

India Equity Analytics

Results Preview Q3FY20 - Capital Goods

Narnolia[®]

Analyst

Sandip Jabuani
sandip.jabuani@narnolia.com

ENGINEERS IN

CMP 99
Target 125
Upside 26%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	16%	15%	16%	20%
Roce%	17%	15%	17%	18%
EV/Ebdita	29.15	25.54	18.76	17.37
P/E	26.0	20.3	15.8	11.9
P/B	4.3	3.1	2.5	2.4

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Order Book	8,413	11,189	10,602	9,929	10,787	10,759	10,152
Order Inflow							
Consultancy	1,661	1,585	2,403	2,350	78	167	86
Turnkey	480	4,305	-	500	13	-	-
<i>Revenue</i>							
Consultancy	1,379	1,349	1,511	2,006	343	354	328
Turnkey	408	1,095	1,397	1,517	234	370	365
<i>EBIT M %</i>							
Consultancy	31%	29%	31%	28%	30%	27%	30%
Turnkey	19%	6%	6%	6%	6%	8%	8%
<i>Financials</i>							
Sales	1,824	2,476	2,915	3,523	577	730	693
<i>Sales Gr%</i>	23%	36%	18%	21%	22%	7%	20%
<i>Other Income</i>	176	222	199	228	52	63	39
Ebit	403	344	422	477	90	103	93
<i>Ebit Gr%</i>	38%	-15%	23%	13%	-31%	20%	4%
Net Profits	383	360	398	526	91	67	104
<i>Profit Gr%</i>	16%	-6%	11%	32%	-16%	-32%	14%
Ebit Margin%	22.1%	13.9%	14.5%	13.5%	15.5%	14.1%	13.4%
Net Profit Margin%	21.0%	14.5%	13.7%	14.9%	15.7%	9.1%	15.0%

Consolidated data/ Quarterly Standalone

Fig in Rs Cr

□ 3QFY20 Revenue is expected to grow 20% YoY to Rs 693 Cr led by the execution of the turnkey projects. With strong order book, revenue from turnkey is expected to grow by 56% YoY.

□ EBIT is expected to grow by 4% on account of higher revenue while margin is expected to contract by 210bps.

□ PAT is expected to grow by 14% to Rs 104 Cr while PAT margin is expected to contract to by 70bps.

□ NRL pipeline project tendering is expected to be in 4QFY20.

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

□ Variation order from Dangote for expansion is expected for the undergoing project.

□ Mid size order from Middle East are expected.

Key Trackable this Quarter

□ Execution of Turnkey projects

We value the stock at 15x FY21E EPS . BUY

KPP IN

CMP **417**
Target **500**
Upside **20%**
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	19.4	14.1	11.9	10.1
P/B	2.3	1.9	1.8	1.5

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
KPTL							
Order Inflow	9,341	8,340	8,682	10,620	1,706	2,493	1,621
Order Book	12,404	14,068	14,753	15,271	14,218	15,130	14,672
JMC							
Order Book	7,616	9,962	9,974	9,346	9,930	9,702	8,102
<i>Financials:- KPTL</i>							
Sales	5,779	7,115	8,443	9,583	1,725	1,967	2,079
<i>Sales Gr%</i>	15%	23%	19%	14%	22%	25%	21%
Ebdita	631	778	929	1,054	184	207	228
<i>Ebdita Gr%</i>	19%	23%	19%	13%	21%	21%	24%
Net Profits	322	401	536	636	92	115	130
<i>Profit Gr%</i>	20%	25%	34%	19%	22%	26%	42%
Ebdita Margin%	10.9%	10.9%	11.0%	11.0%	10.7%	10.5%	11.0%
Net Profit Margin%	5.6%	5.6%	6.4%	6.6%	5.3%	5.8%	6.3%
JMC							
Sales	2,756	3,253	3,988	4,629	893	942	1045
Net Profits	105	142	175	203	37	39	43

Std/Fig in Rs Cr

- Revenue for the quarter is expected to grow by 21% YoY on account of robust 36% YoY growth in Infrastructure business and T&D business growing at 14% YoY.
- EBITDA is expected to grow by 24% YoY and EBITDA margin remain strong at 11%.
- PAT growth is expected to be 42% YoY to Rs 130 Cr compared to Rs 92 Cr in 3QFY19 with margin of 6.3%.
- JMC projects revenue is expected to grow by 17% YoY with stable EBITDA margin of 10.2%.
- Company has completed disinvestment of Kalpataru Satpura Transco Pvt. Ltd. Balance BooT projects are also expected to get disinvested soon.
- Company has won order worth Rs 1600 Cr approx during the quarter.

Key Trackable this Quarter

- Order Inflow from Railway
- Status of Assets sold transaction

We value stock on SoTP basis with price target of Rs 500. BUY

KECI IN

CMP 310
Target 358
Upside 15%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	23%	20%	21%	21%
Roce%	33%	35%	34%	32%
D/E	0.82	0.70	0.83	0.75
P/E	21.7	15.8	12.5	10.4
P/B	5.0	3.2	2.7	2.2

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Order Inflow	15,098	14,084	14,584	16,855	3,598	2,662	6,476
Order Book	17,298	20,307	21,482	23,889	20,592	18,266	21,609
<i>Revenue</i>							
Transmission	6,795	6,339	6,865	7,196	1,563	1,621	1,585
Transmission SAE	1,025	967	1,298	1,419	195	356	260
Cables	1,009	1,183	1,274	1,487	310	249	378
Railway	844	1,918	2,761	3,301	551	568	682
Civil/Water	268	498	577	938	110	52	181
Solar	288	341	175	107	16	19	47
<i>Financials</i>							
Net Sales	10,091	11,001	12,664	14,144	2,646	2,809	3,067
<i>Sales Gr</i>	15%	9%	15%	12%	10%	17%	16%
Ebdita	1,006	1,150	1,333	1,499	281	294	320
<i>Ebdita Gr</i>	23%	14%	16%	12%	15%	16%	14%
Net Profits	460	496	638	767	113	139	144
<i>Profit Gr%</i>	54%	13%	28%	20%	1%	44%	28%
Ebdita Margin%	10.0%	10.5%	10.5%	10.6%	10.6%	10.5%	10.4%
Net Profit Margin%	4.6%	4.5%	5.0%	5.4%	4.3%	5.0%	4.7%

Cons./ Fig in Rs Cr

- Revenue growth will be 16% yoy led by the continuous strong execution momentum in non T&D business :- Railway, Civil and Cabel.
- Railway is likley to post revenue growth of 24% YoY, while Civil and Cable expected to post growth of 64% and 22% YoY respectively.
- Execution on all the 3 EPC projects at SAE has started and will help to post strong growth of 33% YoY.
- Margin will remain stable at 10.4%
- With lower corporate tax, PAT will be up by 28% YoY to Rs 144 Cr.
- During the quarter company has bagged some breakthrough orders in Delhi metro worth Rs 1817 Cr. Total order inflow till date in Q3FY20 is Rs 4800 Cr.

Key Trackable this Quarter

- Order inflow from Power T&D
- Debt Level
- Status of stuck project :- Essel Infra'a Power T&D project
- Working Capital

We value the stock at 12x FY21E EPS. BUY

CMP 1345
Target 1664
Upside 24%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	13%	14%	15%	15%
Roce%	8%	9%	9%	10%
D/E	1.66	1.66	1.65	1.61
P/E	24.4	22.4	18.5	16.6
P/B	3.3	3.1	2.7	2.5

	FY18	FY19	FY20E	FY21E	Q3FY19	Q2FY20	Q3FY20E
Order Book	2,63,205	2,93,400	3,22,362	3,65,855	2,84,000	3,03,200	3,10,029
Order Inflow	1,52,800	1,75,643	1,92,330	2,12,896	42,200	48,300	44,310
<i>Segmental Revenues</i>							
Infrastructure	63,416	73,204	78,728	85,775	18,371	16,780	19,590
Power	6,208	3,983	2,329	4,772	908	492	606
Heavy Engineering	1,626	2,514	3,025	3,056	693	706	546
Defence Engineering	3,231	3,849	4,799	5,488	1,045	1,017	1,455
Electrical & Auto.	5,508	6,094	2,908	-	1,565	1,484	-
Hydrocarbon	11,760	15,176	20,056	26,592	3,778	4,305	5,928
IT & Technology Ser.	11,357	14,553	21,774	26,214	3,764	5,904	5,978
Financial Services	10,064	12,638	13,992	15,884	3,259	3,444	3,585
Developmental Proj.	4,476	5,068	4,883	4,688	1,194	1,453	1,126
Others	4,434	5,935	5,595	5,838	1,661	1,592	1,213
<i>Financials</i>							
Sales	1,19,862	1,41,007	153101*	175633*	35,709	35328*	39426*
<i>Sales Gr</i>	9%	18%	9%	15%	24%	15%	10%
Ebdita	13,571	16,325	18,717	22,340	3996	4020	4715
<i>Ebdita Gr</i>	22%	20%	15%	19%	27%	14%	18%
Net Profits	7,370	8,904	10,175	11,364	2042	2525	2402
<i>Profit Gr%</i>	22%	19%	19%	11%	36%	41%	18%
Ebdita Margin%	11.3%	11.6%	12.2%	12.7%	11.2%	11.4%	12.0%
Net Profit Margin%	6.1%	6.3%	6.6%	6.5%	5.7%	7.1%	6.1%

* exclude Electrical and Automation Revenue

Conso/Fig in Rs Cr

□ Adjusted Revenue is expected to up by 15.5% YoY to Rs 39426 Cr supported by Hydrocarbon, Defense and Heavy Engineering. Strong order book (Rs 50000 Cr) of Hydrocarbon business will support the robust growth.

□ We expect 7% YoY growth in Infra business, while Power continues to remain sluggish with the negative growth of 33%.

□ The growth in the financial services business will be under pressure due to on-going issues in real estate sector and we expect growth of 10% YoY. IT business (LTI) growth outlook will improve based on deal wins. While, Design and Engineering business (LTTs) will continue to face challenges on account of slow spending by clients. Overall IT & Technology business will post growth of 59% YoY (including Mindtree).

□ EBITDA margin will be 12%, improve by 80 bps on account of increased contribution from services business. PAT margin will improve 40 bps to 6.1%.

□ Order inflow is likely to impact by slow economic activity and we expect 5-6% growth.

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 23x FY21E EPS and Rs318/ for Subsidiary). BUY

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkgarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce 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.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions - including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.

Narnolia Financial Advisors Ltd.
803 & 703, A Wing, Kanakia Wall
Street
Andheri Kurla Road, Andheri (E)
Mumbai-400093
T: +912262701200
D: +912262701236
www.narnolia.com