

# India Equity Analytics

Results Preview Q4FY19- Capital Goods



**Analyst**

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DIXON IN

**CMP** 2375  
**Target** 2429  
**Upside** 2%  
**Rating** ACCUMULATE

	FY17	FY18	FY19E	FY20E
<b>Roe%</b>	24%	19%	18%	19%
<b>Roce%</b>	39%	30%	30%	30%
<b>EV/Ebdita</b>	NA	32.9	19.9	16.2
<b>P/E</b>	NA	61.0	40.5	33.3
<b>P/B</b>	NA	11.8	7.2	6.1

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Revenue							
Consumer Electronics	845	1,073	1,129	1,310	214	288	258
Lighting Products	551	774	894	1,018	213	234	279
Home Appliances	188	250	372	470	81	92	90
Mobile Phones	811	670	388	544	77	151	100
Reverse Logistics	63	73	31	13	12	3	3
Security Systems	-	0	78	113	0	25	34
Financials							
Sales	2,457	2,842	2,891	3,467	598	794	765
Sales Gr	77%	16%	2%	20%	-2%	17%	28%
Ebdita	91	113	138	170	27	39	40
Ebdita Gr	55%	24%	23%	23%	44%	36%	46%
Net Profits	48	61	66	81	14	18	20
Profit Gr%	20%	28%	9%	22%	39%	16%	39%
Ebdita Margin%	3.7%	4.0%	4.8%	4.9%	4.6%	4.9%	5.2%
Net Profit Margin%	1.9%	2.1%	2.3%	2.3%	2.36%	2.22%	2.55%

Conso/Fig in Rs Cr

- ❑ Sales is expected to grow at 28% YoY led by growth in revenue of Mobile, Consumer Electronic, Lighting and Home Appliances. Mobile, Consumer Electronic, Lighting, Home appliance and are expected to grow by 30%, 21%, 31% and 11% YoY respectively in 4QFY19.
- ❑ EBITDA is expected to grow by 46% and margins will improve by 60bps led by improvement in ODM share in Consumer Durables and Lighting segments and backward integration.
- ❑ Margin of Home appliance is expected to be in line with 3QFY19 due to stable rupee and crude oil prices.
- ❑ Net Profit is expected to grow by 39% YoY.
- ❑ Company has added Xiaomi as a customer in consumer electronic and has supplied 75K TV set till December and targeted to supply 250K TV in 4QFY19.
- ❑ Samsung has stopped its Television production in India and is in talk with Dixon and Foxconn for the contract manufacturing.
- ❑ Samsung is expected to double its volume of washing machine from January 2019 and another increase is expected to be in June 2019 making to half a million.

### Key Trackable this Quarter

- ❑ Revenue and volume growth of Consumer Electronics
- ❑ Samsung Television order
- ❑ Volume growth and Margins in Home Appliance business
- ❑ ODM share in Consumer Electronics and Lighting Product business

**We value the stock at 33x FY20E EPS. ACCUMULATE**

### ENGINEERS IN

**CMP** 120  
**Target** 111  
**Upside** -8%  
**Rating** NEUTRAL

	FY17	FY18	FY19E	FY20E
<b>Roe%</b>	12%	16%	14%	14%
<b>Roce%</b>	10%	17%	14%	14%
<b>EV/Ebdita</b>	37.79	29.15	26.97	26.22
<b>P/E</b>	29.8	26.0	21.6	21.3
<b>P/B</b>	3.5	4.3	3.1	3.0

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Order Inflow	5,663	2,141	5,963	1,990	74	91	100
Order Book	7,762	8,413	10,249	9,434	8,413	10,787	10,249
Consultancy	4,021	4,714	4,357	4,744	4,714	4,617	4,357
Turnkey	3,741	3,699	5,892	4,690	3,699	6,170	5,892
<i>Revenue</i>							
Consultancy	1,165	1,379	1,357	1,389	337	343	360
Turnkey	284	408	1,112	1,417	172	234	278
EBIT M %							
Consultancy	30%	31%	29%	28%	27%	28%	29%
Turnkey	36%	19%	6%	7%	7%	6%	5%
<i>Financials</i>							
Sales	1,480	1,824	2,470	2,805	510	577	638
Sales Gr	-4%	23%	35%	14%	15%	22%	25%
Other Income	222	176	205	200	48	52	40
Ebit	292	403	332	348	52	90	76
Ebit Gr	59%	38%	-18%	5%	7%	-31%	46%
Net Profits	330	383	350	355	69	91	75
Profit Gr%	19%	16%	-9%	2%	5%	-16%	8.5%
Ebit Margin%	19.7%	22.1%	13.4%	12.4%	10.1%	15.5%	11.9%
Net Profit Margin%	22.3%	21.0%	14.2%	12.7%	13.5%	15.7%	11.7%

Consolidated data/ Quaterly Standalone

Fig in Rs Cr

- ❑ Company is expected to report healthy revenue growth of 25.1% YoY in Q4FY19 on account of strong execution of Turnkey projects.
- ❑ EBIT is expected to grow by 46% YoY and the EBIT margin is expected to go up by 171 bps on account of higher margin on consultancy business.
- ❑ The PAT is expected to grow by only 9% YoY. PAT margins are expected to be down due to higher tax levels.
- ❑ Company has strong order Inflow visibility with various hydrocarbon projects lined up which will be materialize going forward into Q4FY19 and FY20. Majority order inflow in FY20 will be from consultancy segment.
- ❑ The cash in hand at present is around Rs 2300 Cr. The other income is directly related to treasury operation.
- ❑ International market continue to remain sluggish in terms of new order inflow, down by 45% in 9MFY19.

### Key Trackable this Quarter

- ❑ Execution of Turnkey projects
- ❑ Recovery in International business

**We value the stock at 20x FY20E EPS . Maintain NEUTRAL**

KECI IN

**CMP**        **304**  
**Target**    **361**  
**Upside**    **19%**  
**Rating**    **BUY**

	FY17	FY18	FY19E	FY20E
<b>Roe%</b>	19%	23%	21%	21%
<b>Roce%</b>	29%	33%	33%	32%
<b>D/E</b>	1.27	0.82	1.17	0.91
<b>P/E</b>	17.6	21.7	15.0	12.7
<b>P/B</b>	3.4	5.0	3.2	2.6

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Order Inflow	12,358	15,109	14,568	15,823	3,809	3,598	3,038
Order Book	12,631	17,298	19,549	22,505	17,298	20,592	19,549
<i>Revenue</i>							
Transmission	6,029	6,795	6,835	7,560	2,468	1,563	2,930
Transmission SAE	1,002	1,025	957	1,433	307	195	309
Cables	1,054	1,009	1,146	1,167	278	310	312
Railway	447	844	1,706	2,090	359	551	421
Civil/Water	85	268	434	548	126	106	103
Solar	159	288	315	70	189	16	6
<i>Financials</i>							
Net Sales	8,755	10,096	11,223	12,739	3,664	2,646	4,040
<i>Sales Gr</i>	1%	15%	11%	14%	27%	10%	10%
Ebdita	818	1,006	1,170	1,326	370	281	423
<i>Ebdita Gr</i>	18%	23%	16%	13%	23%	15%	14%
Net Profits	305	460	520	618	196	111	207
<i>Profit Gr%</i>	77%	54%	13%	19%	35%	0%	5%
Ebdita Margin%	9.3%	10.0%	10.4%	10.4%	10.1%	10.6%	10.5%
Net Profit Margin%	3.5%	4.6%	4.6%	4.9%	5.4%	4.2%	5.1%

Cons./ Fig in Rs Cr

❑ Revenue is expected to report 10.3% growth YoY with the strong performance in International T&D business, execution pick up at SAE and the growth trajectory of NON-T&D business expected to continue.

❑ Growth in SAE is expected to pick up from the end of Q4FY19. The execution in SAE was impacted due to delay in execution in EPC project and some project company supplies towers the site were not available on part of the client so the delivery was deferred.

❑ EBITDA margin is expected to improve by 33 bps as the margin of NON-T&D business is expected to improve on account of volume growth.

❑ PAT is expected to grow by just 5.5% YoY on account of higher interest and tax level while the margins are expected to be down by 25 bps.

❑ There is improvement in the borrowing mix. Collection from Saudi (received Rs 270 Cr in Q4FY19) and large advances expected are to be received. Debt expected to be around Rs2500 Cr by the year end.

❑ NWC days expected to improve by 10-15 days.

### Key Trackable this Quarter

❑ Working Capital days

❑ Debt Level

**We value the stock at 15x FY20E EPS. BUY**

KPP IN

**CMP** 472  
**Target** 504  
**Upside** 7%  
**Rating** ACCUMULATE

	FY17	FY18	FY19E	FY20E
<b>Roe%</b>	6%	10%	9%	11%
<b>Roce%</b>	16%	16%	17%	17%
<b>D/E</b>	1.1	1.1	1.0	1.0
<b>P/E</b>	27.0	26.7	26.7	20.8
<b>P/B</b>	1.6	2.8	2.5	2.2

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
KPTL							
Order Inflow	9,068	9,341	8,526	9,359	2,585	1,706	2,068
Order Book	8,640	12,404	14,021	15,484	12,404	14,218	14,021
JMC							
Order Book	7,000	7,616	9,454	9,755	7,616	9,930	9,454
<i>Financials:- KPTL</i>							
Sales	5,011	5,779	6,893	7,915	1,931	1,725	2,269
<i>Sales Gr</i>	14%	15%	19%	15%	29%	22%	17%
Ebdita	529	631	757	874	209	184	246
<i>Ebdita Gr</i>	10%	10%	10%	10%	33%	21%	17%
Net Profits	269	322	389	464	105	96	124
<i>Profit Gr%</i>	40%	20%	21%	19%	17%	27%	19%
Ebdita Margin%	10.6%	10.9%	11.0%	11.0%	10.8%	10.7%	10.8%
Net Profit Margin%	5.4%	5.6%	5.6%	5.9%	5.4%	5.6%	5.5%
JMC							
Sales	2,328	2,756	3,162	3,699	723	893	846
Net Profits	59	105	134	156	34	37	40

Std/Fig in Rs Cr

- ❑ Revenue growth expected to be 17% YoY led by Pipeline & Railway business which is expected to grow at 72% YoY in FY19.
- ❑ EBITDA growth expected to be 17% YoY and PAT is expected to grow by 19% YoY in 4QFY19.
- ❑ JMC expected to report revenue growth of 17% YoY backed by strong order book. While PAT margin will remain stable.
- ❑ Company has recently acquired 85% of the shares of Linjemontage i Grastorp AB, a Swedish EPC company which has order book of approx Rs 500 Cr and revenue of Rs 510 Cr. This acquisition will help KPTL to get entry into Europe.
- ❑ Debt will be around Rs.900 Cr on KPTL books and at JMC level it will be lower from current level of Rs 650 cr.
- ❑ KPTL increased Equity holding in SSL from 71.52% to 80.06% and preferential holding from 85.01% to 100%.
- ❑ Merchant banker has been appointed to sell of BOOT projects where equity investment is Rs 349 Cr and expects the deal to be complete by 1QFY20.

## Key Trackable this Quarter

- ❑ Execution of Power T&D
- ❑ EBITDA margin as 60% orders are fixed price contract
- ❑ Execution at JMC level
- ❑ BOOT project sell off status

**We value the std. business at 14x FY20 EPS & Rs.64/- for Subsidiary. ACCUMULATE**

LT IN

**CMP**        **1410**  
**Target**    **1802**  
**Upside**    **28%**  
**Rating**     **BUY**

	FY17	FY18	FY19E	FY20E
<b>Roe%</b>	16%	16%	17%	18%
<b>Roce%</b>	7%	9%	10%	9%
<b>D/E</b>	1.72	1.67	1.66	1.78
<b>P/E</b>	19.5	25.1	20.4	17.9
<b>P/B</b>	2.7	3.6	3.1	2.8

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Order Book	261,400	263,205	295,219	343,503	263,205	284,000	295,219
Order Inflow	143,000	152,800	175,003	185,605	49,600	42,200	54,560
<i>Segmental Revenues</i>							
Infrastructure	53,920	63,416	75,713	77,969	24,349	18,371	29,603
Power	6,939	6,208	4,356	3,923	1,507	908	1,308
Heavy Engineering	3,447	4,858	6,011	6,050	1,468	1,738	1,656
Electrical & Auto.	5,367	5,508	6,067	5,847	1,643	1,565	1,689
Hydrocarbon	9,628	11,760	14,828	21,650	3,559	3,778	3,976
IT & Technology Ser.	9,888	11,357	14,641	17,109	3,152	3,764	3,915
Financial Services	8,545	10,064	12,663	14,378	2,722	3,259	3,208
Developmental Proj.	4,368	4,476	5,179	4,774	1,217	1,194	1,194
Others	10,851	4,434	5,461	3,650	1,626	1,661	939
<i>Financials</i>							
Sales	110,011	119,862	142,373	151,466	40,678	35,709	46,300
Sales Gr	8%	9%	19%	6%	10%	24%	14%
Ebdita	11,130	13,571	16,699	17,787	5390	3996	6019
Ebdita Gr	6%	22%	23%	7%	24%	27%	12%
Net Profits	6,881	8,004	10,210	11,554	3338	2362	3701
Profit Gr%	51%	16%	28%	13%	10%	32%	11%
Ebdita Margin%	10.1%	11.3%	11.7%	11.7%	13.3%	11.2%	13.0%
Net Profit Margin%	6.3%	6.7%	7.2%	7.6%	8.2%	6.6%	8.0%

Conso/Fig in Rs Cr

- ❑ Revenue will be up by 14% YoY led by the strong execution of Infra business. Infrastructure is expected to report growth of 22% YoY while Services business likely to grow at 21% YoY.
- ❑ Infrastructure margin have been impacted by cost overruns in few government transportation infrastructure projects . Hydrocarbons revenues are expected to rise by 12% due to strong execution of domestic orders. Power continues to suffer weak order book in challenging macro environment. Heavy engineering segment (including Defence) should be driven by strong execution of domestic and Intl order book
- ❑ EBITDA will up by 12% YoY while EBITDA margin is expected to remain in range of 13-13.5%.
- ❑ PAT will be up by 11% YoY while PAT margin will be 8% as against 8.2%.
- ❑ LT will end quarter with order inflow of Rs.54000-55000 Cr (ex. Services business), which will be up by 10% YoY.
- ❑ Working capital as % of sales is likely to remain stable at 20%.

### Key Trackable this Quarter

- ❑ Management commentary on private capex
- ❑ Infrastructure segment EBITDA.
- ❑ Working capital

**We value Std. business at 24x FY20E EPS and Rs 596 per share for Subsidiary. BUY**

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