

Sector: Capital Goods
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 293	
Price Target: Rs. 375	↔

↑ Upgrade ↔ No change ↓ Downgrade

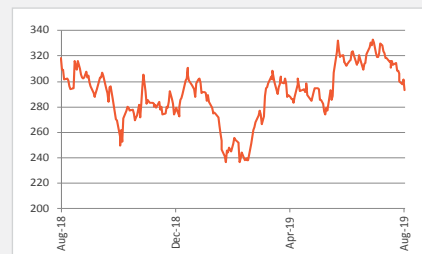
Company details

Market cap:	Rs. 7,530 cr
52-week high/low:	Rs. 341/230
NSE volume: (No of shares)	4.0 lakh
BSE code:	532714
NSE code:	KEC
Sharekhan code:	KEC
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	51.4
FII	7.3
DII	26.3
Others	15.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.1	2.9	20.9	-6.1
Relative to Sensex	-2.1	6.6	19.8	-5.6

Sharekhan Research, Bloomberg

KEC International Limited (KEC) revenues showed 15% y-o-y growth driven by strong execution in T&D business both in domestic as well as international T&D registering 25% revenue growth despite challenges due to election. Non T&D comprising railways, civil and other businesses registered 5% y-o-y where in railways registered 67% y-o-y growth. Blended operating margins remained flat at 10.4 y-o-y %. Net profit increased marginally due to higher depreciation & interest cost (impacted due to lease accounting policy change) including one time prepayment premium of high cost loan included in interest and lower other income. Management reiterated 15-20% y-o-y growth in revenue with stable OPM for FY2020. A healthy order backlog of Rs. 22500 crore including L1 orders worth Rs. 3500 crore is 1.7x FY2019 consolidated revenue. The outlook for KECs business segments, viz. T&D and railways remains favorable. The Green Energy Corridor and projects from State Electricity Boards provide healthy visibility of order inflows for KEC combined with visibility in international orders. In railways, the order momentum is expected to pick up as tenders are being floated led by a domestic electrification drive. We have fine tuned our earnings estimates for FY2020-FY2021. We maintain Buy on the stock with unchanged PT of Rs. 375.

Key positives

- ◆ Strong growth in T&D business both in domestic as well as international market
- ◆ Management confident of achieving 15-20% y-o-y growth in revenue with stable OPM in FY2020 amidst weak macros
- ◆ Railways strong execution continues.

Key negatives

- ◆ Depreciation and Interest rising due to application of IND-AS 116 norms
- ◆ Higher interest on account of one time prepayment premium of high cost loan

Our Call

Maintain Buy with an unchanged PT of Rs. 375: KEC has a strong overall order backlog of Rs. 19,016 crore which led to management reiterating its revenue guidance of 15-20% for FY2020, led by scalability in the non-T&D business and stable execution in the T&D segment. Given the healthy order backlog and its ability to ramp-up execution, we expect revenue and earnings CAGR of 18% and 21%, respectively, over FY2019-FY2021E. We reiterate our Buy rating on the stock with an unchanged price target (PT) of Rs. 375.

Key Risks

Slowdown in tendering activities, especially in T&D and railways.

Valuation (Standalone)

Particulars	FY18	FY19	FY20E	FY21E
Revenue	10,058	11,001	12,946	15,289
OPM (%)	10.0	10.5	10.4	10.4
Adjusted PAT	460	486	584	714
% YoY growth	51.1	5.7	20.1	22.2
Adjusted EPS (Rs.)	17.9	18.9	22.7	27.8
P/E (x)	16.4	15.5	12.9	10.6
P/B (x)	3.8	3.1	2.7	2.2
EV/EBITDA (x)	8.9	7.8	7.1	6.2
RoNW (%)	25.7	21.9	22.3	23.0
RoCE (%)	25.1	26.4	25.1	24.8

Source: Company, Sharekhan Estimates

Good operational quarter: KEC International Limited (KEC) revenues showed 15% y-o-y growth driven by strong execution in T&D business both in domestic as well as international T&D registering 25% revenue growth despite challenges due to election. SAE segment reported healthy growth of 13.2% y-o-y. Non T&D comprising railways, civil and other businesses registered 5% y-o-y and railways registered 67% y-o-y growth. OPM remained flat at 10.4% y-o-y, on account of higher other expenses (forex loss vs gain in Q1FY19). Operating profit grew by 16% y-o-y to Rs. 251 crore. Net profit increased marginally to Rs 89 crore due to higher depreciation & interest cost (impacted due to lease accounting policy change) including one time prepayment premium of high cost loan included in interest and lower other income.

Order book remains healthy: Order backlog of the company jumped by 5% to Rs. 19016 crore, providing revenue visibility of 1.7x FY2019 consolidated revenue. Moreover, KEC stands as the lowest bidder in approximately Rs. 3,500 crore worth of projects in T&D, railways and civil. Order intake is currently being driven by orders from SAARC, select Middle Eastern countries and Brazil. KEC has seen an uptick in international ordering from Nepal, Bangladesh, Sri Lanka, Abu Dhabi, Egypt, etc, and expects the trend to continue. However, capex from Saudi has slowed, which management believes will pick up once political stability is restored in the region. In the domestic market, the management expects tendering activity to pick up pace in railways and green energy corridor and meaningful orders to come from these segments.

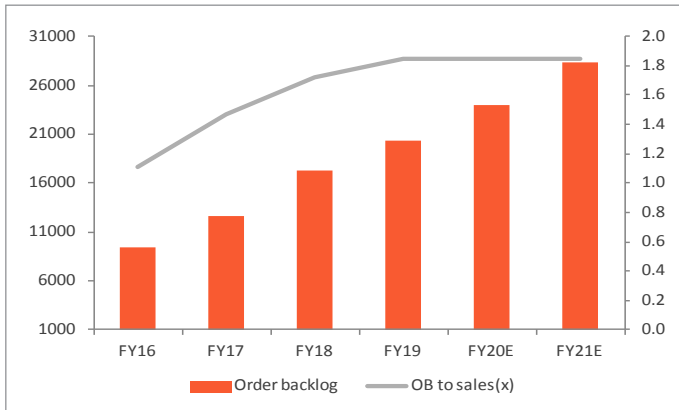
Railways to sustain growth: Order intake momentum in railways is likely to continue, driven by sustained intake related to electrification as well as emerging opportunities in railways signalling system upgradation opportunities over the next few years, as also Overhead Electrification (OHE) orders for DFCs. Concurrently, management also sees significant opportunities in overseas markets.

Results					Rs cr
Particulars	Q1FY20	Q1FY19*	YoY %	Q4FY19*	QoQ %
Net Sales	2,412	2,104	15%	3,841	-37%
Net raw material	1,116	1,012	10%	1,933	-42%
Erection and subcontracting charges	572	514	11%	1,048	-45%
Employee cost	222	203	9%	211	5%
Other Expenditure	252	158	59%	251	1%
Operating Profit	251	216	16%	399	-37%
OPM %	10.4%	10.3%		10.4%	
Other Income	3	11	-75%	6	-57%
EBITDA	254	227	12%	405	-37%
EBITDAM %	10.5%	10.8%		10.6%	
Depreciation	37	30	23%	26	41%
Interest	80	65	23%	85	-6%
PBT	138	133	4%	295	-53%
Tax Expenses :	49	47	4%	101	-51%
Tax rate %	36%	36%		34%	
Net Profit before exceptional items	89	85	4%	194	-54%
Exceptional items	-	-		-	
Net Profit after exceptional items	89	87	2%	199	-55%
NPM %	3.7	4.1		5.2	

Source: Company Data, Sharekhan Research *Net Profit includes profit from discontinued operations

Financials in charts

Order book and order book to sales



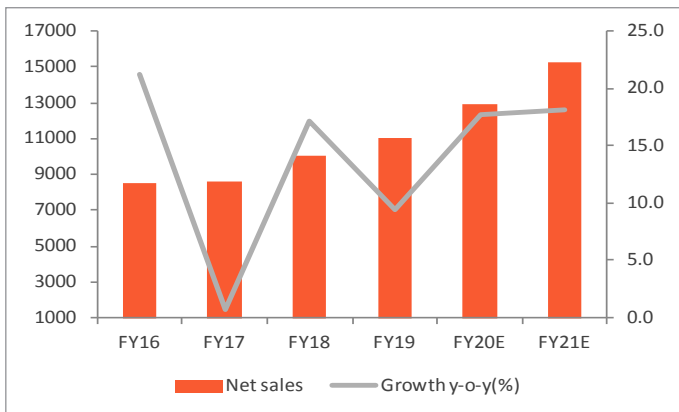
Source: Company, Sharekhan Research

Order inflow trend



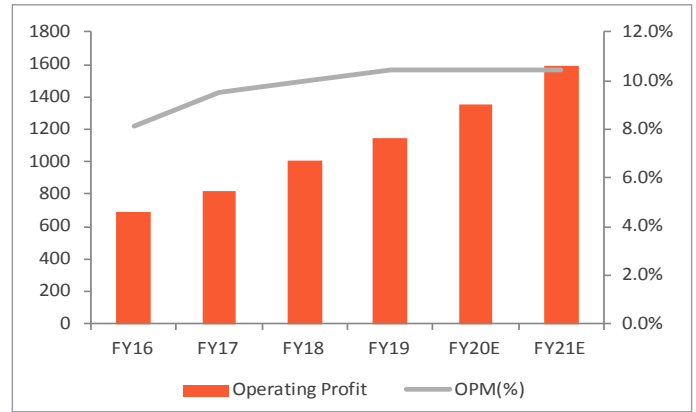
Source: Company, Sharekhan Research

Revenue Trend



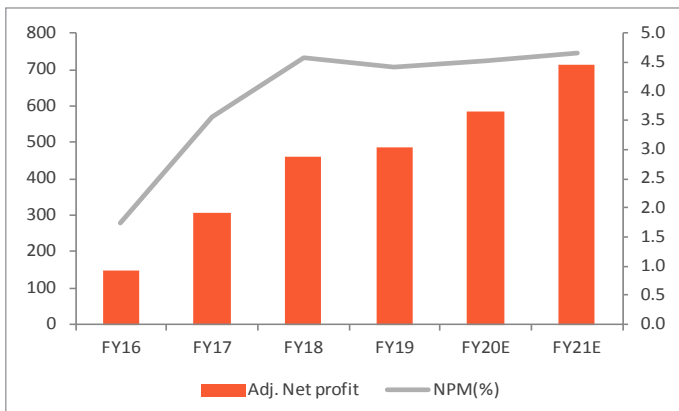
Source: Company, Sharekhan Research

Operating Profit and OPM(%) trend



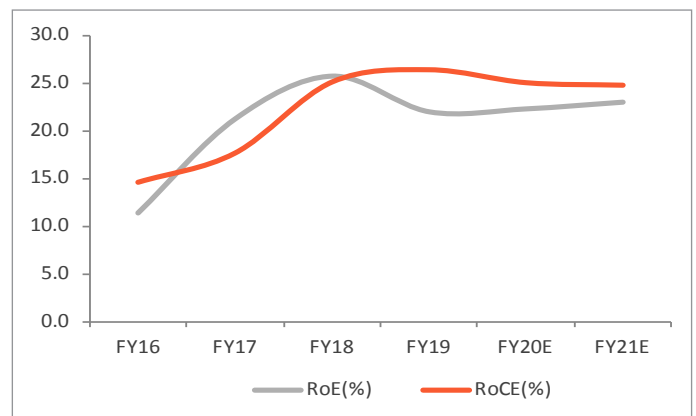
Source: Company, Sharekhan Research

Net profit & PAT margin trend



Source: Company, Sharekhan Research

Return ratios trend



Source: Company, Sharekhan Research

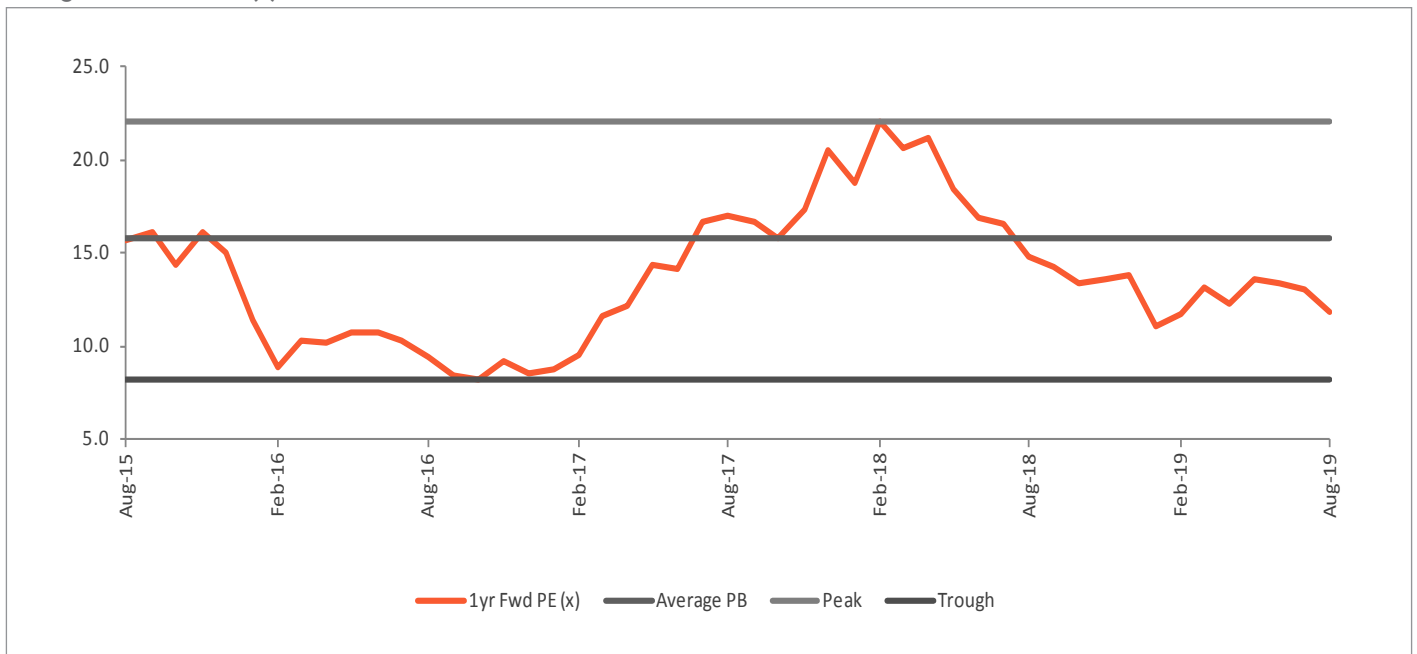
Outlook

T&D, railways to see sustained order inflows: The outlook for KECs business segments, viz. T&D and railways remains favourable. The Green Energy Corridor and projects from State Electricity Boards provide strong visibility of order inflows for KEC. In railways, order momentum is expected to continue, led by domestic electrification drive. Management reiterated its guidance for 15-20% revenue growth with stable OPM and KEC is expected to deliver strong growth on increased scalability in non-T&D business and stable execution in the T&D segment

Valuation

Maintain Buy with an unchanged PT of Rs. 375: We reiterate our Buy rating on the stock of KEC with an unchanged price target (PT) of Rs. 375. KEC has a strong overall order backlog of Rs. 19,016 crore (up 17% y-o-y). Given the healthy order backlog and its ability to ramp-up execution, we expect revenue and earnings CAGR of 18% and 21%, respectively, over FY2019-FY2021E. The management has reiterated its revenue guidance of 15-20% for FY2020, based on scalability in the non-T&D business and stable execution in the T&D segment.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
KEC	12.9	10.6	7.1	6.2	2.7	2.2	22.3	23.0
L&T	21.0	18.3	14.9	13.4	3.1	2.7	15.6	15.9
KPTL	15.6	13.4	9.0	7.6	2.3	2.0	15.3	15.9

Source: Sharekhan Research

About company

KEC International is a Global Power Transmission Infrastructure EPC major. The company is present in the verticals of power T&D, cables, railways, renewable (solar energy), smart Infra and civil. Globally, the company has powered infrastructure development in more than 61 countries. KEC is a leader in power transmission EPC projects and has more than seven decades of experience. Over the years, it has grown through the organic as well as inorganic route.

Investment theme

T&D spending in India is expected to be around Rs. 23,000 crore over FY2018-FY2023E, up 28% over FY2012-FY2017. A large part of this spend is likely to come from State Electricity Boards. Additionally, ordering for Green Energy Corridor is likely to provide ample opportunities in the domestic market. Moreover, expansion in regional transmission network in Africa, SAARC and CIS countries is likely to supplement domestic demand and present a large business opportunity. KEC has significantly scaled up the non-T&D segments (railways and civil segments) and margins in these segments have improved significantly. Opportunity size remains high in the non-T&D segment to provide enough opportunity to ramp up its total order outstanding for the business. Order book remains strong, providing strong revenue visibility; and order inflow visibility remains healthy in international T&D and railways.

Key Risks

- ◆ Slower-than-expected execution of projects in domestic and international markets due to various reasons is expected to impact KEC performance.
- ◆ Slowdown in tendering activities, especially in T&D, railways and overseas orders.

Additional Data

Key management personnel

Mr. Harsh Vardhan Goenka	Non-Executive - Non Independent Director-Chairperson
Mr. Vimal Kejriwal	Executive Director
Rajeev Aggarwal	Chief Financial Officer
Mr. Ajit Tekchand Vaswani	Non-Executive - Independent Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Swallow Associates Ltd	26.36
2	Summit Securities Ltd	10.86
3	HDFC Asset Management Co Ltd	8.97
4	Instant Holdings Ltd	8.42
5	Aditya Birla Sun Life Asset Manage	3.26
6	Reliance Capital Trustee Co Ltd	2.98
7	Aditya Birla Sun Life Trustee Co P	2.93
8	Kotak Mahindra Asset Management Co	2.79
9	IDFC Mutual Fund/India	2.16
10	STEL Holdings Ltd	1.89

Source: Bloomberg

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