

Retail Equity Research  
**KEC International Ltd**  
Capital Goods

**BUY**

12M Investment Period Rating as per Mid Cap

**CMP Rs 274 TARGET Rs 330 RETURN +20%** ↑  
(Closing: 11-11-19)

BSE CODE : 532714 NSE CODE: KEC  
BLOOMBERG CODE: KECI:IN SENSEX : 40,345

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↔

**EARNINGS** ↑

**Order inflow remains a key catalyst for re-rating...**

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.

- Q2FY20 revenue grew by 17% YoY led by improved execution in T&D (21%), SAE towers (95%) & Railway (35%) YoY.
- EBITDA margin was stable at 10.5% despite higher employee cost and other expenses.
- H1FY20 order inflow de-grew by 41% YoY due to domestic headwinds on T&D orders & deferment of international tenders but order book remain strong at Rs23,000cr (incl L1).
- PAT grew by 44% YoY supported by rise in other income and drop in effective tax rate to ~23%.
- Management guided 15-20% revenue growth in FY20 given large tender pipeline for H2FY20 and strong order book.
- We maintain our Buy rating owing to healthy earnings potential and pick up in non-T&D segments and value KEC at a P/E of 12x on FY21E EPS.

**Execution in T&D business improved...**

Q2FY20 revenue grew by 17% YoY to Rs2,809cr which is better than our expectation owing to healthy pick-up in T&D revenue (21% YoY to Rs1,621cr), SAE tower business (95% YoY to Rs356cr) & Railway (35% YoY to Rs568cr). Execution of three large international 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 51% 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%-20% in FY20 due to a strong order book.

**Order book declined while tender pipeline looks positive...**

Q2FY20 order book de-grew by 10% YoY to Rs18,085cr (1.5x TTM revenue) due to 41% YoY fall in H1FY20 order inflow to Rs3,766cr. The fall is mainly due to headwinds in domestic T&D orders and deferment in international tenders. The management remains optimistic on H2FY20 order inflow largely from green energy corridor tenders, railways & civil business and maintains a target of Rs14,000cr inflow for FY20. The order pipeline remains positive as KEC holds strong L1 orders of Rs5,000cr and put together total order book stands at Rs23,085cr.

**Margins stable at 10.5%...**

EBITDA grew by 16.1% YoY to Rs294cr leading to a stable EBITDA margin of 10.5% which is 26bps above our estimate. While improvement in gross margin of 202bps to 30.8% was offset by higher employee cost (33% YoY) and other expenses (27% YoY). Net profit grew by 44.4% YoY to Rs139cr aided by lower interest changes during the quarter to 2.9% of sales against 3.2% in Q2FY19 and lower effective tax rate of 22.9%.

**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 12x on FY21E EPS and maintain our BUY rating.

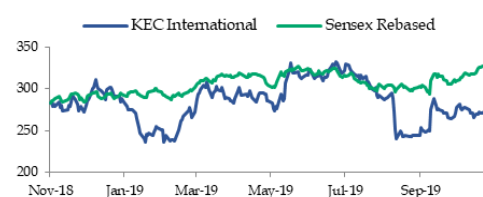
**Company Data**

Market Cap (cr)	Rs. 7,043
Enterprise Value (cr)	Rs. 8,565
Outstanding Shares (cr)	25.7
Free Float	48.65%
Dividend Yield	0.97%
52 week high	Rs. 341
52 week low	Rs. 230
6m average volume (cr)	0.05
Beta	0.80
Face value	Rs2

Shareholding (%)	Q4FY19	Q1FY20	QFY20
Promoters	51.35	51.35	51.35
FII's	6.61	6.74	7.55
MFs/Insti	24.52	25.30	27.14
Public	17.52	16.61	13.96
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-5%	-1%	-3%
Absolute Sensex	9%	8%	16%
Relative Return*	-14%	-9%	-19%

\*Over or underperformance to benchmark index



Consolidated (bn)	FY19A	FY20E	FY21E
Sales	110.0	128.5	135.8
Growth (%)	9.4	16.8	5.7
EBITDA	11.5	13.2	14.1
EBITDA Margin(%)	10.5	10.3	10.4
PAT Adj.	4.9	6.2	7.1
Growth (%)	6.6	27.5	13.9
Adj.EPS	18.9	24.1	27.5
Growth (%)	6.6	27.5	13.9
P/E	14.5	11.4	10.0
P/B	2.9	2.4	1.9
EV/EBITDA	7.4	6.8	6.2
ROE (%)	21.9	22.9	21.4
D/E	0.7	0.7	0.7

Saji John  
Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

Rs cr)	Q2FY20	Q2FY19	YoY Growth %	H1FY20	H1FY19	YoY Growth %
<b>Sales</b>	2,809	2408	16.6	5,221	4,513	15.7
<b>EBITDA</b>	294	253	16.1	545	470	16.1
EBITDA margins %	10.5	10.5	0bps	10.4	10.4	0bps
Depreciation	35	30	14.3	71	60	18.5
<b>EBIT</b>	259	223	16.3	474	409	15.8
Interest	82	77	7.0	162	142	14.2
Other Income	4	2	109.9	6	13	-50.2
Exceptional Items						
<b>PBT</b>	181	148	22.2	318	280	13.6
Tax	41	51	-19.4	91	99	-8.2
Share of profit from Associate						
<b>Minority Interest</b>	0	0				
<b>Reported PAT</b>	139	96	44.4	228	182	25.4
Adjustments						
<b>Adj PAT</b>	139	96	44.4	228	182	25.4
No. of Shares	25.7	25.7		25.7	25.7	
<b>EPS (Rs)</b>	5.4	3.7	44.4	8.9	7.1	25.4

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	12,673	14,566	12,847	13,578	1.4	(6.8)
EBITDA	1,305	1,508	1323	1412	1.4	(6.4)
Margins (%)	10.3	10.4	10.3%	10.4%	0bps	0bps
Adj. PAT	574	671	620	707	8.1	5.3
EPS	22.3	26.1	24.1	27.5	8.1	5.3

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Sales</b>	<b>8,584</b>	<b>10,058</b>	<b>11,001</b>	<b>12,847</b>	<b>13,578</b>
% change	0.8	17.2	9.4	16.8	5.7
<b>EBITDA</b>	<b>818</b>	<b>1,008</b>	<b>1,150</b>	<b>1,323</b>	<b>1,412</b>
% change	18	23	14	15	7
Depreciation	130	110	117	134	139
EBIT	687	898	1033	1189	1273
Interest	254	247	312	344	355
Other Income	29	35	23	23	30
<b>PBT</b>	<b>463</b>	<b>686</b>	<b>744</b>	<b>867</b>	<b>948</b>
% change	59	48	8	17	9
Tax	159	230	257	247	242
Tax Rate (%)	34	33	35	29	26
<b>Reported PAT</b>	<b>305</b>	<b>456</b>	<b>486</b>	<b>620</b>	<b>707</b>
Adj.*	0	0	0	0	0
<b>Adj. PAT</b>	<b>305</b>	<b>456</b>	<b>486</b>	<b>620</b>	<b>707</b>
% change	105.9	49.7	6.6	27.5	13.9
No. of shares (cr)	25.7	25.7	25.7	25.7	25.7
<b>Adj EPS (Rs)</b>	<b>11.9</b>	<b>17.7</b>	<b>18.9</b>	<b>24.1</b>	<b>27.5</b>
% change	105.9	49.7	6.6	27.5	13.9
DPS (Rs)	1.9	2.8	2.8	2.9	2.9

### BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	176	193	175	133	293
Accounts Receivable	4,227	5,044	4,875	5,561	5,878
Inventories	395	627	641	715	699
Other Cur. Assets	2,425	3,191	4,460	5,248	5,625
Investments	130	39	13	15	16
Gross Fixed Assets	1,276	1,320	1,445	1,620	1,720
Net Fixed Assets	852	829	867	913	889
CWIP	5	78	7	10	15
Intangible Assets	297	283	316	329	340
Def. Tax (Net)	124	(101)	(118)	(117)	(115)
Other Assets	209	227	309	320	320
<b>Total Assets</b>	<b>8591</b>	<b>10,412</b>	<b>11,545</b>	<b>13,127</b>	<b>13,960</b>
Current Liabilities	4,879	6,674	7,349	8,008	8,285
Provisions	117	101	64	70	74
Debt Funds	2,008	1,639	1,697	2,067	1,987
Other Liabilities	0	0	0	0	0
Equity Capital	51	51	51	51	51
Reserves & Surplus	1,535	1,946	2,384	2,930	3,562
Shareholder's Fund	159	200	244	298	361
<b>Total Liabilities</b>	<b>8591</b>	<b>10,412</b>	<b>11,545</b>	<b>13,127</b>	<b>13,960</b>
BVPS	62	78	95	116	141

### CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	593	796	861	1002	1087
Non-cash adj.	340	48	95	119	141
Changes in W.C	703	(234)	(476)	(883)	(396)
<b>C.F. Operation</b>	<b>1662</b>	<b>655</b>	<b>480</b>	<b>238</b>	<b>833</b>
Capital exp.	(69)	(137)	(182)	(143)	(79)
Change in inv.	(127)	97	(108)	(10)	1
Other invest.CF	13	36	(23)	(23)	(30)
<b>C.F - Investment</b>	<b>(183)</b>	<b>(4)</b>	<b>(312)</b>	<b>(176)</b>	<b>(107)</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	466	195	57	370	(80)
Dividends paid	(1)	(41)	(72)	(74)	(75)
Other finance.CF	(1,463)	(561)	(171)	(401)	(410)
<b>C.F - Finance</b>	<b>(1,379)</b>	<b>(638)</b>	<b>(186)</b>	<b>(105)</b>	<b>(565)</b>
Chg. in cash	100	13	(18)	(42)	160
Closing cash	176	189	175	133	293

### RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	9.5	10.0	10.5	10.3	10.4
EBIT margin (%)	8.0	8.9	9.4	9.3	9.4
Net profit mgn.(%)	3.6	4.5	4.4	4.8	5.2
ROE (%)	21.2	25.5	21.9	22.9	21.4
ROCE (%)	9.9	12.0	13.2	12.5	11.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	282.8	298.9	309.7	307.1	309.2
Inventory (days)	24.2	31.5	28.8	29.0	27.0
Payables (days)	194.3	233.8	215.7	260.5	257.6
Current ratio (x)	1.4	1.3	1.4	1.4	1.5
Quick ratio (x)	0.9	0.8	0.7	0.7	0.7
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	6.9	7.7	8.0	8.4	8.1
Total asset T.O (x)	1.0	1.1	1.0	1.0	1.0
Int. covge. ratio (x)	2.7	3.6	3.3	3.5	3.6
Adj. debt/equity (x)	1.3	0.9	0.7	0.8	0.6
<b>Valuation</b>					
EV/Sales (x)	1.0	0.8	0.8	0.7	0.6
EV/EBITDA (x)	10.9	8.4	7.4	6.8	6.2
P/E (x)	23.1	15.4	14.5	11.4	10.0
P/BV (x)	4.4	3.5	2.9	2.4	1.9

## Recommendation summary



Source: Bloomberg, Geojit Research.

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

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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

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Neutral- The analyst has no investment opinion on the stock under review

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