Retail Equity Research

KEC International Ltd

Capital Goods

BUY

BSE CODE : 532714	NSE CODE: KEC
BLOOMBERG CODE: KECI:IN	SENSEX : 41,460

12M Investment Period **Rating as per Mid Cap**

CMP Rs 344 TARGET Rs 419 RETURN +22%

(Closing: 13-02-20)

KEY CHANGES: ***TARGET*** ***RATING*** ***EARNINGS***

Steady performance...

KEC International Limited (KEC) is a global infrastructure Engineering Procurement and Construction major. It has presence in the verticals of Power T&D (Transmission & Distribution), Cables, Railways and Water & Renewable.

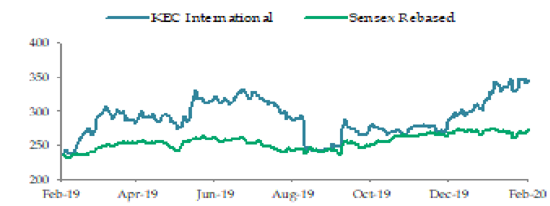
- **Q3FY20 revenue grew by 16% YoY led by 21% YoY growth in T&D segment (SAE towers 122%) & Railway 9% YoY.**
- **EBITDA margin declined marginally by 27bps YoY to 10.4% despite 209bps improvement in gross margin to 30.3%.**
- **Order book increased by 7% YoY led by 18% YoY growth in fresh orders mainly from civil, railway & cable business.**
- **PAT grew by 31% YoY supported by drop in effective tax rate of ~29%.**
- **We expect FY20 revenue to grew by ~16% YoY due to pick up in execution of large international orders.**
- **We maintain our Buy rating owing to healthy earnings potential and pick up in international T&D segments and value KEC at a P/E of 13x on FY22E EPS .**

Company Data	
Market Cap (cr)	Rs. 8,840
Enterprise Value (cr)	Rs. 10,746
Outstanding Shares (cr)	25.7
Free Float	48.65%
Dividend Yield	0.8%
52 week high	Rs. 358
52 week low	Rs. 230
6m average volume (cr)	0.05
Beta	0.80
Face value	Rs2

Shareholding (%)	Q1FY20	Q2FY20	Q3FY20
Promoters	51.35	51.35	51.35
FII's	6.74	7.55	7.59
MFs/Insti	25.30	27.14	27.26
Public	16.61	13.96	13.80
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	23%	19%	45%
Absolute Sensex	3%	11%	15%
Relative Return*	20%	8%	30%

*Over or underperformance to benchmark index



Consolidated (bn)	FY20E	FY21E	FY22E
Sales	127.4	143.6	159.8
Growth (%)	15.8	12.8	11.2
EBITDA	13.2	14.9	16.8
EBITDA Margin(%)	10.4	10.4	10.5
PAT Adj.	6.0	7.2	8.3
Growth (%)	23.5	19.0	15.9
Adj.EPS	23.4	27.8	32.3
Growth (%)	23.5	19.0	15.9
P/E	14.7	12.4	10.7
P/B	3.0	2.5	2.0
EV/EBITDA	8.1	7.2	6.3
ROE (%)	22.3	21.8	20.8
D/E	0.8	0.7	0.6

Pick up in international T&D business...

Q3FY20 revenue grew by 16.1% YoY to Rs3,073cr which is in-line with our estimates supported by healthy pick-up in international T&D. SAE revenue grew by 121% YoY to Rs432cr & Railway (9% YoY to Rs601cr). Execution of Brazil EPC orders supported SAE tower business to outperform. The company expects the momentum to continue for some more quarters. However, a de-growth was witnessed in civil division by 21% YoY, cable division by 20% YoY and Solar segment by 92% YoY. We expect railway & SAE business continue to outperform due to improved traction in order inflow and approvals for EPC projects. The company has guided a total revenue growth of 15% in FY20 due to a strong order book.

Order book at all-time high...

Q3FY20 order book grew by 7% YoY to an all-time high of Rs22,011cr (1.8x TTM revenue) due to 18.3% YoY rise in order inflow to Rs6,054cr. Civil order book scaled up significantly to Rs2,487cr (504% YoY) with the Delhi Metro and Kochi Metro orders. Execution of metro works has commenced and is progressing well. Significant revenue contribution from the metro project is expected from the Q1FY21. T&D tendering pipeline, especially power grid, continues to be under pressure. However, company witnessing a resurgence in the Middle East tendering activity. The order pipeline remains positive as KEC holds strong L1 orders of Rs2,500cr and put together total order book stands at Rs24,511cr.

PAT grew by 31% YoY...

EBITDA grew by 13.2% YoY to Rs318cr while EBITDA margin witnessed a marginal fall of 27bps YoY to 10.4%. While improvement in gross margin of 209bps to 30.3% was offset by higher employee cost (43% YoY) and other expenses (23% YoY). Net profit grew by 30.7% YoY to Rs145cr aided by lower interest costs and lower effective tax rate of 28.5%.

Valuations

International T&D opportunity is picking up from SAARC, Middle East region which could mitigate the muted trend in domestic T&D orders. Additionally, continued traction in railway, solar, civil & cable business will drive the top line. We value KEC at a P/E of 13x on FY22E EPS and maintain our BUY rating.

Antu Eapen Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q3FY20	Q3FY19	YoY Growth %	9MFY20	9MFY19	YoY Growth %
Sales	3,073	2,647	16.1	8,294	7,159	15.9
EBITDA	319	281	13.2	864	751	15.0
EBITDA margins %	10.4	10.6	-27bps	10.4	10.5	-8bps
Depreciation	37	31	18.9	108	91	18.6
EBIT	282	251	12.5	756	660	14.5
Interest	81	86	-5.4	243	227	6.8
Other Income	2	4	-42.4	8	16	-48.5
Exceptional Items						
PBT	203	168	20.5	521	449	16.2
Tax	58	57	0.8	149	156	-4.9
Share of profit from Associate						
Minority Interest						
Reported PAT	145	111	30.7	373	293	27.4
Adjustments						
Adj PAT	145	111	30.7	373	293	27.4
No. of Shares	25.7	25.7		25.7	25.7	
EPS (Rs)	5.6	4.3	30.7	14.5	11.4	27.4

Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs cr	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**FY22E**	**FY20E**	**FY21E**
Revenue	12,847	13,578	12,736	14,364	15,976	(0.9)	5.8
EBITDA	1323	1412	1325	1494	1677	*0.1*	*5.8*
Margins (%)	10.3	10.4	10.4	10.4	10.5	*10bps*	*0bps*
Adj. PAT	620	707	601	715	829	*(3.1)*	*1.2*
EPS	24.1	27.5	23.4	27.8	32.3	*(3.1)*	*1.2*

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	**10,058**	**11,001**	**12,736**	**14,364**	**15,976**
% change	*17.2*	*9.4*	*15.8*	*12.8*	*11.2*
EBITDA	**1,008**	**1,150**	**1,325**	**1,494**	**1,677**
% change	*23*	*14*	*15*	*13*	*12*
Depreciation	110	117	142	149	158
EBIT	898	1033	1,183	1,345	1,520
Interest	247	312	354	400	427
Other Income	35	23	11	15	20
PBT	**686**	**744**	**839**	**960**	**1,113**
% change	*48*	*8*	*13*	*14*	*16*
Tax	230	257	238	245	284
Tax Rate (%)	*33*	*35*	*28*	*26*	*26*
Reported PAT	**456**	**486**	**601**	**715**	**829**
Adj.*	0	0	0	0	0
Adj. PAT	**456**	**486**	**601**	**715**	**829**
% change	*49.7*	*6.6*	*23.5*	*19.0*	*15.9*
No. of shares (cr)	25.7	25.7	25.7	25.7	25.7
Adj EPS (Rs)	**17.7**	**18.9**	**23.4**	**27.8**	**32.3**
% change	*49.7*	*6.6*	*23.5*	*19.0*	*15.9*
DPS (Rs)	2.8	2.8	2.9	2.9	3.0

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	193	175	271	357	543
Accounts Receivable	5,044	4,875	5,513	6,218	6,916
Inventories	627	641	709	740	815
Other Cur. Assets	3,191	4,460	5,203	5,950	6,618
Investments	39	13	15	16	18
Gross Fixed Assets	1,320	1,445	1,620	1,720	1,820
Net Fixed Assets	829	867	905	872	830
CWIP	78	7	10	15	15
Intangible Assets	283	316	329	340	341
Def. Tax (Net)	(101)	(118)	(117)	(115)	(113)
Other Assets	227	309	320	320	320
Total Assets	**10,412**	**11,545**	**13,159**	**14,713**	**16,303**
Current Liabilities	6,674	7,349	7,950	8,765	9,513
Provisions	101	64	70	79	88
Debt Funds	1,639	1,697	2,177	2,267	2,347
Other Liabilities	0	0	0	0	0
Equity Capital	51	51	51	51	51
Reserves & Surplus	1,946	2,384	2,911	3,551	4,304
Shareholder's Fund	200	244	296	360	436
Total Liabilities	**10,412**	**11,545**	**13,159**	**14,713**	**16,303**
BVPS	**78**	**95**	**115**	**140**	**169**

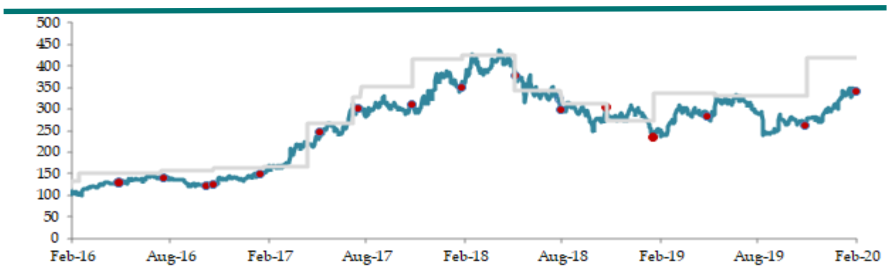
CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	796	861	981	1,109	1,271
Non-cash adj.	48	95	126	168	161
Changes in W.C	(234)	(476)	(843)	(658)	(684)
C.F. Operation	**655**	**480**	**265**	**619**	**747**
Capital exp.	(137)	(182)	(143)	(79)	(83)
Change in inv.	97	(108)	(10)	1	2
Other invest.CF	36	(23)	(11)	(15)	(20)
C.F - Investment	**(4)**	**(312)**	**(164)**	**(92)**	**(101)**
Issue of equity	0	0	0	0	0
Issue/repay debt	195	57	480	90	80
Dividends paid	(41)	(72)	(74)	(75)	(77)
Other finance.CF	(561)	(171)	(411)	(455)	(464)
C.F - Finance	(638)	(186)	(5)	(440)	(461)
Chg. in cash	13	(18)	96	86	185
Closing cash	189	175	271	357	543

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	10.0	10.5	10.4	10.4	10.5
EBIT margin (%)	8.9	9.4	9.3	9.4	9.5
Net profit mgn.(%)	4.5	4.4	4.7	5.0	5.2
ROE (%)	25.5	21.9	22.3	21.8	20.8
ROCE (%)	12.0	13.2	14.5	14.8	14.6
W.C & Liquidity					
Receivables (days)	298.9	309.7	307.1	309.2	309.2
Inventory (days)	31.5	28.8	29.0	27.0	27.0
Payables (days)	233.8	215.7	262.2	263.3	263.1
Current ratio (x)	1.3	1.4	1.5	1.5	1.6
Quick ratio (x)	0.8	0.7	0.7	0.7	0.7
Turnover &Leverage					
Gross asset T.O (x)	7.7	8.0	8.3	8.6	9.0
Total asset T.O (x)	1.1	1.0	1.0	1.0	1.0
Int. covge. ratio (x)	3.6	3.3	3.3	3.4	3.6
Adj. debt/equity (x)	0.9	0.7	0.8	0.7	0.6
Valuation					
EV/Sales (x)	1.0	0.9	0.8	0.7	0.7
EV/EBITDA (x)	10.2	9.0	8.1	7.2	6.3
P/E (x)	19.4	18.2	14.7	12.4	10.7
P/BV (x)	4.4	3.6	3.0	2.5	2.0

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
11th May, 2016	Buy	152
03rd Aug,2016	Hold	157
25th October,2016	Buy	157
10th November,2016	Buy	163
07th February, 2017	Hold	167
24th May, 2017	Accumulate	270
03rd August, 2017	Hold	320
07th November, 2017	BUY	372
14th February, 2018	Accumulate	406
16th May, 2018	Accumulate	426
13th August, 2018	Accumulate	342
09th November, 2018	Accumulate	314
31st January, 2019	Accumulate	273
24th May,2019	BUY	338
13th November, 2019	BUY	330
14th February, 2020	BUY	419

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	**Upside is above 10%**	**Upside is above 15%**	**Upside is above 20%**
Accumulate	**-**	**Upside is between 10%-15%**	**Upside is between 10%-20%**
Hold	**Upside is between 0% - 10%**	**Upside is between 0%-10%**	**Upside is between 0%-10%**
Reduce/sell	**Downside is more than 0%**	**Downside is more than 0%**	**Downside is more than 0%**
Not rated			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
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