: Eastwind/Company