

# KEC International Limited

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

## Revenue remained strong, Concern over order inflow

RATING	BUY
CMP	264
Price Target	326
Potential Upside	23%

Rating Change	↔
Estimate Change	↔
Target Change	↔

### Stock Info

52wk Range H/L	340/229
Mkt Capital (Rs Cr)	6812
Free float (%)	49%
Avg. Vol 1M (,000)	252
No. of Shares	26
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	11001	12500	13813
EBITDA	1150	1317	1465
EBIT	1033	1192	1333
PAT	496	644	761
EPS (Rs)	19	25	30
EPS gr %	8%	30%	18%
ROE (%)	20%	22%	21%
ROCE (%)	35%	34%	32%
BVPS	95	116	141
P/B (X)	3	2	2
P/E (X)	16	11	9

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### 2QFY20 Result Update

- ❑ EC has reported better than expected numbers, revenue was up by 17% YoY to Rs 2809 Cr compared to our estimates of Rs 2628 Cr. The growth is mainly driven by the Railway (up by 35% YoY) and power T&D (21% YoY).
- ❑ EBITDA margin remained stable at 10.5%.
- ❑ Debt has come down by Rs 400 Cr from September 2018 level and Rs 100 Cr from June 2019 on account of improvement in debtor's level. Additionally, foreign borrowings contribution has increased from 37% in Q1FY19 to 64% in Q2FY20.
- ❑ Interest cost as % of sales has improved from 3.2% to 2.9% on YoY basis.
- ❑ PAT grew by 44% due to a reduction in tax rate and improvement in interest cost as a % of sales.
- ❑ The order inflow stood at Rs 2651 Cr with Railways business contributing 52% and Civil business contributing 32% to the total order inflow. Order inflow was down by 49% YoY.
- ❑ The order book at the end of 2QFY20 was Rs 18085 and L1 status of around 5000 Cr taking the total Order book over Rs 23085 Cr.

### Revenue Growth remains Strong

Revenue continues its upward momentum and reported 17% YoY growth. Revenue from the Power T&D has maintained its strong momentum and reported growth of 21% YoY on account of uptick in execution of overseas projects. All the EPC projects of SAE has commenced execution and reported revenue growth of 95% YoY. Railway continues to post strong growth numbers (35%). Cables, Civil and Solar business have reported re de growth of 6%, 50% and 92% respectively mainly on account of soft commodity prices and lower order book. EBITDA margin remained stable at 10.5%. Improvement in debtor's level has result into lower interest cost as % of sales. The PAT grew by 44% due to reduction in tax rate and improvement in interest cost as a % of sales. Company has received more than Rs 600 Cr form Saudi till date. No more outstanding due are pending.

### Slowdown in Power T&D ordering to be set off by Railways but still a concern

Order book as on 30th June 2019 is Rs 18085 Cr of which 65% is from T&D and 35% from non T&D (Railway (29%), Civil (4%) and Cables (2%)). Order inflow in H1FY20 was Rs 3777 Cr, down by 52% YoY. Out of this Power T&D received new orders of Rs 1000 Cr only, which is down by 78% YoY. Ordering from the power T&D was impacted due to election and still not picked up meaningfully. But the Railway has come up with the strong order pipeline and currently Rs 34000 Cr of orders is in pipeline. Management has also lower down the order inflow guidance from Rs 17000 Cr to Rs 14000 Cr in FY20. Currently company has quoted tenders worth Rs 20000-25000 Cr along with the Rs 5000 Cr of L1 orders. Despite the lower order inflow, revenue is likely to maintain its pace and expected to report 15-20% growth in FY20 based on the current order book.

### View and Valuation

KEC continuous to post strong revenue numbers but the order inflow remained sluggish. Post the general election power T&D orders has not picked up in a meaningful way. But the government is planning to tender out large projects under green energy corridors. On the other hand, the railway has picked up the pace and likely to tender out as many as Rs 34000 Cr worth of projects in next 4-5 months. A slowdown in Power T&D ordering will partially set off by strong momentum in Railways but still remain a concern. Though, the slowdown in order inflow will not impact the revenue growth as the order book of Rs 18000 Cr along with Rs 5000 Cr of L1 orders will support the growth. We largely maintain our estimates for the FY20/21. We continue to value the stock at 11x FY21E EPS and arrived at the target price of Rs 326 per share. We maintain our BUY rating on the stock.

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## 2QFY20 Results

### Robust Revenue

Fig in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	H1FY19	H1FY20	YoY %
Sales	2,408	2,646	3,841	2,412	2,809	17%	16%	4,513	5,221	15.7%
Other Income	2	4	6	3	4	110%	32%	19	6	-67.2%
COGS	1,206	1,258	1,933	1,116	1,390	15%	25%	2,219	2,506	13.0%
Emp. Exp.	207	211	211	222	275	33%	24%	410	496	21.0%
Sub Contra.	509	642	1,048	572	554	9%	-3%	1,024	1,126	9.9%
Other Exp.	233	254	251	252	296	27%	18%	391	548	40.2%
Total Exp.	2,155	2,365	3,442	2,161	2,515	17%	16%	4,044	4,676	15.6%
EBITDA	253	281	399	251	294	16%	17%	469	545	16.1%
Depreciation	30	30	26	37	35	14%	-5%	60	71	18.5%
EBIT	223	251	373	215	259	16%	21%	409	474	15.8%
Intreset	77	86	85	80	82	7%	3%	146	162	10.8%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
PBT	148	169	295	138	181	22%	31%	283	318	12.7%
Tax	51	57	101	49	41	-19%	-16%	99	91	-8.7%
PAT	96	113	199	89	139	44%	57%	183	228	24.3%

### Concall Highlights

- Maintain Revenue guidance at 15-20% with EBITDA margin being 10-10.5%.
- Revenue growth at SAE is likely to remain strong in FY20 on account of execution on 3 EPC orders.
- Management has increased revenue guidance of Railway to Rs 2700-2800 Cr from Rs 2400-2500 Cr for FY20 and guided 20-25% growth in FY21.
- Railway will touch up double digit EBITDA margin by year end.
- Smart Infra has commenced execution of project which was secured last year.
- Rs 17000 Cr of order intake seems to be tough for the company as there was slowdown in ordering in H1FY20. Order inflow is likely remained flat on YoY.
- L1 orders of Rs 5000 Cr breakup: - 20% Railways 20% Civil and Rest T&D (GEC, SEB and International).
- Company has secured Civil order form Defence and metro which have longer execution cycle. L1 in Rs 850+ Cr of Metro project.
- Next auction in Brazil for the Power T&D projects is due in December 2019 worth of \$1 bn. Currently company is L1 in couple of projects.
- MENA market especially Saudi is returning to normalcy with tending at regular intervals.
- Tax rate for FY20 is expected to be 28.5%.
- Increase in Investments is due to investment in SAE business to prepay the outstanding Rs 200 Cr of high interest debt.
- Foreign current debt contribution has increased from 37% in Q1FY19 to 64% in Q2FY20. As result of it interest cost will improve further.
- No improvement on the stucked Essal infra's project till date but management expects resolution in Q3FY20.
- Company has received more than Rs 600 Cr form Saudi till date. No more outstanding due are pending.

**Segment Revenue**

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Transmission	2,468	1,007	1,335	1,563	2,434	1,294	1,621	21%	25%
Transmission SAE	307	270	183	195	319	305	356	95%	17%
Cables	278	259	265	310	349	263	249	-6%	-5%
Railway	359	313	421	551	633	522	568	35%	9%
Civil/Water	126	119	106	110	163	65	52	-51%	-20%
Solar	189	160	133	16	32	34	19	-86%	-44%
<b>Total</b>	<b>3,727</b>	<b>2,128</b>	<b>2,443</b>	<b>2,745</b>	<b>3,930</b>	<b>2,483</b>	<b>2,865</b>	<b>17%</b>	<b>15%</b>

**Order Book Break Up**

Fig in Rs Cr

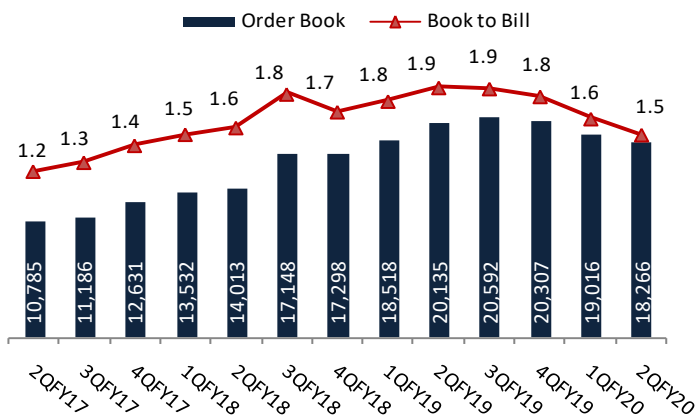
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Transmission	2,051	1,360	2,748	2,087	1,354	513	133	-95%	-74%
Transmission SAE	1,903	1,837	2,014	2,059	2,031	1,902	1,628	-19%	-14%
Cables	346	255	403	412	406	380	362	-10%	-5%
Railway	4,152	4,730	5,034	4,674	5,280	4,754	5,245	4%	10%
Civil/Water	346	418	403	412	406	380	723	80%	90%
Solar	173	364	201	62	203	190	181	-10%	-5%
<b>Total</b>	<b>17,298</b>	<b>18,518</b>	<b>20,135</b>	<b>20,592</b>	<b>20,307</b>	<b>19,016</b>	<b>18,266</b>	<b>-9%</b>	<b>-4%</b>

**Order Inflow Break Up**

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Transmission	2,051	1,360	2,748	2,087	1,354	513	133	-95%	-74%
Transmission SAE	380	33	467	360	230	145	133	-72%	-9%
Cables	266	203	415	288	179	368	159	-62%	-57%
Railway	987	929	1,140	648	562	-	1,379	21%	#DIV/0!
Civil/Water	114	212	259	144	179	89	848	227%	851%
Solar	11	11	156	72	51	-	11	-93%	#DIV/0!
<b>Total</b>	<b>3,809</b>	<b>2,748</b>	<b>5,184</b>	<b>3,598</b>	<b>2,554</b>	<b>1,115</b>	<b>2,662</b>	<b>-49%</b>	<b>139%</b>

**Exhibit: Order book and book to bill trend**



**Exhibit: Interest Cost as % of Sales**

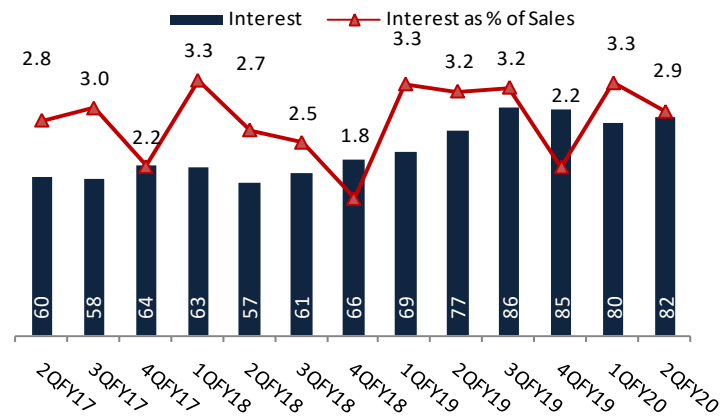


Exhibit: Railway Business Order book and growth %

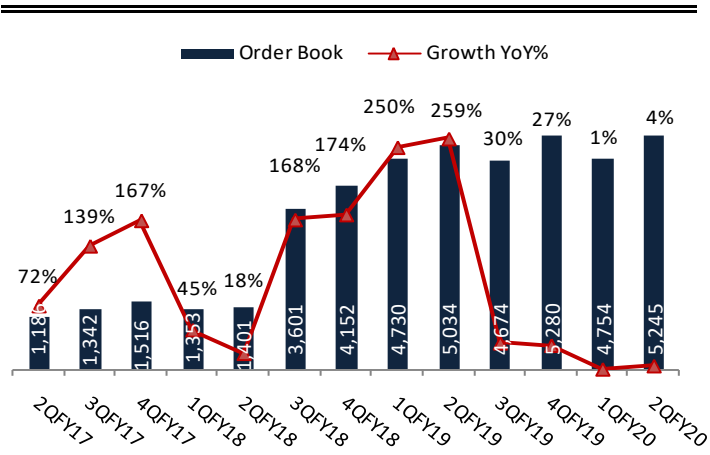


Exhibit: Railway Business Revenue and Growth %

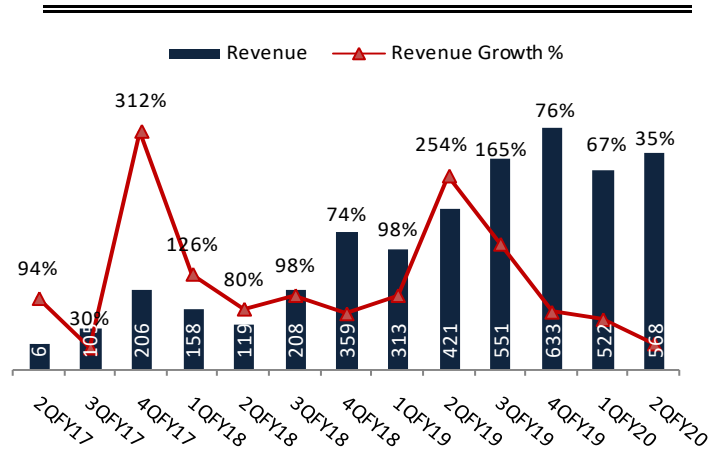


Exhibit: Civil Business Order Book and Growth %

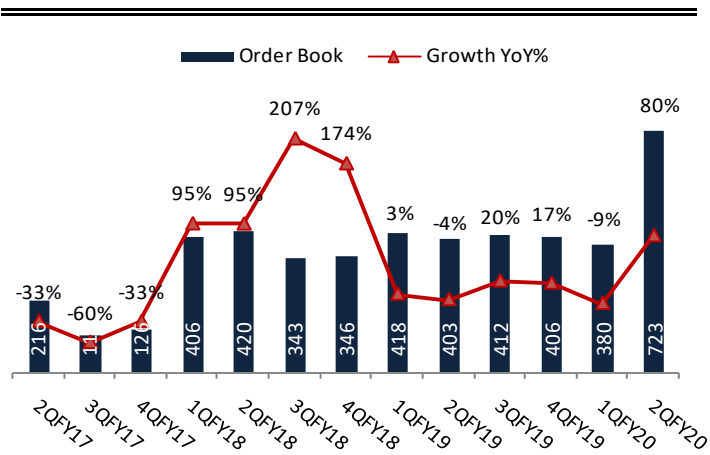


Exhibit: Civil Business Revenue and Growth %

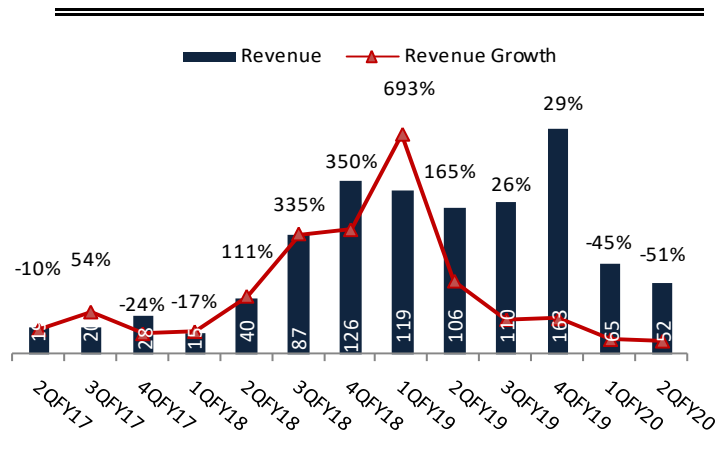


Exhibit: Order Book Break Up

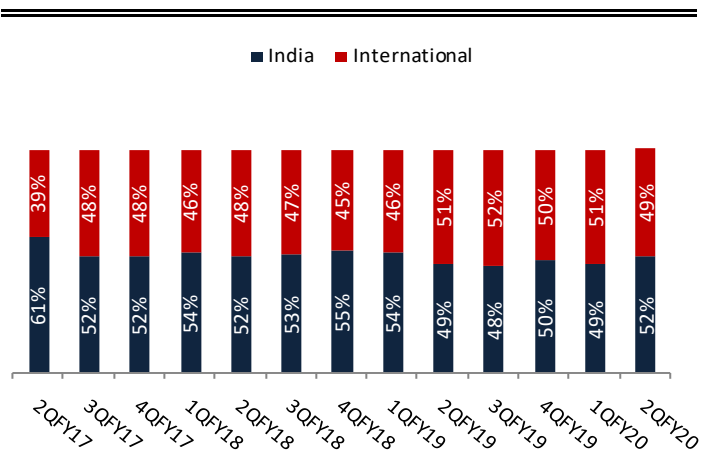
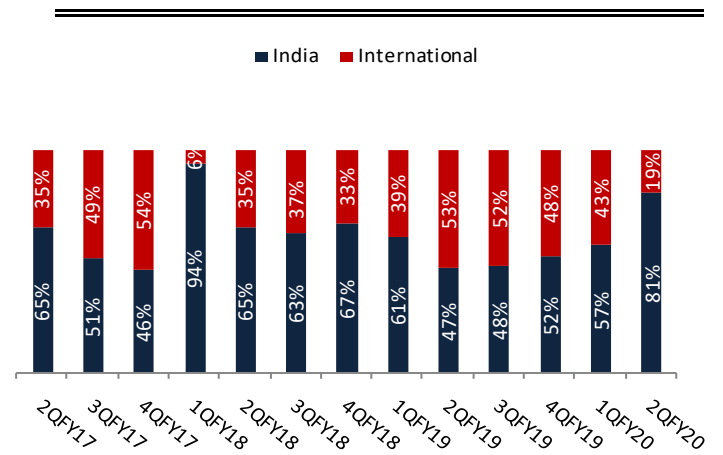


Exhibit: Order Inflow Break Up



## Financial Details

## Income Statement

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	12,500	13,813
Change (%)	14%	7%	1%	1%	15%	9%	14%	10%
<b>EBITDA</b>	<b>493</b>	<b>512</b>	<b>692</b>	<b>818</b>	<b>1,006</b>	<b>1,150</b>	<b>1,317</b>	<b>1,465</b>
Change (%)	29%	4%	35%	18%	23%	14%	15%	11%
Margin (%)	6%	6%	8%	9%	10%	10%	11%	11%
Depr & Amor.	71	88	132	130	110	117	124	131
<b>EBIT</b>	<b>423</b>	<b>424</b>	<b>561</b>	<b>688</b>	<b>896</b>	<b>1,033</b>	<b>1,192</b>	<b>1,333</b>
Int. & other fin. Cost	263	309	279	254	229	312	332	349
Other Income	14	146	10	29	21	23	14	32
<b>EBT</b>	<b>173</b>	<b>261</b>	<b>291</b>	<b>463</b>	<b>687</b>	<b>744</b>	<b>875</b>	<b>1,017</b>
Exp Item	18	-	-	-	-	-	-	-
Tax	88	100	144	159	229	257	230	256
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>460</b>	<b>496</b>	<b>644</b>	<b>761</b>
<b>Adjusted PAT</b>	<b>58</b>	<b>161</b>	<b>148</b>	<b>305</b>	<b>460</b>	<b>496</b>	<b>644</b>	<b>761</b>
Change (%)	-11%	178%	-8%	106%	51%	8%	30%	18%
Margin(%)	1%	2%	2%	3%	5%	5%	5%	6%

## 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	2,932	3,579
Networth	1,192	1,183	1,290	1,586	1,997	2,435	2,983	3,631
Debt	1,809	2,702	3,023	2,008	1,639	1,697	2,435	2,680
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	3,524	4,172
Net Fixed Assets (incl CWIP)	992	1,039	1,011	963	998	986	1,055	1,074
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	1,275	1,294
Inventory	505	390	360	395	627	641	728	805
Debtors	3,808	3,846	4,658	4,200	5,039	4,875	5,548	6,131
Cash & Bank	144	198	85	208	231	276	350	581
Other Curr Assets	1,234	1,807	1,919	496	667	895	1,017	1,216
Curr Assets	5,691	6,240	7,022	5,299	6,564	6,687	7,643	8,733
Creditors	3,213	1,997	2,027	3,167	4,658	4,801	5,480	6,055
Provisions	115	76	83	103	83	50	57	63
Other Curr Liab	989	882	1,262	1,552	1,746	100	1,875	2,072
Curr Liabilities	4,317	2,955	3,372	4,822	6,487	4,952	7,412	8,190
Net Curr Assets	1,374	3,285	3,650	476	77	1,736	231	543
Total Assets	7,411	8,180	8,891	8,728	10,539	11,694	13,188	14,859

## 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	875	1,017
(inc)/Dec in Working Capital	(396)	(321)	(835)	703	(234)	(579)	1,109	(490)
Non Cash Op Exp	71	88	132	130	110	117	124	131
Int Paid (+)	263	309	279	254	247	312	332	349
Tax Paid	113	122	133	104	230	298	230	256
others	287	319	661	669	399	96	332	349
CF from Op. Activities	(9)	153	(75)	1,662	660	199	(42)	751
(inc)/Dec in FA & CWIP	(146)	117	(23)	(67)	(136)	(108)	(193)	(150)
Free Cashflow	(155)	269	(99)	1,595	524	90	(235)	601
(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	738	245
Int. Paid	(263)	(305)	276	(256)	(221)	(317)	(332)	(349)
Div Paid (inc tax)	(15)	(17)	58	(1)	(41)	(61)	(96)	(114)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	132	(216)	639	(1,379)	(638)	(150)	310	(217)
Inc(Dec) in Cash	(14)	62	541	100	17	(21)	74	231
Add: Opening Balance	146	132	185	75	176	193	276	350
Closing Balance	132	194	741	176	193	175	350	581

## Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6%	14%	11%	19%	23%	20%	22%	21%
ROCE	24%	22%	30%	29%	33%	35%	34%	32%
Asset Turnover	1.09	1.06	0.98	1.00	0.96	0.94	0.95	0.93
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	10.9	9.2
Price / Book Value	1.5	1.7	2.4	3.4	5.0	3.2	2.4	1.9
EV/EBITDA	4.5	5.1	5.3	7.3	10.5	7.1	5.6	4.9
FCF per Share	(7)	2	(7)	62	20	3	(9)	23
Div Yield	0.5%	0.5%	1.6%	0.0%	0.5%	0.8%	1.1%	1.3%

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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