

Retail Equity Research

KEC International Ltd

Capital Goods

BUY

12M Investment Period

Rating as per Mid Cap

CMP Rs 247 TARGET Rs 329 RETURN +33% ↑
 (Closing: 05-06-20)

 BSE CODE : 532714 NSE CODE: KEC
 BLOOMBERG CODE: KECI:IN SENSEX : 34,287

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Reasonable performance despite Covid...

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.

- Q4FY20 revenue witnessed a marginal de-growth of 4% despite Covid led disruption while FY20 revenue grew by ~9% YoY led by Railway and SAE segment.
- EBITDA margin declined marginally by 28bps YoY to 10.1% despite 556bps YoY improvement in gross margin at 28%.
- Order book (incl. L1) stands at Rs.24,000cr provide strong visibility.
- Reduction in average borrowing in FY20 to Rs2,600 (vsRs3,100cr in FY19) and drop in interest cost to 2.57% of revenue are positive.
- We believe near term headwinds has been factored in stock prices and execution to pick up post lockdown.
- We maintain our Buy rating owing to healthy order book & lower commodity prices and value KEC at a P/E of 12x on FY22E EPS.

Execution to pick-up...

Q4FY20 revenue de-grew marginally by 4.4% YoY to Rs3,671cr which is in-line with our estimates supported by robust execution in railway & SAE tower business. SAE revenue grew by 39% YoY to Rs444cr & Railway (36% YoY to Rs861cr). T&D business declined by 17% YoY while civil business grew by 6% YoY. During March 2020 KEC had lost collection of Rs 300 to Rs400cr, which were cleared in April 2020. We expect railway & SAE business continue to outperform due to improved traction in order inflow and approvals for EPC projects. KEC's operations at Brazil & Mexico have not impacted due to Covid as sector being identified as essential services. Currently, 85% of the projects are started (with 50% of labours) while exodus of labour remain a problem. The company has not given any revenue guidance due to pandemic situation. We expect execution to pick up from H2FY21 supported by ease in lockdown.

Healthy order book...

FY20 order book (including L1) stands at Rs 24,000cr (2x FY20 revenue) provide strong visibility for coming years. Full year order inflow declined by 19.5% to Rs 11,331 due to Covid. Orders in Civil segment improved by 286% YoY in FY20. We expect ordering activity to gain traction due to strong pipeline from Power Grid (~Rs15,000cr) railway (~Rs10,000cr) and various state electricity boards to be finalise in H1FY21. International order inflow was weak during FY20 while KEC expecting some pick up in orders from SAARC, MENA, America & Africa in FY21.

PAT grew by 31% YoY...

EBITDA margin declined by 29bps YoY to 10.1% despite 556bps improvement in gross margin at 556bps YoY. Rise in employee cost by 45% YoY due to ramp up in SAE execution impacted margins. Net profit was flat at Rs193cr (-0.5%) mainly on account of fall in interest cost (23% YoY) and tax rate to 28% (vs 34% in Q4FY19).

Valuations

The near term outlook remain conservative due to pandemic situation while sector is likely to witness recovery from H2FY21. Going forward we expect T&D, railway & civil business will be the growth drivers. We value KEC at a P/E of 12x on FY22E EPS with a TP of Rs 329 and maintain our BUY rating.

Company Data

Market Cap (cr)	Rs. 6,118
Enterprise Value (cr)	Rs. 8,027
Outstanding Shares (cr)	25.7
Free Float	48.34%
Dividend Yield	1.41%
52 week high	Rs. 358
52 week low	Rs. 154
6m average volume (cr)	0.05
Beta	0.80
Face value	Rs2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	51.59	51.59	51.66
FII's	7.55	7.59	8.70
MFs/Insti	27.14	27.26	27.45
Public	13.72	13.56	12.19
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-29%	-12%	-18%
Absolute Sensex	-18%	-13%	-13%
Relative Return*	-11%	2%	-5%

*Over or underperformance to benchmark index



Consolidated (bn)	FY20E	FY21E	FY22E
Sales	119.7	130.4	144.1
Growth (%)	8.8	9.0	10.5
EBITDA	12.3	13.3	15.0
EBITDA Margin(%)	10.3	10.2	10.4
PAT Adj.	5.7	6.2	7.0
Growth (%)	16.3	9.4	13.9
Adj.EPS	22.0	24.1	27.4
Growth (%)	16.3	9.4	13.9
P/E	10.8	9.9	8.7
P/B	2.2	1.8	1.5
EV/EBITDA	6.5	5.9	5.3
ROE (%)	21.6	20.2	19.3
D/E	0.8	0.7	0.6

 Antu Eapen Thomas
 Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
Sales	3,671	3841	-4.4	11,965	11,001	8.8
EBITDA	371	399	-7.1	1,234	1,150	7.3
EBITDA margins %	10.1	10.4	-29bps	10.3	10.5	-14bps
Depreciation	39	26	50.3	147	117	25.7
EBIT	332	373	-11.1	1087	1033	5.3
Interest	65	85	-22.9	308	312	-1.2
Other Income	3	6	-56.9	11	23	-50.9
Exceptional Items						
PBT	269	295	-8.7	790	744	6.3
Tax	76	101	-24.5	225	257	-12.6
Share of profit from Associate						
Minority Interest	0	0		0	0	
Reported PAT	193	194	-0.5	566	486	16.3
Adjustments						
Adj PAT	193	194	-0.5	566	486	16.3
No. of Shares	25.7	25.7		25.7	26.7	
EPS (Rs)	7.5	7.5	-0.5	22.0	18.9	16.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	13,363	15,208	13,042	14,408	(2.4)	(5.3)
EBITDA	1363	1582	1330	1498	(2.4)	(5.3)
Margins (%)	10.2	10.4	10.2	10.4	0bps	0bps
Adj. PAT	593	677	619	705	4.3	4.1
EPS	23.1	26.3	24.1	27.4	4.3	4.1

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	10,058	11,001	11,965	13,042	14,408
% change	17.2	9.4	8.8	9.0	10.5
EBITDA	1,008	1,150	1,234	1,330	1,498
% change	23	14	7	8	13
Depreciation	110	117	147	171	193
EBIT	898	1033	1087	1160	1305
Interest	247	312	308	341	373
Other Income	35	23	11	12	13
PBT	686	744	790	830	946
% change	48	8	6	5	14
Tax	230	257	225	212	241
Tax Rate (%)	33	35	28%	26%	26%
Reported PAT	456	486	566	619	705
Adj.*	0	0	0	0	0
Adj. PAT	456	486	566	619	705
% change	49.7	6.6	16.3	9.4	13.9
No. of shares (cr)	25.7	25.7	25.7	25.7	25.7
Adj EPS (Rs)	17.7	18.9	22.0	24.1	27.4
% change	49.7	6.6	16.3	9.4	13.9
DPS (Rs)	2.8	2.8	2.9	2.9	3.0

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	193	175	153	374	378
Accounts Receivable	5,044	4,875	5,445	5,967	6,553
Inventories	627	641	776	848	927
Other Cur. Assets	3,191	4,460	4,655	5,074	5,605
Investments	39	13	23	25	27
Gross Fixed Assets	1,320	1,445	1,620	1,720	1,820
Net Fixed Assets	829	867	1,041	850	773
CWIP	78	7	84	70	40
Intangible Assets	283	316	311	320	321
Def. Tax (Net)	(101)	(118)	(53)	(53)	(53)
Other Assets	227	309	368	320	300
Total Assets	10,412	11,545	12,802	13,795	14,872
Current Liabilities	6,674	7,349	7,866	8,230	8,592
Provisions	101	64	76	71	79
Debt Funds	1,639	1,697	2,062	2,152	2,232
Other Liabilities	0	0	0	0	0
Equity Capital	51	51	51	51	51
Reserves & Surplus	1,946	2,384	2,746	3,290	3,918
Shareholder's Fund	200	244	280	334	397
Total Liabilities	10,412	11,545	12,802	13,795	14,872
BVPS	78	95	109	130	154

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	796	861	937	1001	1139
Non-cash adj.	48	95	29	142	144
Changes in W.C	(234)	(476)	(370)	(654)	(827)
C.F. Operation	655	480	596	489	456
Capital exp.	(137)	(182)	(69)	(98)	(113)
Change in inv.	97	(108)	(50)	50	22
Other invest.CF	36	(23)	(11)	(12)	(13)
C.F - Investment	(4)	(312)	(130)	(60)	(103)
Issue of equity	0	0	0	0	0
Issue/repay debt	195	57	365	90	80
Dividends paid	(41)	(72)	(74)	(75)	(77)
Other finance.CF	(561)	(171)	(780)	(223)	(352)
C.F - Finance	(638)	(186)	(489)	(208)	(348)
Chg. in cash	13	(18)	(23)	221	4
Closing cash	189	175	153	374	378

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	10.0	10.5	10.3	10.2	10.4
EBIT margin (%)	8.9	9.4	9.1	8.9	9.1
Net profit mgn.(%)	4.5	4.4	4.7	4.7	4.9
ROE (%)	25.5	21.9	21.6	20.2	19.3
ROCE (%)	12.0	13.2	12.2	13.6	13.5
W.C & Liquidity					
Receivables (days)	298.9	309.7	308.1	309.0	308.0
Inventory (days)	31.5	28.8	33.6	34.0	34.0
Payables (days)	233.8	215.7	217.1	269.5	258.2
Current ratio (x)	1.3	1.4	1.4	1.5	1.6
Quick ratio (x)	0.8	0.7	0.7	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	7.7	8.0	7.8	7.8	8.1
Total asset T.O (x)	1.1	1.0	1.0	1.0	1.0
Int. covge. ratio (x)	3.6	3.3	3.5	3.4	3.5
Adj. debt/equity (x)	0.9	0.7	0.8	0.7	0.6
Valuation					
EV/Sales (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	7.5	6.6	6.5	5.9	5.3
P/E (x)	13.4	12.6	10.8	9.9	8.7
P/BV (x)	3.1	2.5	2.2	1.8	1.5

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
11 th May, 2016	Buy	152
03 rd Aug,2016	Hold	157
25 th October,2016	Buy	157
10 th November,2016	Buy	163
07 th February, 2017	Hold	167
24 th May, 2017	Accumulate	270
03 rd August, 2017	Hold	320
07 th November, 2017	BUY	372
14 th February, 2018	Accumulate	406
16 th May, 2018	Accumulate	426
13 th August, 2018	Accumulate	342
09 th November, 2018	Accumulate	314
31 st January, 2019	Accumulate	273
24 th May,2019	BUY	338
13 th November, 2019	BUY	330
14 th February, 2020	BUY	419
7 th May,2020	BUY	237
6 th June, 2020	BUY	329

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Antu Eapen Thomas, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document.

The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I, Antu Eapen Thomas, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company. Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226