

KEC International

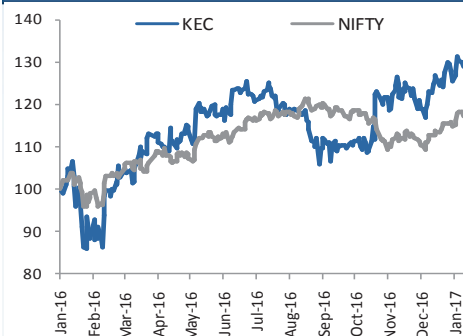
| Result Update | |
|-----------------------|-----|
| CMP | 148 |
| Target Price | 185 |
| Previous Target Price | 165 |
| Upside | 25% |
| Change from Previous | 12% |

| Market Data | |
|---------------------|--------|
| BSE Code | 532714 |
| NSE Symbol | KEC |
| 52wk Range H/L | 156/97 |
| Mkt Capital (Rs Cr) | 3,809 |
| Av. Volume | 59620 |
| Nifty | 8561 |

| Stock Performance | | | |
|-------------------|--------|---------|-------|
| | 1Month | 3 Month | 1Year |
| Absolute | 6.1 | 19.7 | 20.3 |
| Rel.to Nifty | 0.4 | 20.6 | 5.0 |

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

Company Vs NIFTY



Sandip Jabuani

sandip.jabuani@narnolia.com

KEC has reported mix set of numbers in Q3FY17. Net income has come down by 6.5% YoY to Rs. 1965 Cr to Rs. 2101 Cr on back of demonetization, delay in conversion of L1 orders into firm order and land acquisition issue at Jammu and Kashmir project. But on the contrary EBITDA margin has improved by 135 bps to 9.3%, which is the highest in last 21 quarters. KEC faced some serious issue on logistic & subcontracting front due to demonization in November and December but now situation is under control and land acquisition issue has also been resolved. Management is confident to achieve 5% revenue growth in FY17E despite 3% negative revenue growth during the 9 months of the current year and 10-15% revenue growth in FY18E.

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.

| | In Rs. Cr. | | | | |
|-------------|------------|--------|--------|---------|--------|
| Financials | Q3FY16 | Q2FY17 | Q3FY17 | YoY % | QoQ % |
| Sales | 2101 | 2121 | 1965 | -7% | -7% |
| EBITDA | 167 | 185 | 182 | 9% | -2% |
| Net Profit* | 23 | 72 | 47 | 102% | -35% |
| EBITDA% | 8.0% | 8.7% | 9.3% | 130 bps | 60 bps |
| PAT | 1.2% | 3.1% | 3.2% | 200 bps | 10 bps |

* Net profit is excluding other comprehensive income

Railway :- Strong 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

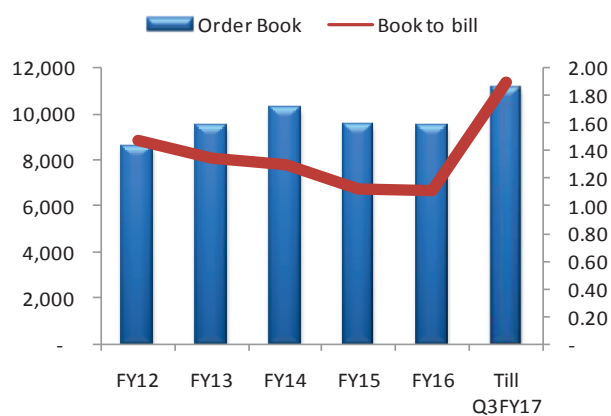
Outlook and Valuation:-

Revenue growth during the 9 months was in turmoil due to lower commodity price and demonetization. But the operating margin continuous to accretive during the period. We expect 5% and 15% revenue growth in FY17E and FY18E based on the strong traction in Transmission and railway business with strong operating margin. We anticipate boost in the bottom line on account of strong AR collection which will result into lower interest cost going ahead. At current price of Rs. 148 stock is trading at 2.2x P/B and 5.8X of EV/EBITDA. Considering the strong operating margin and healthy order book we are bullish on the stock. **Hence, we upgrade our target price to Rs. 185 from Rs.165 and recommend to "BUY".**

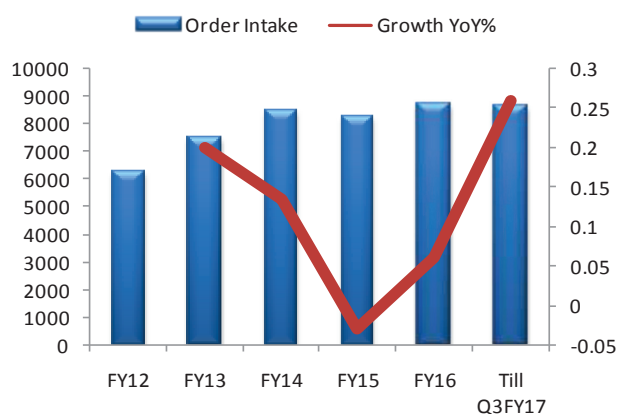
| Quarterly Performance | 2QFY15 | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY% | QoQ% |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|------------------|
| 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% |

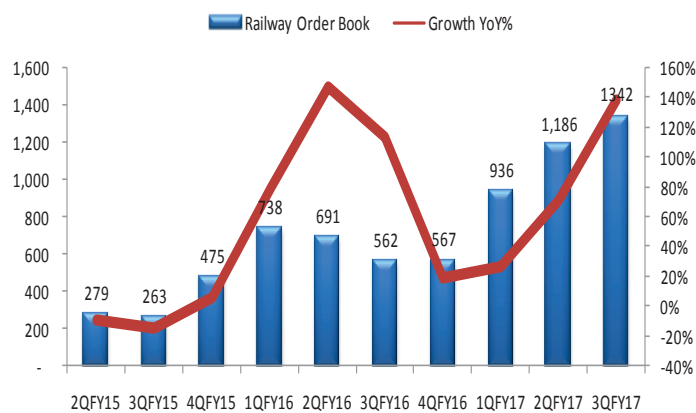
Order Book



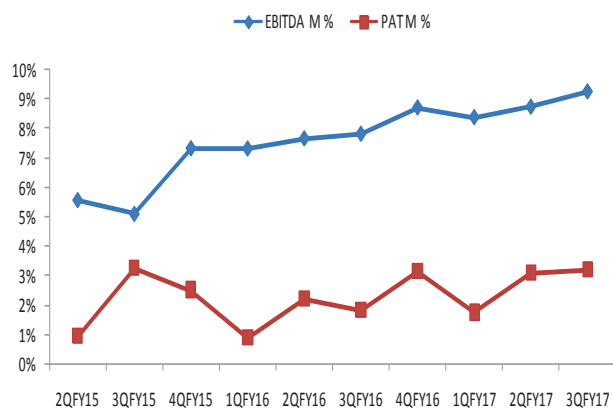
Order Intake



Strong Growth in Railway Segment :-

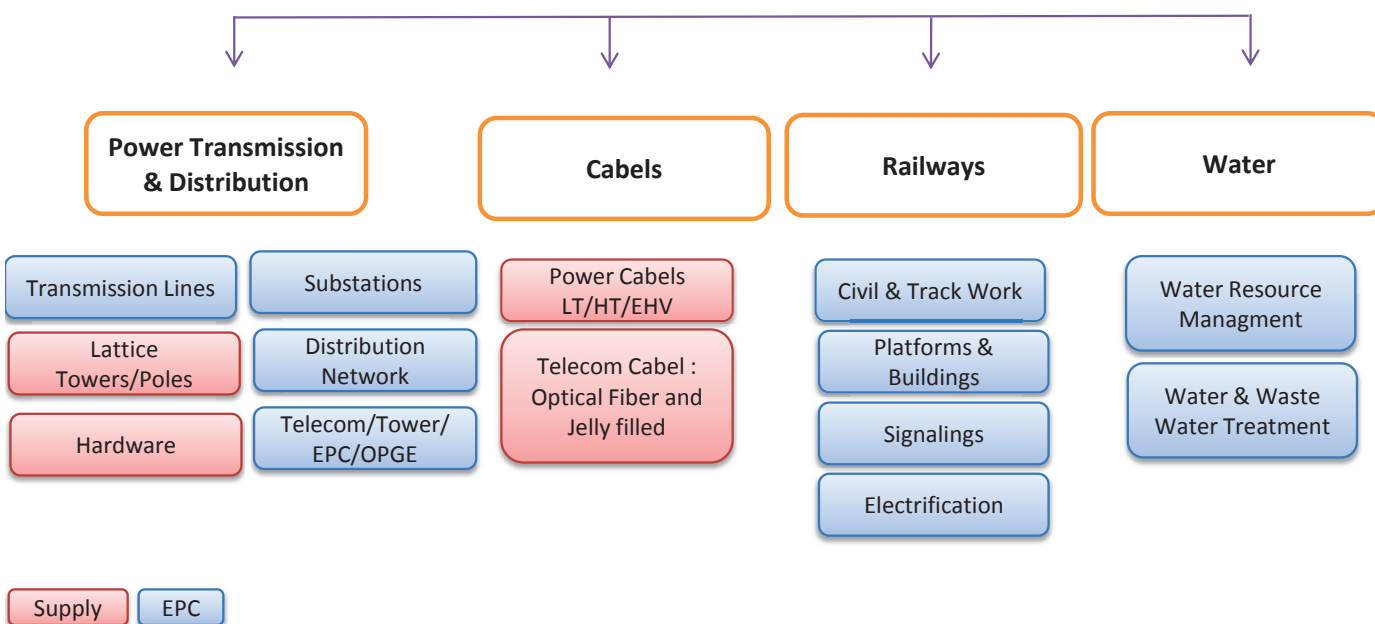


Margin Trend :-



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 | | | | | |