

## Subdued T&D with strong non-T&D growth...

KEC's Q4FY19 revenue came in at ₹ 3841.1 crore, up 4.8% YoY, below our estimate of ₹ 4185.2 crore. The T&D business revenue declined marginally by 1.3% to ₹ 2434 crore, the railways and civil & water business continued their growth momentum with revenues up 76.2% at ₹ 633 crore and up 29.1% to ₹163 crore (amid low base). Cable business grew 25.5% to ₹ 349 crore. EBITDA margins were at 10.4% (better than our estimate of 10.1%), which improved 30 bps YoY. During Q4FY19, KEC's order inflow came in at ₹ 4659 crore while the YTD inflow for FY19 was at ₹ 14084 crore.

### T&D business to move on path to recovery

Muted T&D execution owing to delays few projects impacted revenue to ₹ 2434 crore, down 1.3% YoY while SAE revenue grew 3.9% to ₹ 319 crore. For the quarter, KEC's order inflow came in at ₹ 4659 crore while FY19 order inflow stood at ₹ 14084 crore. T&D contributed 62% while railways segment contributed 22% to order inflows. The unexecuted order book as on YTD FY19 was at ~ ₹ 24000 crore, (including L1 position). We build in order inflow growth CAGR at 10% over FY19-21E with order inflow worth ₹ 16100 crore and ₹ 17000 crore expected in FY20E and FY21E, respectively.

### Strong growth in non-T&D (railways, civil, cable) to continue

For Q4FY19E, non-T&D business posted strong growth of 22.9%. The railways and civil business segments contributed ₹ 663 crore, up 76.2% and ₹ 163 crore, up 29.1% YoY (amid low base), respectively. Cable business grew 25.5% to ₹ 349 crore. In FY19 order inflows, railways business contributed 22%, civil business 5% and cable business 7% while non-T&D contributes 31% to order backlog. For FY19, railways contributed ~₹ 1900 crore to revenue and is expected to grow ~25% in FY20E while cables and civil business may continue in double digit growth.

### Valuation & Outlook

KEC is confident of strong growth visibility owing to expected improvement in T&D and gaining scalability in the non-T&D business (railways, civil and cables). Strong order book, collections from Saudi, interest cost and debt moderation are expected to support earnings growth and cash flows. We expect revenue and PAT CAGR of 14.7% and 19.2% in FY19-21E, respectively. We expect strong order inflows in FY20 across sectors, considering bunched up orders tendering pipeline worth ~₹ 25000 crore. We value KEC at 11.5x P/E on FY21E EPS to arrive at a fair value of ₹ 315/ share and maintain our rating to HOLD. Key risks: slow pick-up in execution of T&D backlog and rise in interest costs, which would impact profitability.



#### Particulars

Particular	Amount
Market Capitalization	7,352.7
Total Debt (FY18)	₹ 1639.4 crore
Cash and Investments (FY18)	₹ 193.0 crore
EV	8,799.1
52 week H/L	₹420/ 230
Equity capital	₹ 51.4 Crore
Face value	₹ 2

#### Key Highlights

- The order backlog as on YTD FY19 stood at ₹ 24000 crore (including L1 position of ₹ 3500 crore).
- During Q4FY19, KEC's order inflow came in at ₹ 4659 Crore (including recent order of ₹ 1233 crore) while FY19 inflow stood at ₹14084 crore
- For FY19, the inflows mainly came in from T&D (62%) and Railways (22%).
- Maintain our rating at **Hold** with revised target price of ₹ 315/ share.

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#### Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	8,509.3	10,058.0	11,000.9	12,693.1	14,473.9	14.7%
EBITDA	817.9	1,006.3	1,149.7	1,349.2	1,538.1	15.7%
EBITDA Margin (%)	9.6	10.0	10.5	10.6	10.6	
Net Profit	304.1	460.5	494.2	600.5	701.9	19.2%
EPS (₹)	11.8	17.9	19.2	23.4	27.3	
P/ E (x)	24.2	16.0	14.9	12.2	10.5	
RoNW (%)	19.2	23.1	20.6	20.7	20.2	
RoCE (%)	19.2	24.9	25.7	25.6	25.6	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (Chg %)	Q3FY19	QoQ (Chg %)	Comments
Revenue	3,841.1	4,185.2	3,664.2	4.8	2,646.6	45.1	Revenues were below our estimates on account of slower execution in few international projects impacting T&D revenue
Other Income	6.3	12.5	12.6	-49.5	3.6	78.1	
Employee Expenses	210.9	259.5	220.8	-4.5	211.1	-0.1	
Raw Material Expenses	1,932.6	2,272.6	2,113.4	-8.6	1,258.5	53.6	
Other Operating Expenses	250.5	422.7	282.7	-11.4	253.9	-1.3	
Erecting and Contracting Expenses	1,048.1	807.8	677.3	54.7	641.8	63.3	
EBITDA	399.0	422.7	369.9	7.9	281.3	41.8	
EBITDA Margin (%)	10.4	10.1	10.1	29 bps	10.6	-24 bps	Margins improved on account of reduction in operating expenses
Depreciation	26.1	31.1	27.5	-5.2	30.9	-15.6	
Interest	84.6	90.3	65.6	28.9	85.7	-1.4	
PBT	299.6	313.8	289.4	3.5	169.8	76.4	
Total Tax	100.9	106.7	93.0	8.4	57.5	NM	
PAT	198.7	207.1	196.3	1.2	112.3	76.9	PAT was lower than our estimates on account of higher-than-expected interest costs on account of stretch in working capital.
<b>Key Metrics</b>							
Order inflows	4,659	3,500	3,798	22.7	3,011.0	54.7	
Order backlog	19305	17802	17298	11.6	18487	4.4	Backlog and execution cycle ensures reasonable visibility in FY20E & FY21E

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20E			FY21E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	13,179.6	12,693.1	-3.7	15,385.0	14,473.9	-5.9	Backlog visibility will drive revenue CAGR of 14.7% over FY19-21E
EBITDA	1,343.0	1,349.2	0.5	1,585.8	1,538.1	-3.0	
EBITDA Margin (%)	10.1	10.5	42 bps	10.2	10.5	33 bps	
PAT	592.4	600.5	1.4	724.0	701.9	-3.1	
EPS (₹)	23.0	23.4	1.6	28.2	27.3	-3.2	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current			Earlier		
	FY19	FY20E	FY21E	FY20E	FY21E	
Order Inflow growth	-6.7	14.3	5.6	4.7	12.1	Order inflow estimates revised considering bunching up tendering activity owing to general elections
Order Backlog growth	11.6	17.6	11.1	9.0	6.3	
Revenue growth	9.4	15.4	14.0	16	16.7	Strong revenue growth in railways and civil likely to continue amid expected recovery in T&D space
EBITDA Margins	10.5	10.5	10.5	10.1	10.2	Margins expected to sustain

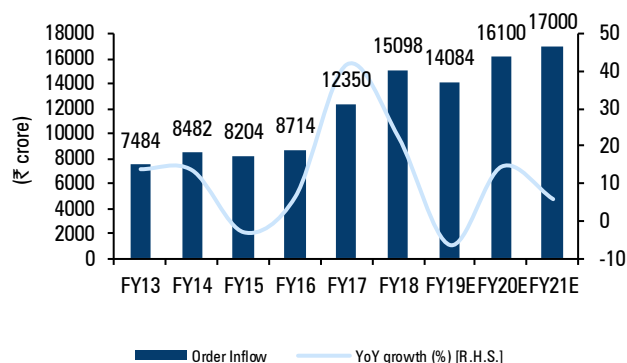
Source: Company, ICICI Direct Research

## Conference Call Highlights

- Overall in FY19, revenue grew 9.6% to ₹ 11000 crore. Muted T&D execution delay was due to one sticky order worth ₹ 400 crore in domestic market and three international order in Brazil due to headwind in environmental approvals) impacted segment revenue to ₹ 2434 crore, down 1.3% YoY while SAE revenue grew 3.9% to ₹ 319 crore
- Civil business is seeing good traction in airport and government projects. The number of clients increased from 10 to 17 on FY19, YoY. New initiatives in smart infra has received some orders in Maharashtra. Civil business is expected to contribute ~ ₹ 1000 crore in FY20E and ~₹ 2100 crore in FY21E
- Cables business growth mainly came in from good traction in higher EHV (around 18% contribution to segment) and exports
- KEC's order inflow came in at ₹ 4659 crore (including recent order worth ₹ 1233 crore) while FY19 order inflow was at ₹ 14084 crore. Inflows mainly came in from T&D side at 62% share while railways segment was at 22%. The company has L1 position in orders worth more than ₹ 3500 crore. The unexecuted order book as on YTD FY19 was at ~₹ 24000 crore, (including L1 position)
- Order inflows from international markets grew 25% in FY19, particularly in Bangladesh, Africa. KEC expects strong traction international orders in Bangladesh, Saarc, West Africa, Brazil, Malaysia, Thailand markets. The company is cautiously not bidding for projects in Saudi Arabia market
- KEC sees opportunities in large bunching of order bid pipeline worth ~₹ 25000 crore across renewables green corridors, state tenders (like Tamilnadu) and improved tendering from PGCIL. Around ~ ₹ 11000-12000 crore TBCB project tenders are floated in May creating order inflow opportunity for the company
- For Q4 FY19, interest cost increased 28.9% YoY to ₹ 84.6 crore vs. our estimate of ₹ 90.3 crore. Interest cost as percent of sale increased 40 bps to 2.2%. Net working capital days have increased to 103 days vs. 93 days in Q4 FY18
- Interest cost to sales is expected to reduce to 2.5% in FY20 from 2.9% in FY19 owing to normalised working capital on account of Saudi collections, changes in vendor terms and advances from large international projects. Saudi collections for the quarter were ₹ 400 crore and for FY19 at ~ ₹ 1000 crore. The balance outstanding from Saudi is around ₹ 700 crore as on FY19
- Railways revenue for FY19 came in at ₹ 1900 crore and is likely to post ~₹ 2300 crore of revenue in FY20. Civil and cables business is also set to continue their growth momentum
- Gross debt as on FY19 was at ₹ 1845 crore while acceptances were at ₹ 1199 crore bringing total borrowings to ₹ 3044 crore. The company is expect to normalise debt level in FY19-21E
- FY19 EBITDA margins came in at 10.5%. KEC is expected to sustain this level of margins in FY19-21E. The railways business margins have improved by 300 bps over the year and is likely to inch up to T&D margins next year owing to strong growth momentum and scaling up
- For FY19, foreign exchanges gains were at ₹ 60-70 crore vs. loss of ₹ 10 crore in FY18

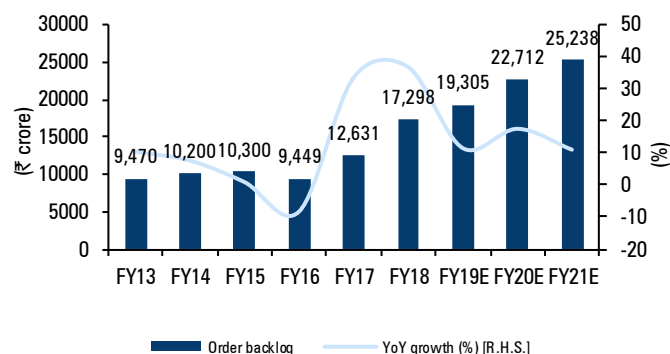
## Financial Story in Charts

Exhibit 4: KEC exhibits strong order inflow trend...



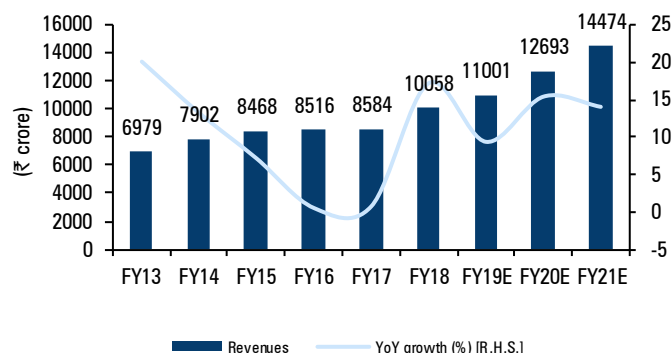
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog trend and visibility.



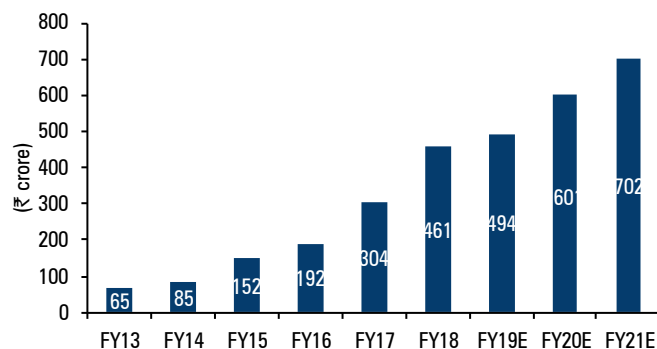
Source: Company, ICICI Direct Research

Exhibit 6: Revenue trend in FY13-21E



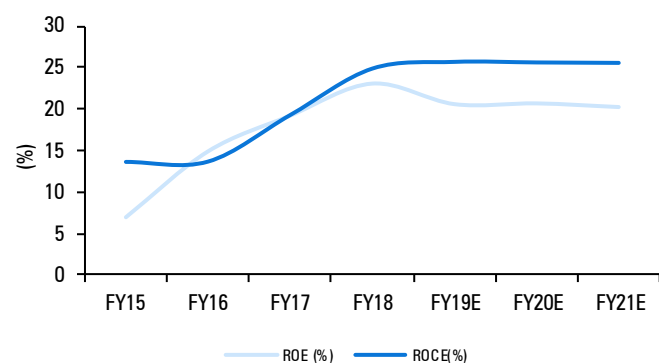
Source: ICICI Direct Research, Company

Exhibit 7: PAT to rise sharply on strong margin recovery



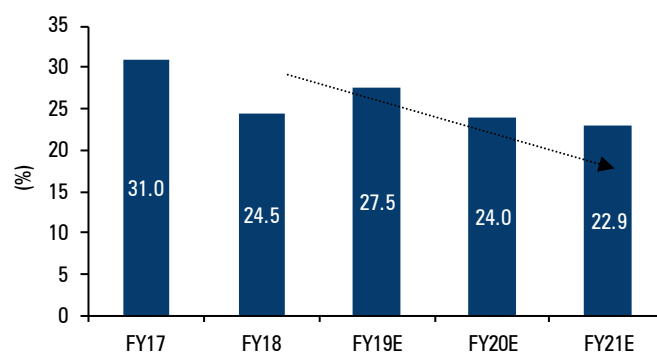
Source: ICICI Direct Research, Company

Exhibit 8: Return ratios to bounce back strongly



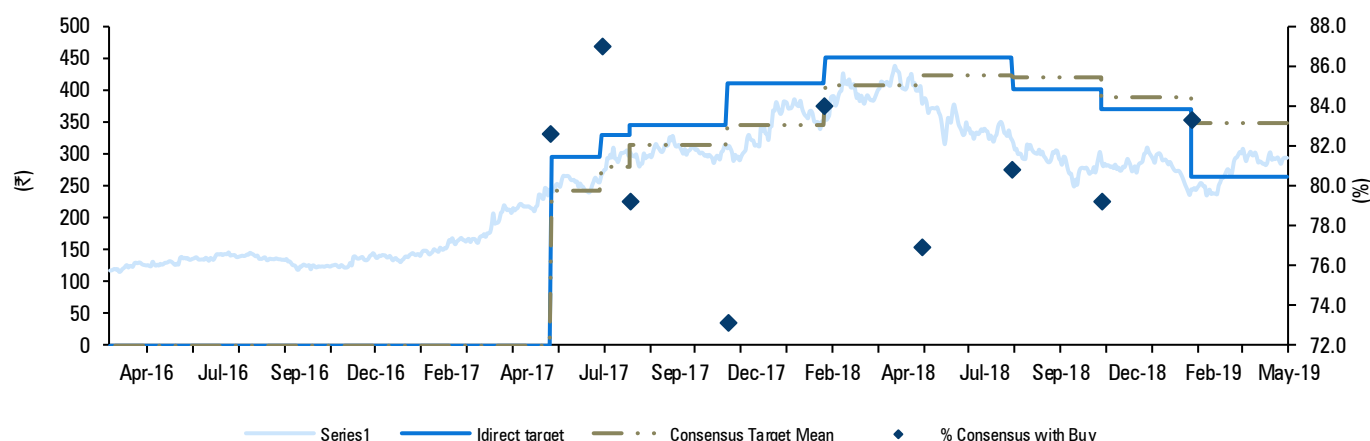
Source: Company, ICICI Direct Research

Exhibit 9: Interest/ EBITDA ratio to improve, going ahead



Source: Company, ICICI Direct Research

### Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

### Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	RPG Ventures	31-Mar-19	47.5	122.2	-1.6
2	HDFC Asset Management Co., Ltd.	31-Mar-19	9.0	23.1	-7.8
3	Aditya Birla Sun Life AMC Limited	31-Mar-19	3.5	9.1	1.5
4	Reliance Nippon Life Asset Management Ltd	31-Mar-19	3.0	7.6	0.3
5	Kotak Mahindra Asset Management Co Ltd.	31-Mar-19	2.6	6.8	0.0
6	IDFC Asset Management Company Pvt Ltd	31-Mar-19	1.9	5.0	0.6
7	Goenka (Harsh Vardhan)	31-Mar-19	1.9	4.8	0.0
8	Life Insurance Corporation of India	31-Mar-19	1.7	4.4	0.0
9	Carnival Investments, Ltd.	31-Mar-19	1.2	3.0	0.0
10	FIL Investment Management (Singapore) Ltd.	31-Dec-18	0.8	2.1	0.0

Source: Reuters, ICICI Direct Research

### Exhibit 12: Recent Activity

Buys				Sells	
Investor name	Value	Shares	Investor name	Value	Shares
Aditya Birla Sun Life AMC Limited	+6.58M	+1.52M	% O/S HDFC Asset Management Co., Ltd.	-33.61M	-7.76M
IDFC Asset Management Company Private Limited	+2.58M	+0.60M	0.475183 RPG Ventures	-7.05M	-1.63M
Ocean Dial Asset Management Limited	+1.25M	+0.36M	0.089724 Capital Investment Trust Corporation	-2.90M	-0.67M
Canara Robeco Asset Management Company Ltd.	+1.38M	+0.32M	0.035247 Putnam Investment Management, L.L.C.	-1.51M	-0.35M
Reliance Nippon Life Asset Management Limited	+1.08M	+0.25M	0.029642 AllianceBernstein L.P.	-1.20M	-0.32M

Source: Reuters, ICICI Direct Research

### Exhibit 13: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	51.0	51.0	51.2	51.3	51.4
FII	10.7	11.7	9.8	7.6	6.6
DII	20.2	19.2	21.0	23.9	24.5
Others	18.2	18.1	18.1	17.2	17.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Total operating Income</b>	<b>10,058.0</b>	<b>11,000.9</b>	<b>12,693.1</b>	<b>14,473.9</b>
Growth (%)	18.2	9.4	15.4	14.0
Raw Material Expenses	5,144.6	5,409.7	6,484.8	7,417.4
Employee Expenses	798.3	832.2	999.9	1,153.1
Erecting and Contracting Expenses	2,127.0	2,713.8	2,928.8	3,270.6
Administrative Expenses	981.9	895.5	1,060.4	1,224.7
Total Operating Expenditure	9,051.8	9,851.2	11,473.9	13,065.8
<b>EBITDA</b>	<b>1,006.3</b>	<b>1,149.7</b>	<b>1,349.2</b>	<b>1,538.1</b>
Growth (%)	23.0	14.3	17.4	14.0
Depreciation	109.7	117.1	146.8	161.2
Interest	246.6	316.2	323.9	351.5
Other Income	40.4	29.1	37.0	43.0
Exceptional Item	0.0	-6.3	0.0	0.0
PBT	690.3	751.8	915.6	1,068.3
Total Tax	229.8	257.7	315.1	366.4
<b>PAT</b>	<b>460.5</b>	<b>494.2</b>	<b>600.5</b>	<b>701.9</b>
Adjusted PAT	460.5	494.2	600.5	701.9
Growth (%)	51.4	7.3	21.5	16.9
EPS (₹)	17.9	19.2	23.4	27.3

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	460.5	494.2	600.5	701.9
Add: Depreciation	109.7	117.1	146.8	161.2
(Inc)/dec in Current Assets	-1,851.6	-436.8	-937.6	-1,267.7
Inc/(dec) in CL and Provisions	1,795.9	193.5	603.6	858.5
Others	3.3	3.0	5.0	5.0
<b>CF from operating activities</b>	<b>514.5</b>	<b>368.0</b>	<b>413.3</b>	<b>453.9</b>
(Inc)/dec in Investments	85.2	-30.0	-80.0	-60.0
(Inc)/dec in Fixed Assets	-187.4	-116.7	-240.0	-220.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-88.9</b>	<b>-266.8</b>	<b>-483.3</b>	<b>-452.7</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-358.7	-10.0	170.0	140.0
Dividend paid & dividend tax	-57.9	-74.1	-80.3	-86.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>-408.1</b>	<b>-118.5</b>	<b>93.7</b>	<b>3.5</b>
Net Cash flow	17.5	-17.3	23.7	4.8
Opening Cash	175.5	193.0	175.7	199.4
<b>Closing Cash</b>	<b>193.0</b>	<b>175.7</b>	<b>199.4</b>	<b>204.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	51.4	51.4	51.4	51.4
Reserve and Surplus	1,946.0	2,331.7	2,855.9	3,421.4
Total Shareholders funds	1,997.4	2,383.1	2,907.3	3,472.8
Total Debt	1,639.4	1,629.4	1,799.4	1,939.4
Deferred Tax Liability	127.2	117.2	127.2	137.2
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3,781.7</b>	<b>4,134.4</b>	<b>4,837.6</b>	<b>5,552.1</b>
<b>Assets</b>				
Gross Block	1,319.9	1,461.4	1,608.7	1,828.7
Less: Acc Depreciation	491.2	594.7	723.6	866.6
Net Block	828.7	866.7	885.2	962.2
Capital WIP	78.1	7.3	100.0	100.0
Total Fixed Assets	906.8	874.0	985.2	1,062.2
Investments	77.6	107.6	187.6	247.6
Inventory	627.4	698.7	727.1	803.6
Debtors	5,038.9	5,575.8	6,259.6	6,820.6
Loans and Advances	60.4	71.6	80.7	92.9
Other Current Assets	2,841.5	2,659.0	2,875.2	3,493.3
Cash	193.0	175.7	199.4	204.2
Total Current Assets	8,761.2	9,180.8	10,142.1	11,414.6
Creditors	4,657.2	4,801.2	5,320.7	5,948.2
Provisions	83.2	96.0	98.4	113.0
Total Current Liabilities	6,757.2	6,950.7	7,554.3	8,412.9
Net Current Assets	2,004.0	2,230.1	2,587.8	3,001.7
Others Assets	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>3,781.7</b>	<b>4,134.4</b>	<b>4,837.6</b>	<b>5,552.0</b>

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	17.9	19.2	23.4	27.3
Cash EPS	22.2	23.8	29.1	33.6
BV	77.7	92.7	113.1	135.1
DPS	1.9	2.4	2.6	2.8
Cash Per Share	7.5	6.8	7.8	7.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	10.0	10.5	10.5	10.5
PBT / Total Operating income	6.9	6.8	7.2	7.4
PAT Margin	4.6	4.5	4.7	4.8
Inventory days	18.5	22.0	20.5	19.3
Debtor days	182.9	185.0	180.0	172.0
Creditor days	169.0	159.3	153.0	150.0
<b>Return Ratios (%)</b>				
RoE	23.1	20.7	20.7	20.2
RoCE	24.7	25.7	25.5	25.4
RoIC	25.5	26.1	25.9	25.7
<b>Valuation Ratios (x)</b>				
P/E	16.0	14.9	12.2	10.5
EV / EBITDA	8.7	7.7	6.6	5.9
EV / Net Sales	0.9	0.8	0.7	0.6
Market Cap / Sales	0.7	0.7	0.6	0.5
Price to Book Value	3.7	3.1	2.5	2.1
<b>Solvency Ratios</b>				
Debt/EBITDA	1.6	1.4	1.3	1.3
Debt / Equity	0.8	0.7	0.6	0.6
Current Ratio	1.3	1.3	1.3	1.4
<b>Quick Ratio</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct coverage universe (Capital Goods)**

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E
L&T (LARTOU)	1348	1,655	Buy	187015	46.2	55.1	64.0	29.2	24.5	21.1	11.8	12.6	13.2	12.0	13.1	13.8
Bhel (BHEL)	62	60	Hold	22762	2.6	3.5	4.3	23.0	17.1	13.9	5.0	6.2	7.2	2.9	3.9	4.8
AIA Engineering (AIAENG)	1680	1,890	Buy	15846	52.2	63.9	74.6	32.0	26.1	22.4	19.4	21.5	22.5	14.4	15.8	16.5
KEC International (KECIN)	286	315	Hold	7353	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	451	500	Buy	6921	26.2	29.9	34.9	16.9	14.8	12.7	17.7	17.7	18.5	12.2	12.3	12.3
Greaves Cotton (GREAVE)	140	150	Hold	3419	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	88	110	Buy	26803	6.6	7.0	7.8	11.4	10.6	9.6	25.6	25.0	25.3	18.2	17.4	17.3
Engineers India (ENGIND)	107	110	Hold	7413	5.6	7.0	7.9	19.1	15.3	13.5	20.6	24.0	24.1	15.5	18.9	20.3
VaTech Wabag (VATWAB)	267	295	Hold	1493	20.9	25.5	36.7	13.2	10.8	7.5	16.6	19.3	22.8	9.4	10.2	13.2
Cochin Shipyard (COCSHI)	366	410	Buy	4,644	35.6	36.5	39.9	9.7	9.5	8.6	15.0	13.6	13.6	13.8	13.2	13.5
SKF (SKFIND)	1845	2,050	Hold	10810	64.5	74.8	85.7	30.5	26.3	23.0	23.9	24.2	24.2	15.9	16.1	16.0
Timken India (TIMIND)	536	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	170	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	579	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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