

KEC International (KECI IN)

Rating: **ACCUMULATE** | CMP: Rs338 | TP: Rs339

November 5, 2020

Q2FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		BUY	
Target Price	339		333	
Sales (Rs. m)	1,44,817	1,65,090	1,42,893	1,59,315
% Chng.	1.3	3.6		
EBITDA (Rs. m)	15,075	17,186	14,918	16,632
% Chng.	1.1	3.3		
EPS (Rs.)	28.2	33.5	27.8	31.8
% Chng.	1.6	5.4		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,19,654	1,28,910	1,44,817	1,65,090
EBITDA (Rs. m)	12,344	12,646	15,075	17,186
Margin (%)	10.3	9.8	10.4	10.4
PAT (Rs. m)	5,655	5,782	7,258	8,613
EPS (Rs.)	22.0	22.5	28.2	33.5
Gr. (%)	16.3	2.2	25.5	18.7
DPS (Rs.)	3.3	3.4	4.2	5.0
Yield (%)	1.0	1.0	1.3	1.5
RoE (%)	21.6	19.0	20.2	20.2
RoCE (%)	23.8	20.8	22.4	22.8
EV/Sales (x)	0.9	0.9	0.7	0.7
EV/EBITDA (x)	8.7	8.7	7.2	6.3
PE (x)	15.4	15.0	12.0	10.1
P/BV (x)	3.1	2.6	2.2	1.9

Key Data

KECL.BO | KECI IN

52-W High / Low	Rs.360 / Rs.154
Sensex / Nifty	41,340 / 12,120
Market Cap	Rs.87bn / \$ 1,168m
Shares Outstanding	257m
3M Avg. Daily Value	Rs.309.75m

Shareholding Pattern (%)

Promoter's	51.82
Foreign	9.67
Domestic Institution	26.88
Public & Others	11.63
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.9)	64.0	25.1
Relative	(7.5)	24.8	21.8

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Stellar execution; Order inflows remains strong

Quick Pointers:

- Healthy order inflows of Rs43.6bn YTD (up 16% YoY) from T&D space, Cables and Civil segment led to OB of ~Rs195bn.
- Collection continues to remain strong from Saudi and domestic markets resulting into stable net debt of ~Rs25bn in 2QFY21E (v/s Rs23bn in 1QFY20).

KEC International (KECI) reported stellar execution resulting to beat in our and street estimates primarily led by growth in Civil (3x growth) and Railways (up 44% YoY) segments. Despite onset of monsoon and pandemic, T&D segment reported flat revenues for 2Q. Order inflows continue to be healthy with KECI securing orders worth Rs43.6bn YTD primarily from T&D space (comprising 79% of total inflows). Order book stands comfortable at ~Rs230bn (including L1 orders worth Rs35bn), strengthening its revenue visibility. Management expects the awarding pipeline to be healthy has its bid pipeline remains strong at ~Rs550bn across domestic and international markets. Management is witnessing good traction from Middle East, Africa, Bangladesh and SAARC regions in international markets. In domestic markets order tendering began from 2Q, however some delay was witnessed in conversion and the momentum is expected to pick up 3Q onwards. Key segments such as Railways (Metros), Civil, urban infra, T&D space, water and Solar would be on focus of the company going ahead.

Given the robust order bid pipeline (~Rs550bn), strong order book, steady margin profile and healthy outlook in T&D as well as emerging segments (like Railways/Civil) we believe KEC can deliver ~13% earnings CAGR over FY20-22E. On the back of strong 1HFY21 performance we have increased our earnings estimates by 4%/1.6%/5.4% for FY21E/FY22E/FY23E. The stock is currently trading at 13.4x/13.2x FY21/FY22E. However, on account of sharp run in stock price we are downgrading the stock to ACCUMULATE from BUY revised TP of Rs339 (earlier TP of Rs333).

Healthy performance on all fronts: Consol sales came in at ~Rs32.6bn (up 16% YoY) vs (PLe ~Rs26bn) mainly led by growth in Civil/Railways which grew 306%/45% YoY while T&D remained flat YoY. EBITDA came in flat YoY to Rs2.9bn (PLe ~Rs2bn) with EBITDA margins contracted by 150bps YoY to 9% vs 10.5% in 2QFY20 mainly due to higher subcontracting (up 51% YoY) and other expenses (14% YoY). PBT grew by 8% YoY to Rs1.95bn on back of higher other income (up 68% YoY) and lower interest cost (down, 18%YoY). PAT came in at Rs1.4bn (PLe ~Rs692mn), up 3% YoY.

Order inflows remains healthy at Rs43.6bn YTD: Order inflows grew by 16% YoY to Rs43.6bn YTD comprising of T&D (79%), Cables (9%), Civil (6%) and Railways segments (5%). Domestic ordering was slightly delayed due to deferment of orders while international orders witnessed a good traction in order inflows. Order Book stood healthy at Rs195bn as on 2QFY21 excluding L1 orders worth Rs35bn primarily from international T&D space.

Exhibit 1: Steady Performance in weak environment

(Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY gr. (%)	QoQ gr. (%)	1HFY21	1HFY20	YoY gr. (%)
Revenue	28,088	30,731	36,710	22,068	32,577	16.0	47.6	54,644	52,213	4.7
Total Revenues	28,088	30,731	36,710	22,068	32,577	16.0	47.6	54,644	52,213	4.7
Expenditure	25,150	27,546	33,003	20,119	29,646	17.9	47.4	49,765	46,761	6.4
as % of sales	89.5	89.6	89.9	91.2	91.0			91.1	89.6	
Consumption of RM	13,903	14,388	16,468	10,253	15,205	9.4	48.3	25,458	25,061	1.6
as % of sales	49.5	46.8	44.9	46.5	46.7			46.6	48.0	
Employee Cost	2,747	3,014	3,067	2,525	2,704	(1.5)	7.1	5,229	4,963	5.4
as % of sales	9.8	9.8	8.4	11.4	8.3			9.6	9.5	
Other expenditure	8,500	10,145	13,468	7,341	11,737	38.1	59.9	19,077	16,738	14.0
as % of sales	30.3	33.0	36.7	33.3	36.0			34.9	32.1	
EBITDA	2,938	3,185	3,707	1,949	2,931	(0.2)	50.4	4,880	5,451	(10.5)
Depreciation	347	367	392	391	374	7.7	(4.3)	765	714	7.2
EBIT	2,591	2,818	3,316	1,558	2,557	(1.3)	64.1	4,115	4,738	(13.1)
Other Income	36	21	27	69	68	88.6	(2.0)	137	63	116.5
Interest	822	811	652	663	674	(17.9)	1.8	1,337	1,617	(17.3)
PBT	1,805	2,028	2,691	964	1,950	8.0	102.2	2,915	3,184	(8.5)
Total Tax	414	579	762	257	525	26.8	104.6	781	907	(13.9)
Adjusted PAT	1,391	1,449	1,929	708	1,426	2.5	101.3	2,134	2,277	(6.3)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	1,391	1,449	1,929	708	1,426	2.5	101.3	2,134	2,277	(6.3)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	1,391	1,449	1,929	708	1,426	2.5	101.3	2,134	2,277	(6.3)
Adjusted EPS	5.4	5.6	7.5	2.8	5.5	2.5	101.3	8.3	8.9	(6.3)
Margins (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	bps	bps	1HFY21	1HFY20	bps
EBIDTA	10.5	10.4	10.1	8.8	9.0	(146)	17	8.9	10.4	(151)
EBIT	9.2	9.2	9.0	7.1	7.8	(137)	79	7.5	9.1	(154)
EBT	6.4	6.6	7.3	4.4	6.0	(44)	162	5.3	6.1	(76)
PAT	5.0	4.7	5.3	3.2	4.4	(58)	117	3.9	4.4	(46)
Effective Tax rate	22.9	28.5	28.3	26.6	26.9	398	31	26.8	28.5	(168)

Source: Company, PL

Key Conference Call Highlights:

- Operations- All the projects sites along with its manufacturing facilities have reached pre covid operating levels barring some intermittent localized issues. Labour availability has also increased to pre covid levels vs 80% in 1QFY21.
- Initiatives such as various mechanization and digitalization initiatives across projects has led to improvement in productivity and quality of execution despite reduced manpower strength resulted into stellar execution for the quarter. During 2Q, Railways and Civil segment witnessed significant ramp up in execution despite monsoon being strong with T&D segment reporting flat revenue growth.
- The company started its commercial production at its Dubai facility along with dispatches starting in the month Nov'20.
- It has bagged orders worth ~Rs43.6bn taking the order book to Rs195bn as on 2QFY21. Further the company is L1 in orders worth Rs35bn primarily from T&D international segment.
- Order Bid pipeline continues to remain healthy with projects worth Rs550bn in various stages of bid/tendering process across the domestic and international markets. On the international market, management is seeing good traction from SAARC, Middle East and African regions. On domestic market, management is expecting bidding of Green Energy Corridor in 2HFY21 to start.
- T&D – Despite onset of monsoon, the T&D segment revenues were flat at Rs19.8bn in 2Q. Covid situation in Brazil has come under control with work resuming across project sites and the company has started construction on newly awarded project in 2Q. Tendering pipeline in the T&D space remains very strong primarily from the international markets.
- Railways- Revenue reported a robust growth of 44% YoY led by strong execution. Management indicated tendering pipeline improved from 2Q however order finalization has witnessed some delays.
- Civil Segment- Revenue grew 3x led by strong execution from DMRC and Kochi metro project. The company commenced work on its second order from Cochin metro project. Civil segment continues to major growth driver and company would continue to bid for sectors such as Warehouses, Defence, Oil & gas pipeline, Urban infra, etc. in civil segment.
- Cable- Execution has picked up sequential to Rs2.5bn.
- During 2Q, margins got impacted due to rise in cost related to Covid and cost overruns in Brazil operation led by pandemic and currency depreciation.
- Net debt stands at Rs24.3bn as on 2QFY21. Interest
- Collections: KECI is not witnessing any delay from government payments, private players and collections was higher YoY. On international front, collection has been strong from ME, Saudi and Dubai regions.
- Going ahead management expects orders from warehousing, Defence, civil segments, railways, chemicals and large projects in water system.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,19,654	1,28,910	1,44,817	1,65,090
YoY gr. (%)	8.8	7.7	12.3	14.0
Cost of Goods Sold	55,916	62,521	70,960	80,894
Gross Profit	63,738	66,389	73,857	84,196
Margin (%)	53.3	51.5	51.0	51.0
Employee Cost	11,044	12,246	13,902	15,849
Other Expenses	5,662	5,672	6,082	6,934
EBITDA	12,344	12,646	15,075	17,186
YoY gr. (%)	7.3	2.5	19.2	14.0
Margin (%)	10.3	9.8	10.4	10.4
Depreciation and Amortization	1,472	1,574	1,643	1,762
EBIT	10,872	11,072	13,433	15,424
Margin (%)	9.1	8.6	9.3	9.3
Net Interest	3,080	3,300	3,612	3,759
Other Income	111	258	261	297
Profit Before Tax	7,903	8,030	10,081	11,962
Margin (%)	6.6	6.2	7.0	7.2
Total Tax	2,248	2,248	2,823	3,349
Effective tax rate (%)	28.4	28.0	28.0	28.0
Profit after tax	5,655	5,782	7,258	8,613
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,655	5,782	7,258	8,613
YoY gr. (%)	16.3	2.2	25.5	18.7
Margin (%)	4.7	4.5	5.0	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,655	5,782	7,258	8,613
YoY gr. (%)	16.3	2.2	25.5	18.7
Margin (%)	4.7	4.5	5.0	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,655	5,782	7,258	8,613
Equity Shares O/s (m)	257	257	257	257
EPS (Rs)	22.0	22.5	28.2	33.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	15,485	17,485	19,485	21,485
Tangibles	15,485	17,485	19,485	21,485
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,543	8,116	9,759	11,520
Tangibles	6,543	8,116	9,759	11,520
Intangibles	-	-	-	-
Net fixed assets	8,942	9,369	9,726	9,964
Tangibles	8,942	9,369	9,726	9,964
Intangibles	-	-	-	-
Capital Work In Progress	5,415	5,415	5,415	5,415
Goodwill	-	-	-	-
Non-Current Investments	110	-	-	-
Net Deferred tax assets	(527)	(527)	(527)	(527)
Other Non-Current Assets	3,679	5,156	5,793	6,604
Current Assets				
Investments	225	248	272	299
Inventories	7,758	8,829	9,919	11,308
Trade receivables	54,448	61,806	65,465	74,630
Cash & Bank Balance	1,637	425	2,874	4,157
Other Current Assets	8,604	10,313	11,585	13,207
Total Assets	1,28,546	1,44,101	1,58,839	1,80,063
Equity				
Equity Share Capital	514	514	514	514
Other Equity	27,462	32,376	38,546	45,866
Total Network	27,976	32,890	39,060	46,380
Non-Current Liabilities				
Long Term borrowings	2,637	3,637	4,637	5,637
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	19,437	19,937	19,937	19,937
Trade payables	50,073	55,873	59,514	67,845
Other current liabilities	27,896	31,237	35,164	39,736
Total Equity & Liabilities	1,28,546	1,44,101	1,58,839	1,80,063

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	7,903	8,030	10,081	11,962
Add. Depreciation	1,472	1,574	1,643	1,762
Add. Interest	3,080	3,300	3,612	3,759
Less Financial Other Income	111	258	261	297
Add. Other	583	-	-	-
Op. profit before WC changes	13,037	12,904	15,336	17,483
Net Changes-WC	(8,670)	(7,068)	(4,338)	(6,772)
Direct tax	(3,493)	(2,248)	(2,823)	(3,349)
Net cash from Op. activities	875	3,588	8,175	7,361
Capital expenditures	(2,020)	(2,023)	(2,025)	(2,027)
Interest / Dividend Income	34	-	-	-
Others	807	-	-	-
Net Cash from Inv. activities	(1,179)	(2,023)	(2,025)	(2,027)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,449)	1,500	1,000	1,000
Dividend paid	(1,558)	(867)	(1,089)	(1,292)
Interest paid	(2,689)	(3,300)	(3,612)	(3,759)
Others	6,722	-	-	-
Net cash from Fin. activities	25	(2,668)	(3,701)	(4,051)
Net change in cash	(280)	(1,102)	2,449	1,283
Free Cash Flow	(1,190)	1,588	6,175	5,361

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	22.0	22.5	28.2	33.5
CEPS	27.7	28.6	34.6	40.4
BVPS	108.8	127.9	151.9	180.4
FCF	(4.6)	6.2	24.0	20.9
DPS	3.3	3.4	4.2	5.0
Return Ratio(%)				
RoCE	23.8	20.8	22.4	22.8
ROIC	17.8	15.2	17.0	17.5
RoE	21.6	19.0	20.2	20.2
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.5	0.5
Net Working Capital (Days)	37	42	40	40
Valuation(x)				
PER	15.4	15.0	12.0	10.1
P/B	3.1	2.6	2.2	1.9
P/CEPS	12.2	11.8	9.8	8.4
EV/EBITDA	8.7	8.7	7.2	6.3
EV/Sales	0.9	0.9	0.7	0.7
Dividend Yield (%)	1.0	1.0	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	30,731	36,710	22,068	32,577
YoY gr. (%)	16.1	(4.4)	(8.5)	16.0
Raw Material Expenses	14,388	16,468	10,253	15,205
Gross Profit	16,344	20,242	11,815	17,372
Margin (%)	53.2	55.1	53.5	53.3
EBITDA	3,185	3,707	1,949	2,931
YoY gr. (%)	13.2	(7.1)	(22.5)	(0.2)
Margin (%)	10.4	10.1	8.8	9.0
Depreciation / Depletion	367	392	391	374
EBIT	2,818	3,316	1,558	2,557
Margin (%)	9.2	9.0	7.1	7.8
Net Interest	811	652	663	674
Other Income	21	27	69	68
Profit before Tax	2,028	2,691	964	1,950
Margin (%)	6.6	7.3	4.4	6.0
Total Tax	579	762	257	525
Effective tax rate (%)	28.5	28.3	26.6	26.9
Profit after Tax	1,449	1,929	708	1,426
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,449	1,929	708	1,426
YoY gr. (%)	30.7	(0.5)	(20.1)	2.5
Margin (%)	4.7	5.3	3.2	4.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,449	1,929	708	1,426
YoY gr. (%)	30.7	(0.5)	(20.1)	2.5
Margin (%)	4.7	5.3	3.2	4.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,449	1,929	708	1,426
Avg. Shares O/s (m)	257	257	257	257
EPS (Rs)	5.6	7.5	2.8	5.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	333	345
2	11-Aug-20	BUY	333	294
3	08-Jul-20	BUY	296	275
4	29-May-20	BUY	295	197
5	16-Apr-20	BUY	295	164
6	07-Feb-20	BUY	397	348
7	03-Jan-20	BUY	375	311
8	09-Nov-19	BUY	375	265

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	877
2	Ahluwalia Contracts (India)	BUY	288	231
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	99	94
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	120
7	Container Corporation of India	BUY	468	386
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	89
11	H.G. Infra Engineering	BUY	259	185
12	IRB Infrastructure Developers	BUY	152	112
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	109
15	Kalpataru Power Transmission	BUY	276	238
16	KEC International	BUY	333	345
17	KNR Constructions	BUY	305	257
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	34
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	52
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	719
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,244	988

PL's Recommendation Nomenclature (Absolute Performance)

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

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