

KEC International (KECI IN)

Rating: BUY | CMP: Rs197 | TP: Rs295

May 29, 2020

Q4FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	295		295	
Sales (Rs. m)	1,15,260	1,32,742	1,14,782	1,33,305
% Chng.	0.4	(0.4)		
EBITDA (Rs. m)	11,889	13,858	11,840	13,917
% Chng.	0.4	(0.4)		
EPS (Rs.)	19.8	24.6	19.6	24.6
% Chng.	1.1	-		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	1,10,005	1,19,654	1,15,260	1,32,742
EBITDA (Rs. m)	11,499	12,344	11,889	13,858
Margin (%)	10.5	10.3	10.3	10.4
PAT (Rs. m)	4,864	5,655	5,087	6,324
EPS (Rs.)	18.9	22.0	19.8	24.6
Gr. (%)	6.1	16.3	(10.1)	24.3
DPS (Rs.)	2.7	3.3	3.0	3.7
Yield (%)	1.4	1.7	1.5	1.9
RoE (%)	21.9	21.6	16.9	18.1
RoCE (%)	26.6	23.8	19.6	20.6
EV/Sales (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	5.6	5.7	6.0	5.1
PE (x)	10.4	8.9	9.9	8.0
P/BV (x)	2.1	1.8	1.6	1.3

Key Data

KECL.BO | KECI IN

52-W High / Low	Rs.359 / Rs.154
Sensex / Nifty	32,424 / 9,580
Market Cap	Rs.51bn / \$ 669m
Shares Outstanding	257m
3M Avg. Daily Value	Rs.216.41m

Shareholding Pattern (%)

Promoter's	51.66
Foreign	8.70
Domestic Institution	27.46
Public & Others	12.18
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.4	(30.2)	(39.4)
Relative	6.3	(12.2)	(26.2)

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Strong performance amidst pandemic

Quick Pointers:

- Net debt stood at Rs26bn in FY20 (down from Rs31bn in FY19) due to healthy collection from Saudi and closure of expedited commercial projects.
- Working capital, a concern but healthy order book increases further growth prospects.
- For FY21E management expects revenue from Civil business of ~Rs15bn and Railways business to grow by 30-40%.

KEC International (KECI) reported strong quarterly performance despite Covid-19 pandemic. Sturdy execution in T&D, railways and civil segments along with pickup in SAE business execution led to a strong performance. Order inflows for 4QFY20 stood at Rs27.7bn up 8.3% YoY majorly contributed towards T&D (39%), Railways (28%) and Civil business (24%). KECI's OB stands at ~Rs205bn and is L1 order worth ~Rs24bn thus providing a strong revenue visibility. Management expects healthy orders primarily from Africa region, SAARC countries and MENA regions on the international front. On the domestic front, decent orders are expected from Railways, T&D and Solar segment.

Given the robust order bid pipeline (~Rs350bn), strong order book, steady margin profile and healthy outlook in T&D segment as well as emerging segments such as Railways/Civil we believe KEC deliver 6% earnings CAGR over FY20-22E. The stock is currently trading at 9.9x/8.0x FY21/FY22E. We maintain "BUY" with TP of Rs295.

Marginal Impact on Revenue in 4QFY20: Consol sales came in at ~Rs36.7bn (down 4.4% YoY vs PLe ~Rs34bn) led by growth in Railways/Civil segment which grew 36%/5% YoY. EBITDA de-grew by 7% YoY and EBITDA margins contracted by 30bps YoY to 10.1% in 4QFY20 vs 10.4% in 4QFY19 mainly due to higher employee cost (up 45% YoY) and other expenses (up 39% YoY). PBT declined by 9% YoY on back of lower other income (down 55% YoY) and higher interest cost (up 23% YoY). Adj. PAT came in at Rs1.9bn (PLe Rs1.8n), flat YoY.

Healthy order book providing revenue visibility: Order inflows declined by 20% YoY to ~Rs113bn in FY20 (up 8% YoY in 4Q) as large orders got deferred due to nationwide lockdown. OB stood at Rs205bn flat YoY mainly comprising of T&D, Railways and Civil segments. Going ahead, management expects healthy ordering from domestic as well as international market especially from African region, SAARC countries and MENA regions.

Working Capital remains key concern: Despite the challenging environment, KECI has been able to reduce its NWC days by ~9 sequentially to 119 days. During March month, they had lost cash collection to the tune of Rs3-4bn which was recovered in April'20. We expect KECI's working capital to remain a key concern owing to further postponement of collections due to Covid-19 pandemic.

Exhibit 1: Strong performance despite Covid-19 pandemic

(Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	38,412	24,125	28,088	30,731	36,710	(4.4)	19.5	1,19,654	1,10,005	8.8
Total Revenues	38,412	24,125	28,088	30,731	36,710	(4.4)	19.5	1,19,654	1,10,005	8.8
Expenditure	34,421	21,611	25,150	27,546	33,003	(4.1)	19.8	1,07,310	98,506	8.9
as % of sales	89.6	89.6	89.5	89.6	89.9			89.7	89.5	
Consumption of RM	19,326	11,157	13,903	14,388	16,468	(14.8)	14.5	55,916	54,097	3.4
as % of sales	50.3	46.2	49.5	46.8	44.9			46.7	49.2	
Employee Cost	2,109	2,217	2,747	3,014	3,067	45.4	1.8	11,044	8,322	32.7
as % of sales	5.5	9.2	9.8	9.8	8.4			9.2	7.6	
Other expenditure	12,986	8,237	8,500	10,145	13,468	3.7	32.8	40,351	36,088	11.8
as % of sales	33.8	34.1	30.3	33.0	36.7			33.7	32.8	
EBITDA	3,990	2,513	2,938	3,185	3,707	(7.1)	16.4	12,344	11,499	7.3
Depreciation	261	366	347	367	392	50.3	6.7	1,472	1,171	25.7
EBIT	3,730	2,147	2,591	2,818	3,316	(11.1)	17.6	10,872	10,328	5.3
Other Income	63	27	36	21	27	(56.9)	33.2	111	226	(50.9)
Interest	846	795	822	811	652	(22.9)	(19.5)	3,080	3,119	(1.2)
PBT	2,948	1,379	1,805	2,028	2,691	(8.7)	32.7	7,903	7,435	6.3
Total Tax	1,009	493	414	579	762	(24.5)	31.6	2,247	2,519	(10.8)
Adjusted PAT	1,939	886	1,391	1,449	1,929	(0.5)	33.1	5,655	4,916	15.0
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	1,939	886	1,391	1,449	1,929	(0.5)	33.1	5,655	4,916	15.0
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	1,939	886	1,391	1,449	1,929	(0.5)	33.1	5,655	4,916	15.0
Adjusted EPS	7.5	3.4	5.4	5.6	7.5	(0.5)	33.1	22.0	19.1	15.0
Margins (%)										
EBIDTA	10.4	10.4	10.5	10.4	10.1	(29)	(27)	10.3	10.5	(14)
EBIT	9.7	8.9	9.2	9.2	9.0	(68)	(14)	9.1	9.4	(30)
EBT	7.7	5.7	6.4	6.6	7.3	(35)	73	6.6	6.8	(15)
PAT	5.0	3.7	5.0	4.7	5.3	21	54	4.7	4.5	26
Effective Tax rate	34.2	35.7	22.9	28.5	28.3	(591)	(23)	28.4	33.9	(545)

Source: Company, PL

Key conference call highlights:

- Execution miss was to the tune of **~Rs5-6bn range** due to Covid-19 pandemic and nation-wide lockdown.
- Operation in various countries such as Brazil & Mexico have not been impacted as current operations were classified as essentials.
- Currently, ~85% of the project site has commenced operations in the phased manner however, labour issue continues to persist (with ~50% of labour work force). As per management, movement of migrant workers have peaked and labour procurement with local labour is improving.
- Despite the pandemic, Management has witnessed a healthy ordering activity primarily from International markets such as Africa (~Rs50bn tenders), SAARC (~Rs60bn tenders) and MENA regions (Saudi, Oman, UAE, Dubai).
- On the domestic front, management expects healthy ordering activity from Railways segment (Rs90-100bn tenders), T&D space as well as Solar segment primarily from PGCIL (~Rs150bn tenders) and various government institutions.
- During FY20, the company has **secured orders worth ~Rs113.3bn taking the order book to ~Rs205bn as on 4QFY20**. Of the total order book, T&D segment comprises 54%, 29% is constituted by Railways segment, Civil segment constitute 13% while balance comprises of Cables (2%) and Others segment (1%).
- During FY20, average borrowing levels improved from Rs31bn in FY19 to Rs26bn led by **receivables (Rs10bn) from Saudi** and expedited commercial closure of projects. As on 4QFY20, net debt stands at Rs22.1bn while **total debt exposure in terms of forex remains at 55-65%**.
- On the working capital front, despite challenging environment, the company has been able to reduce its net working capital days by ~9 sequentially to 119 days. **During March, the company had lost cash collection to the tune of Rs3-4bn which it was able to recover in the month of April'20.**
- Going forward, given the current situation, Management believes T&D-domestic, Railways and Civil segment would be the main growth driver's for FY21E. **Management expects Civil business revenue to be around Rs15bn in FY21E (order in hand – DMRC, Cochin Metro and 6 large residential projects) while Railways business is expected to grow 30-40% in FY21E.**
- The company expects to incur a capex of ~Rs1bn vs earlier guidance of Rs2-2.23bn for FY21.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	1,10,005	1,19,654	1,15,260	1,32,742
YoY gr. (%)	9.4	8.8	(3.7)	15.2
Cost of Goods Sold	54,097	55,916	57,394	66,099
Gross Profit	55,909	63,738	57,866	66,643
Margin (%)	50.8	53.3	50.2	50.2
Employee Cost	8,322	11,044	12,679	13,009
Other Expenses	3,814	6,472	4,149	4,878
EBITDA	11,499	12,344	11,889	13,858
YoY gr. (%)	14.3	7.3	(3.7)	16.6
Margin (%)	10.5	10.3	10.3	10.4
Depreciation and Amortization	1,171	1,472	1,532	1,702
EBIT	10,328	10,872	10,357	12,156
Margin (%)	9.4	9.1	9.0	9.2
Net Interest	3,119	3,080	3,465	3,612
Other Income	226	111	173	239
Profit Before Tax	7,435	7,903	7,065	8,783
Margin (%)	6.8	6.6	6.1	6.6
Total Tax	2,571	2,248	1,978	2,459
Effective tax rate (%)	34.6	28.4	28.0	28.0
Profit after tax	4,864	5,655	5,087	6,324
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,864	5,655	5,087	6,324
YoY gr. (%)	6.1	16.3	(10.1)	24.3
Margin (%)	4.4	4.7	4.4	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,864	5,655	5,087	6,324
YoY gr. (%)	6.1	16.3	(10.1)	24.3
Margin (%)	4.4	4.7	4.4	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,864	5,655	5,087	6,324
Equity Shares O/s (m)	257	257	257	257
EPS (Rs)	18.9	22.0	19.8	24.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	14,273	16,022	18,022	20,022
Tangibles	14,273	16,022	18,022	20,022
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,608	7,080	8,612	10,314
Tangibles	5,608	7,080	8,612	10,314
Intangibles	-	-	-	-
Net fixed assets	8,666	8,942	9,410	9,709
Tangibles	8,666	8,942	9,410	9,709
Intangibles	-	-	-	-
Capital Work In Progress	3,232	5,415	5,415	5,415
Goodwill	-	-	-	-
Non-Current Investments	136	110	-	-
Net Deferred tax assets	(1,183)	(527)	(527)	(527)
Other Non-Current Assets	3,088	3,679	4,610	5,310
Current Assets				
Investments	132	225	248	272
Inventories	6,410	7,758	7,895	9,092
Trade receivables	48,753	54,448	55,262	60,007
Cash & Bank Balance	2,762	1,637	3,042	4,114
Other Current Assets	8,749	8,604	9,221	10,619
Total Assets	1,16,631	1,28,546	1,37,172	1,51,661
Equity				
Equity Share Capital	514	514	514	514
Other Equity	23,837	27,462	31,785	37,160
Total Networth	24,351	27,976	32,299	37,675
Non-Current Liabilities				
Long Term borrowings	11,558	2,637	3,637	4,637
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	5,411	19,437	19,937	19,937
Trade payables	48,009	50,073	49,957	54,552
Other current liabilities	26,120	27,896	30,815	34,333
Total Equity & Liabilities	1,16,631	1,28,546	1,37,172	1,51,661

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	7,569	7,903	7,065	8,783
Add. Depreciation	1,171	1,472	1,532	1,702
Add. Interest	3,119	3,080	3,465	3,612
Less Financial Other Income	226	111	173	239
Add. Other	(1,108)	-	-	-
Op. profit before WC changes	10,751	12,455	12,062	14,097
Net Changes-WC	(5,787)	(6,647)	(3,928)	(4,980)
Direct tax	(2,977)	(2,248)	(1,978)	(2,459)
Net cash from Op. activities	1,987	3,560	6,156	6,658
Capital expenditures	(1,083)	(4,025)	(2,023)	(2,025)
Interest / Dividend Income	148	-	-	-
Others	241	-	-	-
Net Cash from Invst. activities	(695)	(4,025)	(2,023)	(2,025)
Issue of share cap. / premium	-	-	-	-
Debt changes	(409)	5,106	1,500	1,000
Dividend paid	(614)	(1,018)	(763)	(949)
Interest paid	(3,167)	(3,080)	(3,465)	(3,612)
Others	2,691	-	-	-
Net cash from Fin. activities	(1,499)	1,008	(2,728)	(3,561)
Net change in cash	(206)	544	1,405	1,072
Free Cash Flow	853	(372)	4,156	4,658

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	18.9	22.0	19.8	24.6
CEPS	23.5	27.7	25.7	31.2
BVPS	94.7	108.8	125.6	146.5
FCF	3.3	(1.4)	16.2	18.1
DPS	2.7	3.3	3.0	3.7
Return Ratio(%)				
RoCE	26.6	23.8	19.6	20.6
ROIC	18.8	17.8	15.0	16.0
RoE	21.9	21.6	16.9	18.1
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.6	0.5
Net Working Capital (Days)	24	37	42	40
Valuation(x)				
PER	10.4	8.9	9.9	8.0
P/B	2.1	1.8	1.6	1.3
P/CEPS	8.4	7.1	7.6	6.3
EV/EBITDA	5.6	5.7	6.0	5.1
EV/Sales	0.6	0.6	0.6	0.5
Dividend Yield (%)	1.4	1.7	1.5	1.9

Source: Company Data, PL Research

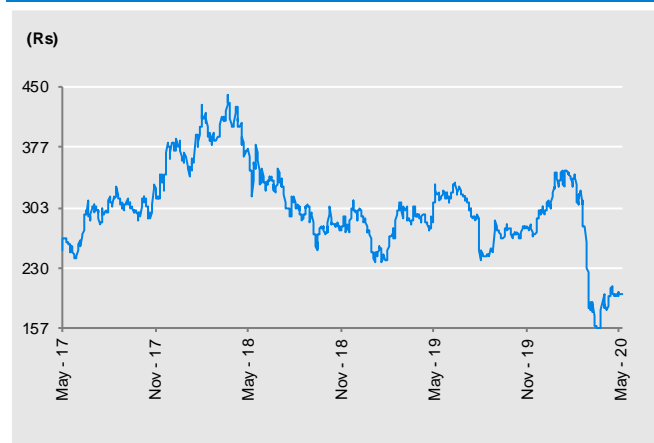
Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	24,125	28,088	30,731	36,710
YoY gr. (%)	14.6	16.6	16.1	(4.4)
Raw Material Expenses	11,157	13,903	14,388	16,468
Gross Profit	12,967	14,185	16,344	20,242
Margin (%)	53.8	50.5	53.2	55.1
EBITDA	2,513	2,938	3,185	3,707
YoY gr. (%)	16.2	16.1	13.2	(7.1)
Margin (%)	10.4	10.5	10.4	10.1
Depreciation / Depletion	366	347	367	392
EBIT	2,147	2,591	2,818	3,316
Margin (%)	8.9	9.2	9.2	9.0
Net Interest	795	822	811	652
Other Income	27	36	21	27
Profit before Tax	1,379	1,805	2,028	2,691
Margin (%)	5.7	6.4	6.6	7.3
Total Tax	493	414	579	762
Effective tax rate (%)	35.7	22.9	28.5	28.3
Profit after Tax	886	1,391	1,449	1,929
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	886	1,391	1,449	1,929
YoY gr. (%)	3.9	44.4	30.7	(0.5)
Margin (%)	3.7	5.0	4.7	5.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	886	1,391	1,449	1,929
YoY gr. (%)	3.9	44.4	30.7	(0.5)
Margin (%)	3.7	5.0	4.7	5.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	886	1,391	1,449	1,929
Avg. Shares O/s (m)	257	257	257	257
EPS (Rs)	3.4	5.4	5.6	7.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	BUY	295	164
2	07-Feb-20	BUY	397	348
3	03-Jan-20	BUY	375	311
4	09-Nov-19	BUY	375	265
5	03-Oct-19	BUY	352	271
6	07-Aug-19	BUY	352	294
7	04-Jul-19	BUY	352	333

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	836
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	39
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	50	21
7	Capacite's Infraprojects	BUY	168	75
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	493	385
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	127	53
14	ITD Cementation India	BUY	67	33
15	J.Kumar Infraprojects	BUY	218	76
16	Kalpataru Power Transmission	BUY	261	193
17	KEC International	BUY	295	164
18	KNR Constructions	BUY	305	183
19	Larsen & Toubro	BUY	1,361	880
20	NCC	BUY	83	17
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	160
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,049
25	Thermax	Accumulate	855	705
26	Triveni Turbine	BUY	109	66
27	Voltamp Transformers	BUY	1,591	1,379
28	Voltas	BUY	1,244	888

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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