Annual Report Analysis FY20

KEC International

Buy

The FY20 AR continues with its theme of diversification, visible in the last few annual reports. It has gradually reduced its dependence on T&D business with a third of its revenues now coming from non-T&D, compared to less than 15% five years back. Within segments also it is diversifying to pursue growth. A strong board and a stable management are its other strengths.

Diversification theme continues

The AR details how KEC has augmented its capabilities in the last few years in Railways, Civil and other areas to diversify itself from the T&D business. This has resulted in non-T&D revenues at ~35% in FY20, as compared to less than 15% five years ago, though this mix is static compared to FY19, where non-T&D was 36% of revenues. Similarly, geographical diversification is also happening. It has entered 17 new countries in the last 4 years, expanding its geographical reach in areas such as substations and tower supply projects. In FY20, it entered 3 new countries. Within rail and civil also, it continues to further diversify. In rail it is targeting like Ballast-less tracks and Signaling & Control systems to diversify from overhead equipment. Currently, 60% of the OB of Rs60bn is non-OHE. In civil it is targeting civilian structures for Defense to combat the slowdown in the industrial sector. Among new segments, it has identified industrial warehousing and pharma as new growth areas. It has entered a completely new segment, Oil and Gas, where it has bid for its first project in Q4FY20

Strong order book sets the tone for FY21

KEC ended FY20 with an order book of Rs205bn, flattish yoy, which goes upto Rs240bn, if the L1 positions were included. 80% of the order book comprise of power T&D and railways. On an average, transmission, distribution and railway contracts have a life cycle of 2-3 years and others are executed over a period of one or less than one year. Management expects that around 50% to 60% of the order book will be recognized as revenue in FY21.

Strengthening itself for changing nature of orders

KEC remains positive on T&D, where the industry spend was flat in FY20, and looks to gain share. Their belief stems from the fact that most new state and central project has moved to bid based projects (TBCB), where delivery schedule matters and KEC believes its mature capabilities can deliver these timelines and hence it can gain market share in these projects. Similarly, it has not dithered in investing if it feels it can get a competitive advantage and hence acquired a tower manufacturing facility in Dubai for Rs1bn (50,000mtpa) which helps to secure additional business on account of local preferences

Strong engineering expertise on board, stable management

During the year the company inducted Ramesh Chandak, Vikram Gandhi and M. S. Unnikrishnan on their Board. It also saw reappointment of G. L Mirchandani, D. G. Piramal and S. M. Trehan. Trehan is the former MD of Crompton Greaves(undivided), while Unni is the outgoing MD of Thermax and Chandak, the earlier MD and old KEC veteran- very strong engineering experience in the board. Similarly, the management team has remained the same as that in FY19

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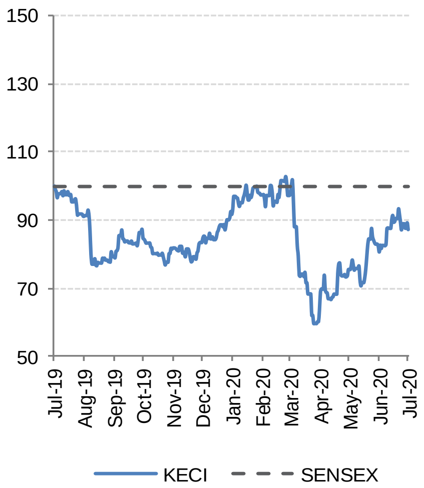
CMP	Rs 269
Target / Upside	Rs 247 / 8%
BSE Sensex	36,436
NSE Nifty	10,740
Scrip Details	
Equity / FV	Rs 514mn / Rs 2
Market Cap	Rs 69bn
	USD 920mn
52-week High/Low	Rs 359/Rs 154
Avg. Volume (no)	520,500
NSE Symbol	KEC
Bloomberg Code	KECI IN
Shareholding Pattern Mar'20(%)	
Promoters	51.7
MF/Banks/FIs	30.9
FIIs	8.7
Public / Others	8.7

KEC Inter. Relative to Sensex



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DOLAT CAPITAL

Annual Report Macro View

Key Management	**No Change.**
Board of Directors	**Mr. Ramesh Chandak, Mr. Vikram Gandhi and Mr. M.S. Unnikrishnan were appointed** as Independent Directors, while **Mr. S.M. Kulkarni, Mr. Vinayak Chatterjee and Ms. Manisha Girotra ceased** to be directors in FY20.
Auditors	No change. Price Waterhouse Chartered Accountants LLP, continue to be the Auditors of the Company.
Insider Holdings	No insider holding transactions during the year.
Credit Ratings	**CRISIL** rated **AA- for Long Term** Facilities and **A1+ for Short Term** Facilities.
Pledged Shares	The company does not have any pledged shares.
Macro-economic factors	GDP dropped to below 5% levels in FY20 hit by the liquidity crunch, slowdown in industrial growth and nationwide lockdown imposed in March. The weakening of the rupee against dollar and volatile economic performance led to heavy foreign outflows. Lower oil and stabilizing commodity prices would be a saving grace for the economy.

Key Holders

Category of Shareholder (%)	FY2020	FY2019
A. Promoters	51.66	51.35
B. Public Shareholding	48.34	48.65
C. Shares underlying DRs	0.00	0.00
Total	100.00	100.00

Source: DART, Company

Industry Overview

India's GDP has dropped below 5% in FY20, mainly due to slowdown in industrial growth and nationwide lockdown imposed in last week of March. The corona outbreak has made prospects for economic growth distant, with RBI projecting a downgrade in GDP in FY21 due to extended lockdown. India saw the rupee weaken against the dollar due to heavy outflow caused by volatile economic performance and the pandemic; the strong dollar could be an advantage for exporters.

The global construction industry is anticipated to grow by an average of 3-4 percent by 2022 with Asia Pacific and Latin America contributing more than 55% of the world's construction. The construction industry in India contributes to 8% of GDP; the government with its initiatives like urban infrastructure development, building and strengthening world-class highways and shipping infrastructure, airports and water infrastructure continues to maintain its focus on infra.

The Indian infra sector is expected to be a beneficiary of the increasing urban infra demand, rural electrification, developing industrial parks and 100% FDI in construction development projects.

FY20 Performance & Developments

- The revenue for FY20 was Rs.120bn up by 8.8% YoY with an order book of Rs.205bn as on 31st March,2020.
- The company has 9,328 employees (1,261 with +10-year tenure) under its payroll in FY20 compared to 6,420 employees in FY19, on account of expansion of Railway, Civil and SAE operations.
- The total employee cost for FY20 is Rs.11bn; MD remuneration was Rs.68mn which was within ceiling of Rs.391mn according to Companies Act 2019 and independent director remuneration was Rs.144mn within the Rs.781mn ceiling under the Companies Act 2019.
- The contingent liability for FY20 at Rs.9.5bn which was 34% of Net Worth compared to Rs.11.8bn in FY19 which was 48.5% of Net Worth; due to 4% decline in guarantees at Rs.6.3bn, 19% decline in overseas tax liability at Rs.348mn and 52% decline in due service, sales tax liabilities and excise duty at Rs.2.1bn.

Key Projects Executed

- Revamping and reconfiguration of existing 230kV line to 500 kV transmission line in Thailand
- Constructed 132 kV Mpanshya – Chitope Overhead transmission Line; 33 kV Overhead Lines and LVABC lines; 33/ 11 kV Luangwa substation, Zambia
- Manufacturing, supply and laying of 220 kV Underground Cabling for PGCIL in Chandigarh
- Design, supply installation, testing and commissioning of 230 kV and 132 kV transmission line for Power Grid Company of Bangladesh
- Design, construction, testing and commissioning of 220 kV Ghazni to Kandahar transmission line for DABS in Afghanistan
- Turnkey construction of 765 kV Ariyalur transmission Line in Tamil Nadu

- Upgradation of 400 kV Gas Insulated Substation to 765 kV Gas Insulated Substation for PGCIL in Uttarakhand
- Construction of 3rd railway line between Gudur-Bitragunta spanning ~77 km for RVNL in Andhra Pradesh.
- Doubling of tracks (90 TKM) between Jhansi and Bhimsen for RVNL, with track linking and construction, Signalling & Telecommunication work, and overhead electrification (113 TKM) works.
- Construction of elevated viaduct from Sahibabad RRTS Station to Ghaziabad RRTS Station, including all special spans.
- Overhead electrification Signaling and Telecommunication works, and Civil works, comprising of 286 TKM for RVNL at Villupuram, Tamil Nadu
- Design, Engineering, Manufacturing, Supply, Construction and Commissioning of 150 MWp Ground Mount solar Project, Rajasthan
- Civil and structural works for 3.9mn ton Greenfield Cement Manufacturing plant at Mukutban, Maharashtra
- Construction of a factory for an automobile manufacturer in Pune, Maharashtra.

Business Segment Analysis

Power Transmission & Distribution Business

- Power T&D is the largest segment of the Company, contributing over 65 percent to the overall revenue mix and over 50 percent to the order book.
- KEC's T&D business has a presence across Asia (South Asia, South East Asia, Central Asia, the Middle East), Africa, the Americas, and Oceania.
- The Company acquired its sixth manufacturing unit in Dubai, in FY20.
- The Company is executing 20+ projects in the SAARC region and has an order book of ~Rs.35bn.
- Commissioned 765 kV Vemagiri Transmission Line for PGCIL's on TBCB basis.
- Commissioned 400 kV Edamon–Kochi Transmission Line for PGCIL, connecting Kerala to the national grid.
- The business is currently executing ~800 km of transmission lines in Brazil.

Civil Business

- In FY20, the Company entered into the strategic defense segment by winning projects from large clients such as the MES and DRDO.
- The Government has decided to add 12 more airports to be developed under PPP route, which can benefit EPC players like KEC.
- The company secured two defense projects for civil construction work and is L1 in other defense packages in the smart Infrastructure segment.

Solar Business

- Company commissioned its single-largest project in terms of capacity, a 150 MWp project in Rajasthan.
- Completed a 14 MW project within 90 days after land handover.
- The Company has won an order for the construction of one of India's largest Solar Carport from an automobile client, opening door for future opportunities.
- Indian solar market has slowed down owing to multiple factors such as PPA renegotiations by states, tariff caps in auctions, liquidity and financing issues, poor health of DISCOMs, and increase in costs owing to safeguard duties.
- Government's plan to build the largest solar park (~7.5 GW) in Ladakh region, is expected to bring significant opportunities for players like KEC, both for Solar as well as T&D businesses.

Urban Infrastructure Business

- The company entered the urban infra sector by bagging multiple orders in the elevated viaduct segment from clients like the DMRC, NCRTC and KMRL.
- Over 60 percent of the Rs.1.7tn outlay in the Union Budget 2020-21 for transport will be utilized in making elevated metros and the remaining for the construction of underground metro lines.
- An investment of ~Rs.3tn over the next five years is expected to provide significant opportunities for the Company's Urban Infrastructure business, especially in areas such as track laying, signaling & telecommunication, civil works, etc.

Oil & Gas Pipelines Business

- The Company has entered into Engineering, Procurement and Construction of Oil & Gas cross-country pipelines, by bidding for its first project in Q4FY20.
- The Centre has decided to spend Rs.700bn over the next 3-4 years to enhance the network of gas pipelines to 35,000kms under One Nation – One Grid program. These investments shall offer almost Rs.50bn of market opportunity for a Company like KEC.
- The drop-in gas prices and interest of government to promote green energy, is expected to provide a surge in pipelines laid across the country.
- With several players exiting the market and a revival in investments, this sector seems promising.

Smart Infrastructure Business

- The Company is building a command and control center in the Police Headquarters in Aurangabad.
- The Company is L1 in Defense-related smart infrastructure projects.
- Initiatives of the Government like 'Smart City Program', 'Digital India Initiative' and 'National Smart Grid Mission' are expected to contribute to order inflow.
- Smart Infrastructure is expected to receive a push in the post-COVID environment with the need for mass scale monitoring and surveillance.

Railway Business

- Unexecuted orderbook stands at Rs.60bn.
- Executed overhead electrification of 1,095 km, comprising ~25% of the country's overhead electrification projects commissioned in FY20.
- Company received its single largest Railways Overhead Electrification EPC order worth Rs.8.7bn in FY20.
- Budgetary allocation for railway electrification of Rs.700bn and an outlay for capital expenditure amounting to Rs.1.6tn for FY21.

Cables Business

- Exports business remained subdued during the year due to low offtake in key targeted markets.
- The Company developed capabilities for manufacturing of All Dielectric Self-Supporting (ADSS) cables.
- The power cables segment has been growing at over 10 percent over the last few years.
- The Company has already received approvals for Catenary and Contact conductors, Signaling Control cables, Railways OFC and PIJF cables with capacity enhancements planned to be completed by H1 FY21.

Subsidiary Financials

- The JV between Al- Sharif Group and KEC Ltd. Company (in which KEC holds 51.1% shares) reported a turnover of Rs.2.4bn and a PAT of Rs.52.3mn.
- SAE Towers Brazil Torres de Transmisao Ltda., Brazil reported a turnover of Rs.12.3bn and a PAT of Rs.334.4mn contributing 10.3% and 5.9% respectively, to the overall performance of KEC.

- SAE Towers Mexico, S de RL de CV. reported a revenue of Rs.3.0bn and a loss of Rs.28.1mn, contributing 2.5% and -0.5% respectively, to the overall performance of KEC.
- SAE Prestadora de Servicios Mexico, S de RL de CV. reported revenue of Rs.563.7mn and PAT of Rs.7.0mn, contributing 0.5% and 0.1% respectively, to the overall performance of KEC.
- SAE Towers Ltd. reported a revenue of Rs.2.0bn and a PAT of Rs.4.0mn, contributing 1.7% and 0.1% respectively, to the overall performance of KEC.
- KEC International (Malaysia) SDN. BHD, reported revenue of Rs.877.4mn and PAT of Rs.44.8mn, contributing 0.7% and 0.8% respectively, to the overall performance of KEC.

Profit & Loss Analysis

- Revenue for FY20 increased by 9% YoY to Rs.119.7b led by strong performance of Power Transmission & Distribution (T&D) and Railways businesses. Growth was disrupted by the COVID-19 pandemic.
- EBITDA has grown by 7% YoY to Rs.12.3bn with EBITDA margins at 10.3% in FY20.
- Depreciation increased in FY20 to Rs.1470mn from Rs.1170mn in FY19 on account of change in lease accounting policy under IND AS 116 “Leases” and growth capex.
- Interest costs decreased marginally to Rs.3.1bn in FY20 on account of better WC management. Interest costs to sales ratio reduced to 2.6% as against 2.8% in FY19.
- Net profit increased by 14% YoY to Rs.5.7bn in FY20. Net profit margins stood at 4.7% in FY20 v/s 4.4% in FY19.
- Earnings per Share (EPS) increased to Rs.22.0 in FY20 from Rs.19.3 in FY19.
- Dividend for the year is 170% of FV of equity share (Rs.3.4 per equity share), reflecting an outgo of Rs.1.1bn (including dividend distribution tax).

Balance Sheet Analysis

- The Net Block increased by 15% from Rs.98bn to Rs.11.3bn. Capital Work in Progress went up drastically by down by a whopping 105x to Rs.840mn. Cash position declined from Rs.2.8bn to Rs.1.6bn in FY20; due to slowdown in receivables.
- Net Worth increased to Rs.27.9bn from Rs.24.4bn in FY19. The Company has not raised any Equity Capital during the year, keeping the Equity Share Capital unchanged at Rs.514.2mn. Reserves and Surplus increased to Rs.27.5bn from Rs.23.8bn recorded in FY19.
- Gross Borrowings increased to Rs.22.1bn from Rs.17bn in FY19, due to deferment of certain collections from customers as a result of COVID-19 and interim dividend paid in February 2020.

Particulars (Rs. bn)	FY20	FY19
Gross Debt	22.1	17.0
Net Debt	20.4	14.2
Total Equity	28.0	24.4
Gross Debt to Equity	0.7x	0.8x
Net Debt to Equity	0.6x	0.7x

- The company's net working capital was up by 18.2%YoY at Rs.32.4bn in FY20. The company's net working capital days have increased to 119 days from 103 days in FY19.
- Return on Capital Employed decreased to 23.2% in FY20 as compared to 26.6% in FY19.
- Return on Equity decreased from 22.4% in FY19 to 21.6% mainly on account of payment of interim dividend in FY20, with an outlay of Rs.1.1bn.

Cash Flow Analysis

- Cash flow from operating activities increased to Rs.4bn from Rs.3bn, led by higher profit before tax. WC changes for the year remained at negative Rs.6.2bn. Company paid taxes of Rs.2.2bn in FY20 v/s Rs.2.6bn in FY19.
- The company incurred capex of Rs.2.1bn this year compared to Rs.1.1bn in last year on the account of increasing contract assets in FY20.
- Interest expense and dividend payments during the year came at Rs.3.1bn and Rs.1.1bn respectively. Dividend per share was Rs.3.4 in FY20.

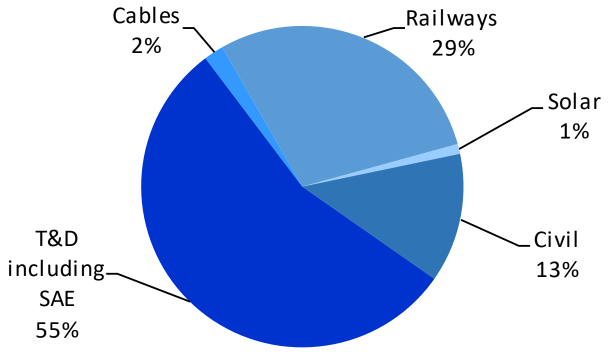
Particulars (Rs. mn)	FY16	FY17	FY18	FY19	FY20
Cash Flow from Operations	(6,490)	21,815	10,391	2,867	4,032
Free Cash Flow	(7,998)	21,263	9,216	2,075	1,466
Cash Flow from Investing	229	(5,325)	(951)	701	(3,320)
Cash Flow from Financing	7,216	(15,016)	(6,868)	(3,377)	976

Threats

- The company has sizable international revenues which are at risk due to political unrest mainly in South American region and dropping oil prices affecting the Middle East business.
- The company is at risk of experiencing a hit in profit due to varying commodity prices of aluminum and copper, along with the risk in currency fluctuation having an adverse impact.
- Slowdown in domestic infrastructure investment has led to lesser incoming orders and sales with chances of covid-19 effect leading to an overhang.

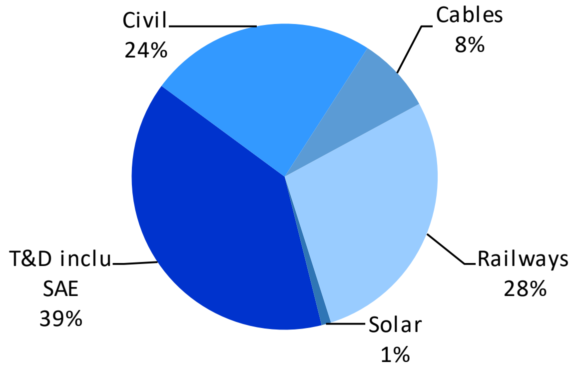
Financial Metrics and Charts

Exhibit 1: Order book FY20



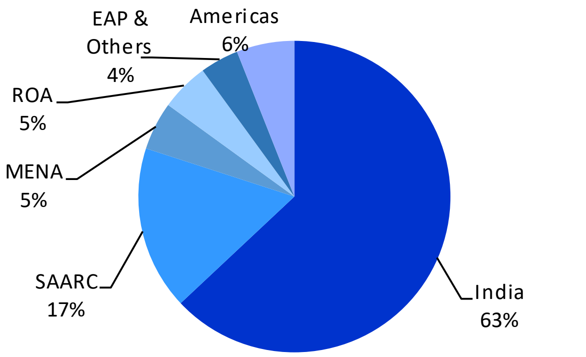
Source: Company, DART

Exhibit 2: Order intake FY20



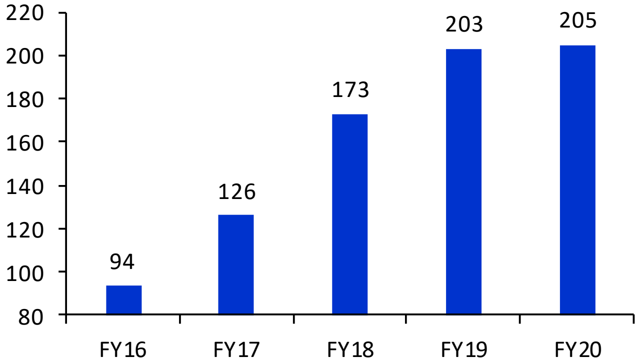
Source: Company, DART

Exhibit 3: Geography wise order book



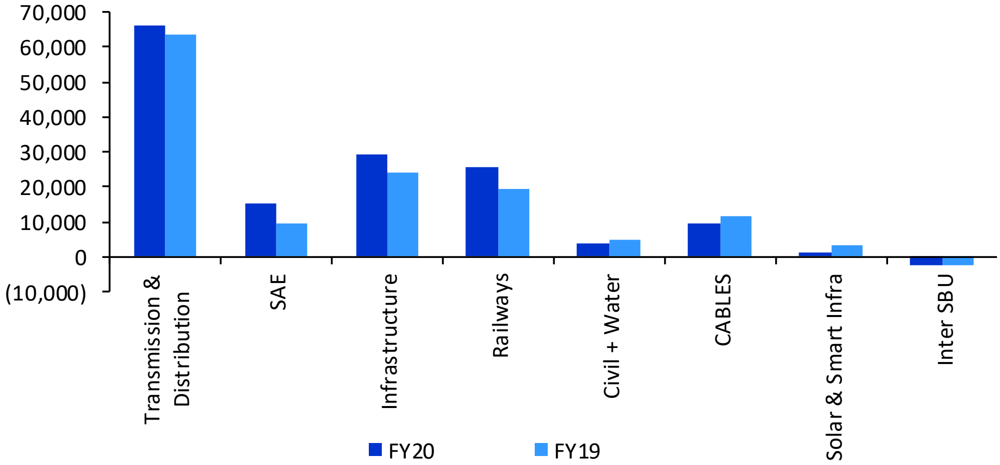
Source: Company, DART

Exhibit 4: Annual order book (Rs. bn)



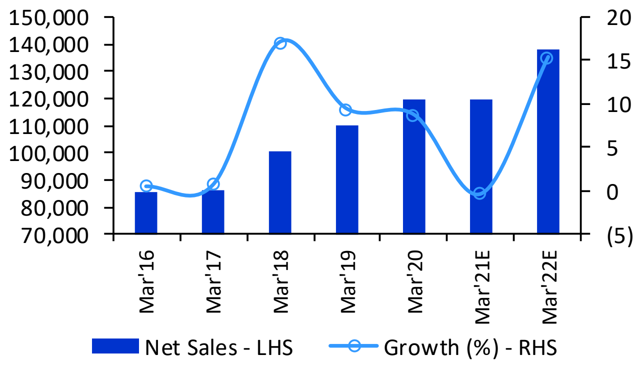
Source: Company, DART

Exhibit 5: Revenue performance (Rs. mn)



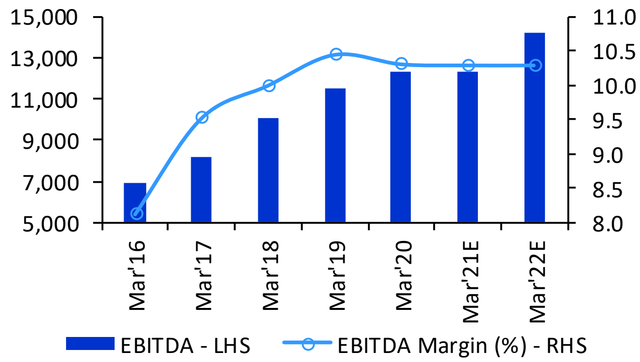
Source: Company, DART

Exhibit 6: Net sales and growth (%)



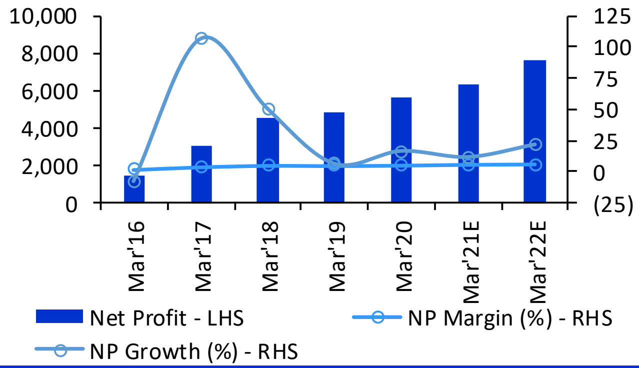
Source: Company, DART

Exhibit 7: EBIDTA and margin (%)



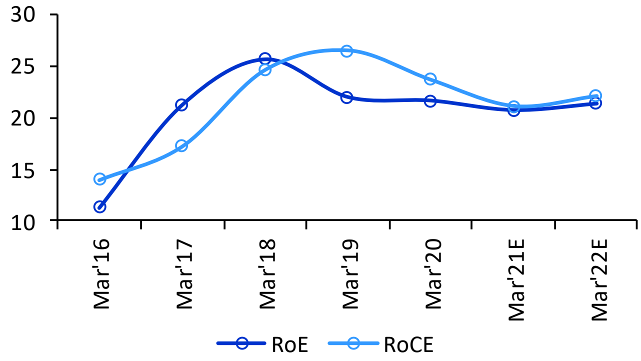
Source: Company, DART

Exhibit 8: Net profit and margin (%)



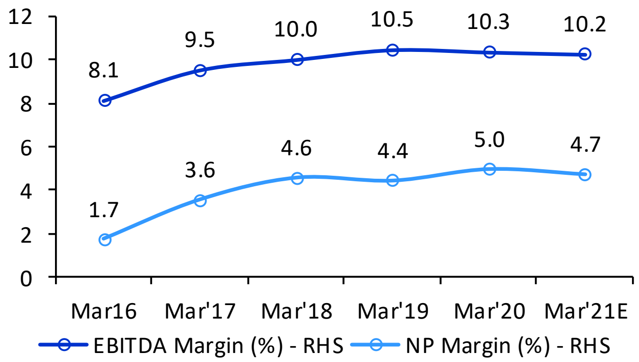
Source: Company, DART

Exhibit 9: RoE and RoCE (%)



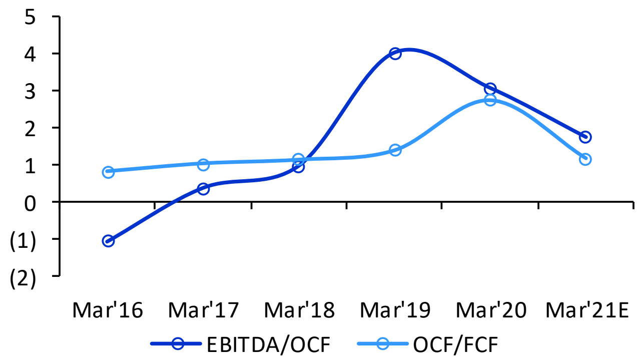
Source: Company, DART

Exhibit 10: EBIDTA and NP margin (%)



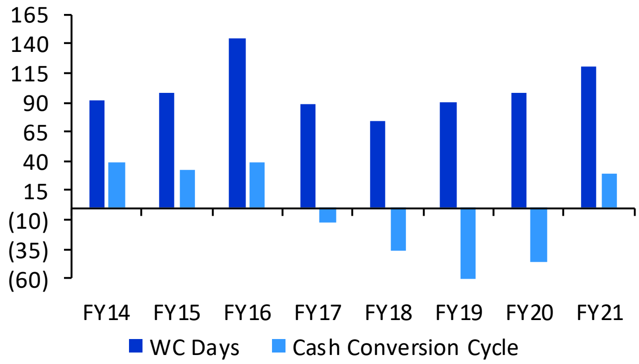
Source: Company, DART

Exhibit 11: EBIDTA /OCF and OCF/FCF



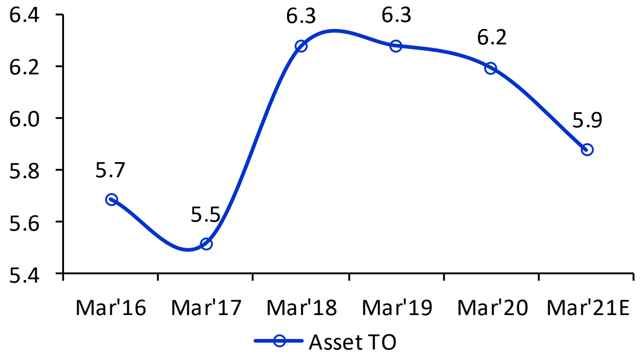
Source: Company, DART

Exhibit 12: WC days



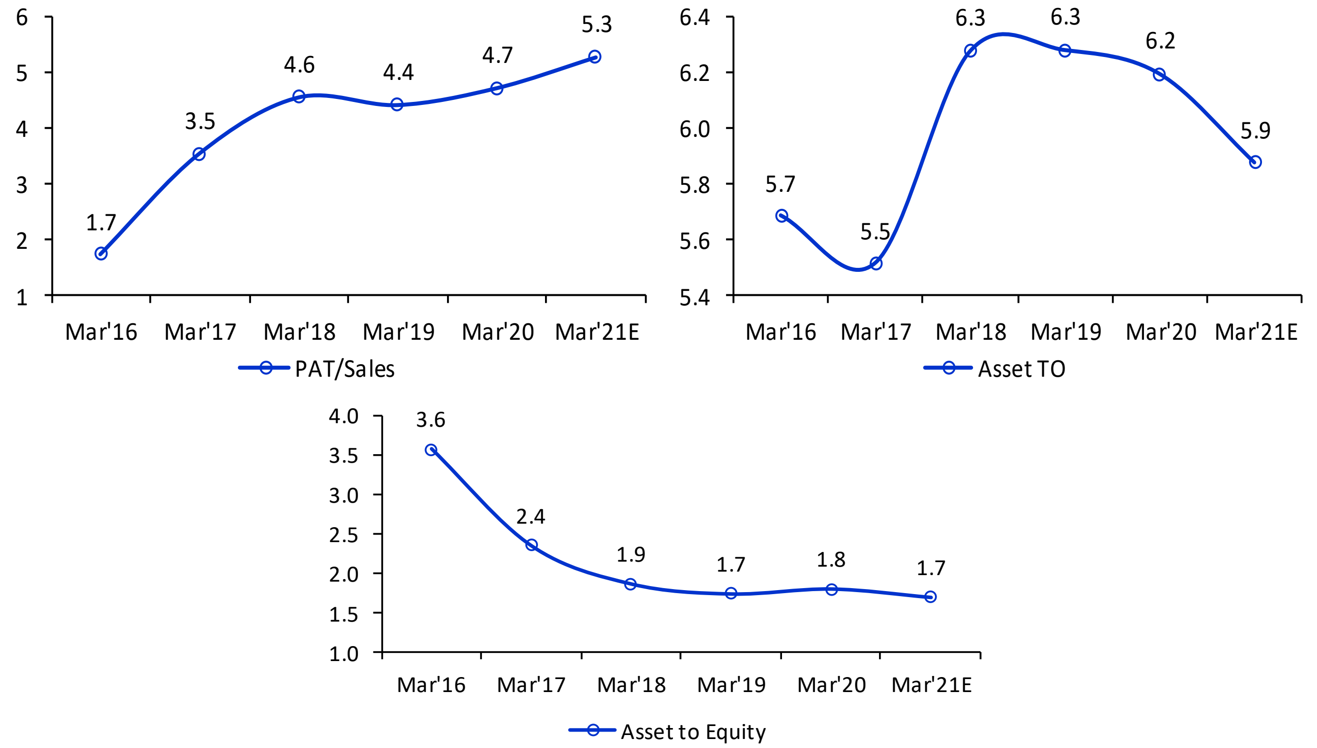
Source: Company, DART

Exhibit 13: Asset to TO



Source: Company, DART

Exhibit 14: DuPont analysis



Source: Company, DART

4- Quarter ConCall Trend Analysis

	Q1 FY2020	Q2 FY2020	Q3 FY2020	Q4 FY2020
Management Guidance	•Management expects to surpass double digit growth in SAE by year end on the back of growth in volumes and additional income from execution of three projects. •Management maintains 2.7% guidance on interest cost as it is shifting its portfolio into creating more liabilities at lower cost both in dollars and euro terms. •Going forward for next two quarters at least railway order book could be more on OHE, track-laying and on the Civil Infra.	• The company plans a growth of around 15-20% in FY20. Based on its current order book, strong L1 and significant tender pipelines, the management expects to maintain revenue growth and EBITDA margin guidance for FY20 and a similar revenue growth for the next year. • With SAE, the company has experienced a huge growth in revenues of 80-90% which will normalise to 20-25% annual growth in the coming years. • The company expects a growth of 20-25% in railways order book in the next year with a lot of projects in the pipeline. Guidance increased to Rs.27-28 bn this year from Rs.24-25 bn earlier. • The company expects a double digit EBIT margin in the railway business by the end of FY20. • The company expects a growth of around 25% in civil margins. • Margins in T&D are expected to be maintained around 11-12%	• Margins estimated to be 10.5% for FY20. Revenue will continue to be at ~16% roughly Q4 also. • SEBs will continue to do ~Rs.20bn of revenue every year with PGCIL part being replaced by the private sector or PGCIL winning new jobs. • Expecting lower debt levels in Q4FY20 compared to Q3, expecting collections in Q4 probably and ending with ~Rs.1bn lower debt. • Expecting SAE with flattish revenue but worst-case declines of 5% to 7% in FY20. • Targeting initial margins of 7% converging to 10% in three years for civil business.	• No growth outlook to given due to corona situation and will observe for two weeks and should be alright in a month or so.
Order Book - Order Inflow	•Order book grew by 5% YoY at Rs.190.2bn. Order book of railways is Rs.50.0bn plus. •Order intake in civil business revenue slowed due to slowdown in industrial capex, cautious approach in taking real estate projects and shortage of manpower due to elections. •Order inflows is Rs. 11.2bn, comprises of a fair mix of orders from transmission distributors cables and civil with a current L1 position of over 35.0bn majorly in T&D, railways and civil.	• Order inflows touched Rs.37.7 bn including the latest quarter announcement of Rs.18 bn orders. • For H1FY20, order book stands at Rs.180.9 bn with a large L1 position of Rs.50 bn plus which is majorly from domestic T&D, railways & civil. • Regarding the defence orders received, Rs.40-50 bn has been spent for residential purposes. • Roughly around 20% of the L1 orders are from railways, 20% from civil, and rest from T&D.	• Y-T-D order inflows have touched Rs.98bn, order book as on 31st December is at Rs.220bn with an L1 position of around 25bn. • Railway order book at Rs.69bn as on 31st December,2020. • Won four green energy orders from PGCIL in FY20. • Management believes to touch Rs.140bn order intake for FY20 and similar for FY21. • SEB jobs valued between Rs.5bn to Rs.6bn, but PGCIL was lower in FY20 compared to FY19. • Strong railways order pipeline with new orders of ~Rs.31bn. • Defense order book today is between Rs.2bn to Rs.3bn.	• L1 order book position over 24000 crores. Rs.14000 crore TBCB tender bid in last week. • Rs.9000 to Rs.10000 crore tenders in June for railways and no cut in CAPEX confirmed. Metro projects have been quoted last FY19 itself and started with Bangalore and confident about decent order intake. • Saudi Rs.200 crore orders received. Saudi capital work in progress at Rs.80 crore due to non-operational Dubai factory. • 12 or 13 schemes bid out and most of Rajasthan and 3 to 4 in South and 1 in Madhya Pradesh and last 10 days put in bids on 30 to 35 projects for Power Grid in both transmission and distribution. • Gotten 2 Sterlite orders at L1 stage and can maintain revenues best case or decline, range of orders in Rs.500 crore or so.

	Q1 FY2020	Q2 FY2020	Q3 FY2020	Q4 FY2020
Revenue Growth	•Revenue grew by 15% YoY on account of strong growth of 25% YoY in T&D revenues.	• Revenues grew by around 17% YoY to Rs.28 bn	• Revenue for Q3FY20 grew by 16% YoY to Rs.31bn.	• FY20 revenue Rs.120bn was up by 9% lost Rs.5bn revenue due to corona.
Profitability & Margins	•EBITDA grew by 16% YoY at Rs.70.0mn in the quarter •EBITDA margin is stable at 10.4%. PBT margin is 5.7% and PAT margin is 3.7%. •PBT and PAT has not shown same growth as compared to EBITDA because of impact of lease accounting policy. PBT is being affected from prepayment premium on high cost loans and reduction in other income on YoY basis	• EBITDA grew by 16% YoY and EBITDA margins increased to 10.5%. • PBT grew at a faster pace than revenues at 21% YoY. • PAT grew by 42% YoY and PAT margins improved to 5%.	• EBITDA was Rs.3bn and EBITDA margin was flat at 10.4%. • PBT grew at 19% YoY and PBT margin improved to 6.6%. • PAT grew by 29% YoY and PAT margin improved to 4.7%.	
Segment	•T&D grew by 25.0% YoY and non-T&D revenues contributed more than 35.0% to overall revenues. SAU business grew by 13.0% YoY. •Rail business grew by 67.0% YoY at +5.0bn. •Railways has been a laggard this quarter in terms of order book because most of the tenders were postponed or were not being awarded	• T&D revenues (including SAE) grew by 30% YoY on account of exhibition on large international order book and significant revenue contribution from the execution of all the 3 EPC projects in Brazil. • T&D L1 order bookings had Rs.5 bn in power grid & around Rs.10 mn in private sector. Slowdown in T&D order inflows was due to elections and lag from international vendors. • Revenues in railways grew by 35% YoY to Rs.5.68 bn, crossing Rs.5 bn for the first time. With continued thrust on execution, Railways clocked Rs.10 bn in revenues on an order book of Rs.60 bn. • 15% of the total revenues come from international markets and exports of the cable business segment. • Cable business has maintained its volume growth and degrew marginally due to decline in commodity prices.	• The L1 is majorly from T&D business. T&D revenues including SAE growing at 21.5% due to EPC execution. • Railways recorded revenue of +Rs.6bn in Q3FY20, company estimates FY20 railway revenues at Rs.27bn. • Civil order book scaled up significantly to +Rs.24bn with Delhi Metro and Kochi Metro orders. • Cable business witnessed revenue slowdown due to lower order intake and impact of commodity prices. • Execution of existing order book for both solar and smart infra is on track with few L1 positions. • Dollar receivables up with international business growth at 29%-30%. • Utilization level for cable is around 80% & will improve with in-house consumption for railway project.	• Rs.2000 L1 orders are from International T&D projects and see positive FY21 outlook. • SAARC has got a large number of tenders to be quoted in SAARC in Bangladesh and Nepal worth Rs.6000 tenders and in Africa and Mozambique way more tenders improved compared to previous year. • Railways 33% YoY revenue and overhead electrification Rs.6500 crore order book. • Civil business entry defense sector and construction data center order but muted CAPEX cycle India Rs.2700 crore metro projects.
Tailwinds / Headwinds	•Interest rate are close to 0.5% to 0.7% higher on a YoY basis.	• A muted industrial CapEx cycle has impacted the company's civil business.• The company has negative cash flow from operations due to a major reduction in payables which has impacted the working capital of the company too. The management is trying to address the issue by shifting to larger vendors as smaller ones are facing difficulties in obtaining finance	• Civil business faced headwinds on account of prevailing muted industrial CAPEX cycle in India and challenges faced by the reality sector.	• International project sites including SAE were open, operating at 85% with social distancing and EHS norms in place.

	Q1 FY2020	Q2 FY2020	Q3 FY2020	Q4 FY2020
Outlook	•The execution ramp-up of the higher margin T&D business will enable the Company to achieve the 15.0% to 20.0% revenue growth with EBITDA margins expected to remain at the current levels. •However, there is headwinds of awards getting delayed. Order inflow for FY20 to grow at similar level of 15.0-20.0%. •Management hopes that Green Energy Corridors will be awarded in a few weeks' time and it has a deadline of December 2020. ••Order inflows are expected to grow at 15-20% this year in comparison to that of last year. •Revenue growth in international market is expected to continue during the year. •Regarding Brazil, more orders will be coming in Q3 and Q4, but the Company have some L1s of the earlier orders where the agreements have not yet been signed and they are lying in L1. So, if those contracts get signed then probably another Rs.5.0bn or so can be added to order book in Brazil quickly.	• With Saudi's outstanding being normalized, the company expects MENA market to start yielding revenues steadily as the intensity of local competition reduces. • The company has received large orders from NCRTC, few orders related to building of RUB & ROB and RRTS orders which is due 18-30 months increasing railway order book. • The management feels that despite a decline in the cable business now, the company will be able to pick up pace with future orders with high per km value however the company expects no growth in revenues as of this year. • The company expects elevated revenues from SAE once the 3 EPC projects get awarded by Q1 next year. • With new areas opening up in RVNL, core and the zonal railways, and electrification requirements in the metro sector, the company expects railways to do very well. •With the HV market trending, KEC is focussing more on utilities & exports.	• Done two residential projects and plan to do three or four buildings in a year, which will yield Rs.2bn to Rs.3bn in revenues. • Metro civil expected to become 40bn business in three or four years under civil. • SAE expected to be flat in next year as already did 40% growth in 2019 and order intake was poor last year because of skipping an auction. • May touch double digit margins if get some good deals in cement and steel with continuous execution.	• Interest cost target further improvement from 2.5% in FY20 and at least an improvement of 25bps to 30bps to 2.3% in FY21, expected due to opening up of new borrowings and government reducing repo rate and now AA companies can borrow at sub 7% rates. • SAE may see decline in FY21 due to Brazil position and devalued 25% Brazil currency and forex will be low if performance stays same but margins are to increase this year for international projects.
Dividends and Buyback			• Declared an interim dividend of Rs.3.40 per share on FV, total outflow of ~Rs.1.1bn including DDT.	
Major exception items	•The Company suffered a FOREX loss of Rs.60.0 mn as against FOREX gain of Rs.200.0 mn on YoY basis due to large amount of loans being shifted through foreign currencies.	• ForEx gain of Rs.200 mn for Q2FY20 was included in other expenses. • Investment in electoral bonds has increased non-current investments in H1FY20 by Rs.1.75 bn with no investments made in this quarter.	• FOREX gain was ~ Rs.250mn for Q3FY20 and YTDFY20 Rs.750mn, with overseas income of 50%.	
Capex	•Railway CAPEX for the year is probably Rs.400.0-500.0mn and overall CAPEX is expected to be Rs.1.5bn-Rs.1.7bn.		• Government planned capex on transmission Rs.450bn per annum, from which, Rs.100bn will go in power grid, Rs.100bn will go in private, Rs.200bn will go in ECB.	• CAPEX for cables should resume from September and BHV put together will be Rs.350 crores. • CAPEX target for FY21 at lower levels due to corona situation but CAPEX due to mechanization at site level in T&D and Railways and Civil at Rs.100 crore or so vs. Rs.250 crore previous level.

	Q1 FY2020	Q2 FY2020	Q3 FY2020	Q4 FY2020
Working Capital	•Net working days was 120 and DSO went up by 3-4 days YoY. •Debtor days in net working capital increased by 3-4 days landing at around 250.	• Rs.6 bn receivables have been received from Saudi till date with an improvement in overdue positions this quarter. However, Rs.5.4 bn will be received on completion of the project • Reduction in payables has impacted the working capital.		• March did not collect Rs.300 to Rs.400 which would have reduced borrowing. Collected April 2020 all money and vs. April 2019. Rs.100 crore received from Saudi Arabia government and very happy with Working Capital situation and do not see any Working Capital issues and payment delays and have kept reserves for liquidity and paid Rs.200 crore or so NCDs in April itself.
Other expenses	•Other expenses grew by 59.5% YoY to Rs.2.5bn due to rise in logistics cost on account of shipments in Africa and Central America •Interest cost for this quarter was Rs.50.0 mn after adjusting for one-time prepayment.	• High international revenues in landlocked countries like Bangladesh & Africa have led to high logistic costs, freight & other expenses. • Interest cost increased from Rs.760 mn in H1FY19 to Rs.820 mn in H1FY20, even as the total outstanding debt has gone up by Rs.2 bn. However, due to 17% growth in revenues interest improved by 20 bps as a % of sales, from 3.2% in Q2FY19 to 2.9% in Q2FY20 and expects further reduction in % terms.	• Reduction in interest cost for Q3FY20 by ~5%, interest as a percentage to sales has reduced from 3.2% to 2.6%. • Staff cost is higher by ~43% and ~10% Y-o-Y and Q-o-Q respectively, as company hired ~600 people in railways in FY20 and on international sites.	• Travel costs monthly at Rs.10 crore to offset operational costs and uncertainties.
Accounting policies	•IndAS net impact was 20.0mn. •EBITDA increased by 70.0mn and interest & depreciation by 90.0mn.	• Implementation of IndAS 116, led to an increase in depreciation & interest in absolute terms.		
New Initiatives		• With the company entering into RRTS & civil work for railways, new sub segments have been added to the railway vertical. • The company is L1 in a large metro project of Rs.8.5 bn plus and is also scaling up the civil business by adding new sub segments to strengthen the civil business. • The company received its first defence order & Kochi Metro expansion project.		
Debt		• Borrowings plus interest-bearing acceptance reduced significantly by Rs.40 bn YoY despite revenue growth • Foreign borrowings mix improved from 37% to 64% YoY • SAE loan was a tax inefficient debt, hence KEC refinanced it with a local debt. That is why, despite paying off SAE's loan debt appeared almost flat.	• Currently we are at about debt of close to about 2400 crore. • Acceptances have reduced significantly by Rs.7bn over 31st December 2018. • Have received Rs.6bn of Saudi cash flows in the form of dividend.	• Vendor credit days extended by larger players and no major push for paying in advance. • Improved borrowing Rs.2380 crore vs. Rs.3100 previous year average vs. Rs.2600 current year average vs. guidance Rs.3600 crore in FY20.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**110,005**	**119,654**	**119,359**	**137,709**
Total Expense	**98,506**	**107,310**	**107,066**	**123,525**
COGS	81,230	84,182	88,326	101,216
Employees Cost	8,322	11,044	9,788	11,293
Other expenses	8,954	12,084	8,952	11,017
EBIDTA	**11,499**	**12,344**	**12,293**	**14,183**
Depreciation	1,171	1,472	1,209	1,270
EBIT	**10,328**	**10,872**	**11,085**	**12,914**
Interest	3,119	3,080	2,718	2,715
Other Income	226	111	150	150
Exc. / E.O. items	0	0	0	0
EBT	**7,435**	**7,903**	**8,517**	**10,348**
Tax	2,571	2,248	2,214	2,691
RPAT	4,864	5,655	6,303	7,658
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**4,864**	**5,655**	**6,303**	**7,658**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	514	514	514	514
Minority Interest	0	0	0	0
Reserves & Surplus	23,837	27,462	32,403	38,407
Net Worth	**24,351**	**27,976**	**32,917**	**38,921**
Total Debt	16,968	22,074	22,574	23,074
Net Deferred Tax Liability	1,183	527	527	527
Total Capital Employed	**42,502**	**50,577**	**56,018**	**62,522**
Applications of Funds				
Net Block	**9,787**	**11,292**	**7,643**	**7,373**
CWIP	73	840	840	840
Investments	5,261	6,014	8,014	10,014
Current Assets, Loans & Advances	**101,511**	**110,400**	**106,821**	**121,941**
Inventories	6,410	7,758	7,739	8,929
Receivables	48,753	54,448	52,649	60,743
Cash and Bank Balances	2,762	1,637	5,557	6,995
Loans and Advances	43,586	46,558	40,876	45,274
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**74,129**	**77,969**	**67,299**	**77,645**
Payables	73,486	77,207	66,710	76,966
Other Current Liabilities	643	761	589	679
sub total				
Net Current Assets	27,382	32,432	39,522	44,296
Total Assets	**42,502**	**50,577**	**56,018**	**62,522**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	26.2	29.6	26.0	26.5
EBIDTA Margin	10.5	10.3	10.3	10.3
EBIT Margin	9.4	9.1	9.3	9.4
Tax rate	34.6	28.4	26.0	26.0
Net Profit Margin	4.4	4.7	5.3	5.6
(B) As Percentage of Net Sales (%)				
COGS	73.8	70.4	74.0	73.5
Employee	7.6	9.2	8.2	8.2
Other	8.1	10.1	7.5	8.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.8	0.7	0.6
Interest Coverage	3.3	3.5	4.1	4.8
Inventory days	21	24	24	24
Debtors days	162	166	161	161
Average Cost of Debt	18.7	15.8	12.2	11.9
Payable days	244	236	204	204
Working Capital days	91	99	121	117
FA T/O	11.2	10.6	15.6	18.7
(D) Measures of Investment				
AEPS (Rs)	18.9	22.0	24.5	29.8
CEPS (Rs)	23.5	27.7	29.2	34.7
DPS (Rs)	2.7	3.4	4.4	5.4
Dividend Payout (%)	14.3	15.5	18.0	18.0
BVPS (Rs)	94.7	108.8	128.0	151.4
RoANW (%)	21.9	21.6	20.7	21.3
RoACE (%)	20.0	18.8	16.9	17.5
RoAIC (%)	27.6	24.5	22.3	24.4
(E) Valuation Ratios				
CMP (Rs)	269	269	269	269
P/E	14.2	12.2	11.0	9.0
Mcap (Rs Mn)	69,263	69,263	69,263	69,263
MCap/ Sales	0.6	0.6	0.6	0.5
EV	83,469	89,700	86,280	85,342
EV/Sales	0.8	0.7	0.7	0.6
EV/EBITDA	7.3	7.3	7.0	6.0
P/BV	2.8	2.5	2.1	1.8
Dividend Yield (%)	1.0	1.3	1.6	2.0
(F) Growth Rate (%)				
Revenue	9.4	8.8	(0.2)	15.4
EBITDA	14.3	7.3	(0.4)	15.4
EBIT	15.3	5.3	2.0	16.5
PBT	8.2	6.3	7.8	21.5
APAT	6.1	16.3	11.4	21.5
EPS	6.1	16.3	11.4	21.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,867	4,032	7,059	8,308
CFI	701	(3,320)	(3,000)	(3,000)
CFF	(3,377)	976	(3,578)	(3,869)
FCFF	2,075	1,466	6,059	7,308
Opening Cash	2,306	2,762	1,637	5,557
Closing Cash	2,762	1,637	5,557	6,995

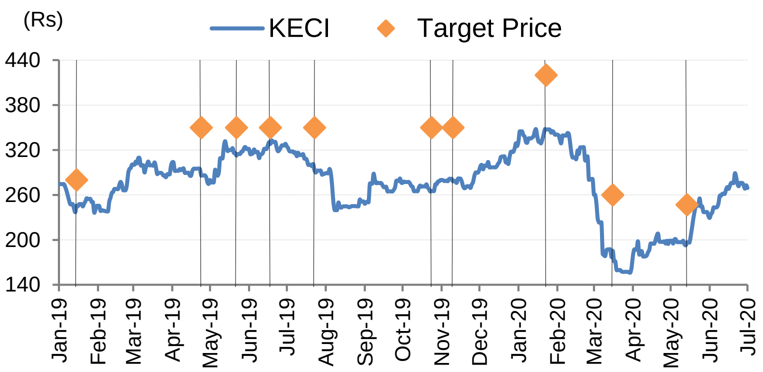
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-19	Accumulate	280	246
May-19	Accumulate	350	286
Jun-19	Accumulate	350	313
Jul-19	Accumulate	350	328
Aug-19	Buy	350	293
Nov-19	Buy	350	265
Nov-19	Buy	350	278
Feb-20	Buy	420	348
Mar-20	Buy	260	186
May-20	Buy	247	197

**Price as on recommendation date*

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