

Retail Equity Research (South India Focus)

KEC International Ltd

Capital Goods

BSE CODE : 532714 NSE CODE: KEC
BLOOMBERG CODE: KECI:IN SENSEX : 38,811

BUY

12M Investment Period

Rating as per Mid Cap

CMP Rs 289 TARGET Rs 338 RETURN +17% 
(Closing: 23-05-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Tepid quarter but positive outlook...

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.

- Tepid execution in T&D segment capped revenue growth to 5% YoY in Q4FY19 while non T&D revenue grew by 24% YoY.
- Order inflow de-grew by 33% YoY due to domestic headwinds but order book remain strong at Rs24,000cr (incl L1).
- EBITDA margin improved by 30bps YoY to 10.4% due to fall in employee cost and other expenses.
- Despite improvement in operating margins, PAT growth was flat due to 29% rise in interest expenses and 49% fall in other income.
- Management guided 15-20% revenue growth in FY20 given strong order book and pick up in non-T&D segments.
- We revise our rating to Buy and value KEC at a P/E of 13x on FY21E EPS.

Weak execution in T&D business impacted the top-line...

Q4FY19 revenue growth was tepid at Rs3,841cr (4.8%YoY) which is below our estimate due to election led slowdown in domestic operations and delay in getting approvals in SAE tower business. However, non-T&D segment execution grew by 24% YoY to Rs1,177cr supported by Railway (76% YoY), Civil & Water (29% YoY). Improved utilisation in cable division coupled with higher export and EHV/HT cables revenue supported the cable business to grow by 26% YoY. We expect railway & civil business will continue to outperform due to improved traction in order inflow and superior execution. Execution challenges in Brazil eased as KEC already received the approvals for two EPC projects and balance one project's approval is likely to get in coming days. The company has guided a total revenue growth of 15%-20% in FY20 due to a strong order book.

Order book grew by 17% YoY...

Q4FY19 order book grew by 17% YoY to Rs20,307cr (~2x TTM revenue) supported by railway, cable and civil orders. The order pipeline remains positive as KEC holds strong L1 orders of Rs3,683cr and put together total order book stands at Rs24,000cr. Orders for 30,000km of railway electrification projects are in the pipeline and 15 to 17 tenders are announced while bidding will start after the election. We expect order book to grow at a CAGR of 31% over FY18-21E.

Margins improved...

EBITDA margin improved by 29bps due to fall in employee cost by 5% YoY and other expenses by 11% YoY. However, 29%YoY rise in interest cost due to increase in working capital borrowings and steep fall in other income by 49% resulted flat growth in PAT (-1.8% YoY) to Rs194cr.

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 FY21E EPS and revise our rating to 'BUY'.

Company Data

Market Cap (cr)	Rs. 7,342
Enterprise Value (cr)	Rs. 8,788
Outstanding Shares (cr)	25.7
Free Float	48.65%
Dividend Yield	0.97%
52 week high	Rs. 420
52 week low	Rs. 230
6m average volume (cr)	0.05
Beta	0.80
Face value	Rs2

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	51.17	51.28	51.35
FII's	9.75	7.64	6.61
MFs/Insti	20.98	23.91	24.52
Public	18.10	17.17	17.52
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	21%	5%	-23%
Absolute Sensex	8%	11%	12%
Relative Return*	13%	-6%	-35%

*Over or underperformance to benchmark index



Consolidated (bn)	FY19A	FY20E	FY21E
Sales	110.0	126.7	145.7
Growth (%)	9.4	15.2	14.9
EBITDA	11.5	13.1	14.9
EBITDA Margin(%)	10.5	10.3	10.2
PAT Adj.	4.9	5.7	6.7
Growth (%)	6.6	18.0	16.9
Adj.EPS	18.9	22.3	26.1
Growth (%)	6.6	18.0	16.9
P/E	15.3	12.9	11.1
P/B	3.0	2.5	2.1
EV/EBITDA	7.8	7.1	6.2
ROE (%)	21.9	21.4	20.7
D/E	0.7	0.8	0.6

Antu Eapen Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
Sales	3,841	3,664	4.8	6,488	6,069	6.9
EBITDA	399	370	7.9	680	614	10.8
EBITDA margins	10.4	10.1	29bps	10.5	10.1	37bps
Depreciation	26	28	(5.2)	57	55	4.1
EBIT	373	277	8.9	623	559	11.5
Interest	85	66	28.9	170	126	34.9
Other Income	6	13	(49.5)	10	25	(60.2)
Exceptional Items	-	-		-	-	
PBT	295	290	1.9	463	458	1.1
Tax	101	93	8.4	158	150	5.7
Share of profit from Associate	-	-		-	-	
Minority Interest	-	-		-	-	
Reported PAT	194	196	(1.2)	305	308	(1.1)
Adjustments	-	-		-	-	
Adj PAT	194	196	(1.2)	305	308	(1.1)
No. of Shares	25.7	25.7		25.7	25.7	
EPS (Rs)	7.54	7.64	(1.2)	11.9	12.0	(1.1)

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	12,963	14,979	12,673	14,566	(2.2)	(2.8)
EBITDA	1,335	1,558	1,305	1,508	(2.2)	(3.2)
Margins (%)	10.3	10.4	10.3	10.2	0bps	(20)bps
Adj. PAT	595	701	574	671	(3.5)	(4.3)
EPS	23.1	27.3	22.3	26.1	(3.5)	(4.3)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	8,584	10,058	11,001	12,673	14,566
% change	0.8	17.2	9.4	15.2	14.9
EBITDA	818	1,008	1,150	1,305	1,486
% change	18	23	14	14	14
Depreciation	130	110	117	127	139
EBIT	687	898	1033	1179	1347
Interest	254	247	312	339	355
Other Income	29	35	23	30	32
PBT	463	686	744	870	1024
% change	59	48	8	17	18
Tax	159	230	257	296	351
Tax Rate (%)	34	33	35	34	35
Reported PAT	305	456	486	574	671
Adj.*	0	0	0	0	0
Adj. PAT	305	456	486	574	671
% change	105.9	49.7	6.6	18.0	16.9
No. of shares (cr)	25.7	25.7	25.7	25.7	25.7
Adj EPS (Rs)	11.9	17.7	18.9	22.3	26.1
% change	105.9	49.7	6.6	18.0	16.9
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	169	146
Accounts Receivable	4,227	5,044	4,875	5,555	6,305
Inventories	395	627	641	716	770
Other Cur. Assets	2,425	3,191	4,460	5,177	6,034
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	921	897
CWIP	5	78	7	10	15
Intangible Assets	297	283	316	329	340
Def. Tax (Net)	124	(101)	(118)	(117)	(116)
Other Assets	209	227	309	320	320
Total Assets	8591	10,412	11,545	13,095	14,729
Current Liabilities	4,879	6,674	7,349	8,023	9,131
Provisions	117	101	64	69	80
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	2,884	3,480
Shareholder's Fund	159	200	244	294	353
Total Liabilities	8591	10,412	11,545	13,095	14,729
BVPS	62	78	95	114	137

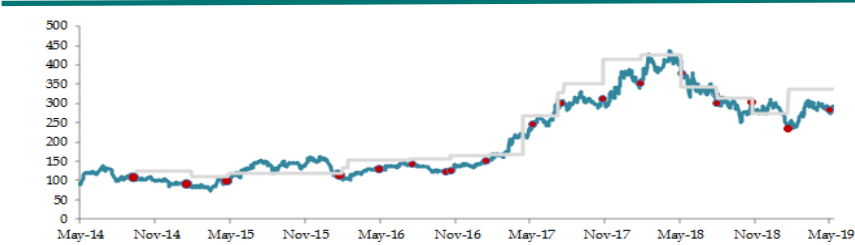
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	593	796	861	997	1163
Non-cash adj.	340	48	95	72	32
Changes in W.C	703	(234)	(476)	(792)	(544)
C.F. Operation	1662	655	480	276	651
Capital exp.	(69)	(137)	(182)	(143)	(79)
Change in inv.	(127)	97	(108)	(10)	1
Other invest.CF	13	36	(23)	(30)	(32)
C.F - Investment	(183)	(4)	(312)	(183)	(109)
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)	(396)	(410)
C.F - Finance	(1,379)	(638)	(186)	(99)	(565)
Chg. in cash	100	13	(18)	(6)	(23)
Closing cash	176	189	175	169	146

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	9.5	10.0	10.5	10.3	10.2
EBIT margin (%)	8.0	8.9	9.4	9.3	9.2
Net profit mgn.(%)	3.6	4.5	4.4	4.5	4.6
ROE (%)	21.2	25.5	21.9	21.4	20.7
ROCE (%)	9.9	12.0	13.2	12.9	12.5
W.C & Liquidity					
Receivables (days)	282.8	298.9	309.7	309.1	309.2
Inventory (days)	24.2	31.5	28.8	29.0	27.0
Payables (days)	194.3	233.8	215.7	262.7	265.3
Current ratio (x)	1.4	1.3	1.4	1.4	1.4
Quick ratio (x)	0.9	0.8	0.7	0.7	0.7
Turnover &Leverage					
Gross asset T.O (x)	6.9	7.7	8.0	8.3	8.7
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	3.9
Adj. debt/equity (x)	1.3	0.9	0.7	0.8	0.6
Valuation					
EV/Sales (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	11.2	8.7	7.7	7.1	6.1
P/E (x)	24.1	16.1	15.1	12.8	10.7
P/BV (x)	4.6	3.7	3.0	2.5	2.1

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

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

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