KEC International

Accelerated recovery

The key takeaways from KEC's FY20 AR are as follows: (1) a geographically well-diversified order book and robust pipeline; International T&D (SAARC/MENA, ex-SAE) and Civil & Railways would continue to drive growth in FY21E; (2) moderate profitability, dipped in FY20; (3) incremental borrowing cost (current interest rate <7%) has come down (FY20 finance cost at 2.8%; -20 bps YoY); ~55% debt is in forex; (4) sustained increase in WC intensity has led to lower CFO/EBITDA over past two years, but NWC is stable. Our channel checks for capital goods suggest that well-diversified companies are witnessing accelerated recovery in execution as international operations remain mostly unaffected while the labour situation is improving locally. We have increased FY21/22E revenue/PAT by 8/10.3% and 22.9/17.2% respectively. We roll forward 12x P/E based valuation to Jun-22E and maintain BUY with an increased target price of Rs 322/sh. The key risks to our call: (1) adverse currency/commodity movement, (2) further delay in capex recovery, (3) slowdown in government T&D spend, and (4) labour shortage.

- **Order pipeline robust:** KEC is bidding for projects worth Rs 50bn in the Middle East and Rs 90-100bn from Indian Railways. It will also be the beneficiary of TBCB ordering of Rs 150-200bn from PFC/REC/PGCIL in 1HFY21E, besides the Rs 60-bn ordering from SAARC nations like Bangladesh and Nepal. KEC is already L1 in orders worth Rs 40bn (majorly International T&D) and has won Rs 7.4bn new orders for FYTD21; this is quite a feat considering FY20 was a miss on ordering. Its bid pipeline is strong at Rs ~500bn (domestic at Rs 350bn and international at Rs 150bn).
- **International T&D/Railways/MRTS to drive growth in FY21E:** The shortfall of ~Rs 5bn worth of billing due to Mar-20 lockdown has led to lower revenue growth (of 9%) against guidance (of ~15%). The Railway ramp-up has progressed quite well and may see growth of ~30%+ for FY21E as well. Civil OB comprising primarily 3 MRTS and 1 RRTS projects, apart from the buildings segment, would contribute significantly (~Rs 15bn) FY21E onwards. While India-T&D and SAE continue to face headwinds in the near term, the International-T&D, especially MENA (the UAE, Oman and Saudi), will continue to drive order and revenue growth in FY21E. KEC is expected to lever the newly-acquired Dubai facility for securing orders. SAE would remain flat/negative, at best, in FY21E.
- **Balance sheet stable; deleveraging required:** The reported debt is in line with FY20 guidance of Rs 22bn. With acceptances, net debt is Rs 33.3bn (1.13x net D/E). FY20 also witnessed a reduction in interest cost on account of higher foreign debt (50%+) in the borrowing mix as a result of robust execution in the international markets. Finance costs would come down further by 20bps to 2.6% due to lower incremental borrowing cost in FY21E.

Financial summary

(Rs mn, Mar. year-end)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	85,844	1,00,580	1,10,005	1,19,654	1,24,092	1,37,047	1,51,403
EBITDA	8,179	10,062	11,499	12,344	12,417	13,992	15,479
APAT	3,048	4,604	4,864	5,655	5,613	6,639	7,666
Diluted EPS (Rs)	11.9	17.9	18.9	22.0	21.8	25.8	29.8
P/E (x)	22.4	14.8	14.0	12.0	12.1	10.3	8.9
EV / EBITDA (x)	11.7	10.4	8.3	8.1	7.8	6.7	6.0
RoE (%)	21.2	25.7	21.9	21.6	18.1	18.0	17.7

Source: Company, HSIE Research

BUY

CMP *(as on 24 July 2020)*	Rs 265
Target Price	Rs 322
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 265	Rs 322
EPS %	FY21E	FY22E
	22.9	*17.2*

KEY STOCK DATA	
Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (Rs bn) / ($ mn)	68/911
6m avg traded value (Rs mn)	116
52 Week high / low	Rs 359/154

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	48.9	(21.0)	(15.0)
Relative (%)	27.2	(12.6)	(15.7)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	51.66	51.66
FIs & Local MFs	27.46	27.78
FPIs	8.70	8.79
Public & Others	12.18	11.77
Pledged Shares	-	-

Source : BSE

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Railway Services -
- Overhead Electrification for conventional railways
- S&T systems
- Traction substations
- Doubling & Tripling of tracks and new railway lines, including earthwork and track laying
- Civil Infra – Road Over Bridge, Bridges, Tunnels, Stations & Platforms
- Electrification and track laying for Metros

Solar Services –
- End-to-end, in-house designing and plant engineering, including project feasibility analysis across large-scale solar PV plants
- Supply/ sourcing of key equipment and structures
- Complete range of civil works and O&M services
- Integrated EPC solutions for solar generation and evacuation

Smart Infra Solutions & Services -
- Smart Cities - Integrated Command & Control Centre, Surveillance, Smart Poles, Data Centre, Solid Waste Management
- Communication - Optic Fibre Cable Network, Network
- Operations Centre, Operations and support systems
- Smart Grid - SCADA and T&D Grid Management,
- Advanced Metering, Battery Energy Storage, Substation Automation
- Smart Mobility - Smart Transport Platforms, Automatic
- Intelligent Traffic Management

Composition of business segments

- **Transmission & Distribution:** provides integrated solutions on a turnkey basis for Transmission Lines up to 1,200 kV and large-size Substations – Air insulated up to 1,150 kV, Gas insulated up to 765 kV and Hybrid Substations up to 220 kV.
- **Railways:** An integrated player with over five decades of expertise in the railway infrastructure EPC sector, continues to remain a leader in Railways Overhead Electrification (OHE) projects and execute complex and technology intensive projects such as track laying, signalling and telecom, Road over Bridges (ROB) and other railway infrastructure.
- **Civil & Urban Infra**: focuses on the construction of factories, residential & commercial buildings, urban infrastructure, warehouses and sewage & water treatment plants, especially in the midsize market segment dominated by small unorganized players and by few large companies. The business continued with diversification in FY20 and forayed into Urban Infrastructure and Defence Civil sectors.
- **Solar:** offers comprehensive EPC services across large-scale ground-mounted and rooftop solutions, including Single Axis Tracking projects.
- **Smart Infra:** The business plays the role of a master system integrator and works closely with central and state governments, urban local bodies and utilities for creating digital infrastructure in the areas of Smart Cities, Communication, Mobility, and Smart Utility.
- **Oil & Gas pipeline:** includes construction of Oil & Gas cross-country pipelines.
- **Cables**: KEC is continuously expanding its portfolio with new products to tap into the growing cables market globally. Their cables are marketed under the brand name of RPG Cables and Asian Cables.
  - Power Cables(LT/HT/EHV)
  - Telecom Cable Optic Fiber and Jelly Filled

Power T&D is the largest segment of the Company, contributing over 65 % to the overall revenue mix and over 50% to the order book

Higher GEC allocation by govt will augur well for KEC

The SAARC region is witnessing a growth in bilateral as well as multilateral funding from agencies such as JICA, World Bank, Islamic Development Bank, KfW Bank, ADB, European Investment Bank, USAID, and GOI line of credit

KEC aims to further increase its market share especially in Saudi Arabia, UAE, Oman and North Africa (Morocco, Egypt)

Countries such as Mozambique, Tanzania, Kenya, Guinea, Nigeria, South Africa, and Mali are expected to invest heavily in T&D projects

KEC has made significant inroads into this market and continues to strengthen its position in the region, esp. in Malaysia and Thailand

Region-wise outlook for Power T&D

1. India

- India's generation capacity is expected to reach 469 GW by 2022 and the development of high voltage transmission grid will need to keep pace with the generation capacity.
  The renewable capacity is expected to increase to 450 GW by FY30 (~54 percent of total installed capacity) from 87 GW as of FY20. However, the lack of transmission infra has been a major concern for several solar/wind.

2. SAARC

- <u>Bangladesh:</u> It continues to drive the SAARC market. Its govt plans to construct 9,500 km of X-line and 140 SSs by 2030. The expected investment over the next 10 years in the power sector amounts to USD 80 billion, with 15-20 % being in T&D.
- <u>Nepal:</u> It is emerging as the Company's second largest market in SAARC region, with planned capacity addition of 4.6 GW by 2025. About 4,300 km of transmission lines and 59 substations are expected to be built by 2035.
- <u>Afghanistan:</u> The govt has planned the construction of nearly 1,500 km of X-lines and 34 SSs between FY 2020-25. Cross-border projects in the region, funded by ADB, also provides a lucrative opportunity for the Company.
- <u>Sri Lanka:</u> The country plans to enhance its power generation capacity from 4,043 MW to 6,900 MW by 2025 with significant contribution coming from renewable energy. Additionally, ADB has committed USD 800mn per year for the next 4 years towards various infra projects.
- <u>Bhutan:</u> rich in hydropower resources, it has an est. potential of 30 GW of which it has only been able to harness 1.6% of its total capacity. The country continues to work in close cooperation with the Indian govt to harness its hydropower, <u>with hydropower exports contributing more than 40% of Bhutan's domestic revenues and constituting 25% of its GDP.</u>
- <u>Myanmar</u>: 'Electricity for All' by 2030 by way of 3,000 km of transmission lines and linked substation projects for 500/ 220 kV to be built in the coming years. However, the dominance of a large number of Chinese contractors makes the market extremely competitive and tough to enter.

3. International Business

<u>(The Middle East, Africa, South East Asia, Central Asia, the Americas)</u>

- <u>MENA:</u> The MENA region will require an additional capacity of around 88 GW by 2023 to meet the growing demand, with work on most of the projects having begun. This will require an investment of USD 142 bn for power generation and around USD 68bn for T&D. The transition towards alternative and cleaner forms of energy will be the prominent theme in the region's electricity sector.

- <u>Africa(ex-NA):</u> It is estimated that around USD 80bn in transmission infrastructure will be invested by 2040 in Africa to absorb current and planned power generation. This amounts to investments of USD 3-4bn annually between 2019-2040 for transmission network expansion, primarily from private players.

- <u>South East Asia</u>: The region's electricity demand, growing at an average of 6 percent per year, has been among the fastest in the world.

Malaysia - In order to reinforce the grid, few projects have been earmarked for 2020-2022 to increase the distribution capacity between 200 to 400 MW. The total cost of these projects is expected to be USD 190 million.

Thailand: it is expected to invest over USD 6 billion to strengthen the transmission infrastructure over the next four years. The country is also focusing on expanding its cross-border links with neighboring countries to complement the ongoing effort to create ASEAN power grid.

In Philippines, the country is looking to add more of renewable capacity in the next couple of years

Vietnam, Philippines and Indonesia: Vietnam is expected to invest around USD 13.2 billion in transmission and distribution projects during 2020-2025. Indonesia is, likely to spend USD 5.5 billion annually on generation and distribution projects. Philippines is expected to add around 2,097 km of transmission lines and 24,350 MVA of transformer capacity during 2018-2025.

Central Asia is expected to see bulk of the power projects, including T&D, in replacement and rehabilitation of existing systems

Investments in Central Asia provides opportunities for KEC to expand its presence in the region

- Central Asia
  - Georgia: 4 transmission projects with an investment of USD 120 million expected
  - Ukraine: will see an investment of more than USD 200 million to upgrade .
  - Uzbekistan: has several power plants planned to enhance hydroelectric power sector in the country. It has announced plans to increase renewable installed capacity by 4,000 MW over the next five to six years.
  - Tajikistan World Bank has provided USD 134 million to support power sector.

- North America: North America's transmission grid needs an estimated investment of USD 210-230bn between 2018-2027 to upgrade the existing infra, integrate new renewable and distributed energy resources and to respond to a rapidly changing energy mix. About 44,119 km of lines at 115 kV and above voltage levels are planned to be added to the North American power grid by 2027. **Mexico** is making large-scale investments in capacity addition - 19,868 circuit-km of line length is expected to be added during 2019–32, with an investment of MXN 99,975 million, MXN 98,366 million on transformer capacity, and MXN 15,604 million on reactive power capacity during 2019-2032.

More than 90 percent of the investment is expected in countries such as Brazil, Chile, Argentina, and Peru

Brazil is expected to host a large power transmission auction before the end of 2020

- South America:
  - **Brazil** has launched the 10-Year Energy Expansion Plan 2029 (PDE 2029) at an est. investment of BRL 2.3 trillion during the period 2020-2029. Of the total investments, 77.4 percent will be absorbed by the O&G sector and 19.6 percent for electricity generation and transmission (including distributed generation). There is a huge emphasis on upgrading the ageing transmission network in the country, along with the upcoming clean energy capacity addition. Under PDE, MME has envisaged investment of about BRL 103 billion in power transmission segment, with BRL 73 billion in lines and BRL 30 billion in substations, including border facilities. 49,000 km of transmission line network and about 162 GVA of transformer network is expected to be built in the next decade.
  - **Chile** is focusing on expanding its national and regional grids through construction of about 5,000 km of transmission lines and associated transformer capacity. It has set a target to generate 60% of electricity through renewables by 2035 thus necessitating the need for building new transmission lines.
  - **Argentina** - government has identified large number of projects under its national budget to be developed through a public–private partnership (PPP) model, with 3,300 km of X-lines expected to be awarded through PPP
  - **Peru -** The government plans to add 6,205 MW of power generation capacity during 2018-2028 and has approved the 10-yr transmission development plan for the period 2019-2028, which includes 13 projects at an investment of $ 511mm.

Segmental Commentary

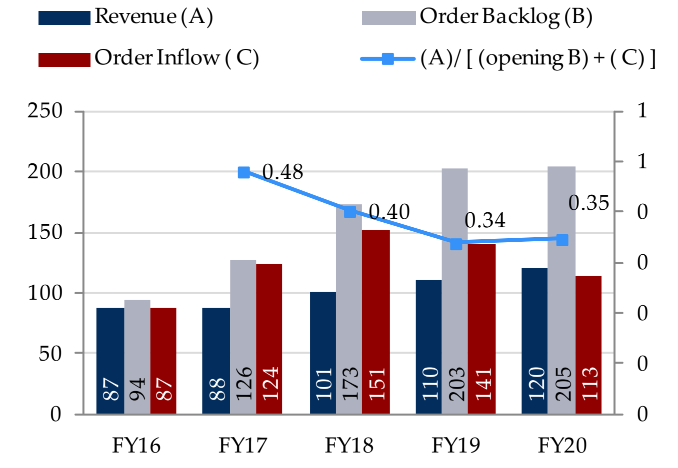
Segment	Segmental Performance & Outlook
Power Transmission & Distribution	**India/SAARC** ▪ Delivered substantial revenue growth exceeding 50% in SAARC with strong execution in Bangladesh & Afghanistan. The Company is executing 20+ projects in SAARC. With order wins in Nepal and L1 in Sri Lanka, the Company further cemented its footprint in the region. ▪ Key projects commissioned include the 765 kV Vemagiri Transmission Line, PGCIL's first TBCB project in southern India and 400 kV Edamon–Kochi Transmission Line, connecting Kerala to grid, also for PGCIL. ▪ Commercially closed 34 projects and physically completed 28 projects during the year ▪ The Company continues to maintain a strong presence across several states such as West Bengal, Bihar, Tamil Nadu, and Karnataka and is targeting entry into a few more financially stable states ▪ Orders from state utilities and TBCB Bidding orders in MP and Gujarat, in addition to the private sector. **International ex-SAE** ▪ Delivered healthy growth of ~15% in revenue owing to robust project execution across various countries. ▪ Entered 3 new countries in Africa - Burundi, Togo and Burkina Faso ▪ Acquired 6th 50,000 MTPA tower manufacturing facility in Dubai, taking total capacity to 3,62,200 MPTA, making it one of the largest globally operating T&D players ▪ Executing substation projects in 12 countries across the Middle East, Africa, South East Asia and the Americas. ▪ Physically completed seven projects during the year, including prestigious projects such as 500 kV Line in Egypt, 115/ 13.8 kV GIS in Ain Murjan, Saudi Arabia and Schedule 2 of the 230 kV Chumphon-Surat Thani-Lang Suan SS Line in Thailand **SAE-Towers** ▪ Delivered healthy growth of ~60% in revenues with execution of EPC orders ▪ Achieved a 3-fold growth in hardware business in Brazil, to deliver a turnover of BRL 100 million during FY20 ▪ After the successful pivoting of SAE Brazil to an EPC company, focus on pivoting its SAE Mexico business from a manufacturing to an EPC company. Currently executing ~800 km of transmission lines in Brazil.
Railways	▪ Have electrified over 30% of the Indian Railway network till date, spanning more than 17,500 km. ▪ Significantly enhanced backward integration developing additional products in this segment ▪ Embarked on a business transformation program – Project Excaliber – with a global consultant, to enable the growth of the Railway business, especially in technology intensive segments ▪ We ventured into new areas of civil works such as ROBs and roadbed projects and are targetting technology intensive segments such as Ballast-less tracks, next-generation Signalling & Control systems, etc. **Order Book** ▪ Diversified order book of more than Rs 60bn with non-OHE segment contributing about 65%. Around 60% of our order book now comprises composite and civil work projects for signalling and telecommunication works, doubling and tripling of railway lines, roadbeds, and building stations & bridges. ▪ Secured orders of over Rs 31bn, with significant L1 positions and order book exceeding Rs 60bn ▪ Secured our largest OHE EPC order of Rs 8.7bn, which is also the largest OHE EPC contract awarded by CORE **Execution** ▪ Eight projects commissioned during the year; all commissioned ahead of contractual schedule ▪ Commissioned railway track laying of 62 track kilometres (TKM) ▪ Executed ~1,095 RKM, which is ~25% of the electrification projects executed by the Indian Railways in FY20
Solar, Smart Infra (SI) & Oil & Gas pipelines (O&G)	**Solar** ▪ Expanded the business' presence into newer Geographies ▪ Commissioned KEC's single largest project in terms of installed capacity – the 150 MWp ground mount project in Rajasthan for a private developer ▪ Achieved accelerated completion of 14 MW ground mount project in Maharashtra within 90 days after land handover ▪ Presently handling Operations and Maintenance of more than 15 projects; exceeding the contractual/ performance guarantees in all projects ▪ Secured our first international order for supplying Single Axis Tracker equipment for a 30 MW solar plant in the Middle East. Secured an order to construct one of the largest carport projects in India. **Smart Infra** ▪ Executing two Smart City projects in Bidkin and Aurangabad, including ICT ecosystem, command and control centres, and solutions for improved governance & citizen engagement services ▪ L1 in defence packages in SI **Oil & Gas:** The sector will attract investments buoyed by the Government's target to increase refinery capacity to 440 MMTPA by 2030 as against 248 MMPTA currently, and to increase gas in the energy mix from 6 % to 15 %.

Segment	Segmental Performance & Outlook
Civil & Urban Infra	▪ Significant growth in order inflows with an intake of Rs 26bn+ achieved during the year ▪ Secured four large orders in the MRTS/RRTS segments (2 DMRC, 1 Kochi Metro, 1 DM-RRTS) totaling >Rs 20bn. ▪ Successful entry into the defence sector – secured 2 orders, including 1 for building a Data Centre ▪ Executed/ executing eight Cement Silos and Preheaters, taking the total number of Silos, Preheaters and other critical structures delivered to 15 in just under three years ▪ Currently, KEC is executing around 20 turnkey EPC projects comprising metros, factories, data centre, townships and residential buildings for a repertoire of clients in sectors such as Cement, Auto & Auto ancillaries, Metals & Mining, Real Estate, Defence, Metro and RRTS. ▪ Secured several repeat orders across segments.
Cables	▪ Commercialized production of new products for Railways during the year ▪ Augmenting capacities of railway contact and catenary conductors ▪ Leveraged integrated operations at Vadodara to realise efficiencies in manufacturing, procurement, and logistics. Another facility at Mysore. ▪ Expanded export footprint to new countries in Africa, the Middle East and SAARC ▪ During the year, the business improved contribution margins across product segments on the back of innovations in product design, investments in building capacities & capabilities and increased efficiency in manufacturing operations. ▪ The business is also focussing on improving its portfolio mix of cabling projects, especially in the EHV segment. Our share of EPC projects in the EHV segment has doubled during the last year. Focus on building Smart Cities and need for reliable power supply is driving the demand for underground power cabling.

Source: Company AR, HSIE Research

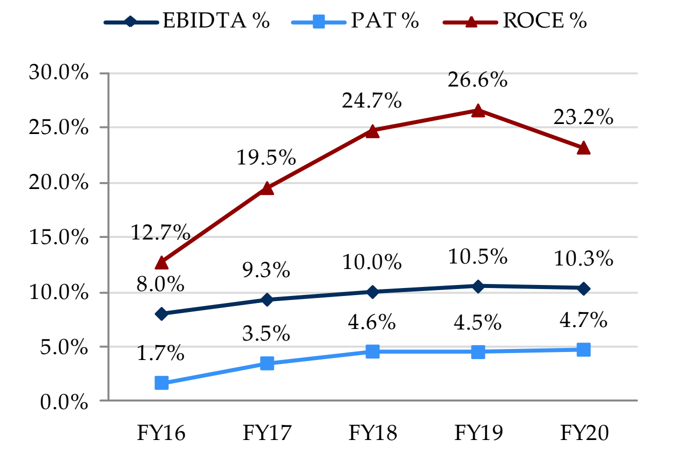
Key Business Highlights in Exhibits

Trend in revenue & order book - in Rs Bn



Source : Company

Profitability Trend



Source : Company Calculations

Segment-wise Order Book breakup

In Rs Bn	FY19	FY20	% Growth
Power T&D	59%	49%	-15%
SAE	10%	5%	-51%
Railways	26%	30%	16%
Civil	3%	13%	425%
Cables	1%	2%	55%
Others (Smart Infra + Solar)	1%	1%	-22%
Total	**203**	**205**	**2%**

Source : Company

FY20 Geography-wise Order Book breakup

In Rs Bn	FY19	FY20	% Growth
India	50%	63%	27%
SAARC	20%	17%	-15%
MENA	7%	5%	-27%
Rest of Africa	6%	5%	-8%
EAP & Others	6%	4%	-27%
Americas	12%	6%	-50%
Total	**203**	**205**	**2%**

Source : Company

Global footprint with presence across –
70+ countries in EPC
80+ countries in Cables
60+ countries in Towers

~84% utilisation of 3.7 lakh MTPA pre-COVID with 50,000 MTPA UAE facility yet to be operationalized

~80% utilization across 2 cable manufacturing (Mysore & Vadodara) plants pre-COVID

Newly acquired Dubai facility to be levered for securing orders

Low tendering activity in the T&D industry in FY20. Railway supported growth

While India-T&D & SAE continue to face headwinds in the near term, International-T&D ex-SAE esp. MENA (UAE, Oman, Saudi) will continue to drive both orders and revenue growth in FY21E

SAE to remain flat/negative at best in FY21E on the back of a strong year as guided by management

Civil will contribute significantly FY21 onwards, and might be a drag on margins in the near term. Civil OB went up from 3% to 13% in FY20 driven by -
- Rs 20bn DMRC (2 orders)
- DM-RRTS Rs.5.8bn
- Rs 2.65bn KMRC order
- Rs 2bn (Rs 3/4 defence buildings of Rs 0.5bn each)

Global Customer & Manufacturing Footprint

Global Customer Footprint

	Americas	Europe	Central Asia	MENA	India + SAARC	SE Asia	Oceania	RoA*	Total
EPC	16	1	4	12	6	7	3	22	71
Cable	6	11	4	13	7	10	4	27	82
Tower Supply	11	1	4	13	6	7	3	18	63

Source: Company, HSIE Research; * RoA: Rest of Africa

- 8 manufacturing facilities spread across India (5), Brazil(1), Mexico (1) & UAE(1) which includes 2 cable manufacturing facilities located in India.
- Total manufacturing capacity of up to 4.2 lakh MTPA (Tower – 362,000 MTPA, Railway structures – 48,000 MTPA & Solar structures – 12,000 MTPA).
- Cables manufacturing capacity includes power cables (~40,000 km per annum), instrumentation cables (3600 km per annum), optical fibre cables (8 lakh fibre km per annum), copper telecom cables (6 lakh conductor km PA), catenary conductors (900 MTPA) and contact wire (5400 MTPA)
- Within exports, Brazil/Mexico/US contributed, Rs 15/10bn in FY20/19.

Segment-wise revenue breakup

	In INR Mn			Common-size	
	FY19	FY20	% Growth	FY19	FY20
T&D – Domestic	28,022	21,296	-24%	25%	18%
Railways	19,064	25,447	33%	17%	21%
Civil	4,976	3,760	-24%	5%	3%
Cables - Domestic	9,842	8,639	-12%	9%	7%
Solar	3,408	570	-83%	3%	0%
Smart Infra	-	692	-	-	1%
Total Domestic (A)	**65,311**	**60,404**	**-8%**	**59%**	**50%**
T&D - Exports	43,518	60,583	39%	40%	51%
Cables - Exports	1,731	1,008	-	2%	1%
Total Exports (B)	**45,249**	**61,591**	**36%**	41%	51%
Inter-Segmental Revenue (C)	(2,533)	(4,345)	72%	-2%	-4%
Other Operating Revenue (D)	1,980	2,000	1%	2%	2%
Grand Total (A+B+C+D)	**1,10,005**	**1,19,654**	**9%**	**100%**	**100%**

Source: Company AR, HSIE Research

Product-wise revenue segmentation

	In INR Mn			Common-size	
	FY19	FY20	% Growth	FY19	FY20
(a) Sale of products	**17,016**	**18,251**	**7%**	**15%**	**15%**
- Towers and structurals	*7,864*	*10,714*	*36%*	*7%*	*9%*
- Cables	*9,152*	*7,537*	*-18%*	*8%*	*6%*
(b) Construction contracts	**90,616**	**99,078**	**9%**	**82%**	**83%**
- Transmission and distribution	*59,955*	*68,491*	*14%*	*55%*	*57%*
- Other EPC	*30,661*	*30,587*	*0%*	*28%*	*26%*
(c) Sale of services	**395**	**320**	**-19%**	**0%**	**0%**
- Tower testing and design	*384*	*262*	*-32%*	*0%*	*0%*
- Operating and maintance	*10*	*59*	*482%*	*0%*	*0%*
(d) Other operating revenue	**1,979**	**2,005**	**1%**	**2%**	**2%**
- Scrap sales	*1,347*	*1,139*	*-15%*	*1%*	*1%*
- Export incentives	*592*	*816*	*38%*	*1%*	*1%*
- Others	*40*	*50*	*24%*	*0%*	*0%*
Grand Total	**1,10,005**	**1,19,654**	**9%**	**100%**	**100%**

Source: Company AR, HSIE Research

Financial Analysis

Margins stable but subdued; should improve over medium term

Lower material expenses as % sales offset by higher employee & other expenses in FY20, leading to slight dip in EBIDTA margin

Employee expenses rose due to hiring for SAE business execution. It is expected to come down going ahead as SAE growth may remain muted

While labor availability will be a key challenge (21k+ labours at site vs 30k), KEC's is operating at 80% utilization, contract labor migration has also plateaued now

CFO: due to sustained increase in WC over past couple of years owing to higher foreign execution leading to stretch in receivables, and exposure to govt entities in India, CFO has been weak. Credit costs under control

COVID led to stretch in increase in receivables by another Rs 3-4bn leading to lower CFO

CFI: Rs 1bn capex for acquisition of UAE unit

CFF: dividend of Rs 1.6/0.6bn in FY20/19. Higher share of foreign borrowings has led to lower interest outgo

Summary P&L

Particulars (Rs mn)	FY18	FY19	% Growth	FY20	% Growth
Net Sales	1,00,580	1,10,005	9%	1,19,654	9%
Material Expenses	72,716	81,230	12%	84,182	4%
Employee Expenses	7,984	8,322	4%	11,044	33%
Other Operating Expenses	9,819	8,954	-9%	12,084	35%
EBITDA	10,062	11,499	14%	12,344	7%
Depreciation	1,097	1,171	7%	1,472	26%
EBIT	8,964	10,328	15%	10,872	5%
Other Income	404	226	-44%	111	-51%
Interest Cost	2,466	3,119	26%	3,080	-1%
PBT	6,902	7,435	8%	7,903	6%
Tax	2,298	2,571	12%	2,248	-13%
RPAT	4,604	4,864	6%	5,655	16%

MARGIN ANALYSIS	FY18	FY19	bps Growth	FY20	bps Growth
Material Expenses % Net Sales	72.3	73.8	155	70.4	(349)
Employee Expenses % Net Sales	7.9	7.6	(37)	9.2	166
Other Operating Expenses % Net Sales	9.8	8.1	(162)	10.1	196
EBITDA Margin (%)	10.0	10.5	45	10.3	(14)
Tax Rate (%)	33.3	34.6	128	28.4	(614)
APAT Margin (%)	4.6	4.4	(16)	4.7	30

Expenses breakup

	In INR Mn			Common-size	
	FY19	FY20	% Growth	FY19	FY20
Cost of Materials Consumed	**54,097**	**55,916**	**3%**	**52.6%**	**50.0%**
Sub-contracting exp	**19,900**	**19,343**	**-3%**	**19.4%**	**17.3%**
Erection exp	**7,233**	**8,924**	**23%**	**7.0%**	**8.0%**
Employee exp	**8,322**	**11,044**	**33%**	**8.1%**	**9.9%**
Finance Cost	**3,119**	**3,080**	**-1%**	**3.0%**	**2.8%**
Depreciation	**1,171**	**1,472**	**26%**	**1.1%**	**1.3%**
Other Opex	**8,954**	**12,084**	**35%**	**8.7%**	**10.8%**
(a)BG/LC Charges	*863*	*951*	*10%*	*0.8%*	*0.9%*
(b)Power, Fuel, taxes, insurance	*2,263*	*2,340*	*3%*	*2.2%*	*2.1%*
(c)Commission	*340*	*860*	*153%*	*0.3%*	*0.8%*
(d)Net Freight & Forwarding	*2,735*	*3,843*	*41%*	*2.7%*	*3.4%*
(e)Travel & Conveyance	*922*	*1,014*	*10%*	*0.9%*	*0.9%*
(f)Net (gain)/loss on forex transactions	*(1,640)*	*(1,160)*	*-29%*	*-1.6%*	*-1.0%*
(g)Repairs	*377*	*390*	*3%*	*0.4%*	*0.3%*
(h)Professional fees	*776*	*1,079*	*39%*	*0.8%*	*1.0%*
(i)Net provisions & write-offs	***377***	***544***	***44%***	***0.4%***	***0.5%***
(j)R&D expenditure	***278***	***283***	***2%***	***0.26%***	***0.25%***
(k)Others	*1,664*	*1,940*	*17%*	*1.6%*	*1.7%*
Total	**1,02,796**	**1,11,862**	**9%**	**100%**	**100%**

Key CF Items & Return Ratios

In INR Mn	FY18	FY19	FY20
CFO (a)	**6,596**	**1,987**	**929**
Capex	(1,355)	(1,083)	(2,065)
Free cash flow (FCF)	*5,241*	*905*	*(1,136)*
CFI (b)	**(45)**	**(695)**	**(2,079)**
CFF (c)	**(6,382)**	**(1,499)**	**25**
NET CASH FLOW (a+b+c)	**170**	**(206)**	**(1,125)**
Closing Cash & Equivalents	2,313	2,762	1,637
- % Networth	*11.6*	*11.3*	*5.9*
- % Mcap	2.3	3.6	3.4
Pre-tax CFO / EBIDTA	0.9	0.4	0.4
RoE %	25.7	21.9	21.6
Core RoCE	12.6	13.2	14.5
EBIT %	8.9	9.4	9.1

Source: Company, HSIE Research

High WC intensity of operations

Average execution cycle is 18-24 months

A sustained increase in amount due from customers (due to revenue recognition & billing timing differences) and other current assets kept the other current assets high at 142

Contract liabilities represent amounts billed to customers in excess of revenue recognised till date

Net Working Capital Cycle

	FY18	FY19	FY20
Gross Fixed Asset Turnover (x)	6.3	6.3	6.3
Inventory (days)	23	21	24
Debtors (days)	183	162	166
Other Current Assets (days)	107	145	142
Payables (days)	162	199	198
Other Current Liab (days)	3	2	2
Net Working Capital Cycle (Days)	**147**	**127**	**132**

Source: Company, HSIE Research

- Receivables are typically over 150 days due to sizeable retention money blocked in completed projects till the end of the performance guarantee period.
- Payables too are large at ~200 days, with back-to-back payment clauses in most contracts allowing for passing on any delay in realisations in receivables.

Inventory, Capex & Depreciation

INR Mn	FY18	FY19	FY20
Raw materials	2,040	3,280	4,063
Work-in-progress	1,288	2,202	876
- Towers and structurals	*889*	*1,696*	*630*
- Cables	*398*	*506*	*247*
Finished Goods	386	520	1,193
Stores and spares	85	140	144
Scrap	148	133	133
Total	**3,947**	**6,274**	**6,410**
Average Inventory Turnover	*19.75*	*17.35*	*16.89*
Capex	**1,355**	**1,083**	**2,065**
- as % Avg Sales	*1.44%*	*1.03%*	*1.80%*
- as % Avg Net Fixed Assets	*13.82%*	*10.92%*	*18.78%*
Depreciation	**1,097**	**1,171**	**1,472**
- as % Avg Sales	*1.16%*	*1.11%*	*1.28%*
- as % Avg Net Fixed Assets	*11.19%*	*11.80%*	*13.39%*

Source: Company, HSIE Research

- **Capex to take a backseat:** sizeable capex was planned for FY21 pre-COVID. However, given the COVID outbreak, capacity augmentation at plants to be minimal now, but MRTS projects' execution should warrant meaningful capex outlay. CFO should be sufficient to service capex. FY20 saw Rs 1bn outgo towards acquisition of UAE tower unit.

Contingent liabilities

INR Mn	FY19	FY20	*% Growth*
Service Tax	2,943	1,481	*-50%*
Other Taxes & Disputes	2,348	1,779	*-24%*
Total	5,291	3,260	*-38%*
Networth	24,351	27,976	*15%*
As % Networth	22%	12%	-

Source: Company, HSIE Research

- Contingent liabilities may arise from litigation and other claims against the Company. Guarantees are also given in the normal course of business.
- It is not expected that such contingencies will have a material effect on its financial position or profitability

Capital Structure

Rs Mn	FY19	FY20
(i)Debt	18,451	23,800
(ii)Interest Bearing acceptances	11,990	11,110
(iii)Cash and bank balances	2,762	1,637
Net debt (i+ii-iii)	27,679	33,273
Total equity	24,351	27,976
Net debt to equity ratio (E)	1.14	1.19

Source: Company, HSIE Research

Movement in Debt

Rs Mn	FY19	Cash Flows	Ind AS 116 impact	Forex movement	Interest movement	FY20
Debentures including interest	3,132	-	-	-	306	3,438
Long term borrowing	3,678	(2,449)	-	-	(0)	1,228
Short term borrowings	11,589	7,038	-	496	11	19,134
Lease liabilities	-	(316)	1,717	(3)	59	1,456
Total liabilities from financing activities	18,399	4,273	1,717	493	375	25,256

Source: Company, HSIE Research

- ~55%-60% of KEC's total debt is in forex. This has led to lower borrowing costs as % sales, which is expected to come down by ~10-20 bps to 2.1% with lower incremental borrowing cost.
- Debt is expected to remain at current level in FY21E as well, with further deleveraging expected only in FY22E.
- To moderate forex fluctuation due to foreign contracts execution KEC tactically decides between higher forex debt or more forward contracts.

ALM Profile

As at FY20 – in INR Mn	<1yr	1yr-3yr	3yr-5yr	Total
Interest bearing liabilities	31,713	3,130	-	34,843
Lease liabilities	346	643	468	1,456
Trade payables	38,963	-	-	38,963
Other financial liabilities	567	-	-	567
Total	**71,588**	**3,773**	**468**	**75,829**
As at FY19	<1yr	1yr-3yr	3yr-5yr	Total
Interest bearing liabilities	31,069	4,408	2,977	38,454
Trade payables	25,815	-	-	25,815
Other financial liabilities	406	-	-	406
Total	**57,290**	**4,408**	**2,977**	**64,674**

Source: Company AR, HSIE Research

Liquidity is supported by unutilised bank line of Rs 8.3bn as of FY20

Expected cash accruals of ~6-8bn over FY21-22 should be able to meet debt and moderate capex outgo. Although payables are large, back-to-back payment clauses in most contracts allows for passing on any delay in realisations in receivables. Also, the company has sufficient undrawn banking limits as well as financial flexibility to refinance to meet any short term CF mismatches.

__FY20/19:__
Forex used – Rs 45/36bn
Forex earned – Rs 26/27bn

KEC has resorted to hedge accounting and increased foreign borrowings, so FOREX gains have become much less volatile than before

For FY20, the aggregate amount of realised gain under forward foreign exchange contracts recognised in P&L is Rs 909mn (for FY19: 429mn)

Net (gain)/loss on foreign currency transactions includes gain on derivative instruments Rs 49.6mn (FY19 gain of Rs 965mn)

For base metals like Aluminium, Copper, Zinc and Lead, the Company either places a firm order on the supplier or hedges its exposure on the London Metal Exchange (LME) directly

Change in the value of the hedging instrument recognized in OCI/(loss) = INR (340mn)

Amount reclassified from CF hedging reserve to profit or (loss) = INR (242mn); Line item affected in P&L because of reclassification = Cost of goods sold

Financial Risk Management

(I) Market Risk: Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates & commodity price. It enters into a variety of derivative financial instruments.

(1.1) Forward foreign exchange contracts to hedge the exchange rate risk arising from execution of international projects - Foreign currency risk arises from future commercial transactions and recognised assets and liabilities denominated in INR. MTM Gain/Loss on FVPL instruments are recognized in Other financial assets/liabilities, and CF hedge reserve for FVOCI instruments.

Foreign currency exposure in INR Mn & respective sensitivities

In INR Mn	USD	BRL	SAR	EUR	AED	Others	Total
Assets	15,454	2,214	3,559	5,160	2,360	6,009	34,756
Liabilities	(16,784)	(4,224)	(800)	(3,267)	(3,821)	(4,295)	(33,190)
Impact of +/ 5% change in INR on PBT	+/- 20.1	-	-/+ 0.3	-/+ 95	-/+ 0.8	-/+ 122.7	-
Impact of +/-5% change in INR on Equity	+/- 46.3	+/- 100.5	-/+ 137.6	+/- 0.3	+/- 73.8	+/- 37	-

Source: Company AR, HSIE Research

Major forward forex contracts outstanding (FVPL)

In INR Mn (Notional Amounts)	<3m	3m-6m	>6m	Change in fair value assets /(liabilities) in FY20
Buy USD/INR	145	-	-	5
Sell USD/INR	684	-	2,941	(57)
Sell EURO/ USD	941	-	1,567	65
Sell EURO/ INR	524	-	1,170	(7)
Buy USD/MYR	-	-	236	11
Buy JPY/INR	44	241	-	11
Buy USD/ BRL	98	-	-	19
Total				**49.6**

Source: Company AR, HSIE Research

Major forward forex contracts outstanding (FVOCI – CF Hedge)

In INR Mn (Notional Amounts)	<3m	>6m	Change in fair value assets /(liabilities) in FY20
Sell USD/INR	147	2680	-58.5
Sell EURO/ INR	-	703	13.2
Total			**-45.3**

Source: Company AR, HSIE Research

(1.2) Commodity Over the Counter (OTC) derivative contracts to hedge the Price Risk for base metals such as Copper, Aluminium, Zinc and Lead: Most of KEC's contracts with the Indian customers are backed by a price variation for most of these metals. However, profitability in case of firm price orders is impacted by movement in the prices of these metals.

Outstanding commodity contracts – INR Mn

	Aluminium	Copper	Zinc	Lead
Nominal Amount				
<3m	1440.9	525	240	111
3m-6m	299	319	301	7
Fair value assets / (liabilities)				
<3m	-175.5	(42)	(34)	1
3m-6m	-13.7	(40)	(39)	0

Source: Company AR, HSIE Research

(II) Credit Risk Management

Concentration of credit risk to any customer did not exceed 10% of the trade receivables as on March 31, 2020. In addition the Company is exposed to credit risk in relation to financial guarantees given by the Company on behalf of its subsidiaries and joint operations (net of Company's share).

ECL Provisions

In INR Mn	FY18	FY19	FY20
Trade receivables - Unsecured	51,137	49,111	54,972
Less: Allowance for bad and doubtful debts (A)	693	358	529
Net	**50,444**	**48,753**	**54,444**
Amount withheld by customers	176	176	176
Less: Allowance for bad and doubtful receivables (B)	129	129	176
Net	**48**	**48**	**-**
Amount due from customers for contract works & reimbursable expenses	20,809	32,333	34,842
Less: Provision for expected loss (C)	428	73	28
Net	**20,381**	**32,260**	**34,813**
Total Net	**70,872**	**81,060**	**89,257**

Source: Company AR, HSIE Research

Movement in provisions

In INR Mn	Trade Receivables (A)	Amount withheld by customers (B)	Amount due from customers for contract works/Reimbursable Expenses (C)
Balance as at FY18	**693**	**129**	**428**
Add: Created	19	-	38
Less: Released	353	-	394
Balance as at FY19	**358**	**129**	**73**
Add: Created	220	58	47
Less: Released	50	11	92
Balance as at FY20	**529**	**176**	**28**

Source: Company AR, HSIE Research

(III) Interest rate risk management

Borrowings – Fixed/Variable rate

In INR Bn	FY19	FY20
Variable rate borrowing (including interest bearing acceptances)	21.1	25.7
Fixed rate borrowing	9.4	9.1
Total borrowings	30.4	34.8

Source: Company AR, HSIE Research

We have roll forward KEC valuation from Mar-22E EPS to June-22E EPS and arrive at an increased TP of Rs 322/sh (mix of 17.2% upgrade in our FY22E EPS estimate and valuation roll over)

We maintain BUY on KEC

Outlook and valuation

Maintain BUY – Target Price of Rs 322/sh (vs Rs 265/sh earlier)

- **Valuation methodology:** We have roll forward KEC valuation from Mar-22E EPS to June-22E EPS and arrive at an increased TP of Rs 322/sh (mix of 17.2% upgrade in our FY22E EPS estimate and valuation roll over). Our BUY stance is based on (1) Robust order book of Rs 205bn spread across T&D, Railways, Civil, Smart Infra and Cables business (2) Well diversified segmental/geographical presence and (3) Strong promoter group.
- Further re-rating is contingent on KEC's ability to secure incremental orders in the T&D segment. Railways now constitutes a significant portion of the new order inflows as well as outstanding order book and margin improvement into double digits will provide further trigger for re-rating.
- Investments in the T&D, Railways and Infra sector would continue to drive the stock's performance. KEC, with strong credentials, is likely to benefit from the pick- up in ordering activity.
- **We maintain BUY on KEC with target price of Rs 322/sh.**

Valuation

Business	Valuation Methodology	Multiple	Stake	Value (Rs mn)	Rs/Sh
Consolidated EPC	P/E multiple on FY22E Earnings	12x	100.0%	82,750	322
Total					**322**

Source: HSIE Research

We have revised our FY21/22E estimates upwards to account for earlier than expected resumption of work across plants and sites, and international execution not getting much impacted

Change in Estimates

Consolidated Rs Mn	FY21E			FY22E		
	Old	Revised	*% Chg*	Old	Revised	*% Chg*
Net Sales (Rs mn)	114,915	124,092	*8.0*	124,256	137,047	*10.3*
EBITDA (Rs mn)	11,031	12,417	*12.6*	12,638	13,992	*10.7*
EBIDTA Margin (%)	9.6	10.0	*40.7*	10.2	10.2	*3.9*
Adj PAT (Rs mn)	4,565	5,613	*22.9*	5,667	6,639	*17.2*

Source: Company, HSIE Research

Financials

Standalone Income Statement

Year ending March (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**85,844**	**1,00,580**	**1,10,005**	**1,19,654**	**1,24,092**	**1,37,047**	**1,51,403**
Growth (%)	*0.8*	*17.2*	*9.4*	*8.8*	*3.7*	*10.4*	*10.5*
Material Expenses	59,489	72,716	81,230	84,182	87,023	96,676	1,06,763
Employee Expenses	7,327	7,984	8,322	11,044	11,700	12,929	13,379
Other Operating Expenses	10,849	9,819	8,954	12,084	12,952	13,450	15,781
EBIDTA	**8,179**	**10,062**	**11,499**	**12,344**	**12,417**	**13,992**	**15,479**
EBIDTA (%)	*9.5*	*10.0*	*10.5*	*10.3*	*10.0*	*10.2*	*10.2*
EBIDTA Growth (%)	*18.1*	*23.0*	*14.3*	*7.3*	*0.6*	*12.7*	*10.6*
Depreciation	1,297	1,097	1,171	1,472	1,467	1,633	1,641
EBIT	**6,882**	**8,964**	**10,328**	**10,872**	**10,951**	**12,359**	**13,839**
Other Income (Incl. EO Items)	289	404	226	111	88	89	89
Interest	2,536	2,466	3,119	3,080	3,274	3,303	3,334
PBT	**4,634**	**6,902**	**7,435**	**7,903**	**7,765**	**9,145**	**10,594**
Tax	1,587	2,298	2,571	2,248	2,152	2,506	2,928
RPAT	**3,048**	**4,604**	**4,864**	**5,655**	**5,613**	**6,639**	**7,666**
APAT	**3,048**	**4,604**	**4,864**	**5,655**	**5,613**	**6,639**	**7,666**
APAT Growth (%)	*106.1*	*51.1*	*5.7*	*16.3*	*(0.8)*	*18.3*	*15.5*
EPS	**11.9**	**17.9**	**18.9**	**22.0**	**21.8**	**25.8**	**29.8**
EPS Growth (%)	*106.1*	*51.1*	*5.7*	*16.3*	*(0.8)*	*18.3*	*15.5*

Source: Company, HSIE Research

Standalone Balance Sheet

As at March (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS							
Share Capital	514	514	514	514	514	514	514
Reserves	15,349	19,460	23,837	27,462	33,482	39,288	46,122
Total Shareholders Funds	**15,864**	**19,975**	**24,351**	**27,976**	**33,996**	**39,802**	**46,636**
Minority Interest							
Long Term Debt	7,757	7,384	5,411	3,069	6,411	5,411	5,411
Short Term Debt	22,014	31,036	24,976	30,201	25,726	25,626	25,626
Total Debt	**29,771**	**38,421**	**30,386**	**33,270**	**32,136**	**31,036**	**31,036**
Other Non Current Liabilities	146	177	139	1,280	139	139	139
Deferred Taxes	1,240	1,007	1,183	527	1,183	1,183	1,183
TOTAL SOURCES OF FUNDS	**47,020**	**59,579**	**56,060**	**63,052**	**67,455**	**72,161**	**78,995**
APPLICATION OF FUNDS							
Net Block	9,577	9,202	9,787	11,292	9,761	9,679	9,790
CWIP	51	781	73	840	103	118	133
Goodwill	1,910	1,920	2,037	2,226	2,037	2,037	2,037
Other Non Current Assets	2,718	4,779	3,223	3,902	3,223	3,223	3,223
Total Non-current Assets	**14,257**	**16,681**	**15,120**	**18,260**	**15,125**	**15,058**	**15,183**
Inventories	3,947	6,274	6,410	7,758	8,178	8,704	8,617
Debtors	42,268	50,444	48,753	54,448	57,796	63,079	68,442
Cash & bank balances	2,080	2,313	2,762	1,637	3,907	5,306	5,799
ST Loans & Advances	624	604	336	1,130	1,065	1,118	1,196
Other Assets	23,973	28,808	43,251	45,313	47,204	48,148	56,333
Total Current Assets	**72,891**	**88,443**	**1,01,511**	**1,10,285**	**1,18,150**	**1,26,355**	**1,40,387**
Creditors	39,101	44,713	60,068	64,747	65,331	68,763	76,087
Other Current Liabilities & Provns	1,027	833	503	746	503	503	503
Total Current Liabilities	**40,128**	**45,546**	**60,572**	**65,493**	**65,834**	**69,267**	**76,590**
Net Current Assets	**32,763**	**42,897**	**40,939**	**44,792**	**52,316**	**57,089**	**63,797**
Misc Expenses & Others				1	15	15	15
TOTAL APPLICATION OF FUNDS	**47,020**	**59,579**	**56,060**	**63,052**	**67,455**	**72,161**	**78,995**

Source: Company, HSIE Research

Standalone Cash Flow

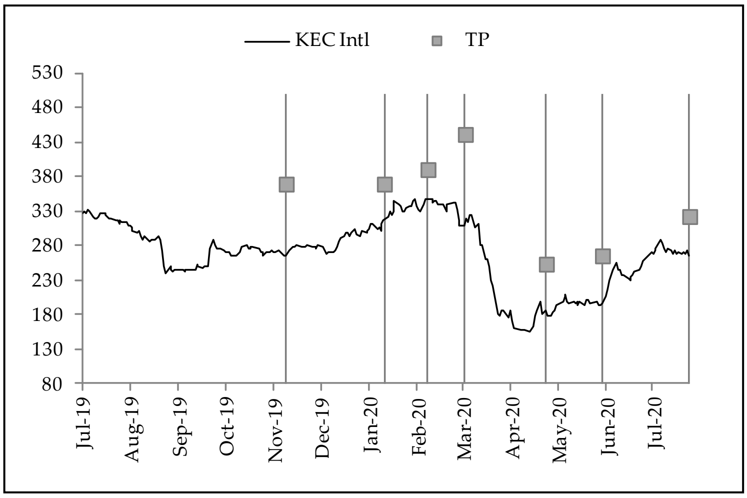
Year ending March (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PBT	4,634	6,902	7,476	7,903	7,765	9,145	10,594
Non-operating & EO items	2,159	764	(1,015)	637	-	-	-
Interest expenses	2,536	2,466	3,119	3,080	3,274	3,303	3,334
Depreciation	1,297	1,097	1,171	1,472	1,467	1,633	1,641
Working Capital Change	7,034	(2,338)	(5,787)	(8,670)	440	(3,375)	(6,215)
Tax paid	(1,044)	(2,296)	(2,977)	(3,493)	(2,152)	(2,506)	(2,928)
OPERATING CASH FLOW (a)	**16,616**	**6,596**	**1,987**	**929**	**10,792**	**8,200**	**6,425**
Capex	(670)	(1,355)	(1,083)	(2,065)	(1,416)	(1,566)	(1,766)
Free cash flow (FCF)	15,946	5,241	905	(1,136)	9,376	6,634	4,659
Investments	(1,050)	911	835	(93)	-	-	-
Non operating income	(111)	400	(446)	79	-	-	-
INVESTING CASH FLOW (b)	**(1,831)**	**(45)**	**(695)**	**(2,079)**	**(1,416)**	**(1,566)**	**(1,766)**
Share capital Issuance	-	-	-	-	-	-	-
Debt Issuance	(11,223)	(3,765)	2,282	4,589	(3,000)	(1,100)	-
Dividend Payment	(11)	(411)	(614)	(1,558)	(832)	(832)	(832)
Others	-	-	-	(316)	-	-	-
Interest expenses	(2,556)	(2,205)	(3,167)	(2,689)	(3,274)	(3,303)	(3,334)
FINANCING CASH FLOW (c)	**(13,790)**	**(6,382)**	**(1,499)**	**25**	**(7,106)**	**(5,235)**	**(4,166)**
NET CASH FLOW (a+b+c)	**995**	**170**	**(206)**	**(1,125)**	**2,270**	**1,399**	**493**
Opening Cash & Equivalents	853	2,080	2,313	2,762	1,637	3,907	5,306
Closing Cash & Equivalents	2,080	2,313	2,762	1,637	3,907	5,306	5,799

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)							
GPM	30.7	27.7	26.2	29.6	29.9	29.5	29.5
EBITDA Margin	9.5	10.0	10.5	10.3	10.0	10.2	10.2
EBIT Margin	8.0	8.9	9.4	9.1	8.8	9.0	9.1
APAT Margin	3.6	4.6	4.4	4.7	4.5	4.8	5.1
RoE	21.2	25.7	21.9	21.6	18.1	18.0	17.7
Core RoCE	9.8	12.6	13.2	14.5	13.4	14.5	15.0
RoCE	9.8	12.0	12.2	13.6	12.5	13.2	13.6
EFFICIENCY							
Tax Rate (%)	34.2	33.3	34.6	28.4	27.7	27.4	27.6
Asset Turnover (x)	5.5	6.3	6.3	6.3	6.1	6.2	6.4
Inventory (days)	17	23	21	24	24	23	21
Debtors (days)	180	183	162	166	170	168	165
Other Current Assets (days)	105	107	145	142	142	131	139
Payables (days)	166	162	199	198	192	183	183
Other Current Liab (days)	4	3	2	2	1	1	1
Net Working Capital Cycle (Days)	130	147	127	132	142	138	140
Debt/EBITDA (x)	3.6	3.8	2.6	2.7	2.6	2.2	2.0
Net D/E	1.7	1.8	1.1	1.1	0.8	0.6	0.5
Interest Coverage	2.7	3.6	3.3	3.5	3.3	3.7	4.2
PER SHARE DATA							
EPS (Rs/sh)	11.9	17.9	18.9	22.0	21.8	25.8	29.8
CEPS (Rs/sh)	16.9	22.2	23.5	27.7	27.5	32.2	36.2
DPS (Rs/sh)	1.6	2.4	2.7	2.7	2.7	2.7	2.7
BV (Rs/sh)	61.7	77.7	94.7	108.8	132.2	154.8	181.4
VALUATION							
P/E	22.4	14.8	14.0	12.0	12.1	10.3	8.9
P/BV	4.3	3.4	2.8	2.4	2.0	1.7	1.5
EV/EBITDA	11.7	10.4	8.3	8.1	7.8	6.7	6.0
OCF/EV (%)	17.3	6.3	2.1	0.9	11.2	8.7	6.9
FCF/EV (%)	16.6	5.0	0.9	- 1.1	9.7	7.1	5.0
FCFE/Market Cap (%)	6.9	2.2	4.7	4.6	9.4	8.1	6.8
Dividend Yield (%)	0.6	0.9	1.0	1.0	1.0	1.0	1.0

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Nov-19	265	BUY	369
10-Jan-20	318	BUY	369
9-Feb-20	348	BUY	390
2-Mar-20	310	BUY	441
24-Apr-20	178	BUY	253
31-May-20	195	BUY	265
27-Jul-20	265	BUY	322

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

We, **Parikshit Kandpal, CFA, Rohan Rustagi, MBA & Chintan Parikh, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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