

Retail Equity Research

KEC International Ltd

Capital Goods

BSE CODE : 532714 NSE CODE: KEC
 BLOOMBERG CODE: KECI:IN SENSEX : 38,407

BUY

12M Investment Period

Rating as per Mid Cap

CMP Rs 292 TARGET Rs 362 RETURN +24% 
 (Closing: 11-08-20)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Better performance despite challenges...

KEC International Limited (KEC) is a global infrastructure Engineering Procurement and Construction major. It has presence in the verticals of Power T&D (Transmission & Distribution), Cables, Railways and Water & Renewable.

- Q1FY21 revenue de-grew by 8.5% due to impact on execution in April 20. However, during May & June execution witnessed a healthy improvement led by Railway and Civil segment.
- EBITDA margin declined by 159bps YoY to 8.83% despite 83bps YoY improvement in gross margin at 30.1%.
- Order book (incl. L1) stands at Rs.24,500cr supported by 73% rise in order inflow, provide strong visibility.
- Better order pipeline in Railway, International T&D & Civil to add positivity on order book.
- We believe near term headwinds has been factored in stock prices and execution to pick up from H2FY21.
- We maintain our Buy rating owing to healthy order book & recovery in execution and value KEC at a P/E of 14x on FY22E EPS.

Better execution despite challenging situation...

Q1FY21 revenue de-grew by 8.5% YoY to Rs2,207cr as execution of April,20 impacted significantly due to Covid disruption, however, execution improved during May & June supported by railway and civil segments. Railway execution is back to pre-Covid levels while revenue from civil business improved by 58% YoY. T&D revenue de-grew by 9.1% to Rs1,176cr while cable & solar segment witnessed significant fall of 40% YoY & 44% YoY respectively due to subdued demand. SAE tower business in Brazil has impacted due to wide spread of Covid. We expect railway, international T&D & civil business continue to outperform due to improved traction in order inflow and approvals for EPC projects. The company has not given any revenue guidance due to pandemic situation. KEC's all manufacturing units are now functioning at pre-Covid level with average workforce of 80%. We expect execution to pick up from H2FY21 supported by ease in lockdown.

Healthy order book...

Q1FY21 order book (including L1) stands at Rs 24,500cr (2.1x TTM revenue) provide strong visibility for coming years. Order book grew by 4% YoY supported by 73% growth in new orders (Rs.1,931cr). The power T&D orders increased by 164% YoY to Rs.1,352cr while water & civil orders grew by 181% YoY to Rs.251cr. We expect ordering activity to gain traction due to strong pipeline from Railway, T&D from regions like MENA, Africa.

Weak operating margin...

EBITDA margin declined by 159bps YoY to 8.83% due to rise in employee cost by 14% YoY while gross margin improved by 83bps YoY to 30.1% led by increased mechanism and automation. Net profit declined by 20% YoY which was partially offset by higher other income, lower interest cost and tax rate to 26.6% (vs 35.7% in Q1FY20).

Valuations

Increasing order inflow is adding positive outlook and we expect execution to pick up from H2FY21. Going forward we expect T&D, railway & civil business will be the growth drivers. We value KEC at a P/E of 14x on FY22E EPS with a TP of Rs 362 and maintain our BUY rating.

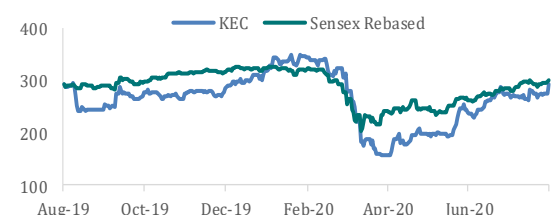
Company Data

Market Cap (cr)	₹ 74,945
Enterprise Value (cr)	₹ 94,036
Outstanding Shares (cr)	25.7
Free Float	48.34%
Dividend Yield	1.41%
52 week high	₹ 358
52 week low	₹ 154
6m average volume (cr)	0.05
Beta	0.8
Face value	₹ 2

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	51.59	51.66	51.66
FII's	7.59	8.70	8.79
MFs/Insti	27.26	27.45	27.77
Public	13.56	12.19	11.78
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	40%	-20%	-7%
Absolute Sensex	22%	-7%	2%
Relative Return*	18%	-13%	-8%

*Over or underperformance to benchmark index



Consolidated (bn)	FY20A	FY21E	FY22E
Sales	119.7	123.8	141.6
Growth (%)	8.8	3.5	14.4
EBITDA	12.3	12.3	14.4
EBITDA Margin(%)	10.3	9.9	10.2
PAT Adj.	5.7	5.4	6.6
Growth (%)	16.3	-4.5	23.0
Adj.EPS	22.0	21.0	25.8
Growth (%)	16.3	-4.5	23.0
P/E	10.8	13.9	11.3
P/B	2.2	2.3	2.0
EV/EBITDA	6.5	7.6	6.6
ROE (%)	21.6	17.8	18.7
D/E	0.8	0.7	0.6

Antu Eapen Thomas
 Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	2,207	2,412	-8.5	3671	-39.9
EBITDA	195	251	-22.5	371	-47.4
EBITDA margins %	8.8	10.4	-159bps	10.1	-127bps
Depreciation	39	37	6.7	39	-0.2
EBIT	156	215	-27.4	332	-53.0
Interest	66	80	-16.7	65	1.6
Other Income	7	3	153.1	3	153.1
Exceptional Items					
PBT	96	138	-30.1	269	-64.2
Tax	26	49	-48.0	76	-66.3
Share of profit from Associate					
Minority Interest	0	0		0	
Reported PAT	71	89	-20.1	193	-63.3
Adjustments					
Adj PAT	71	89	-20.1	193	-63.3
No. of Shares	25.7	25.7		25.7	
EPS (Rs)	2.8	3.4	-20.1	7.5	-63.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	13,042	14,408	12,379	14,162	(5.1)	(1.7)
EBITDA	1330	1498	1225	1445	(7.9)	(3.6)
Margins (%)	10.2	10.4	9.9	10.2	(30)bps	(20)bps
Adj. PAT	619	705	540	664	(12.7)	(5.8)
EPS	24.1	27.4	21.0	25.8	(12.7)	(5.8)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	10,058	11,001	11,965	12379	14162
% change	17.2	9.4	8.8	3.5	14.4
EBITDA	1,008	1,150	1234	1225	1445
% change	23	14	7	-1	18
Depreciation	110	117	147	164	186
EBIT	898	1033	1087	1061	1258
Interest	247	312	308	341	373
Other Income	35	23	11	15	18
PBT	686	744	790	735	904
% change	48	8	6	-7	23
Tax	230	257	225	195	239
Tax Rate (%)	33	35	28	27%	27%
Reported PAT	456	486	566	540	664
Adj.*	0	0	0	0	0
Adj. PAT	456	486	566	540	664
% change	49.7	6.6	16.3	(4.5)	23.0
No. of shares (cr)	25.7	25.7	25.7	25.7	25.7
Adj EPS (Rs)	17.7	18.9	22.0	21.0	25.8
% change	49.7	6.6	16.3	(4.5)	23.0
DPS (Rs)	2.8	2.8	2.9	2.9	3.0

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	193	175	153	375	225
Accounts Receivable	5,044	4,875	5,445	5,664	6,441
Inventories	627	641	776	806	914
Other Cur. Assets	3,191	4,460	4,655	4,863	5,548
Investments	39	13	23	25	27
Gross Fixed Assets	1,320	1,445	1,620	1,648	1,748
Net Fixed Assets	829	867	1,041	846	776
CWIP	78	7	84	70	40
Intangible Assets	283	316	311	309	310
Def. Tax (Net)	(101)	(118)	(53)	(52)	(52)
Other Assets	227	309	368	400	400
Total Assets	10,412	11,545	12,802	13,305	14,630
Current Liabilities	6,674	7,349	7,866	7,823	8,470
Provisions	101	64	76	68	78
Debt Funds	1,639	1,697	2,062	2,152	2,232
Other Liabilities	0	0	0	0	0
Equity Capital	51	51	51	51	51
Reserves & Surplus	1,946	2,384	2,746	3,211	3,799
Shareholder's Fund	200	244	280	326	385
Total Liabilities	10,412	11,545	12,802	13,305	14,630
BVPS	78	95	109	127	150

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	796	861	937	899	1090
Non-cash adj.	48	95	29	161	151
Changes in W.C	(234)	(476)	(370)	(509)	(914)
C.F. Operation	655	480	596	552	327
Capital exp.	(137)	(182)	(69)	(97)	(113)
Change in inv.	97	(108)	(50)	(30)	2
Other invest.CF	36	(23)	(11)	(15)	(18)
C.F - Investment	(4)	(312)	(130)	(142)	(128)
Issue of equity	0	0	0	0	0
Issue/repay debt	195	57	365	90	80
Dividends paid	(41)	(72)	(74)	(75)	(77)
Other finance.CF	(561)	(171)	(780)	(201)	(352)
C.F - Finance	(638)	(186)	(489)	(186)	(349)
Chg. in cash	13	(18)	(23)	223	(150)
Closing cash	189	175	153	375	225

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	10.0	10.5	10.3	9.9	10.2
EBIT margin (%)	8.9	9.4	9.1	8.6	8.9
Net profit mgn.(%)	4.5	4.4	4.7	4.4	4.7
ROE (%)	25.5	21.9	21.6	17.8	18.7
ROCE (%)	12.0	13.2	12.2	12.5	13.0
W.C & Liquidity					
Receivables (days)	298.9	309.7	308.1	310.4	309.0
Inventory (days)	31.5	28.8	33.6	34.0	34.0
Payables (days)	233.8	215.7	217.1	266.6	257.5
Current ratio (x)	1.3	1.4	1.4	1.5	1.5
Quick ratio (x)	0.8	0.7	0.7	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	7.7	8.0	8.0	7.7	8.3
Total asset T.O (x)	1.1	1.0	1.0	0.9	1.0
Int. covge. ratio (x)	3.6	3.3	3.5	3.1	3.4
Adj. debt/equity (x)	0.9	0.7	0.8	0.7	0.6
Valuation					
EV/Sales (x)	0.8	0.7	0.8	0.8	0.7
EV/EBITDA (x)	7.5	6.6	7.6	7.6	6.6
P/E (x)	13.4	12.6	13.3	13.9	11.3
P/BV (x)	3.1	2.5	2.7	2.3	2.0

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
11 th May, 2016	Buy	152
03 rd Aug, 2016	Hold	157
25 th October, 2016	Buy	157
10 th November, 2016	Buy	163
07 th February, 2017	Hold	167
24 th May, 2017	Accumulate	270
03 rd August, 2017	Hold	320
07 th November, 2017	BUY	372
14 th February, 2018	Accumulate	406
16 th May, 2018	Accumulate	426
13 th August, 2018	Accumulate	342
09 th November, 2018	Accumulate	314
31 st January, 2019	Accumulate	273
24 th May, 2019	BUY	338
13 th November, 2019	BUY	330
14 th February, 2020	BUY	419
7 th May, 2020	BUY	237
6 th June, 2020	BUY	329
11 th August, 2020	BUY	362

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated: The analyst has no investment opinion on the stock.

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