

KEC International

8 August 2019

Reuters: KECL.BO; Bloomberg: KECI IN

Revenue and margin in-line; Order inflow likely to revive

KEC International (KEC) posted 15% YoY growth in revenue at Rs24.1bn in 1QFY20, broadly in line with our estimate. The top-line growth was driven by Railways (up 67% YoY to Rs5.2bn), T&D (up 29% YoY to Rs12.9bn) and SAE Towers (up 13% YoY to Rs3bn). Healthy growth in T&D sales was due to robust execution despite challenges on account of elections, while SAE growth was led by execution of one EPC project. EBITDA grew by 16% YoY to Rs2.5bn, leading to a 10bps YoY rise in EBITDA margin to 10.4%, in line with our estimate. PAT was up by only 2% YoY at Rs886mn, affected by high interest cost (up 23% YoY to Rs795mn) and lower other income (down 75% YoY to Rs27mn). The bottom-line was 4%/7% below our/consensus estimates. Order inflow for 1QFY20 was Rs11.2bn while the order book grew by 5% YoY to Rs190bn. For FY20, management expects 15%-20% revenue growth (led by execution ramp up in high margin T&D business), order intake worth Rs160bn-Rs170bn (15%-20% growth) along with sustaining the current EBITDA margin profile. We have marginally tweaked our earnings estimates and retained Buy rating on KEC with a revised target price of Rs390 (Rs400 earlier) based on 14x FY21E earnings.

Order book remains strong: Order inflow in 1QFY20 was lower at Rs11.2bn due to deferment of order placement. Segment-wise, 1QFY20 order inflow split was T&D (Rs5.1bn), SAE Towers (Rs1.4bn), Cable (Rs3.7bn) and Civil (Rs892mn). Management expects 15%-20% YoY growth in order inflow in FY20 to Rs160bn-Rs170bn, led by T&D (continuation of healthy orders from international markets as well as a pick-up in order placement activity of SEBs), SAE Towers and Railways. Order book was up 5% YoY at Rs190bn, largely contributed by T&D (Rs114bn), Railways (Rs47.5bn) and SAE Towers (Rs19bn). KEC is currently L1 in orders worth Rs35bn majorly from T&D, Railways and Civil. It expects healthy domestic order inflow in 2HFY20. Domestic-international order book mix stood at 49%-51%.

Working capital position: Net working capital for 1QFY20 stood at 120 days. Debtor days at 1QFY20 end stood at 250 days. KEC has maintained its FY20 debt expectation of Rs25bn (including acceptances), considering the healthy revenue growth prospects. Capex in FY20 is pegged at Rs1.7bn.

Key conference-call highlights: (1) Railway segment's revenue surged by 67% YoY to Rs5.2bn. KEC aims to enter in to new projects such as RRTS and ROBs in addition to conventional projects. It is L1 in projects worth Rs10bn. (2) Civil segment's revenue declined by 45% YoY to Rs650mn while order inflow also slowed down due to weak ordering activity amid low industrial capex. KEC plans to focus on government orders such as metros and airport extension projects. (3) In the international market, the regions driving growth include SAARC (Bangladesh, Afghanistan), Brazil, South East Asia (Thailand, Malaysia), Africa and the UAE. (4) In domestic T&D, KEC is currently L1 in 3 to 4 SEB tenders and expects healthy ordering from green energy corridor projects. (5) Rs7bn worth receivables are still pending from Saudi Arabia, of which Rs3bn is retention money. (6) Interest expense was higher at 3.3% of sales, owing to pre-payment of a high cost overseas loan and shift towards foreign currency loans (35%-40% are dollar denominated loans). (7) Forex loss in 1QFY20 was Rs60mn as against gain of Rs200mn in 1QFY19.

Outlook: Healthy earnings CAGR of 21% over FY19-FY21E, healthy return ratios, strong T&D order book and high scalability of Railway and Civil segments will support the current valuation of KEC.

BUY

Sector: Capital Goods

CMP: Rs293

Target Price: Rs390

Upside: 33%

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Key Data

Current Shares O/S (mn)	257.1
Mkt Cap (Rsbn/US\$bn)	75.3/1.1
52 Wk H / L (Rs)	341/230
Daily Vol. (3M NSE Avg.)	386,119

Price Performance (%)

	1 M	6 M	1 Yr
KEC International	(9.2)	15.0	(4.9)
Nifty Index	(6.1)	(0.8)	(5.2)

Source: Bloomberg

Y/E March (Rsmn)	1QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)
Net revenues	21,043	38,412	24,125	14.6	(37.2)
Raw material costs	15,263	29,807	16,874	10.6	(43.4)
Staff costs	2,034	2,109	2,217	9.0	5.1
Other expenses	1,583	2,505	2,520	59.2	0.6
Total expenditure	18,880	34,421	21,611	14.5	(37.2)
EBITDA	2,163	3,990	2,513	16.2	(37.0)
EBITDA margin (%)	10.3	10.4	10.4	-	-
Interest costs	648	846	795	22.8	(5.9)
Depreciation	298	261	366	22.7	40.5
Other income	110	63	27	(75.1)	(56.9)
PBT	1,327	2,948	1,379	3.9	(53.2)
Tax	474	1,009	493	4.1	(51.1)
Exceptional items	15	49	0	-	-
PAT	868	1,988	886	2.0	(55.4)
PAT margin (%)	4.1	5.2	3.7	-	-
EPS (Rs)	3.4	7.7	3.4	2.0	(55.4)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	85,844	100,526	110,005	129,536	149,147
EBITDA	8,179	10,057	11,499	13,601	15,810
Adjusted net profit	3,048	4,583	4,864	5,877	7,144
Adjusted EPS (Rs)	11.9	17.8	18.9	22.9	27.8
EPS growth (%)	106.1	50.4	6.1	20.8	21.6
EBITDA margin (%)	9.5	10.0	10.5	10.5	10.6
P/E (x)	24.7	16.4	15.5	12.8	10.5
P/BV (x)	4.7	3.8	3.1	2.6	2.2
EV/EBITDA (x)	11.4	8.9	7.8	6.7	5.8
Dividend yield (%)	0.5	0.8	0.9	1.2	1.5
RoCE (%)	16.9	24.0	25.9	26.3	27.0
RoE (%)	21.2	25.6	21.9	22.0	22.3

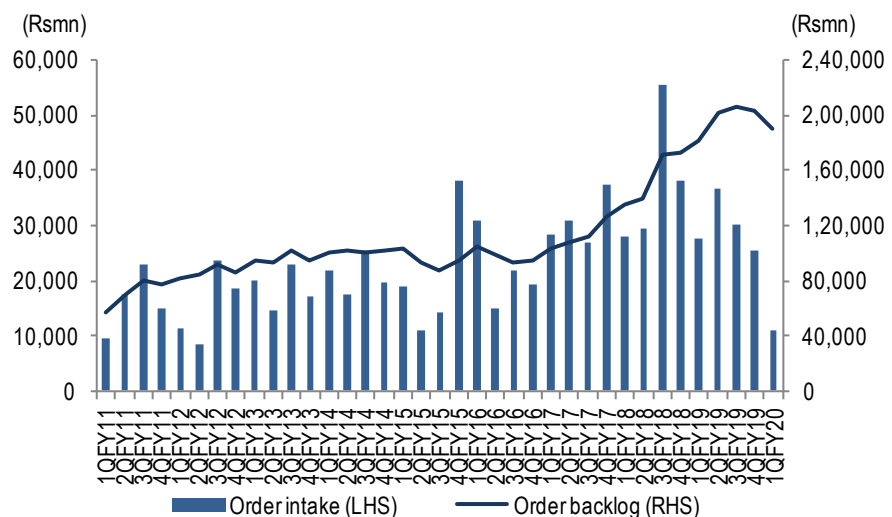
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

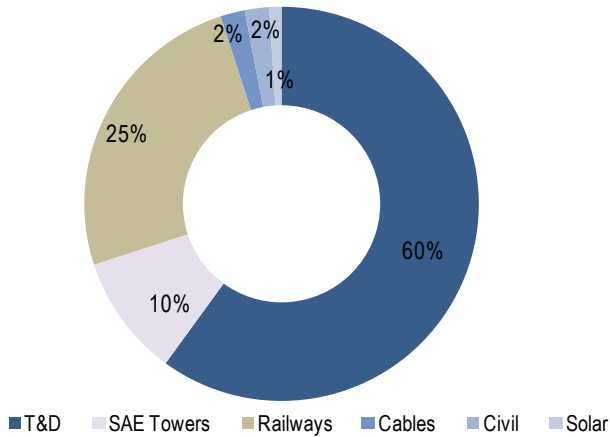
Y/E March	1QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Revenues (Rsmn)								
T&D	10,070	24,340	12,940	28.5	(46.8)	67,930	63,390	(6.7)
SAE Towers	2,700	3,190	3,050	13.0	(4.4)	10,250	9,670	(5.7)
Cable	2,590	3,490	2,630	1.5	(24.6)	10,090	11,830	17.2
Railway	3,130	6,330	5,220	66.8	(17.5)	8,440	19,180	127.3
Civil	1,190	1,630	650	(45.4)	(60.1)	2,680	4,980	85.8
Solar	1,600	320	340	(78.8)	6.3	2,880	3,410	18.4
Revenue mix (%)								
T&D	47.3	61.9	52.1	-	-	66.4	56.4	-
SAE Towers	12.7	8.1	12.3	-	-	10.0	8.6	-
Cable	12.2	8.9	10.6	-	-	9.9	10.5	-
Railway	14.7	16.1	21.0	-	-	8.3	17.1	-
Civil	5.6	4.1	2.6	-	-	2.6	4.4	-
Solar	7.5	0.8	1.4	-	-	2.8	3.0	-

Source: Company, Nirmal Bang Institutional Equities Research

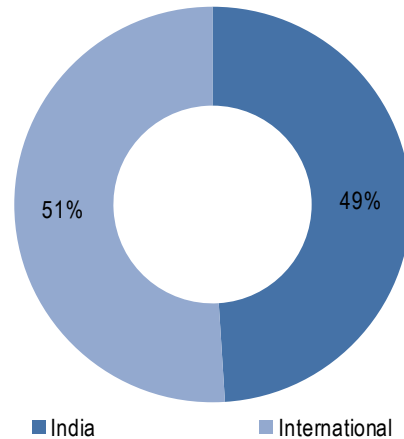
Exhibit 3: Order inflow and order book position



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise order book break-up


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Geography-wise order book break-up


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Actual performance versus our estimates, Bloomberg consensus estimates

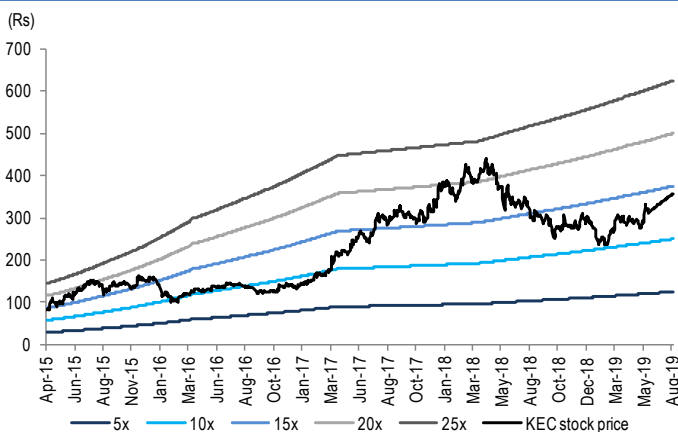
1QFY20 (Rsmn)	Actual	Our estimates	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	24,125	23,705	1.8	23,647	2.0
EBITDA	2,513	2,467	1.9	2,423	3.7
PAT	886	927	(4.4)	950	(6.7)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

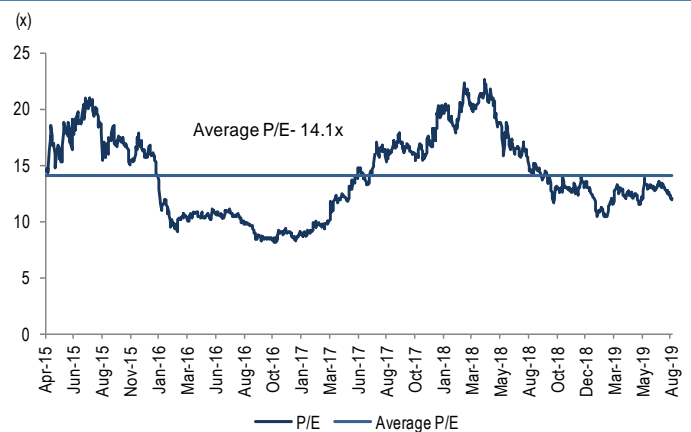
Exhibit 7: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Y/E March						
Revenues	129,536	149,147	129,536	149,147	0.0	0.0
EBITDA	13,601	15,810	13,601	15,810	0.0	0.0
PAT	6,018	7,306	5,877	7,144	(2.4)	(2.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: P/E trend


Source: BSE, Nirmal Bang Institutional Equities Research



Source: BSE, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)
Exhibit 9: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	85,844	100,526	110,005	129,536	149,147
% growth	0.8	17.1	9.4	17.8	15.1
Raw material costs	59,489	72,670	81,230	93,913	108,131
Staff costs	7,327	7,984	8,322	9,715	11,037
Other overheads	10,849	9,816	8,954	12,306	14,169
Total expenditure	77,665	90,469	98,506	115,934	133,337
EBITDA	8,179	10,057	11,499	13,601	15,810
% growth	18.1	23.0	14.3	18.3	16.2
EBITDA margin (%)	9.5	10.0	10.5	10.5	10.6
Other income	289	207	226	259	298
Interest costs	2,536	2,294	3,119	3,368	3,580
Depreciation	1,297	1,097	1,171	1,451	1,538
Profit before tax	4,635	6,873	7,435	9,041	10,990
Tax	1,587	2,290	2,571	3,164	3,847
Net profit	3,048	4,583	4,864	5,877	7,144
PAT margin (%)	3.6	4.6	4.4	4.5	4.8
EPS (Rs)	11.9	17.8	18.9	22.9	27.8
% growth	106.1	50.4	6.1	20.8	21.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	514	514	514	514	514
Reserves	15,349	19,460	23,837	28,634	34,389
Net worth	15,864	19,974	24,351	29,148	34,903
Short-term loans	12,325	9,010	11,558	13,558	13,558
Long-term loans	7,757	7,384	5,411	5,911	6,411
Total loans	20,082	16,394	16,968	19,468	19,968
Deferred tax liability (net)	1,240	1,007	1,183	1,183	1,183
Total liabilities	37,186	37,375	42,502	49,799	56,055
Net block	8,516	8,288	8,666	8,287	7,849
Capital work-in-progress	51	781	73	100	100
Goodwill	2,972	2,834	3,158	3,158	3,158
Investments	1,304	393	132	132	132
Inventories	3,947	6,274	6,410	7,098	8,172
Debtors	42,268	50,444	59,543	68,494	76,412
Cash	2,080	2,313	2,762	3,175	3,914
Other current assets	26,012	33,798	13,365	17,842	21,289
Total current assets	74,306	92,829	82,080	96,609	109,788
Creditors	31,672	46,578	48,009	54,032	59,843
Other current liabilities & provisions	18,291	21,171	3,598	4,456	5,130
Total current liabilities	49,963	67,749	51,607	58,488	64,973
Net current assets	24,343	25,080	30,473	38,121	44,815
Total assets	37,186	37,375	42,502	49,799	56,055

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	6,882	8,960	10,328	12,150	14,271
(Inc.)/dec. in working capital	8,736	(504)	(4,945)	(7,235)	(5,955)
Cash flow from operations	15,618	8,456	5,383	4,915	8,317
Other income	289	207	226	259	298
Depreciation	1,297	1,097	1,171	1,451	1,538
Tax paid (-)	(1,381)	(2,523)	(2,394)	(3,164)	(3,847)
Net cash from operations	15,823	7,237	4,386	3,461	6,307
Capital expenditure (-)	(954)	(1,599)	(842)	(1,100)	(1,100)
Net cash after capex	14,868	5,638	3,544	2,361	5,207
Interest paid (-)	(2,536)	(2,294)	(3,119)	(3,368)	(3,580)
Dividends paid (-)	(494)	(743)	(837)	(1,080)	(1,388)
Inc./(dec.) in short-term borrowing	(11,975)	(3,316)	2,548	2,000	-
Inc./(dec.) in long-term borrowing	1,828	(372)	(1,974)	500	500
Inc./(dec.) in total borrowings	(10,147)	(3,688)	574	2,500	500
Cash from financial activities	(14,227)	(5,813)	(3,121)	(1,948)	(4,468)
Others	585	408	25	-	-
Opening cash balance	853	2,080	2,313	2,762	3,175
Closing cash balance	2,080	2,313	2,762	3,175	3,914
Change in cash balance	1,227	233	449	414	739

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

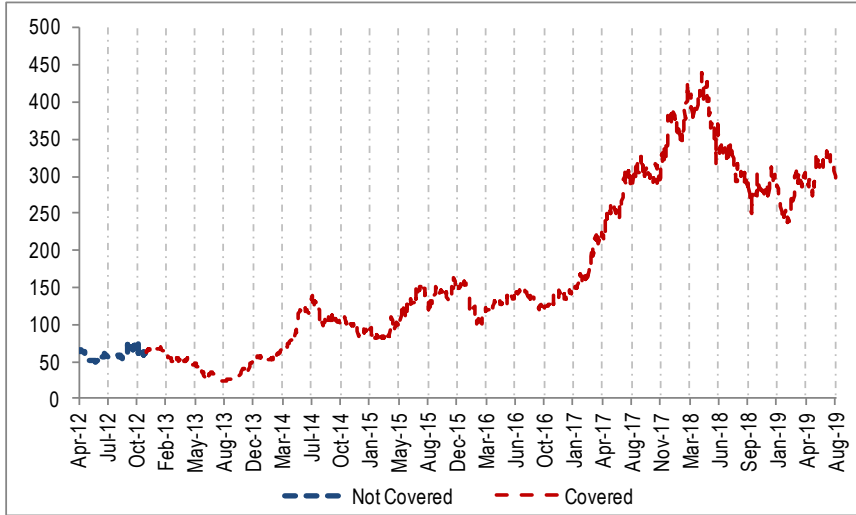
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	11.9	17.8	18.9	22.9	27.8
Book value	61.7	77.7	94.7	113.4	135.8
Valuation (x)					
P/E	24.7	16.4	15.5	12.8	10.5
P/BV	4.7	3.8	3.1	2.6	2.2
EV/EBITDA	11.4	8.9	7.8	6.7	5.8
EV/sales	1.1	0.9	0.8	0.7	0.6
Return ratios (%)					
RoCE	16.9	24.0	25.9	26.3	27.0
RoE	21.2	25.6	21.9	22.0	22.3
RoIC	17.9	26.2	27.8	28.2	29.0
Profitability ratios (%)					
EBITDA margin	9.5	10.0	10.5	10.5	10.6
EBIT margin	8.0	8.9	9.4	9.4	9.6
PAT margin	3.6	4.6	4.4	4.5	4.8
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.7	2.8	2.8	2.8
Debtor days	180	183	198	193	187
Inventory days	17	23	21	20	20
Creditor days	194	234	216	210	202
Solvency ratios (x)					
Debt-equity	1.3	0.8	0.7	0.7	0.6
Interest coverage	2.7	3.9	3.3	3.6	4.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 November 2012	Buy	62	79
2 January 2013	Buy	67	79
7 January 2013	Buy	68	79
31 January 2013	Buy	61	79
2 April 2013	Buy	57	79
9 April 2013	Buy	55	79
9 May 2013	Buy	49	68
22 May 2013	Buy	47	68
9 July 2013	Buy	32	68
6 August 2013	Buy	25	41
7 October 2013	Buy	29	41
29 October 2013	Buy	34	41
13 February 2014	Buy	54	65
5 May 2014	Hold	77	85
1 August 2014	Accumulate	120	126
9 October 2014	Buy	106	126
3 November 2014	Buy	102	130
9 January 2015	Buy	93	130
6 February 2015	Buy	86	124
27 March 2015	Buy	74	124
15 April 2015	Buy	104	124
8 May 2015	Buy	99	131
9 June 2015	Buy	108	131
28 July 2015	Buy	150	176
12 October 2015	Buy	142	176
29 October 2015	Buy	137	176
8 January 2016	Buy	142	176
5 February 2016	Buy	113	171
12 April 2016	Buy	131	171
10 May 2016	Buy	129	175
29 June 2016	Buy	139	175
12 July 2016	Buy	147	175
1 August 2016	Buy	143	175
13 October 2016	Buy	125	175
9 November 2016	Buy	125	177
10 January 2017	Buy	144	177
1 February 2017	Buy	148	177
14 February 2017	Buy	165	191
7 April 2017	Buy	214	191
22 May 2017	Buy	243	285
6 July 2017	Buy	256	305
3 August 2017	Accumulate	297	305
9 October 2017	Accumulate	302	305
7 November 2017	Accumulate	315	325
9 January 2018	Accumulate	388	325
7 February 2018	Accumulate	344	365
6 April 2018	Accumulate	413	365
15 May 2018	Accumulate	379	390
10 July 2018	Accumulate	338	390
6 August 2018	Buy	327	380
9 October 2018	Buy	250	380
5 November 2018	Buy	305	395
9 January 2019	Buy	284	395
30 January 2019	Buy	237	365
9 April 2019	Buy	286	400
9 May 2019	Buy	293	400
13 June 2019	Buy	323	400
9 July 2019	Buy	319	400
8 August 2019	Buy	293	390

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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