

# KEC International Limited

Industry	Eng. & Cons.
Bloomberg	KECI IN
BSE CODE	532714

**Strong Order book but Muted Revenues, Execution remains the key**

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>294</b>
<b>Price Target</b>	<b>333</b>
<b>Potential Upside</b>	<b>13%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↓

## Stock Info

52wk Range H/L	420/230
Mkt Capital (Rs Cr)	7547
Free float (%)	49%
Avg. Vol 1M (,000)	373
No. of Shares	26
Promoters Pledged %	0

## 4QFY19 Result Update

- ❑ Company has reported muted sales growth of 4.8% YoY on account of flat revenue growth in T&D business, while Non-T&D business continues to grow at a healthy pace.
- ❑ EBITDA during the quarter grew by the 7.9% YoY to Rs.399 Cr while margin improved 30 bps on account of better margin performance by T&D and Railway.
- ❑ PAT growth during the quarter was flat ( 0.9%) to Rs.199 Cr due to higher interest cost. Interest cost as % of sale which stood 2.2%, increase of 40 bps YoY.
- ❑ Order Inflow during the quarter was down by 33% YoY to Rs.2554 Cr on account of the general election. Progress on Green corridor projects tenders worth Rs.12000-15000 Cr is slow due to the election.
- ❑ The order book at the end of Q4FY19 was Rs 20307 and L1 status of around 3200 Cr taking the total Order book over Rs 24000 Cr.
- ❑ During the quarter the company has sold its entire stake in Bikaner Sikar BOT transmission asset for Rs.227 Cr.

## View and Valuation

Revenue growth trajectory of Non-T&D business continues with revenue growth of 24% YoY in Q4FY19 and 63% for the full year FY19. On the other hand, T&D business has suffered from a delay in order awardment, environmental approval and revenue down by 6% YoY for the full year FY19. International T&D business will gradually be gaining traction and from next year SAE business is expected to grow. While the order pipeline across the segment standing strong but the execution is a key thing to watch out going ahead. Borrowings were down by the year-end and it is expected to remain under control going ahead based on 1) KEC expect to collect around Rs.200-300 Cr from Saudi 2) Company has streamlined its vendors base 3) Improving borrowing mix. However, we have cut down our FY20 estimates by 7% considering the slow progress of power T&D orders. We value the stock at 15x FY20E EPS with reduce target price of Rs.333. Maintain BUY.

## Key Risks to our rating and target

- ❑ Slowdown in government capex
- ❑ Company and its JV partner in Africa has lost arbitration award worth Rs.62 Cr and company has challenged the order in Africa High court. So any negative outcome of the order may adversely impact the profitability.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8755	10096	11001	12548	14043
EBITDA	818	1006	1146	1304	1473
EBIT	688	896	1029	1182	1341
PAT	305	463	492	571	674
EPS (Rs)	12	18	19	22	26
EPS growth (%)	106%	52%	6%	16%	18%
ROE (%)	19%	23%	20%	19%	19%
ROCE (%)	29%	33%	35%	34%	33%
BVPS	62	78	95	114	137
P/B (X)	3.4	5.0	3.2	2.6	2.1
P/E (X)	17.6	21.6	15.9	13.2	11.2

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## 4QFY19 Results

### Revenue below Expectation

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Sales	3,664	2,105	2,408	2,646	3,841	5%	45%	10,096	11,001	9.0%
Other Income	13	18	2	4	6	-49%	78%	40	29	-27.9%
COGS	2,113	1,012	1,206	1,258	1,933	-9%	54%	5,145	5,410	5.2%
Emp. Exp.	221	203	207	211	211	-5%	0%	798	832	4.2%
Sub Contra.	677	514	509	642	1,048	55%	63%	2,127	2,714	27.6%
Other Exp.	283	158	233	254	251	-11%	-1%	982	896	-8.8%
Total Exp.	3,294	1,889	2,155	2,365	3,442	4%	46%	9,090	9,851	8.4%
EBITDA	370	216	253	281	399	8%	42%	1,006	1,150	14.2%
Depreciation	27	30	30	30	26	-5%	-13%	110	116	6.0%
EBIT	342	186	223	251	373	9%	49%	896	1,033	15.3%
Intreset	66	69	77	86	85	29%	-1%	247	316	28.2%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
PBT	289	135	148	169	295	2%	75%	690	746	8.1%
Tax	93	48	51	57	101	8%	76%	230	258	12.1%
PAT	197	87	96	113	199	1%	76%	461	495	7.3%

### Slower Execution Led to Muted Revenue Growth

Q4FY19 was a flat quarter for the company it witnessed revenue growth of 5% YoY v/s our expectation of 12% on account of slow execution of power T&D projects. Revenue from power T&D was down by 1% on account of slow progress on private orders, election and delay in approval of SAE orders. While the growth trajectory of non T&D business continue to remain strong led by the Railway (76% YoY), Civil (29% YoY) and Cable (25% YoY). EBITDA margin improved by 30 bps on account of better than normal margin on T&D projects and improved margin of Railway. The PAT was flat to 0.9% YoY on account of increased finance cost. Interest cost was up by 28% YoY due to higher working capital requirement though the borrowing level has come down by the year end.

### Sale of BoT Assets, release of retention money helped to reduce debt level

During the quarter company has sold its entire stake in KEC Bikaner Sikar Transmission assets for the enterprise value of Rs 227 Cr which was used to reduce borrowings. On account of project completion, company has received Rs.400 Cr from Saudi during the quarter and Rs.1000 Cr for the full year FY19. The proceeds were utilized to reduce debt. Additionally, mobilization advances has also help to pare down the debt level. Debt at the end of the year has come down to Rs.1697 Cr from Rs.3251 Cr in H1FY19. Working capital requirement is expected to normalize going forward as 1) KEC expect to collect around Rs.200-300 Cr from Saudi 2) Company has streamlined its vendor's base 3) Improving borrowing mix.

### Strong Order Pipeline

Domestic T&D has a huge opportunity with current order pipeline of Rs 25000 Cr. RFQ of tenders worth Rs.13k-14k Cr has completed and RFP will be over by May. The tenders are expected to award post the election. While the orders from SEBs are muted due to election and now bunch of the tenders are lined up. On International T&D front, SAARC countries especially Bangladesh and Afghanistan are offering strong T&D opportunities. Investment in UAE has picked up on account of increased oil prices. Execution of the projects that were stuck in Africa due to lenders issue has started. Orders were delayed in Brazil due to environmental approvals are expected to award with next auction is schedule in December 2019. Railways have huge opportunity since the electrification work of 30000 km is yet to be done and railway has targeted electrification of 10000 km every year. Cable business has also seen ordering from export and EHV front.

## Concall Highlights

- T&D revenues were impacted on account of delay in approvals in SAE and execution challenges in a domestic private project. Large order backlog of Rs 15000 Crs to enable future revenue growth.
- T&D revenue is expected to grow by 15%, Railways revenue is expected to grow by 25% and Brazil business is expected to grow by 30-40% in revenue.
- T&D will be driven by International (SAARC- Bangladesh and Afghanistan, Brazil 30-40% increase, Africa) where as for non T&D business India will be driving the growth.
- Cables growth was driven by higher export and HT/EHV cables revenues.
- Civil business grew along with railway and is expected to grow same.
- Non T&D business margins improvements mirrored the EBITDA margin improved.
- Margins are expected to be 10%-10.5%.
- Interest rate as a % of sale is expected to be 2.5% with the avg full year debt of Rs 2500 Cr.
- Higher interest rate in India and International partly contributed to increase of interest expenses.
- Order book for ASEAN and SAARC has grown by 25% on account of uptick in inflows from Bangladesh, Africa and Europe.
- Overall 15-20% of Revenue growth is expected in FY20 backed by Rs 20000 Cr of order book and L1 for Rs 3500 Cr.
- Order inflow for FY20 is expected to be Rs 17000 Cr. 70% will be from T&D and Rs 3000-3500 Cr from Railways.
- Collections from Saudi, sale of BOT assets and expatiating completion of projects are the measure implemented to improve Working capital.
- Old legal dispute between JV in South Africa and its customer's a final legal outcome is pending in High Court of South Africa for Rs 62 Cr.

### T&D Domestic

- Strong order intake is anticipated in domestic. Order pipeline of Rs 25000 Cr is in process of which some of them have been deferred due to elections.
- Project of Rs 400 Cr is stuck in domestic T&D but being of nation important it will take a quarter or two to get resolved. Two other projects were also stuck but not large in amount have been cleared now.
- Renewable projects of Rs 13000 – Rs 14000 tendering has been done of which some are cost plus rest is on TBCB mode. Of the cost plus project Rs 1500-1600 Cr of the projects have been quoted and not been opened due to election. Balance Rs 11000-12000 Cr TBCB projects have also been floated, RFQ have been done, parties have been qualified, RFP dates are in the week or two or post election. Some of the projects are awarded to Power Grid who will call for bid post election.
- TBCB projects along with other domestic projects which are on hold due to election are expected to be allotted by end of July.
- Expected to see lot of tenders coming from states in T&D, except solar.

### T&D International

- International DFCC, RRTS, Metros are focused for expanding profile.
- UAE is seeing uptick in project related to oil fields due to increase in crude oil prices and Saudi is also recovering but management is caution for Saudi.
- Total of Rs 1000 Cr pending from Saudi, Rs 450 Cr have been received in 4QFY19 and Rs 200-300 Cr is expected to be received in next couple of months.
- Lot of orders is seen coming up from South Africa. Execution of the projects that were stuck in Africa due to lenders issue has started.
- Africa has seen traction where as Middle East has bounced back and in Brazil lot of orders are yet to be finalized which make visibility of growth in international business.
- Brazil is expected to come up with lot of projects as the subcontracting is been yet to be done. Over 30-40% of increase in revenue is expected in FY20.
- Next auctions for T&D projects in Brazil are expected to be in December of which it is expected to get healthy orders.

### Railways

- Railways electrification of 30000 Km is yet to be done. Next year target for Railways is 10700 Km and post that 10000 Km each in next two years. FY19 actual electrification done is 5500 Km.
- Railways net working capital is better than T&D. Railways has no problem with receivables but due to small players entering the problem is with creditors. Railway's margins are lower than T&D but closer to it.
- Railway business is expected to double its revenue in FY20.

### Cable

- 17% rise in turnover in FY19 and achieved best profitability ever.
- Order inflows are happening from export and EHV front. Many coastal states are considering underground cables due to recent storms in India.
- Silvassa had been moved to Baroda which is giving more production and cost efficiency

## Segment Revenue

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,461	1,532	2,468	1,007	1,335	1,563	2,434	-1%	56%
Transmission SAE	248	319	307	270	183	195	319	4%	64%
Cables	239	272	278	259	265	310	349	26%	13%
Railway	119	208	359	313	421	551	633	76%	15%
Civil/Water	40	87	126	119	106	110	163	29%	48%
Solar	44	34	189	160	133	16	32	-83%	100%
<b>Total</b>	<b>2,151</b>	<b>2,452</b>	<b>3,727</b>	<b>2,128</b>	<b>2,443</b>	<b>2,745</b>	<b>3,930</b>	<b>5%</b>	<b>43%</b>

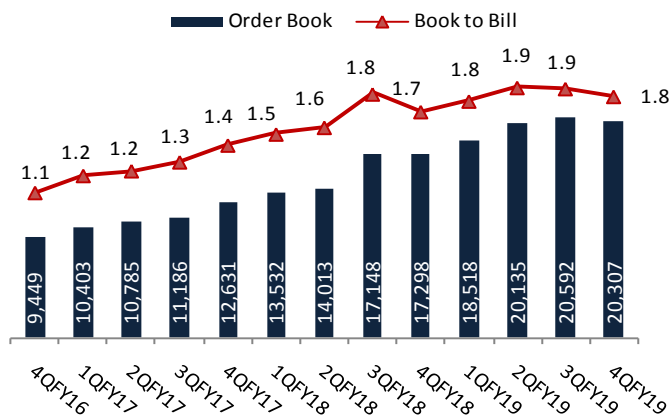
## Order Book Break Up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,833	3,443	2,051	1,360	2,748	2,087	1,354	-34%	-35%
Transmission SAE	2,102	1,715	1,903	1,837	2,014	2,059	2,031	7%	-1%
Cables	280	343	346	255	403	412	406	17%	-1%
Railway	1,401	3,601	4,152	4,730	5,034	4,674	5,280	27%	13%
Civil/Water	420	343	346	418	403	412	406	17%	-1%
Solar	280	343	173	364	201	62	203	17%	229%
<b>Total</b>	<b>14,013</b>	<b>17,148</b>	<b>17,298</b>	<b>18,518</b>	<b>20,135</b>	<b>20,592</b>	<b>20,307</b>	<b>17%</b>	<b>-1%</b>

## Order Inflow Break Up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
Transmission	1,833	3,443	2,051	1,360	2,748	2,087	1,354	-34%	-35%
Transmission SAE	562	1,055	380	33	467	360	230	-39%	-36%
Cables	325	611	266	203	415	288	179	-33%	-38%
Railway	59	111	987	929	1,140	648	562	-43%	-13%
Civil/Water	148	278	114	212	259	144	179	57%	24%
Solar	30	56	11	11	156	72	51	348%	-29%
<b>Total</b>	<b>2,957</b>	<b>5,553</b>	<b>3,809</b>	<b>2,748</b>	<b>5,184</b>	<b>3,598</b>	<b>2,554</b>	<b>-33%</b>	<b>-29%</b>

## Exhibit: Order book and book to bill trend



## Exhibit: Interest Cost as % of Sales

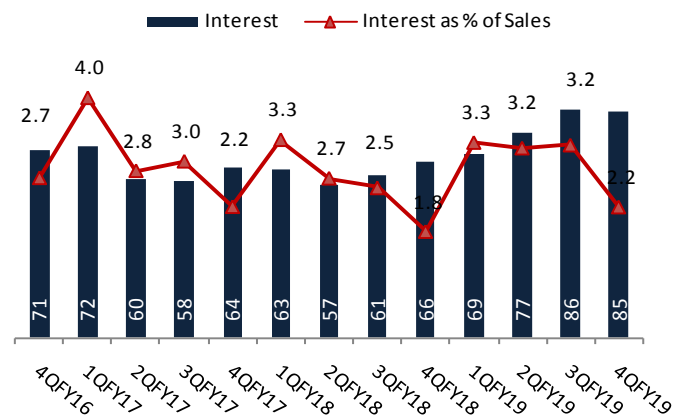


Exhibit: Railway Business Order book and growth %

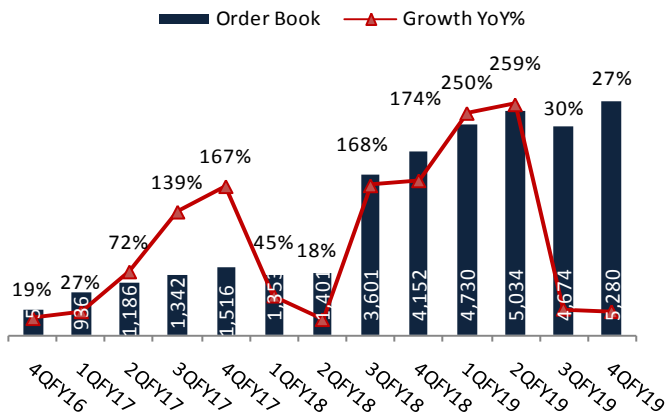


Exhibit: Railway Business Revenue and Growth %

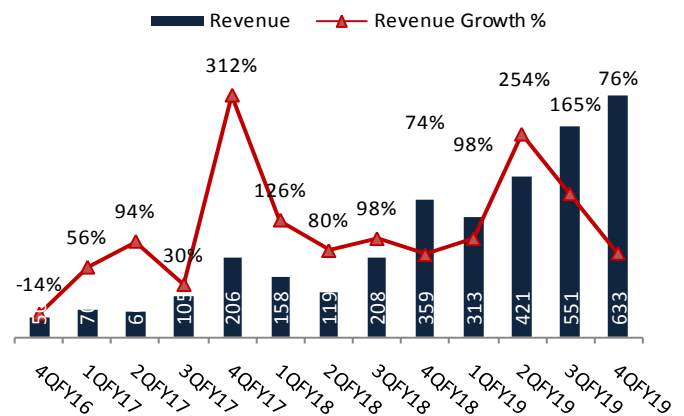


Exhibit: Civil Business Order Book and Growth %

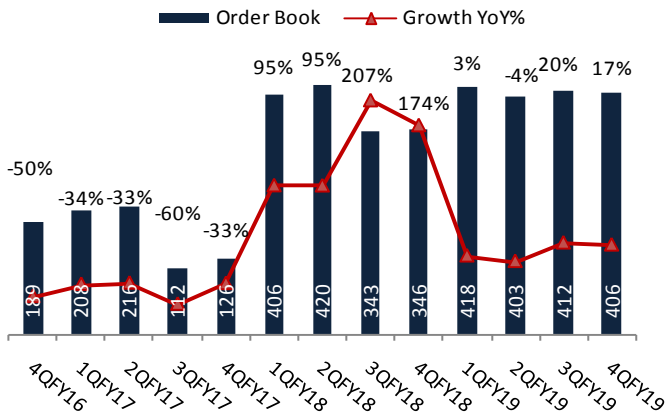


Exhibit: Civil Business Revenue and Growth %

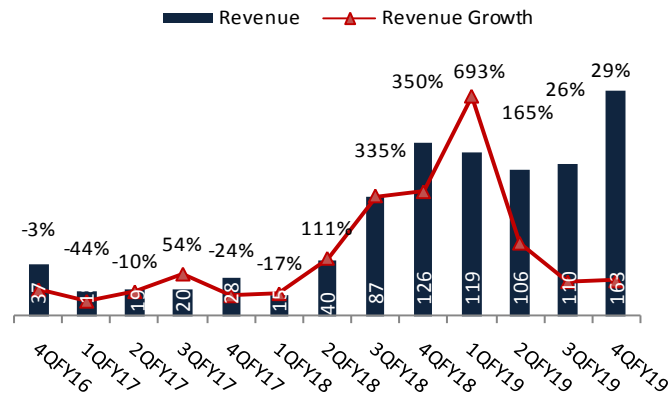


Exhibit: Order Book Break Up

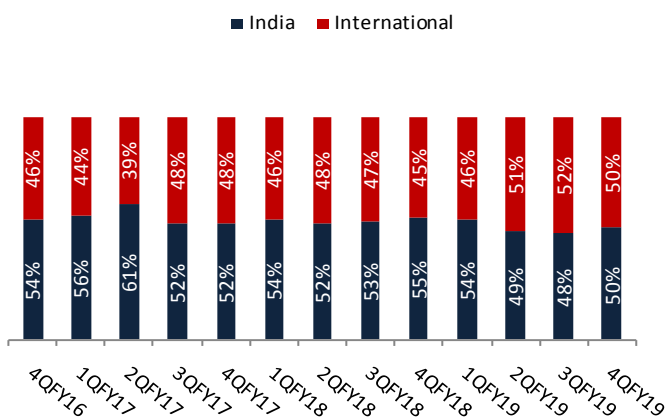
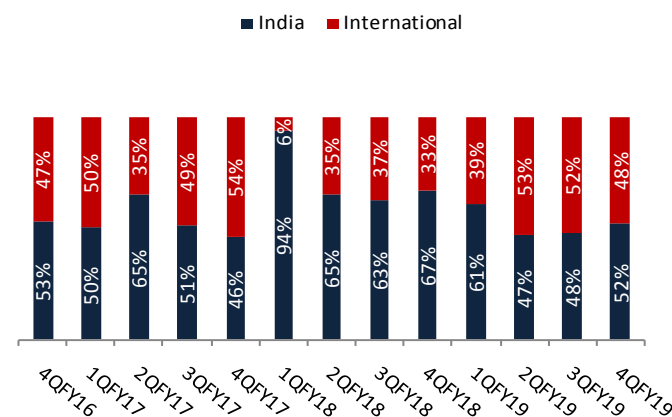


Exhibit: Order Inflow Break Up



## Financial Details

## Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	8,093	8,657	8,710	8,755	10,096	11,001	12,548	14,043
Change (%)	14%	7%	1%	1%	15%	9%	14%	12%
<b>EBITDA</b>	<b>493</b>	<b>512</b>	<b>692</b>	<b>818</b>	<b>1,006</b>	<b>1,146</b>	<b>1,304</b>	<b>1,473</b>
Change (%)	29%	4%	35%	18%	23%	14%	14%	13%
Margin (%)	6%	6%	8%	9%	10%	10%	10%	10%
Depr & Amor.	71	88	132	130	110	117	122	132
<b>EBIT</b>	<b>423</b>	<b>424</b>	<b>561</b>	<b>688</b>	<b>896</b>	<b>1,029</b>	<b>1,182</b>	<b>1,341</b>
Int. & other fin. Cost	263	309	279	254	247	312	320	325
Other Income	14	146	10	29	40	23	16	19
<b>EBT</b>	<b>173</b>	<b>261</b>	<b>291</b>	<b>463</b>	<b>690</b>	<b>740</b>	<b>878</b>	<b>1,035</b>
Exp Item	18	-	-	-	-	-	-	-
Tax	88	100	144	159	229	257	307	361
Minority Int & P/L share of Ass.	0	0	(0)	-	-	-	-	-
<b>Reported PAT</b>	<b>67</b>	<b>161</b>	<b>148</b>	<b>305</b>	<b>463</b>	<b>492</b>	<b>571</b>	<b>674</b>
<b>Adjusted PAT</b>	<b>58</b>	<b>161</b>	<b>148</b>	<b>305</b>	<b>463</b>	<b>492</b>	<b>571</b>	<b>674</b>
Change (%)	-11%	178%	-8%	106%	52%	6%	16%	18%
Margin(%)	1%	2%	2%	3%	5%	4%	5%	5%

## Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Share Capital</i>	51	51	51	51	51	51	51	51
<i>Reserves</i>	1,140	1,132	1,239	1,535	1,946	2,384	2,881	3,469
<i>Networth</i>	1,192	1,183	1,290	1,586	1,997	2,435	2,933	3,520
<i>Debt</i>	1,809	2,702	3,023	2,008	1,639	1,697	2,694	2,742
<i>Other Non Cur Liab</i>	93	135	141	152	145	164	164	164
<i>Total Capital Employed</i>	1,794	1,910	1,883	2,362	2,736	2,976	3,474	4,061
<i>Net Fixed Assets (incl CWIP)</i>	992	1,039	1,011	963	998	986	1,057	1,075
<i>Non Cur Investments</i>	-	0	-	-	-	-	-	-
<i>Other Non Cur Asst</i>	351	295	297	222	254	220	220	220
<i>Non Curr Assets</i>	1,343	1,334	1,308	1,185	1,252	1,206	1,277	1,296
<i>Inventory</i>	505	390	360	395	627	641	731	818
<i>Debtors</i>	3,808	3,846	4,658	4,200	5,039	4,875	5,638	6,310
<i>Cash &amp; Bank</i>	144	198	85	208	231	276	228	358
<i>Other Curr Assets</i>	1,234	1,807	1,919	496	667	895	1,021	1,142
<i>Curr Assets</i>	5,691	6,240	7,022	5,299	6,564	6,687	7,618	8,628
<i>Creditors</i>	3,213	1,997	2,027	3,167	4,657	4,801	5,501	6,156
<i>Provisions</i>	115	76	83	103	83	50	57	64
<i>Other Curr Liab</i>	989	882	1,262	1,552	1,746	100	1,882	2,106
<i>Curr Liabilities</i>	4,317	2,955	3,372	4,822	6,487	4,952	7,440	8,326
<i>Net Curr Assets</i>	1,374	3,285	3,650	476	78	1,736	178	302
<i>Total Assets</i>	7,411	8,180	8,891	8,728	10,539	11,694	13,426	14,947

## Financial Details

## Cash Flow

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	155	261	148	305	460	740	878	1,035
(inc)/Dec in Working Capital	(396)	(321)	(835)	703	(234)	(2,914)	806	(487)
Non Cash Op Exp	71	88	132	130	110	117	122	132
Int Paid (+)	263	309	279	254	247	312	320	325
Tax Paid	113	122	133	104	230	257	307	361
others	10	(62)	190	215	76	-	-	-
CF from Op. Activities	(9)	153	(75)	1,662	660	249	(433)	643
(inc)/Dec in FA & CWIP	(146)	117	(23)	(67)	(136)	(105)	(193)	(150)
Free Cashflow	(155)	269	(99)	1,595	524	144	(627)	493
(Pur)/Sale of Inv	-	-	-	-	612	26	(26)	-
others	1	0	(3)	(24)	4	-	-	-
CF from Inv. Activities	(136)	125	(23)	(183)	(4)	(79)	(219)	(150)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	410	106	306	(1,122)	(365)	187	997	48
Int. Paid	(263)	(305)	276	(256)	(221)	(312)	(320)	(325)
Div Paid (inc tax)	(15)	(17)	58	(1)	(41)	-	(73)	(86)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	132	(216)	639	(1,379)	(638)	(125)	604	(364)
Inc(Dec) in Cash	(14)	62	541	100	17	45	(48)	130
Add: Opening Balance	146	132	185	75	176	231	276	228
Closing Balance	132	194	741	176	193	277	228	358

## Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6%	14%	11%	19%	23%	20%	19%	19%
ROCE	24%	22%	30%	29%	33%	35%	34%	33%
Asset Turnover	1.09	1.06	0.98	1.00	0.96	0.94	0.93	0.94
Debtor Days	172	162	195	175	182	162	164	164
Inv Days	23	16	15	16	23	21	21	21
Payable Days	145	84	85	132	168	159	160	160
Int Coverage	2	1	2	3	4	3	4	4
P/E	26.0	12.8	21.2	17.6	21.6	15.9	13.2	11.2
Price / Book Value	1.5	1.7	2.4	3.4	5.0	3.2	2.6	2.1
EV/EBITDA	4.5	5.1	5.3	7.3	10.5	7.1	6.1	5.3
FCF per Share	(7)	2	(7)	62	20	6	(24)	19
Div Yield	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.8%	1.0%



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