

India Equity Analytics

Results Preview Q2FY20 - Capital Goods

Narnolia®

Analyst

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ENGINEERS IN

CMP 117
Target 123
Upside 5%
Rating HOLD

	FY18	FY19	FY20E	FY21E
Roe%	16%	15%	18%	20%
Roce%	17%	15%	16%	18%
EV/Ebdita	29.15	25.54	21.77	19.45
P/E	26.0	20.3	15.9	13.7
P/B	4.3	3.1	2.9	2.7

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Order Inflow	2,141	5,891	2,295	2,850	5,612	944	59
Order Book	8,413	11,189	10,539	9,887	11,460	11,429	10,704
Consultancy	1,661	1,585	2,295	2,350	1,320	944	59
Turnkey	480	4,305	-	500	4,292	-	-
<i>Revenue</i>							
Consultancy	1,379	1,349	1,539	1,955	332	445	389
Turnkey	408	1,095	1,437	1,547	349	290	396
EBIT M %							
Consultancy	31%	29%	31%	28%	29%	39%	28%
Turnkey	19%	6%	5%	6%	5%	3%	6%
<i>Financials</i>							
Sales	1,824	2,476	2,977	3,502	681	735	785
Sales Gr%	23%	36%	20%	18%	59%	28%	15%
Other Income	176	222	202	228	61	58	48
Ebit	403	344	397	465	86	134	93
Ebit Gr%	38%	-15%	16%	17%	-35%	65%	9%
Net Profits	383	360	445	518	98	124	111
Profit Gr%	16%	-6%	23%	16%	-18%	43%	13.6%
Ebit Margin%	22.1%	13.9%	13.3%	13.3%	12.6%	18.2%	11.9%
Net Profit Margin%	21.0%	14.5%	14.9%	14.8%	14.4%	16.9%	14.2%

Consolidated data/ Quaterly Standalone

Fig in Rs Cr

❑ Revenue for 2QFY20 is expected to grow 15% YoY to Rs 785 Cr led by the execution of the turnkey projects and healthy traction in consultancy business.

❑ Revenue from turnkey is expected to grow by 13% YoY supported by strong order book. Consultancy revenue will be up by 17% YoY.

❑ Company expects to complete substantial portion of Vizag project in FY20.

❑ EBIT margin is expected to be 11.9%, contracting 70bps on account of revenue mix.

❑ PAT is expected to grow by 14% to Rs 111 Cr on account of lower tax rate, while PAT margin will be 14.2% compared to 14.4%.

❑ On account of reduced corporate taxes, we have factored Rs 19 Cr of excess PAT in Q2FY20 and Rs 53 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is (-5.1%) yoy for 2QFY20 and 9% for FY20

❑ Company will deliberately go slowly on new order inflow as the focus is on the execution of current order book and majority of new orders in FY20 will be from constancy segment.

Key Trackable this Quarter

❑ Execution of Turnkey projects

We value the stock at 15x FY21E EPS . HOLD

CMP **273**
Target **325**
Upside **19%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	23%	20%	22%	21%
Roce%	33%	35%	34%	32%
D/E	0.82	0.70	0.81	0.73
P/E	21.7	15.8	10.8	9.3
P/B	5.0	3.2	2.4	1.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Order Inflow	15,098	14,084	14,262	16,007	5,184	1,115	2,074
Order Book	17,298	20,307	21,979	24,068	20,135	19,016	18,405
<i>Revenue</i>							
Transmission	6,795	6,339	6,935	7,360	1,335	1,294	1,483
Transmission SAE	1,025	967	1,165	1,333	183	305	228
Cables	1,009	1,183	1,377	1,450	265	263	293
Railway	844	1,918	2,561	2,876	421	522	570
Civil/Water	268	498	434	803	106	65	61
Solar	288	341	196	101	133	34	49
<i>Financials</i>							
Net Sales	10,091	11,001	12,383	13,632	2,408	2,412	2,628
Sales Gr%	15%	9%	13%	10%	13%	15%	9%
Ebdita	1,006	1,150	1,308	1,454	253	251	276
Ebdita Gr%	23%	14%	14%	11%	17%	16%	9%
Net Profits	460	496	649	760	96	89	128
Profit Gr%	54%	13%	30%	17%	8%	2%	33%
Ebdita Margin%	10.0%	10.5%	10.6%	10.7%	10.5%	10.4%	10.5%
Net Profit Margin%	4.6%	4.5%	5.2%	5.6%	4.0%	3.7%	4.9%

Conso/ Fig in Rs Cr

- ☐ Revenue growth for the quarter will be 9% YoY led by T&D business (13% YoY growth) and Non T&D business (5% YoY growth).
- ☐ EBITDA margin will be 9.6% with 9% YoY growth in absolute numbers.
- ☐ Interest cost is expected to increase to Rs 83 Cr from Rs 77 Cr in 2QFY19.
- ☐ PAT is expected to grow 33% YoY on account of lower tax. PAT margin will improve by 90 bps to 4.9%.
- ☐ On account of reduced corporate taxes, we have factored Rs 16 Cr of excess PAT in Q2FY20 and Rs 74 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 15.7% yoy for 2QFY20 and 15.5% for FY20.
- ☐ Management is in process to on board big vendors in the supply chain; this will result into standard credit terms and improvement in working capital.
- ☐ Company is looking forward at Station rebuilding as it is the area of opportunity in Railway business with current size Rs 40000 Cr, Rs 200 Cr on an average per station.

Key Trackable this Quarter

- ☐ Railway and Civil Order inflow
- ☐ Debt Level
- ☐ Status of stuck project
- ☐ Working Capital

We value the stock at 11x FY21E EPS. BUY

KPP IN

CMP **488**
Target **623**
Upside **28%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	12%	13%	15%	15%
Roce%	18%	19%	19%	20%
D/E	0.2	0.2	0.3	0.3
P/E	22.7	16.8	14.0	11.5
P/B	2.7	2.2	2.1	1.8

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
KPTL							
Order Inflow	9,341	8,340	9,010	10,932	2,054	1,745	2,054
Order Book	12,404	14,068	14,890	15,248	14,226	14,329	14,570
JMC							
Order Book	7,616	9,962	10,058	9,525	10,129	10,173	9,314
<i>Financials:- KPTL</i>							
Sales	5,779	7,115	8,359	9,804	1,574	1,655	1,813
<i>Sales Gr%</i>	15%	23%	17%	17%	29%	25%	15%
Ebdita	631	778	929	1,075	171	192	198
<i>Ebdita Gr%</i>	19%	23%	19%	16%	29%	22%	16%
Net Profits	322	401	535	652	91	92	111
<i>Profit Gr%</i>	20%	25%	33%	22%	28%	14%	22%
Ebdita Margin%	10.9%	10.9%	11.1%	11.0%	10.9%	11.6%	10.9%
Net Profit Margin%	5.6%	5.6%	6.4%	6.6%	5.8%	5.6%	6.1%
JMC							
Sales	2,756	3,253	3,904	4,533	734	904	859
Net Profits	105	142	171	198	30	36	35

Std/Fig in Rs Cr

- ❑ During the quarter revenue is expected to grow by 15% YoY on account of robust 43% YoY growth in Infrastructure business. While T&D business is continues to grow at steady rate of 4% YoY growth.
- ❑ JMC projects revenue is expected to grow by 17% YoY with stable EBITDA margin of 10.6%.
- ❑ EBITDA is expected to grow by 16% YoY while EBITDA margin remain stable at 10.9%.
- ❑ PAT growth is expected to be up by 22% YoY to Rs 111 Cr compared to Rs 111 Cr in 2QFY19 on account of lower tax rate.
- ❑ On account of reduced corporate taxes, we have factored Rs 16 Cr of excess PAT in Q2FY20 and Rs 61 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 6.5% yoy for 2QFY20 and 15% for FY20.
- ❑ Order inflow in Q2FY20 is Rs 2054 Cr and management has guided order inflow of Rs 9000-10000 Cr in FY20. Order inflow in H1FY20 is Rs 3799 Cr.
- ❑ Company has sold its BooT assets at total value of Rs 1150-1200 Cr. 40% is likely to receive in FY20 and balance 60% in FY21. Proceed will be used to reduce debt.
- ❑ JMC is looking at the monetization of its BoT road assets and actively looking at the matter.

Key Trackable this Quarter

- ❑ Order Inflow from Railway
- ❑ Status of Assets sold transaction

We value stock on SoTP basis (Std business at 13x FY21E EPS and Rs 71 for Subsidiary) BUY.

CMP 1477
Target 1720
Upside 16%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	13%	14%	14%	14%
Roce%	8%	9%	9%	10%
D/E	1.66	1.66	1.65	1.63
P/E	24.4	22.4	21.2	19.0
P/B	3.3	3.1	3.0	2.7

	FY18	FY19	FY20E	FY21E	Q2FY19	Q1FY20	Q2FY20E
Order Book	263,205	293,400	326,056	368,186	281,200	294,000	305,624
Order Inflow	152,800	175,643	195,188	218,415	42,143	38,700	45,093
<i>Segmental Revenues</i>							
Infrastructure	63,416	73,204	82,098	90,051	15,408	14,038	16,843
Power	6,208	3,983	4,483	7,575	1,060	563	841
Heavy Engineering	1,626	2,514	3,532	3,556	544	992	659
Defence Engineering	3,231	3,849	4,582	5,052	962	969	1,117
Electrical & Auto.	5,508	6,094	1,424	-	1,490	1,424	-
Hydrocarbon	11,760	15,176	18,032	23,680	3,558	3,769	4,028
IT & Technology Ser.	11,357	14,553	16,273	18,714	3,606	3,844	4,003
Financial Services	10,064	12,638	14,355	16,074	3,139	3,462	3,525
Developmental Proj.	4,476	5,068	4,557	4,688	1,297	1,178	1,126
Others	4,434	5,935	6,105	6,841	1,488	1,194	1,285
<i>Financials</i>							
Sales	119,862	141,007	151784*	173586*	32,081	29635*	32925*
Sales Gr%	9%	18%	8%	14%	21%	10%	3%
Ebdita	13,571	16,325	18,951	22,062	3771	3319	4269
Ebdita Gr%	22%	20%	16%	16%	27%	20%	13%
Net Profits	7,370	8,904	9,776	10,900	1936	1566	2138
Profit Gr%	22%	19%	15%	10%	15%	39%	10%
Ebdita Margin%	11.3%	11.6%	12.5%	12.7%	11.8%	11.2%	13.0%
Net Profit Margin%	6.1%	6.3%	6.4%	6.3%	7.0%	5.0%	6.5%

* exclude Electrical and Automation Revenue

Conso/Fig in Rs Cr

- Adjusted revenue will be up 7.6% YoY backed by Infra, Heavy Engineering and Hydrocarbon business. Execution momentum in Infra business is likely to remain strong (9% YoY).
- The strong order book in Heavy Engineering and Defence will drive the growth, 21% and 16% YoY respectively. Strong growth of 13% YoY.
- Power business continues to remain sluggish and down by 21% YoY. Power segment has reported order inflow of Rs 7000 Cr in Q2FY20.
- Growth of the Services business (IT and Finance) is likely to slow down to 11% YoY. The client specific issues (BFSI and Telecom) and slowdown in real estate sector will impact the growth.
- Operating margin for the quarter is likely to be 13% compared to 11.8%. For the full year FY20 operating margin will be 12.5%.
- Average tax rate of the company is 35% and will be benefited from recent tax rate cut.
- PAT will be up by 10% YoY Rs 2138 Cr, margin will be 6.5%.
- During the quarter company has reported order inflow of Rs 38750 Cr from core E&C business.

Key Trackable this Quarter

- Management commentary on Private Capex cycle
- Status of Mumbai coastal road projects and projects in Andhra Pradesh (2-3% of the order book)

We value stock on SoTP basis (E&C business at 24x FY21E EPS and Rs285/ for Subsidiary). BUY

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