

12 August 2020

## KEC International

*Well-managed execution, sturdy order book; maintaining a Buy*

With better execution in T&D, railways and civil/water orders, KEC's performance bettered expectations. With execution back on track, May and June revenue grew y/y. The ₹197bn order book and L1 of ₹50bn offer robust revenue assurance. The good execution ramp-up, strong order pipeline, lower debt, softening interest costs and stringent working-capital management gives us the required assurance of strong future execution and earnings. Hence, we upgrade our valuations to 14x with a higher target price of ₹364.

**Better-than-expected execution.** Revenue declined 8.5% y/y (ARe 18.3% decline). T&D revenue was down 9% y/y (ARe 22%), Railways was flat at ₹5.2bn (against our estimated 15% y/y decline) and the civil/water segment grew a robust 58.5% y/y. Execution in cables and solar/smart infra was severely impacted, with revenues down respectively 39.5% and 44.1% y/y. Better cost absorption due to higher revenue aided the less-than-expected margin contraction to 8.8%.

**Strong bid/tender pipeline.** On account of small base of Q1 FY20, YTD order inflow was up 73% y/y to ₹19.3bn. KEC has a ₹197bn order book, with an additional L1 position of ₹50bn. It recently bid for orders of ₹250bn-300bn and would bid for orders of another ₹300bn in the next two months, both domestic and international. International T&D orders were healthy from the Middle East, North and West Africa, Bangladesh and the Far East. In its home market, opportunities are strong in Railways, civil and smart infra.

**Outlook.** With operations gradually picking up, we remain upbeat on the company's execution for the rest of FY21. We expect 5.8%/8.7% CAGRs over FY20-22 in revenue/PAT. We upgrade our target multiple to 14x, with a higher target price of ₹364. **Risks:** Slowdown in orders and pace of execution.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	100,526	110,005	119,654	115,580	134,045
Net profit (₹ m)	4,583	4,864	5,655	5,290	6,682
EPS (₹)	17.8	18.9	22.0	20.6	26.0
PE (x)	21.9	15.8	13.3	14.2	11.3
EV / EBITDA (x)	11.3	7.9	7.7	8.0	6.7
PBV (x)	5.0	3.2	2.7	2.3	2.0
RoE (%)	25.6	21.9	21.6	17.6	19.3
RoCE (%)	24.4	26.1	23.5	19.4	21.6
Dividend yield (%)	0.6	0.9	1.4	1.7	2.1
Net debt / equity (x)	0.7	0.6	0.7	0.5	0.4

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹364

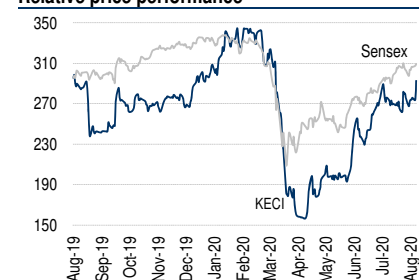
Share Price: ₹292

Key data	KECI IN / KECL.NS
52-week high / low	₹359 / 154
Sensex / Nifty	38407 / 11323
3-m average volume	\$1.6m
Market cap	₹75bn / \$1005.8m
Shares outstanding	257m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	51.7	51.7	51.6
- of which, Pledged	-	-	-
Free float	48.3	48.3	48.4
- Foreign institutions	13.7	13.2	7.6
- Domestic institutions	22.8	22.9	27.8
- Public	11.8	12.2	13.0

Estimates revision (%)	FY21e	FY22e
Sales	9.1	15.4
EBITDA	7.6	14.0
PAT	12.4	22.0

### Relative price performance



Source: Bloomberg

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Research Analyst

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## Quick Glance – Financials and Valuations (consolidated)

**Fig 1 – Income statement (₹ m)**

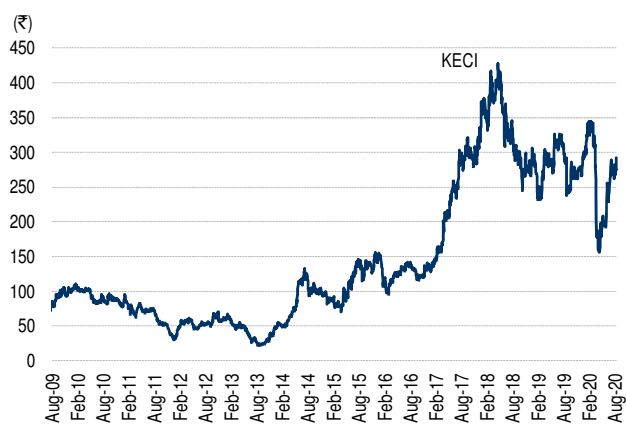
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
T&D order book	172,980	203,070	202,980	212,847	236,604
Net revenues	100,526	110,005	119,654	115,580	134,045
Growth (%)	17.1	9.4	8.8	-3.4	16.0
Material cost	72,670	81,230	84,182	82,403	94,099
Employee & Other expense	17,800	17,276	23,128	21,675	26,314
<b>EBITDA</b>	<b>10,057</b>	<b>11,499</b>	<b>12,344</b>	<b>11,502</b>	<b>13,631</b>
EBITDA margins (%)	10.0	10.5	10.3	10.0	10.2
- Depreciation	1,097	1,171	1,472	1,553	1,715
Other income	207	226	111	117	122
Interest expenses	2,294	3,119	3,080	2,719	2,758
PBT	6,873	7,435	7,903	7,347	9,280
Effective tax rate (%)	33.3	34.6	28.4	28.0	28.0
+ Associates / (Minorities)	-	-	-	-	-
Net Income	4,583	4,864	5,655	5,290	6,682
Adjusted income	4,583	4,864	5,655	5,290	6,682
WANS	257	257	257	257	257
FDEPS (₹ / sh)	17.8	18.9	22.0	20.6	26.0
EPS growth (%)	50.4	6.1	16.3	-6.5	26.3

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	6,873	7,435	7,903	7,347	9,280
+ Non-cash items	3,184	4,064	4,441	4,156	4,351
Oper. prof. before WC	10,057	11,499	12,344	11,502	13,631
- Incr. / (decr.) in WC	737	6,555	6,054	1,742	2,962
Others incl. taxes	2,392	2,346	2,994	2,057	2,598
Operating cash-flow	7,138	2,653	3,107	7,693	8,060
- Capex (tang. + intang.)	1,452	1,048	3,744	1,020	2,020
Free cash-flow	5,686	1,604	-637	6,673	6,040
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	743	843	1,222	1,269	1,604
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,688	574	3,650	-1,291	-200
- Fin investments	911	261	-93	-23	-25
- Misc. (CFI + CFF)	111	626	3,516	3,148	3,185
Net cash-flow	233	449	-1,632	987	1,076

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

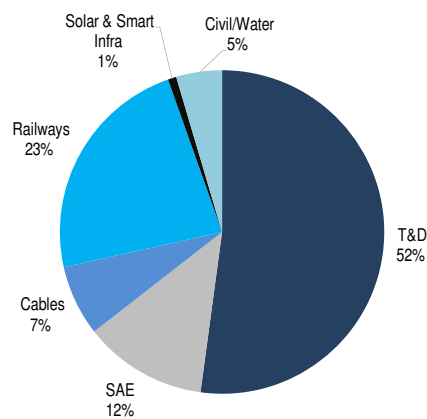
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	514	514	514	514	514
Net worth	19,975	24,351	27,976	31,996	37,074
Debt	16,394	16,968	20,618	19,327	19,127
Minority interest	-	-	-	-	-
DTL / (Assets)	1,272	1,497	751	751	751
<b>Capital employed</b>	<b>37,641</b>	<b>42,816</b>	<b>49,344</b>	<b>52,073</b>	<b>56,951</b>
Net tangible assets	8,288	8,666	8,942	8,389	8,674
Net intangible assets	915	1,121	2,350	2,360	2,370
Goodwill	1,920	2,037	2,226	2,226	2,226
CWIP (tang. & intang.)	781	73	840	850	860
Investments (strategic)	5,099	3,537	4,201	4,711	5,221
Investments (financial)	393	132	225	248	272
Current assets (ex cash)	85,682	98,617	108,856	107,050	123,426
Cash	2,313	2,762	1,130	2,117	3,193
Current liabilities	67,749	74,129	79,425	75,877	89,290
Working capital	17,933	24,488	29,431	31,174	34,136
<b>Capital deployed</b>	<b>37,641</b>	<b>42,816</b>	<b>49,344</b>	<b>52,073</b>	<b>56,951</b>
Contingent liabilities	11,220	11,814	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	21.9	15.8	13.3	14.2	11.3
EV / EBITDA (x)	11.3	7.9	7.7	8.0	6.7
EV / Sales (x)	1.1	0.8	0.8	0.8	0.7
P/B (x)	5.0	3.2	2.7	2.3	2.0
RoE (%)	25.6	21.9	21.6	17.6	19.3
RoCE (%) - after tax	24.4	26.1	23.5	19.4	21.6
RoIC (%) - after tax	18.7	19.4	18.5	15.1	17.1
DPS (₹ / sh)	2.4	2.7	4.0	4.9	6.2
Dividend yield (%)	0.6	0.9	1.4	1.7	2.1
Dividend payout (%) – incl. DDT	16.2	17.3	21.6	24.0	24.0
Net debt / equity (x)	0.7	0.6	0.7	0.5	0.4
Receivables (days)	183	272	277	281	281
Inventory (days)	23	21	24	26	25
Payables (days)	188	178	170	165	170
CFO : PAT%	155.7	54.5	54.9	145.4	120.6

Source: Company, Anand Rathi Research

**Fig 6 – Q4 FY20 revenue break-up**



Source: Company, Anand Rathi Research

## Result Highlights

**Fig 7 – Quarterly trend**

(₹ m)	Q1 FY21	Q1 FY20	Y/Y (%)	Q4 FY20	Q/Q (%)	FY20	FY19	Y/Y (%)
Net revenue	22,068	24,125	(9)	36,710	(40)	119,654	110,005	9
EBITDA	1,949	2,513	(22)	3,707	(47)	12,344	11,499	7
EBITDA margins (%)	9	10		10		10	10	
Other income	69	27	153	27	153	111	226	(51)
Depreciation	391	366	7	392	(0)	1,472	1,171	26
Interest	663	795	(17)	652	2	3,080	3,119	(1)
Extraordinary items	-	-		-		-	93	
Profit before tax	964	1,379	(30)	2,691	(64)	7,903	7,435	6
Tax	257	493		762		2,247	2,571	
Adjusted PAT	708	886	(20)	1,929	(63)	5,655	4,958	14
Net margins (%)	3.2	3.7		5		5	5	
EPS (₹)	2.7	3.4		7		22	19	

Source: Company, Anand Rathi Research

**Fig 8 – Segment-wise results (consolidated)**

(₹ m)	Q1 FY21	Q1 FY20	Y/Y (%)	Q4 FY20	% Q/Q	FY20	FY19	% Y/Y
T&D	11,760	12,940	(9)	20,170	(42)	66,360	63,390	4.7
SAE	2,780	3,050	(9)	4,460	(38)	15,390	9,670	59.2
Cables	1,590	2,630	(40)	2,180	(27)	9,790	11,830	(17.2)
Railways	5,210	5,220	(0)	8,600	(39)	25,510	19,180	33.0
Solar	190	340	(44)	310	(39)	1,260	3,410	(63.0)
Civil / Water	1,030	650	58	1,720	(40)	3,760	4,980	(24.5)
Inter-segment	(492)	(710)	(31)	(730)	(33)	(2,420)	(2,443)	(0.9)
<b>Total</b>	<b>22,068</b>	<b>24,120</b>	<b>(9)</b>	<b>36,710</b>	<b>(40)</b>	<b>119,650</b>	<b>110,017</b>	<b>8.8</b>

Source: Company, Anand Rathi Research

**Fig 9 – Order book**

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y
Transmission	95,288	108,032	103,788	109,146	120,810	129,730	119,811	119,801	105,327	106,753	100,465	100,378	(16.2)
SAE	21,020	17,148	19,028	18,373	20,135	20,592	20,307	13,311	10,417	13,427	10,252	7,873	(40.9)
Cables	2,803	3,430	3,460	2,547	4,027	4,118	4,061	3,803	3,617	4,182	4,101	3,936	3.5
Solar & Smart Infra	2,803	3,430	1,730	364	2,014	618	2,031	1,902	1,809	2,421	2,050	1,968	3.5
Railways	14,013	36,011	41,515	47,297	50,338	47,362	52,798	47,540	52,447	68,454	59,459	55,110	15.9
Civil / Water	4,204	3,430	3,460	4,184	4,027	4,118	4,061	3,803	7,234	24,872	26,654	27,555	624.5
<b>Total</b>	<b>140,130</b>	<b>171,480</b>	<b>172,980</b>	<b>181,910</b>	<b>201,350</b>	<b>206,538</b>	<b>203,070</b>	<b>190,160</b>	<b>180,850</b>	<b>220,110</b>	<b>205,030</b>	<b>196,820</b>	<b>3.5</b>

Source: Company, Anand Rathi Research

**Fig 10 – Order intake**

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y
Transmission	24,231	25,769	24,307	13,932	36,039	24,041	13,308	5,129	-	23,090	11,790	13,517	163.5
SAE	9,524	1,511	2,668	330	6,809	4,391	1,146	1,450	-	-	4,630	966	(33.4)
Cables	2,974	2,718	1,529	2,034	4,312	2,878	635	3,680	-	3,070	2,560	2,317	(37.0)
Solar & Smart Infra	1,149	25,632	12,474	9,288	8,162	3,304	10,231	-	-	21,100	4,490	-	
Railways	575	(236)	-	110	1,873	323	511	-	-	-	1,040	-	
Civil/Water	642	1,647	9	2,116	1,453	1,043	2,430	892	8,450	18,800	3,140	2,510	181.4
<b>Total</b>	<b>39,094</b>	<b>57,041</b>	<b>40,987</b>	<b>27,810</b>	<b>58,649</b>	<b>35,980</b>	<b>28,260</b>	<b>11,151</b>	<b>8,450</b>	<b>66,060</b>	<b>27,650</b>	<b>19,310</b>	<b>73.2</b>

Source: Company, Anand Rathi Research

**Fig 11 – Cost structure**

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y
Sales	21,304	24,049	36,624	21,043	24,085	26,466	38,412	24,125	28,088	30,731	36,710	22,068	(8.5)
Material cost	10,331	11,720	21,093	10,123	12,063	12,585	19,326	11,157	13,903	14,388	16,468	10,253	(8.1)
Employee cost	1,946	1,916	2,208	2,034	2,068	2,111	2,109	2,217	2,747	3,014	3,067	2,525	13.9
Erection and sub contracting charges	4,472	5,663	6,797	5,140	5,095	6,418	10,481	5,717	5,538	7,035	9,977	5,000	(12.5)
Other expense	2,400	2,310	2,826	1,583	2,327	2,539	2,505	2,520	2,962	3,110	3,492	2,341	(7.1)
<b>% of sales</b>													
Material cost	48.5	48.7	57.6	48.1	50.1	47.6	50.3	46.2	49.5	46.8	44.9	46.5	
Employee cost	9.1	8.0	6.0	9.7	8.6	8.0	5.5	9.2	9.8	9.8	8.4	11.4	
Erection and sub contracting charges	21.0	23.5	18.6	24.4	21.2	24.2	27.3	23.7	19.7	22.9	27.2	22.7	
Other expense	11.3	9.6	7.7	7.5	9.7	9.6	6.5	10.4	10.5	10.1	9.5	10.6	
EBITDA Margin	10.1	10.2	10.1	10.3	10.5	10.6	10.4	10.4	10.5	10.4	10.1	8.8	

Source: Company, Anand Rathi Research

**Fig 12 – Recent major order wins**

Segment	Projects	(₹ m)
T&D business and SAE Towers	T&D projects in India, SAARC, Malaysia, Africa and Americas.	8,210
Urban Infra	Kochi Metro Rail Limited (KMRL) for the construction of viaduct along with station for the Phase 1 extension of Kochi metro rail project in India.	1,460
Civil	Infra works in the warehouse space in India.	570
Cables	Various types of cables/ cabling projects in India.	1,680
		<b>11,920</b>

Source: Company, Anand Rathi Research

## Concall highlights

### Execution returning to normal

At present, work has resumed at 220 sites and labour is at 80% of pre-Covid-19 levels, against 50% at the start of the unlock. The lockdown impacted April execution; however, with operations starting at various sites in May, the company saw growth in May and June compared to last year. Currently, most T&D sites are running at pre-Covid'19 levels, except SAE and Brazil. Cost overruns were seen in Brazil. Barring this, execution was healthy at various international sites. Domestic order execution was healthy in railways, civil and smart infra, while execution in other segments is ramping up.

### Strong bids could lead to robust order inflow

KEC has recently bid for orders of ₹250bn-300bn. The pipeline is strong with management expecting to bid for orders of a further ₹300bn in the next two months, domestically and internationally. International T&D orders were healthy; however, domestic T&D tendering would be slow in the short term. A few recently finalized domestic T&D orders will be re-floated on account of the greater government focus on sourcing materials locally. These orders would be finalized in the next couple of quarters. State electricity board ordering is muted. Railway tenders, postponed in Q1, have been already floated and will be closed by Q2 or Q3 FY21. Apart from the recent railway bids, the railway tender pipeline is robust at ₹100bn. With digital adaptation picking up pace, the private sector has started ordering in civil and TBCB. Healthy opportunities can be seen in the Railways segment, with strong traction from metro-rail projects. Internationally, ordering would be strong from countries regions such as Africa, MENA and the Far East. The expected order inflow opportunity size-wise in FY21 is Railways, international T&D, civil from SAARC and India, SAE.

### Robust T&D opportunities internationally

T&D execution saw higher impact in the domestic market with revenue declining 10-11% y/y, while international revenue declined 6-7% y/y. This was largely due to the lockdown, supply disruptions and labour unavailability. The Company's L1 position of Rs50bn, largely constitutes orders from International T&D business. International T&D opportunity is seen from countries such as Middle East (Saudi Arabia, Dubai, Abu Dhabi and Oman), North Africa (Morocco), West Africa and Bangladesh (financed by GoI) and Thailand and Malaysia.

### Cost reduction measures will help expand margins

Mechanisation is being implemented at project, while many digitisation and automation initiatives have been adopted at various plants. This will help save labour costs. Also, the company has refinanced and replaced high-cost with low-cost debt, thereby saving on interest cost. Further, work-from-home would lead to savings in costs related to office infrastructure, rentals, electricity, etc.

**Other key highlights**

- The cables business had fewer dispatches on account of lower order intake/book.
- Smart infra – L1 in a large smart infra defence project.
- Most civil and railway contracts have a price-variation clause.
- Greater collection was seen in Q1 FY21 compared to the quarter prior.
- Supply tie-ups with China are insignificant. Tie-ups with regard to orders being executed would be managed from China. However, for future orders, the company would look to source materials from Korea and Taiwan.
- Net debt and interest bearing acceptances were flat q/q at ₹33.2bn.
- Net working capital was 132 days in Jun'20, an increase from Mar'20 (119 days) on account of the manufacturing impact.

## Valuation

With its strong order book and healthy L1 position, KEC's revenue assurance is sound. With increasing traction from the Railways and its civil business, it has promising prospects. However, the pace of execution and order inflow would be key points to monitor. The stock trades at 14x and 11x FY21e and FY22e respectively. We maintain our Buy rating, with a revised TP of ₹364 (14x FY22e earnings).

**Fig 13 – Change in estimates**

₹ m)	Old		Revised		% Change	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	105,946	116,170	115,580	134,045	9.1	15.4
EBITDA	10692	11958	11,502	13,631	7.6	14.0
EPS (₹)	18.3	21.3	20.6	26.0	12.4	22.0

Source: Anand Rathi Research

**Fig 14 – One-year-forward PER**



Source: Company, Anand Rathi Research

### Key risks

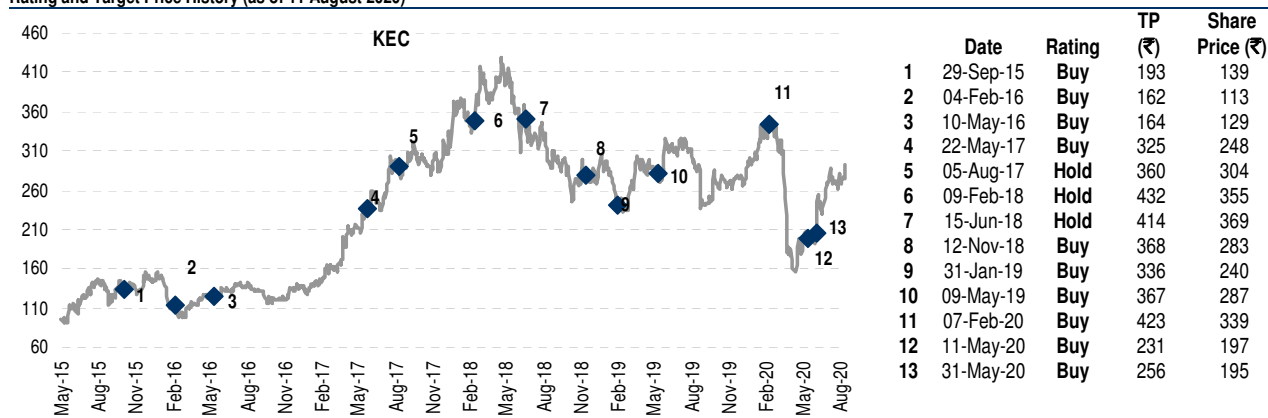
- Slowdown in orders awarded.
- Slower pace of execution.

## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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