

India Equity Analytics

Results Preview Q1FY20 - Capital Goods



Analyst

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ENGINEERS IN

CMP 121
Target 141
Upside 17%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	16%	15%	15%	17%
Roce%	17%	15%	14%	18%
EV/Ebdita	29.15	25.54	26.85	21.67
P/E	26.0	20.3	21.4	17.2
P/B	4.3	3.1	3.1	3.0

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Order Inflow	2,141	5,891	1,947	2,850	83	104	595
Order Book	8,413	11,189	10,184	9,572	7,229	11,189	11,123
Consultancy	1,661	1,585	1,947	2,350	83	104	595
Turnkey	480	4,305	-	500	-	-	-
<i>Revenue</i>							
Consultancy	1,379	1,349	1,443	1,896	322	352	351
Turnkey	408	1,095	1,509	1,565	251	260	309
EBIT M %							
Consultancy	31%	29%	28%	28%	28%	29%	28%
Turnkey	19%	6%	6%	6%	6%	6%	6%
<i>Financials</i>							
Sales	1,824	2,476	2,952	3,462	573	613	660
Sales Gr	23%	36%	19%	17%	53%	20%	15%
Other Income	176	222	204	232	52	60	51
Ebit	403	344	347	452	81	88	84
Ebit Gr	38%	-15%	1%	30%	7%	69%	4%
Net Profits	383	360	357	445	87	95	87
Profit Gr%	16%	-6%	-1%	25%	6%	37%	0.8%
Ebit Margin%	22.1%	13.9%	11.8%	13.1%	14.1%	14.3%	12.7%
Net Profit Margin%	21.0%	14.5%	12.1%	12.9%	15.1%	15.5%	13.2%

Consolidated data/ Quaterly Standalone

Fig in Rs Cr

❑ Revenue is expected to up by 15% YoY to Rs 660 Cr led by the execution of the turnkey projects. Revenue from turnkey is expected to up by 23% YoY supported by strong order book.

❑ EBIT is likely to compress by 140 bps on account of higher revenue from low margin turnkey business.

❑ Bottom line will remain flat to Rs 87 Cr while PAT margin will be 13.2% compared to 15.1%.

❑ During the quarter company has secured new orders worth Rs 600 Cr mainly from Consultancy segment. After sluggish performance by overseas consultancy segment, company is able to win one large consultancy order of worth 72.8 mn USD (Rs 510 Cr) from Mangolia refinery. Reaming orders are received from ICO and BPCL for their Panipat and Mumabi refinery.

❑ Majority of new orders in FY20 will be from constancy segment.

Key Trackable this Quarter

❑ Execution of Turnkey projects

❑ Status of Numaligrah, Kaveri basin & Nagapattinam refinery expansion plan

We value the stock at 20x FY21E EPS . BUY

KPP IN

CMP **539**
Target **662**
Upside **23%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	12%	13%	13%	14%
Roce%	18%	19%	19%	20%
D/E	0.2	0.2	0.3	0.3
P/E	22.7	16.8	17.9	15.1
P/B	2.7	2.2	2.3	2.0

	FY18	FY19	FY20E	FY21E	Q1FY19*	Q4FY19	Q1FY20E
KPTL							
Order Inflow	9,341	8,340	8,814	10,676	2,698	1,882	1,754
Order Book	12,404	14,068	14,652	15,186	13,742	14,068	14,274
JMC							
Order Book	7,616	9,962	10,137	9,696	9,814	9,962	10,296
<i>Financials:- KPTL</i>							
Sales	5,779	7,115	8,230	9,402	1,325	2,491	1,547
<i>Sales Gr</i>	15%	23%	16%	14%	13%	29%	17%
Ebdita	631	778	902	1,029	147	266	167
<i>Ebdita Gr</i>	19%	23%	16%	14%	7%	27%	14%
Net Profits	322	401	463	549	71	137	81
<i>Profit Gr%</i>	20%	25%	15%	18%	1%	31%	13%
Ebdita Margin%	10.9%	10.9%	11.0%	10.9%	11.1%	10.7%	10.8%
Net Profit Margin%	5.6%	5.6%	5.6%	5.8%	5.4%	5.5%	5.2%
JMC							
Sales	2,756	3,253	3,825	4,441	689	938	806
Net Profits	105	142	167	194	27	49	31

* Adjusted EBITDA

Std/Fig in Rs Cr

- ❑ Revenue growth will be 17% YoY on account of robust 55% YoY growth in Infrastructure business. While T&D business is continues to grow at steady rate (8% YoY).
- ❑ EBITDA is likely to grow by 14% YoY while EBITDA margin remain strong at 10.8%. Operating margin of Infrastructure business is inching towards double digit.
- ❑ PAT expected to grow by 13% YoY to Rs 81 Cr compared to Rs 71 Cr in Q1FY19.
- ❑ Revenue of JMC projects is likely to up by 17% YoY with stable EBITDA margin of 10.2%.
- ❑ Last quarter company has acquired the Linje Montage; Company's order book is Rs 500 Cr. Currently we do not consider the numbers in our estimates as the transaction is not closed. Transaction is likely to close by the Q1FY20.
- ❑ Due to the election during the Q1FY20 we expect negative growth in order inflow. Green Energy corridor tenders of worth Rs 12000-14000 Cr are expected to tender out soon.
- ❑ Company has put up its 4 BooT assets for sale, 3 out of it has sold to CLP India for enterprise value of Rs. 3275 Cr. Company has invested equity of Rs 367 Cr.

Key Trackable this Quarter

- ❑ Order Inflow
- ❑ Status of BOOT assets sale
- ❑ Equity infusion in SSL:- Management is planning to infuse Rs 80-100 Cr.

We value the std. business at 16x FY21E EPS & Rs 90/- for Subsidiary. BUY

KECI IN

CMP 327
Target 409
Upside 25%
Rating BUY

	FY18	FY19E	FY20E	FY20E
Roe%	23%	20%	20%	20%
Roce%	33%	35%	35%	34%
D/E	0.82	0.70	0.92	0.79
P/E	21.7	15.8	14.1	12.0
P/B	5.0	3.2	2.9	2.4

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Order Inflow	15,098	14,084	16,338	18,644	2,748	2,554	2,061
Order Book	17,298	20,307	23,752	27,734	18,518	20,307	20,030
<i>Revenue</i>							
Transmission	6,795	6,339	7,051	7,685	1,007	2,434	1,102
Transmission SAE	1,025	967	1,266	1,637	270	319	315
Cables	1,009	1,183	1,177	1,069	259	349	249
Railway	844	1,918	2,356	2,841	313	633	449
Civil/Water	268	498	835	1,309	119	163	142
Solar	288	341	208	121	160	32	81
<i>Financials</i>							
Net Sales	10,096	11,001	12,622	14,354	2,105	3,841	2,288
Sales Gr	15%	9%	15%	14%	11%	5%	9%
Ebdita	1,006	1,146	1,329	1,523	216	399	235
Ebdita Gr	23%	14%	16%	15%	23%	8%	9%
Net Profits	463	492	586	703	87	199	92
Profit Gr%	55%	12%	19%	19%	38%	1%	6%
Ebdita Margin%	10.0%	10.4%	10.5%	10.6%	10.3%	10.4%	10.3%
Net Profit Margin%	4.6%	4.5%	4.6%	4.9%	4.1%	5.2%	4.0%

Cons./ Fig in Rs Cr

- ❑ Revenue growth will be 9% YoY led by non T&D business (Railway up by 43% YoY and Civil up by 20% YoY). While T&D business is likely to post steady growth of 9% YoY.
- ❑ SAE business expected to witness recovery in revenue growth and we have expects 17% YoY growth in Q1FY20.
- ❑ Operating margin expected to remain strong at 10.3% with 9% YoY growth in absolute numbers.
- ❑ Interest cost likely to remain flat to Rs 67 Cr.
- ❑ Bottom line will grow only 6% YoY due to of lower other income. Other income in Q1FY19 was higher due to refund of Interest cost on Income tax. Though, PAT margin will remain stable at 4%.
- ❑ Working capital in Railway business is higher due to shorter payables days. Receivables are better than Power T&D projects. Management is working on to bring in large suppliers in railway projects supply chain.
- ❑ One of the power T&D project of Rs 400-450 Cr in domestic market is stuck and o/s receivables on this project is Rs 120 Cr.

Key Trackable this Quarter

- ❑ Order inflow in Civil vertical:- Management has guided to do double the revenue but the opening order book is 0.8x of TTM revenue
- ❑ Working Capital days
- ❑ Debt Level
- ❑ Status of stuck project

We value the stock at 15x FY21E EPS. BUY

LT IN

CMP 1557
Target 1829
Upside 17%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	13%	14%	13%	13%
Roce%	8%	9%	10%	10%
D/E	1.66	1.66	1.64	1.67
P/E	24.4	22.3	23.6	21.6
P/B	3.3	3.1	3.2	2.9

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Order Book	263,205	293,400	326,764	355,927	271,700	293,400	298,666
Order Inflow	152,800	176,943	191,684	211,831	36,100	56,500	32,490
<i>Segmental Revenues</i>							
Infrastructure	63,416	73,204	83,364	92,555	12,331	27,094	13,974
Power	6,208	3,983	4,246	5,068	1,081	934	775
Heavy Engineering	1,626	2,514	2,894	3,443	377	899	516
Defence Engineering	3,231	3,849	4,088	3,864	734	1,108	1,030
Electrical & Auto.	5,508	6,094	6,427	7,207	1,324	1,716	1,320
Hydrocarbon	11,760	15,176	18,594	23,753	3,516	4,324	4,389
IT & Technology Ser.	11,357	14,553	16,762	19,768	3,356	3,827	3,962
Financial Services	10,064	12,638	14,692	17,631	3,058	3,182	3,516
Developmental Proj.	4,476	5,068	4,505	4,688	1,494	1,083	1,126
Others	4,434	5,935	4,222	4,365	1,373	1,413	1,056
<i>Financials</i>							
Sales	119,862	141,007	157,399	179,607	28,283	44,934	31,190
Sales Gr	9%	18%	12%	14%	18%	10%	10%
Ebdita	13,571	16,325	19,478	22,170	2913	5599	3311
Ebdita Gr	22%	20%	19%	14%	42%	4%	14%
Net Profits	7,370	8,904	9,249	10,065	1215	3418	1319
Profit Gr%	22%	21%	4%	9%	36%	8%	9%
Ebdita Margin%	11.3%	11.6%	12.4%	12.3%	10.3%	12.5%	10.6%
Net Profit Margin%	6.1%	6.3%	5.9%	5.6%	4.3%	7.6%	4.2%

Conso/Fig in Rs Cr

❑ Revenue is expected to be up by 10.3% YoY supported by the strong order book. Infrastructure is likely to maintain execution momentum and we expect revenue growth of 13% YoY.

❑ Robust opening order book of Hydrocarbon business will drive the revenue growth (25% YoY). Power segment continue to remain sluggish on account of subdued order book. Though, the company has secured Mega order of Rs. 7000 Cr for the construction of power plant in Bihar during the quarter.

❑ Growth of Financial services business is expected to slow down due to liquidity tightness in the market. IT business will be impacted on account of slowdown in spending by BFSI client and some client specific issue but expected to pick up in second half.

❑ Operating margin is expected to be 10.6% compared to 10.3% on account of higher contribution by services business. Core E&C business operating margin will be stable at 8.4%.

❑ Bottom line is expected to up by 8.6% YoY to Rs 1319 Cr.

Key Trackable this Quarter

❑ EBITDA margin of Infrastructure:- last quarter was impacted due to certain provision

❑ Management commentary on Private Capex cycle

We value core E&C business at 24x FY21E EPS and Rs 333 /- for Subsidiary. BUY

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