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Strong uptick in Power T&D execution will further enhance the Outlook

RATING	BUY
CMP	293
Price Target	418
Potential Upside	43%
Rating Change	↔
Estimate Change	↔
Target Change	↑

1QFY20 Result Update

- Revenue saw a robust growth of 15% YoY with major contribution coming from T&D which grew 29% YoY and railway business which grew 67% YoY.
- EBITDA during the quarter grew by the 16% YoY due top improvement in the margins.
- PAT during the quarter saw muted growth of 2% due to onetime adjustments of prepayment premium of high-cost loans included in Interest (Rs 5 Cr), Rs 9 Cr of Ind AS 119 impact and lower Other Income.
- The order inflow during the quarter stood at Rs 1115 Cr with transmission business contributing 46% and Cables business contributing 33% to the total order inflow. Order inflow was down by 60% YoY.
- The order book at the end of 1QFY20 was Rs 19016 and L1 status of around 3484 Cr taking the total Order book over Rs 22500 Cr.

Robust Revenue Growth while PAT impacted due to one-off

1QFY20 saw a robust quarter for the company it witnessed revenue growth of 15% YoY with a strong performance from the T&D (29% YoY) and Railway (67% YoY). The strong growth of 29% YoY in Power T&D business was led by both the Domestic and International market. SAE business grew by 13% on account of revenue contribution from EPC projects. The solar and civil segments witnessed de-growth of 79%/45% respectively. Muted Industrial Capex, cautious approach towards residential business and lower labour availability impacted the civil business. The EBITDA during the quarter grew by 16% on account of increased margins. The PAT was muted to 2% due to one-time adjustments of prepayment premium of high-cost loans included in Interest, Ind AS 119 impact and the lower other income.

H2FY20 to be a growth booster for Order Inflow

Order Inflow in Q1FY20 was down by the 59% YoY to Rs 1115 Cr on account of election. Lots of orders in Power T&D and Railway business differed or cancelled due to the election in Q1FY20. Now the situation is improving and strong order inflow is expected in H2FY20. Recently 6 TBCB projects under the Green Energy Corridors are auctioned out and EPC contract is expected to award in next 2-3 week time. KEC is standing in L1 of around Rs 1000 Cr from Railway business, which is expected to open. On the International front, Company is negotiating with the Private players in Brazil for the projects which are auction out in 2017 and 2018. The next auction in Brazil is scheduled in December 2019. Bangladesh, Nepal, Afghanistan and the Far East will continue to see orders intake in T&D. Management has maintained its guidance at 15-20% growth in order inflow despite the huge drop in Q1FY20.

View and Valuation

Strong uptick in the execution of Power T&D projects both in Domestic and The international market will further enhance the outlook. While the growth trajectory of the Non-T&D business will continue to lead by the Railway business. The execution and order book of the civil business is subdued and will be a key thing to look out, though the segment contribution is quite small. The overall order inflow is likely to pick up from H2FY20. We largely maintain our estimates for the FY20/21. We continue to value the stock at 15x FY21E EPS and arrived at the target price of Rs 418 per share. We maintain our BUY rating on the stock.

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	11001	12519	14706
EBITDA	1150	1324	1563
EBIT	1033	1217	1429
PAT	496	593	716
EPS (Rs)	19	23	28
EPS gr %	8%	20%	21%
ROE (%)	20%	20%	20%
ROCE (%)	35%	35%	35%
BVPS	95	114	138
P/B (X)	3	3	2
P/E (X)	16	13	10

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1QFY20 Results

Robust Revenue

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Sales	2,105	2,408	2,646	3,841	2,412	15%	-37%	10,091	11,001	9.0%
Other Income	18	2	4	6	3	-84%	-57%	21	23	9.1%
COGS	1,012	1,206	1,258	1,933	1,116	10%	-42%	5,140	5,410	5.2%
Emp. Exp.	203	207	211	211	222	9%	5%	798	832	4.2%
Sub Contra.	514	509	642	1,048	572	11%	-45%	2,127	2,713	27.6%
Other Exp.	158	233	254	251	252	59%	1%	982	895	-8.8%
Total Exp.	1,889	2,155	2,365	3,442	2,161	14%	-37%	9,085	9,851	8.4%
EBITDA	216	253	281	399	251	16%	-37%	1,006	1,150	14.3%
Depreciation	30	30	30	26	37	23%	41%	110	117	6.7%
EBIT	186	223	251	373	215	15%	-42%	896	1,033	15.3%
Intreset	69	77	86	85	80	15%	-6%	229	312	36.0%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
PBT	135	148	169	295	138	2%	-53%	687	744	8.2%
Tax	48	51	57	101	49	3%	-51%	229	257	12.3%
PAT	87	96	113	199	89	2%	-55%	458	486	6.1%

Concall Highlights

- SAE 1QFY20 revenue includes execution of 1 EPC project. Execution of other 2 EPC projects in Brazil has also commenced.
- Currently negotiating with the private developer and orders from Brazil are expected to come in from 3Q and 4Q Fy20.
- SAE margin is in line with the expectation but it is lower than earlier estimates due to increase in transportation cost and higher steel price. Currently margin in the range of 8.5% -9% and it will touch double digit by the year end as the EPC projects started contribution in revenue.
- Maintain Revenue guidance at 15-20% with EBITDA margin being 10-10.5%.
- Revenue growth in international market is expected to continue in FY20.
- Company is in L1 of Rs 3500 Cr majorly in T&D, Railways and Civil.
- H2FY20 is expected robust in terms of Domestic Inflows.
- Bangladesh, Nepal, Afghanistan and Far East will continue to see orders intake in T&D.
- Order inflows are expected to grow by 15-20%.
- Railway business is focusing on RRTS, ROB in addition to conventional railways.
- Railways orders are expected to flow from Q3FY20. L1 of Rs 1000 Cr in Railways is expected to be awarded in Q3FY20.
- Execution of 150MW solar project in India is on track. Indian market will stay muted in solar business.
- L1 in medium size multilateral funded solar EPC project in International market.
- In Civil project, company has started focusing on Government projects including commercial buildings, Metro elevated corridors, Airport extension etc.
- Capex of Rs 150-170 Cr is expected in FY20 of which Rs 40 Cr will be for Railways and Rs 30-40 Cr for factory.
- Forex loss of Rs 4 Cr in 1QFY20 as against Forex profit of Rs 20 Cr.
- Rs 5 Cr has been paid towards prepayments.
- Banker of the stuck project (Esaal Infra's project) is working out to bring in new developer for the project and company is in wait and watch mode. Though the management is confident about the resolution of the project and does not expect to write down the O/S receivable of Rs 147 Cr. O/S order value is Rs 450 Cr.

Segment Revenue

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Transmission	1,532	2,468	1,007	1,335	1,563	2,434	1,294	29%	-47%
Transmission SAE	319	307	270	183	195	319	305	13%	-4%
Cables	272	278	259	265	310	349	263	2%	-25%
Railway	208	359	313	421	551	633	522	67%	-18%
Civil/Water	87	126	119	106	110	163	65	-45%	-60%
Solar	34	189	160	133	16	32	34	-79%	6%
Total	2,452	3,727	2,128	2,443	2,745	3,930	2,483	17%	-37%

Order Book Break Up

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Transmission	2,943	2,051	1,360	2,748	2,087	1,354	513	-62%	-62%
Transmission SAE	1,715	1,903	1,837	2,014	2,059	2,031	1,902	4%	-6%
Cables	343	346	255	403	412	406	380	49%	-6%
Railway	3,601	4,152	4,730	5,034	4,674	5,280	4,754	1%	-10%
Civil/Water	343	346	418	403	412	406	380	-9%	-6%
Solar	343	173	364	201	62	203	190	-48%	-6%
Total	17,148	17,298	18,518	20,135	20,592	20,307	19,016	3%	-6%

Order Inflow Break Up

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Transmission	2,943	2,051	1,360	2,748	2,087	1,354	513	-62%	-62%
Transmission SAE	611	380	33	467	360	230	145	340%	-37%
Cables	444	266	203	415	288	179	368	81%	106%
Railway	1,333	987	929	1,140	648	562	-	-100%	-100%
Civil/Water	222	114	212	259	144	179	89	-58%	-50%
Solar	17	11	11	156	72	51	-	-100%	-100%
Total	5,570	3,809	2,748	5,184	3,598	2,554	1,115	-59%	-56%

Exhibit: Order book and book to bill trend

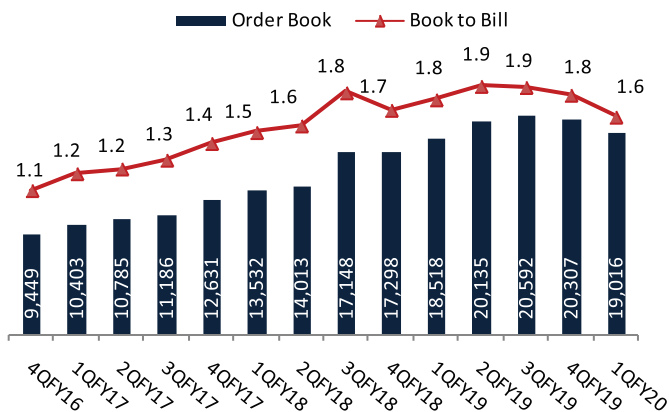


Exhibit: Interest Cost as % of Sales

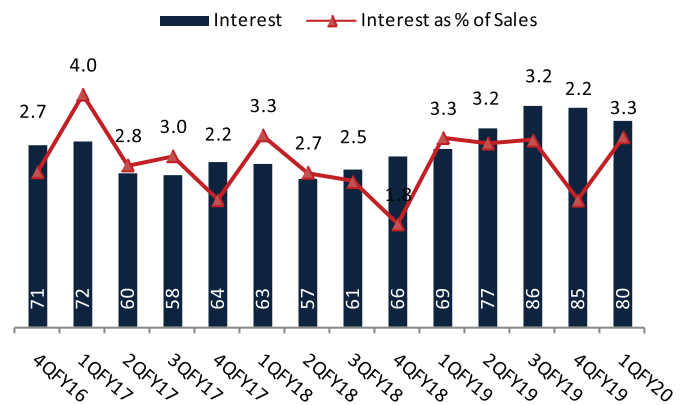


Exhibit: Railway Business Order book and growth %

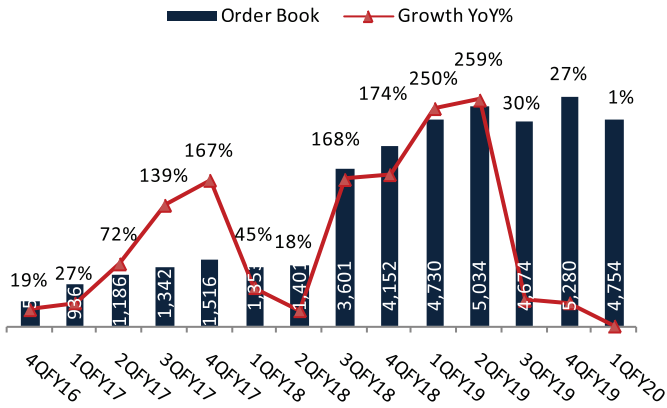


Exhibit: Railway Business Revenue and Growth %

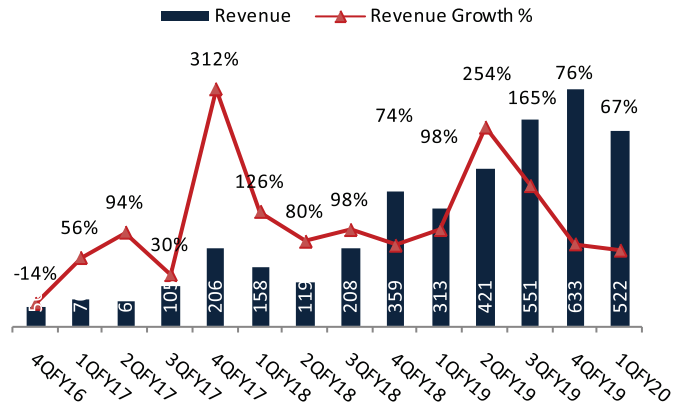


Exhibit: Civil Business Order Book and Growth %

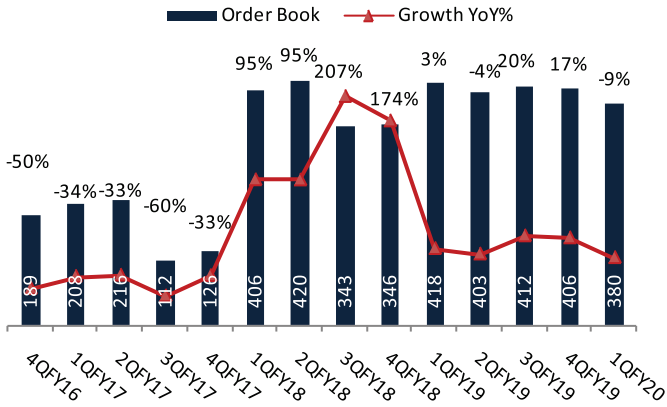


Exhibit: Civil Business Revenue and Growth %

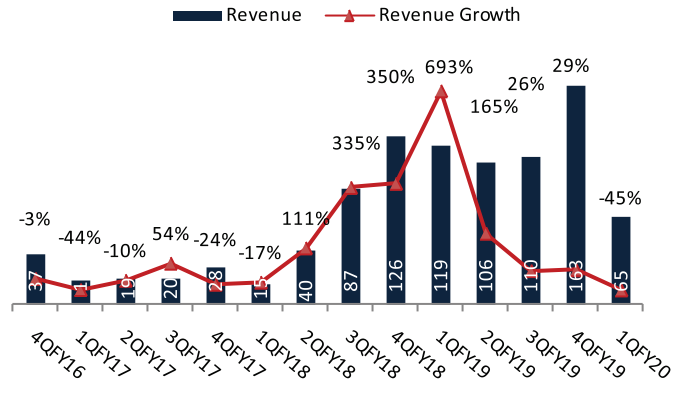


Exhibit: Order Book Break Up

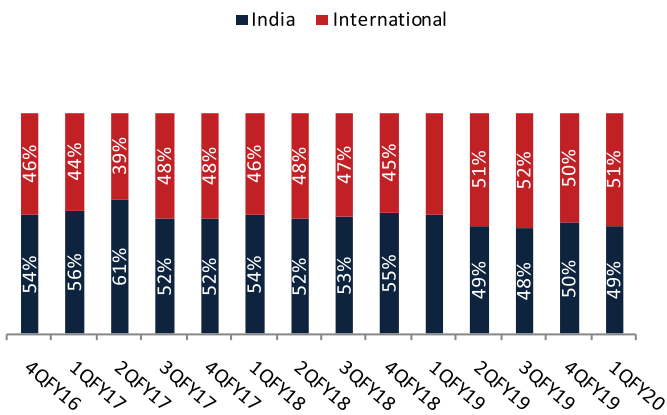
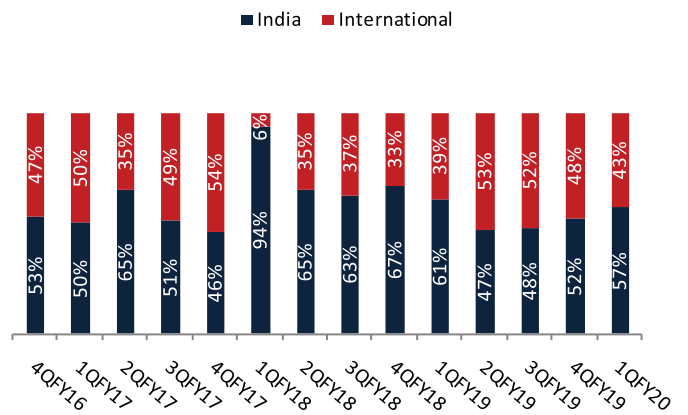


Exhibit: Order Inflow Break Up



Financial Details

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	8,093	8,657	8,710	8,755	10,091	11,001	12,519	14,706
Change (%)	14%	7%	1%	1%	15%	9%	14%	17%
EBITDA	493	512	692	818	1,006	1,150	1,324	1,563
Change (%)	29%	4%	35%	18%	23%	14%	15%	18%
Margin (%)	6%	6%	8%	9%	10%	10%	11%	11%
Depr & Amor.	71	88	132	130	110	117	108	134
EBIT	423	424	561	688	896	1,033	1,217	1,429
Int. & other fin. Cost	263	309	279	254	229	312	332	365
Other Income	14	146	10	29	21	23	18	30
EBT	173	261	291	463	687	744	903	1,094
Exp Item	18	-	-	-	-	-	-	-
Tax	88	100	144	159	229	257	310	379
Minority Int & P/L share of Ass.	0	0	(0)	-	-	-	-	-
Reported PAT	67	161	148	305	460	496	593	716
Adjusted PAT	58	161	148	305	460	496	593	716
Change (%)	-11%	178%	-8%	106%	51%	8%	20%	21%
Margin(%)	1%	2%	2%	3%	5%	5%	5%	5%

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	51	51	51	51	51	51	51	51
Reserves	1,140	1,132	1,239	1,535	1,946	2,384	2,888	3,497
Networth	1,192	1,183	1,290	1,586	1,997	2,435	2,940	3,548
Debt	1,809	2,702	3,023	2,008	1,639	1,697	2,437	2,818
Other Non Cur Liab	93	135	141	152	145	164	164	164
Total Capital Employed	1,794	1,910	1,883	2,362	2,736	2,976	3,481	4,089
Net Fixed Assets (incl CWIP)	992	1,039	1,011	963	998	986	1,072	1,088
Non Cur Investments	-	0	-	-	-	-	-	-
Other Non Cur Asst	351	295	297	222	254	220	220	220
Non Curr Assets	1,343	1,334	1,308	1,185	1,252	1,206	1,292	1,309
Inventory	505	390	360	395	627	641	729	857
Debtors	3,808	3,846	4,658	4,200	5,039	4,875	5,556	6,527
Cash & Bank	144	198	85	208	231	276	287	346
Other Curr Assets	1,234	1,807	1,919	496	667	895	1,018	1,295
Curr Assets	5,691	6,240	7,022	5,299	6,564	6,687	7,591	9,025
Creditors	3,213	1,997	2,027	3,167	4,658	4,801	5,488	6,447
Provisions	115	76	83	103	83	50	57	67
Other Curr Liab	989	882	1,262	1,552	1,746	100	1,878	2,206
Curr Liabilities	4,317	2,955	3,372	4,822	6,487	4,952	7,423	8,720
Net Curr Assets	1,374	3,285	3,650	476	77	1,736	168	305
Total Assets	7,411	8,180	8,891	8,728	10,539	11,694	13,158	15,445

Financial Details

Cash Flow

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	155	261	148	305	460	496	903	1,094
(inc)/Dec in Working Capital	(396)	(321)	(835)	703	(234)	(579)	1,104	(761)
Non Cash Op Exp	71	88	132	130	110	117	108	134
Int Paid (+)	263	309	279	254	247	312	332	365
Tax Paid	113	122	133	104	230	298	310	379
others	287	319	661	669	399	96	332	365
CF from Op. Activities	(9)	153	(75)	1,662	660	199	(115)	453
(inc)/Dec in FA & CWIP	(146)	117	(23)	(67)	(136)	(108)	(193)	(150)
Free Cashflow	(155)	269	(99)	1,595	524	90	(309)	303
(Pur)/Sale of Inv	-	-	-	-	612	622	0	(153)
others	1	0	(3)	(24)	4	(59)	-	-
CF from Inv. Activities	(136)	125	(23)	(183)	(4)	(69)	(193)	(303)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	410	106	306	(1,122)	(365)	234	741	381
Int. Paid	(263)	(305)	276	(256)	(221)	(317)	(332)	(365)
Div Paid (inc tax)	(15)	(17)	58	(1)	(41)	(61)	(89)	(107)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	132	(216)	639	(1,379)	(638)	(150)	320	(91)
Inc(Dec) in Cash	(14)	62	541	100	17	(21)	11	59
Add: Opening Balance	146	132	185	75	176	193	276	287
Closing Balance	132	194	741	176	193	175	287	346

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6%	14%	11%	19%	23%	20%	20%	20%
ROCE	24%	22%	30%	29%	33%	35%	35%	35%
Asset Turnover	1.09	1.06	0.98	1.00	0.96	0.94	0.95	0.95
Debtor Days	172	162	195	175	182	162	162	162
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	21.7	15.8	12.7	10.5
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	6.0	5.0
FCF per Share	(7)	2	(7)	62	20	3	(12)	12
Div Yield	0.5%	0.5%	1.6%	0.0%	0.5%	0.8%	1.0%	1.2%

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