

Industry
Bloomberg
BSE CODE

Eng. & Cons.
KECI IN
532714

Continued Strong Performance

RATING	NEUTRAL
CMP	346
Price Target	355
Potential Upside	3%
Rating Change	↓
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	358/229
Mkt Capital (Rs Cr)	8911
Free float (%)	49%
Avg. Vol 1M (,000)	364
No. of Shares (Cr)	26
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	11001	12720	14299
EBITDA	1150	1337	1495
EBIT	1033	1193	1346
PAT	496	645	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	3	2
P/E (X)	16	14	12

3QFY20 Result Update

- KEC reported Q3FY20 earning numbers largely in line with our estimates, revenue was up by 16% YoY to Rs 3073 Cr driven by the strong growth in Power T&D, SAE and Railway business.
- Power T&D has posted revenue growth of 9% YoY while SAE has posted robust revenue growth of 122% YoY on account of execution of 3 EPC projects.
- Revenue from railway business was up by 9% YoY.
- Operating margin continue to remain stable at 10.5%.
- Despite the strong growth company has managed to reduce net debt by Rs 600 Cr on account of strong collection from Saudi. No amount is due from the Saudi as of now.
- Order inflow during the quarter is Rs 6055 Cr which is higher by 68% YoY and company is standing in L1 orders worth Rs 2500 Cr mainly from the Power T&D business. For the 9MFY20 order inflow is stand at Rs 9820 Cr.

International Power T&D, SAE and railway driven the Growth

Revenue was up by the 16% YoY during the quarter mainly driven by the International Power T&D, SAE and Railway business. Domestic power T&D remind flat YoY on account of lower orders while the International T&D has posted growth of 9% YoY. Execution of 3 EPC projects in SAE has driven the whopping growth of 122%. While revenue growth has slowed down in railway business (9% YoY) but expected to pick from the Q4FY20. Cable business has reported revenue de growth of 20% mainly due to lower intake and low commodity prices. Similarly Civil business has posted revenue de growth of 21% YoY due to slow industrial capex cycle and challenges faced by the real estate sector, Though, the growth is likely to pick from the next year as the two large Metro projects will start contributing in the revenue. Execution on the Smart infra projects has started and reported revenue of Rs 33 Cr.

Strong Order Inflow growth in Q3FY20 but yearly target is likely to miss

Order inflow during the quarter was Rs 6055 Cr which is 68% higher compared to last year. Though the order inflow on the 9MFY20 is Rs 9820 Cr compared to Rs 11530 Cr. The order inflow was lower on account of the lower orders from domestic T&D segment, order inflow on 9MFY20 is Rs 3164 Cr compared to Rs 6195 Cr. Post the election orders from railway has also considerable slowdown as the railway has taken higher time to re invite the bids. However, railway has floated lots of orders now and which is likely to award in Q1FY20. International markets like Middle East and Africa has started witnessing traction. At the start of the year, management has guided order inflow growth of 15-16% though, which was reduced to flat growth. We expect order inflow for the full year will be down by 2-3%.

View and Valuation

KEC continuous to post strong revenue numbers on back of robust execution across the segment and we expect growth is likely to remain intact going ahead. Though, the order inflow is bit of concern as of now. Railway floated lots of orders and international markets have also started witnessing traction but the Domestic T&D business is lagging behind. We feel all the positive in the near term are factored into current prices, though the performance will remain strong in long run. At the current price level we are not comfortable with the valuation and hence we are NEUTRAL on the stock.

RESEARCH ANALYST

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3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	9MFY19	9MFY20	YoY %
Sales	2,646	3,841	2,412	2,809	3,073	16%	9%	7,160	8,294	15.8%
Other Income	4	6	3	4	2	-42%	-43%	23	8	-63.3%
COGS	1,258	1,933	1,116	1,390	1,439	14%	3%	3,477	3,945	13.5%
Emp. Exp.	211	211	222	275	301	43%	10%	621	798	28.4%
Sub Contra.	642	1,048	572	554	703	10%	27%	1,666	1,829	9.8%
Other Exp.	254	251	252	296	311	23%	5%	645	859	33.2%
Total Exp.	2,365	3,442	2,161	2,515	2,755	16%	10%	6,409	7,431	15.9%
EBITDA	281	399	251	294	319	13%	8%	751	864	15.1%
Depreciation	30	26	37	35	37	22%	6%	90	108	19.7%
EBIT	251	373	215	259	282	12%	9%	660	756	14.4%
Intreset	86	85	80	82	81	-5%	-1%	232	243	4.8%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
PBT	169	295	138	181	203	20%	12%	451	521	15.5%
Tax	57	101	49	41	58	1%	40%	157	149	-5.2%
PAT	113	199	89	139	145	28%	4%	296	373	25.9%

Concall Highlights

- Maintained Revenue growth guidance of 15-16% along with 10.5% EBITDA margin.
- Currently L1 orders of Rs 2500 Cr and major of the orders are from Power T&D.
- **Power T&D and SAE**
 - Domestic T&D business remained flat during the quarter on account of heavy rainfall and delay in delivery of substation equipment.
 - Tendering from the PGCIL will continue to remain sluggish and domestic power T&D will be driven by the SEBs like Tamil Nadu, Karnataka, West Bengal, Orissa and from Gujarat. Rajasthan has announced some large orders but right now not in the tendering pipeline
 - Revenue from SAE business will be down by the 5-7% as the new orders are facing delay in the approval. Additionally, developers are also holding back some projects as the steel and transportation prices has shoot up in the Brazil.
 - Stuck project of Essel infra will be re-starting from March and Management is very confident about the start of the projects.
- **Railway Business**
 - Full year revenue from Railway will be Rs 2700 Cr in FY20 and margin is likely to touch double digit.
 - In the budget, allocation towards railway electrification lower down as the ministry has postpone its electrification target by 2 year to 2024 because it has realized the actual achievable target. So it will not impact the growth of the railway business.
 - Tendering from Railway was muted during the quarter but currently railway has palce lot of tenders which will be materialize in Q1FY21. Some of them may come in Q4FY20 as well.
- **Civil Business**
 - Civil business was down due to slow Industrial capex cycle and challenges face by Real Estate sector. However now seeing some orders recently.
 - Execution of both the Metro projects i.e Delhi and Kochi has started and expected start contributing heavily next year and may be contribute some part in Q4FY20.
 - Margin on the Metro business is signal digit currently but company has bagged some good orders for constriction of Cement and Steel plant. Based on these orders Civil business margin is likely to touch double digit by next year.

Segment Revenue

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Transmission	1,007	1,335	1,563	2,434	1,294	1,621	1,703	9%	5%
Transmission SAE	270	183	195	319	305	356	432	122%	21%
Cables	259	265	310	349	263	249	249	-20%	0%
Railway	313	421	551	633	522	568	601	9%	6%
Civil/Water	119	106	110	163	65	52	87	-21%	67%
Solar	160	133	16	32	34	19	42	163%	121%
Total	2,128	2,443	2,745	3,930	2,483	2,865	3,114	13%	9%

Order Book Break Up

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Transmission	1,360	2,748	2,087	1,354	513	133	2,518	21%	1800%
Transmission SAE	1,837	2,014	2,059	2,031	1,902	1,628	1,343	-35%	-18%
Cables	255	403	412	406	380	362	418	2%	16%
Railway	4,730	5,034	4,674	5,280	4,754	5,245	6,845	46%	31%
Civil/Water	418	403	412	406	380	723	2,487	504%	244%
Solar	364	201	62	203	190	181	242	292%	34%
Total	18,518	20,135	20,592	20,307	19,016	18,266	22,011	7%	21%

Order Inflow Break Up

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Transmission	1,360	2,748	2,087	1,354	513	133	2,518	21%	1800%
Transmission SAE	33	467	360	230	145	133	36	-90%	-73%
Cables	203	415	288	179	368	159	266	-7%	67%
Railway	929	1,140	648	562	-	1,379	1,762	172%	28%
Civil/Water	212	259	144	179	89	848	1,459	914%	72%
Solar	11	156	72	51	-	11	-	-100%	-100%
Total	2,748	5,184	3,598	2,554	1,115	2,662	6,042	68%	127%

Exhibit: Order book and book to bill trend

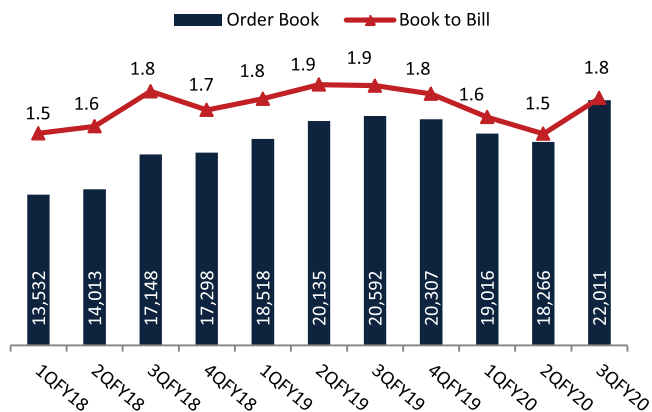


Exhibit: Interest Cost as % of Sales

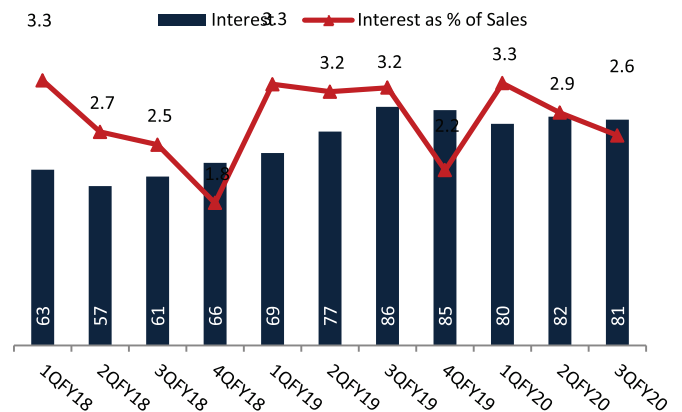


Exhibit: Railway Business Order book and growth %

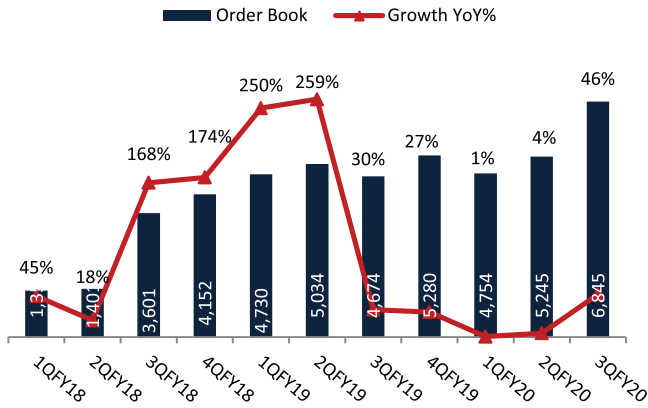


Exhibit: Railway Business Revenue and Growth %

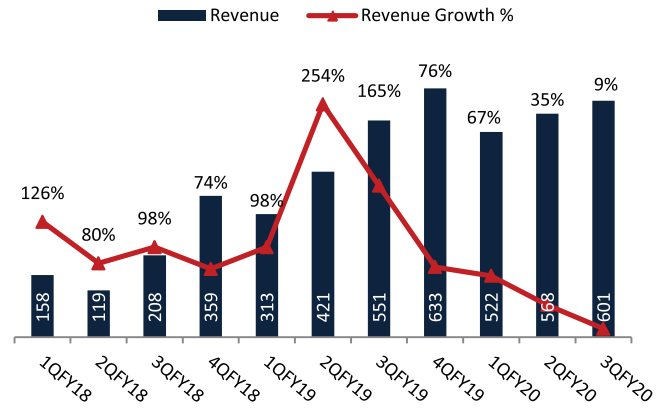


Exhibit: Civil Business Order Book and Growth %

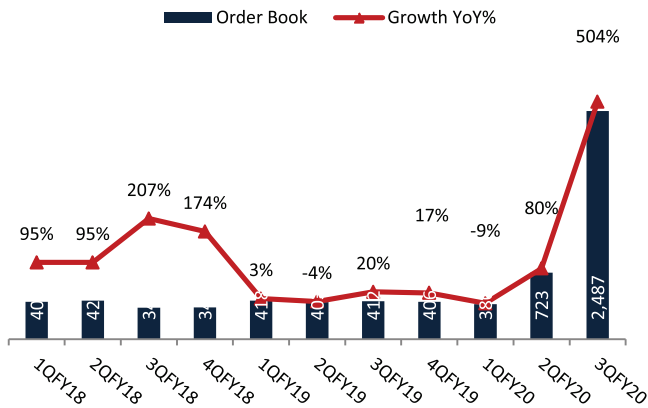


Exhibit: Civil Business Revenue and Growth %

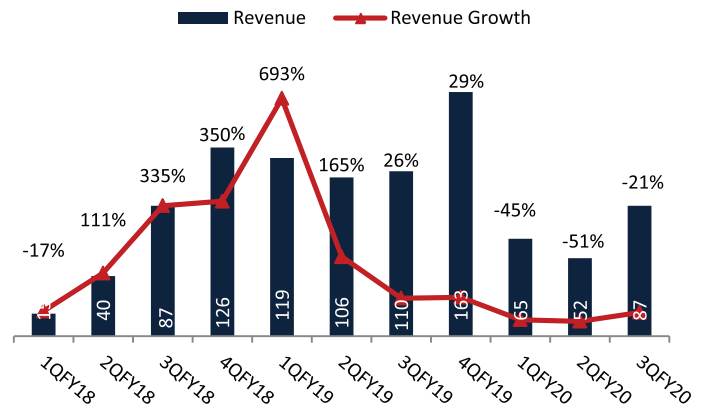


Exhibit: Order Book Break Up

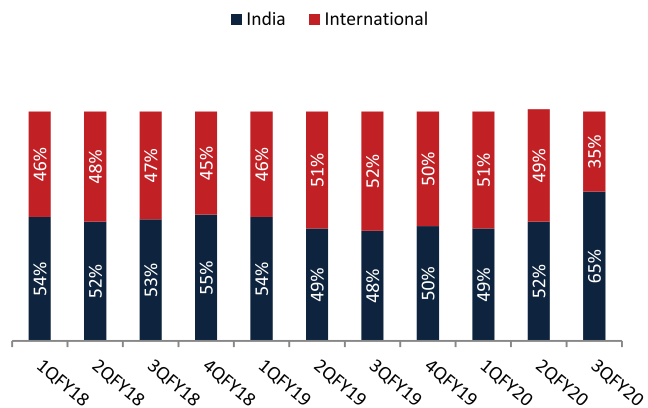
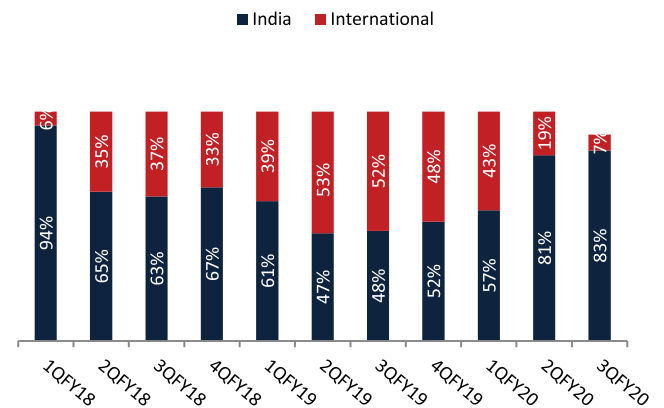


Exhibit: Order Inflow Break Up



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	12,720	14,299
Change (%)	14%	7%	1%	1%	15%	9%	16%	12%
EBITDA	493	512	692	818	1,006	1,150	1,337	1,495
Change (%)	29%	4%	35%	18%	23%	14%	16%	12%
Margin (%)	6%	6%	8%	9%	10%	10%	11%	10%
Depr & Amor.	71	88	132	130	110	117	143	149
EBIT	423	424	561	688	896	1,033	1,193	1,346
Int. & other fin. Cost	263	309	279	254	229	312	328	358
Other Income	14	146	10	29	21	23	13	28
EBT	173	261	291	463	687	744	878	1,017
Exp Item	18	-	-	-	-	-	-	-
Tax	88	100	144	159	229	257	232	256
Minority Int & P/L share of Ass.	0	0	(0)	-	-	-	-	-
Reported PAT	67	161	148	305	460	496	645	761
Adjusted PAT	58	161	148	305	460	496	645	761
Change (%)	-11%	178%	-8%	106%	51%	8%	30%	18%
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	2,933	3,580
Networth	1,192	1,183	1,290	1,586	1,997	2,435	2,984	3,631
Debt	1,809	2,702	3,023	2,008	1,639	1,697	2,468	2,755
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	3,525	4,172
Net Fixed Assets (incl CWIP)	992	1,039	1,011	963	998	986	1,036	1,037
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	1,256	1,257
Inventory	505	390	360	395	627	641	741	833
Debtors	3,808	3,846	4,658	4,200	5,039	4,875	5,646	6,347
Cash & Bank	144	198	85	208	231	276	347	567
Other Curr Assets	1,234	1,807	1,919	496	667	895	1,035	1,259
Curr Assets	5,691	6,240	7,022	5,299	6,564	6,687	7,769	9,006
Creditors	3,213	1,997	2,027	3,167	4,658	4,801	5,576	6,268
Provisons	115	76	83	103	83	50	58	65
Other Curr Liab	989	882	1,262	1,552	1,746	100	1,908	2,145
Curr Liabilities	4,317	2,955	3,372	4,822	6,487	4,952	7,542	8,479
Net Curr Assets	1,374	3,285	3,650	476	77	1,736	226	527
Total Assets	7,411	8,180	8,891	8,728	10,539	11,694	13,353	15,223

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	878	1,017
(inc)/Dec in Working Capital	(396)	(321)	(835)	703	(234)	(579)	1,043	(574)
Non Cash Op Exp	71	88	132	130	110	117	143	149
Int Paid (+)	263	309	279	254	247	312	328	358
Tax Paid	113	122	133	104	230	298	232	256
others	287	319	661	669	399	96	328	358
CF from Op. Activities	(9)	153	(75)	1,662	660	199	(92)	693
(inc)/Dec in FA & CWIP	(146)	117	(23)	(67)	(136)	(108)	(193)	(150)
Free Cashflow	(155)	269	(99)	1,595	524	90	(286)	543
(Pur)/Sale of Inv	-	-	-	-	612	622	10	(139)
others	1	0	(3)	(24)	4	(59)	-	-
CF from Inv. Activities	(136)	125	(23)	(183)	(4)	(69)	(183)	(289)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	410	106	306	(1,122)	(365)	234	771	287
Int. Paid	(263)	(305)	276	(256)	(221)	(317)	(328)	(358)
Div Paid (inc tax)	(15)	(17)	58	(1)	(41)	(61)	(96)	(114)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	132	(216)	639	(1,379)	(638)	(150)	346	(184)
Inc(Dec) in Cash	(14)	62	541	100	17	(21)	71	220
Add: Opening Balance	146	132	185	75	176	193	276	347
Closing Balance	132	194	741	176	193	175	347	567

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	0.94
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	13.8	11.7
Price / Book Value	1.5	1.7	2.4	3.4	5.0	3.2	3.0	2.4
EV/EBITDA	4.5	5.1	5.3	7.3	10.5	7.1	6.9	6.0
FCF per Share	(7)	2	(7)	62	20	3	(11)	21
Div Yield	0.5%	0.5%	1.6%	0.0%	0.5%	0.8%	0.9%	1.1%

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