

KEC International

9 May 2019

Reuters: KECL.BO; Bloomberg: KECI IN

Profitability In Line; Working Capital Improves Meaningfully

KEC International (KEC) posted 5% YoY growth in revenues at Rs38.4bn in 4QFY19, below our and consensus estimates by 6% each. The top-line growth was driven by railway (up 76% YoY at Rs6.3bn), civil (up 29% YoY at Rs1.6bn) and cable (up 25% YoY at Rs3.5bn) segments. T&D segment's revenues fell 1% YoY to Rs24bn owing to execution challenges in one large domestic private sector project worth Rs4.5bn. SAE Towers' sales grew only 4% YoY to Rs3.2bn, impacted by delayed project approvals. EBITDA grew 8% YoY to Rs4bn, leading to a 30bps YoY rise in margin to 10.4%, in line with our and consensus estimate. PAT was flat YoY at Rs2bn, impacted by high interest costs (up 38% YoY at Rs846mn). The bottom-line was in line with our estimate, but 4% below consensus estimate. FY19 order intake fell 7% YoY to Rs141bn while the order book grew 17% YoY to Rs203bn. For FY20, the management expects 15%-20% revenue growth, order intake worth Rs170bn (~20% YoY growth) along with sustaining the current EBITDA margin of 10.5%. Working capital returned to the normal level driven by collection of receivables from Saudi Arabia, sale of BOT project, change in vendor terms and advances from large overseas projects. We have marginally tweaked our earnings estimates and retained Buy rating on KEC with an unchanged target price of Rs400 based on 14x FY21E earnings.

Order book remains strong: Order inflow in 4QFY19 stood at Rs25.5bn while FY19 inflow was Rs141bn, down 7% YoY, on a high base. Segment-wise, FY19 order inflow split was T&D (Rs74.6bn), railway (Rs30.9bn), SAE Towers (Rs12.7bn), cable (Rs9.9bn) and civil (Rs7bn). T&D order inflow was driven by international markets while domestic orders from state electricity boards (SEBs) were muted. Similarly, orders from SAE Towers was impacted owing to delay in clearances. The management expects ~20% YoY growth in order inflow in FY20 to Rs170bn led by T&D (continuation of healthy orders from international markets as well as a pick-up in order placement activity of SEBs), SAE Towers and civil segments. FY19 order book rose 17% YoY to Rs203bn. Further, KEC has L1 status in orders worth Rs35bn. Domestic-international order book mix stood at 50%-50%. T&D, railway and SAE Towers account for 59%/26%/10% of the order book, respectively.

Working capital position: The working capital and debt levels improved significantly in 4QFY19. Gross debt stood at Rs18.5bn in FY19, a reduction of Rs12bn in the fourth quarter. Net working capital days reduced to 103 in 4QFY19 versus 145 sequentially. However, they were still higher than the FY18 level of 93 days. Reduction in debt and working capital was driven by collection of receivables from Saudi Arabia (Rs4.5bn in 4QFY19 and Rs10bn in FY19), sale of BOT project (Rs2.3bn), changes in vendor terms and advances from large overseas projects. However, gross debt is likely to rise to Rs25bn (including acceptances) in FY20, considering the healthy revenue growth expectations.

Key conference-call highlights: (a) Railway segment's revenues surged 127% YoY in FY19 to Rs19.2bn. KEC expects ~20% growth in sales in FY20. Railway segment continues to offer healthy growth prospects considering pending electrification of 30,000km domestic rail tracks as well as planned entry in international markets. (b) Civil segment's revenues grew 86% YoY to Rs5bn in FY19. KEC plans to double sales each year for the next three years driven by foray into new sectors. (c) In international market, the countries driving growth includes SAARC (Bangladesh, Afghanistan), Brazil, South East Asia (Thailand, Malaysia), Africa and the UAE. (d) Rs7bn worth receivables are still pending from Saudi Arabia, of which Rs3bn is retention money. (e) Growth in cable segment is driven by exports as well as EHV cables. (f) Forex gain in FY19 was Rs600mn compared to a loss of Rs100mn in FY18. (g) Interest costs, as a percentage of sales, is likely to be 2.5% in FY20 versus 2.8% in FY19.

Outlook: Healthy earnings CAGR of 22.6% over FY19-FY21E, healthy return ratios, strong T&D order book and high scalability of railway and civil segments will support the current valuation of KEC.

BUY
Sector: Capital Goods

CMP: Rs293

Target Price: Rs400

Upside: 36%

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Key Data

Current Shares O/S (mn)	257.1
Mkt Cap (Rsbn/US\$bn)	75.5/1.1
52 Wk H / L (Rs)	421/230
Daily Vol. (3M NSE Avg.)	482,938

Price Performance (%)

	1 M	6 M	1 Yr
KEC International	1.8	2.7	(28.8)
Nifty Index	(2.1)	7.2	6.0

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net revenues	36,624	26,466	38,412	4.9	45.1	100,526	110,005	9.4
Raw material costs	27,890	19,003	29,807	6.9	56.9	72,670	81,230	11.8
Staff costs	2,208	2,111	2,109	(4.5)	(0.1)	7,984	8,322	4.2
Other expenses	2,826	2,539	2,505	(11.3)	(1.3)	9,816	8,954	(8.8)
Total expenditure	32,924	23,653	34,421	4.5	45.5	90,469	98,506	8.9
EBITDA	3,700	2,814	3,990	7.8	41.8	10,057	11,499	14.3
EBITDA margin (%)	10.1	10.6	10.4	-	-	10.0	10.5	-
Interest costs	614	857	846	37.7	(1.4)	2,294	3,119	36.0
Depreciation	275	309	261	(5.2)	(15.6)	1,097	1,171	6.7
Other income	78	36	63	(18.7)	78.1	207	226	9.1
PBT	2,889	1,684	2,948	2.0	75.1	6,873	7,435	8.2
Tax	933	575	1,009	8.2	75.6	2,290	2,571	12.2
Exceptional items	7	15	49	-	-	21	93	-
PAT	1,963	1,124	1,988	1.2	76.9	4,604	4,958	7.7
PAT margin (%)	5.4	4.2	5.2	-	-	4.6	4.5	-
EPS (Rs)	7.6	4.4	7.7	1.2	76.9	17.9	19.3	7.7

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	85,844	100,526	110,005	129,536	149,147
EBITDA	8,179	10,057	11,499	13,601	15,810
Adjusted net profit	3,048	4,583	4,864	6,018	7,306
Adjusted EPS (Rs)	11.9	17.8	18.9	23.4	28.4
EPS growth (%)	106.1	50.4	6.1	23.7	21.4
EBITDA margin (%)	9.5	10.0	10.5	10.5	10.6
P/E (x)	24.7	16.4	15.5	12.5	10.3
P/BV (x)	4.7	3.8	3.1	2.6	2.1
EV/EBITDA (x)	11.4	8.9	7.8	6.7	5.8
Dividend yield (%)	0.5	0.8	0.9	1.2	1.5
RoCE (%)	16.9	24.0	25.9	26.8	27.3
RoE (%)	21.2	25.6	21.9	22.4	22.7

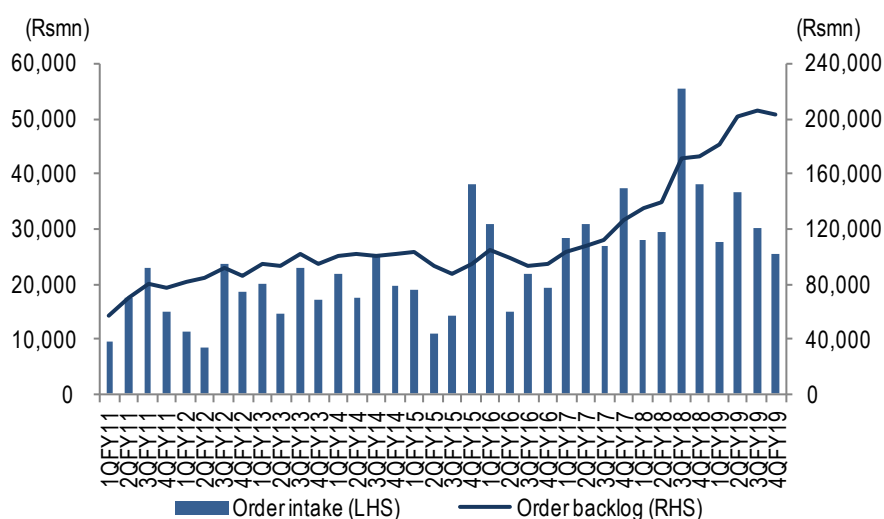
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

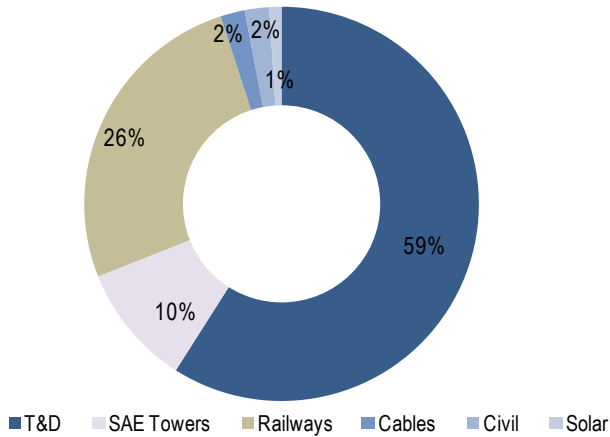
Y/E March	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Revenues (Rsmn)								
T&D	24,660	15,630	24,340	(1.3)	55.7	67,930	63,390	(6.7)
SAE Towers	3,070	1,950	3,190	3.9	63.6	10,250	9,670	(5.7)
Cable	2,780	3,100	3,490	25.5	12.6	10,090	11,830	17.2
Railway	3,590	5,510	6,330	76.3	14.9	8,440	19,180	127.3
Civil	1,260	1,100	1,630	29.4	48.2	2,680	4,980	85.8
Solar	1,890	160	320	(83.1)	100.0	2,880	3,410	18.4
Revenue mix (%)								
T&D	66.2	56.9	61.9	-	-	66.4	56.4	-
SAE Towers	8.2	7.1	8.1	-	-	10.0	8.6	-
Cable	7.5	11.3	8.9	-	-	9.9	10.5	-
Railway	9.6	20.1	16.1	-	-	8.3	17.1	-
Civil	3.4	4.0	4.1	-	-	2.6	4.4	-
Solar	5.1	0.6	0.8	-	-	2.8	3.0	-

Source: Company, Nirmal Bang Institutional Equities Research

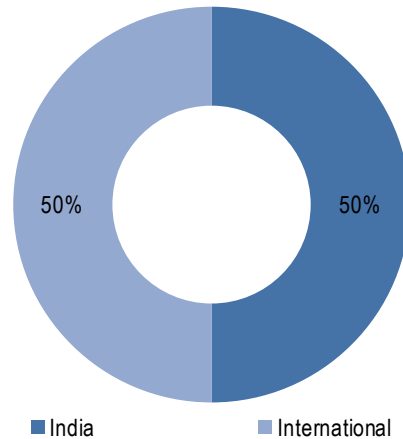
Exhibit 3: Order inflow and order book position



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise order book break-up


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Geography-wise order book break-up


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Actual performance versus our estimates, Bloomberg consensus estimates

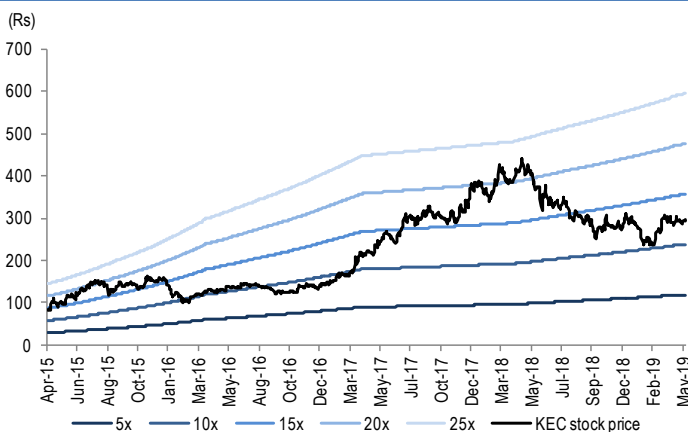
4QFY19 (Rsmn)	Actual	Our estimates	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	38,412	40,747	(5.7)	41,010	(6.3)
EBITDA	3,990	4,278	(6.7)	4,234	(5.8)
PAT	1,988	1,942	2.3	2,078	(4.4)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Y/E March						
Revenues	134,405	152,307	129,536	149,147	(3.6)	(2.1)
EBITDA	14,113	16,145	13,601	15,810	(3.6)	(2.1)
PAT	6,147	7,305	6,018	7,306	(2.1)	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: P/E trend


Source: BSE, Nirmal Bang Institutional Equities Research



Source: BSE, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)
Exhibit 9: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	85,844	100,526	110,005	129,536	149,147
% growth	0.8	17.1	9.4	17.8	15.1
Raw material costs	59,489	72,670	81,230	93,913	108,131
Staff costs	7,327	7,984	8,322	9,715	11,037
Other overheads	10,849	9,816	8,954	12,306	14,169
Total expenditure	77,665	90,469	98,506	115,934	133,337
EBITDA	8,179	10,057	11,499	13,601	15,810
% growth	18.1	23.0	14.3	18.3	16.2
EBITDA margin (%)	9.5	10.0	10.5	10.5	10.6
Other income	289	207	226	259	298
Interest costs	2,536	2,294	3,119	3,368	3,580
Depreciation	1,297	1,097	1,171	1,234	1,288
Profit before tax	4,635	6,873	7,435	9,259	11,240
Tax	1,587	2,290	2,571	3,241	3,934
Net profit	3,048	4,583	4,864	6,018	7,306
PAT margin (%)	3.6	4.6	4.4	4.6	4.9
EPS (Rs)	11.9	17.8	18.9	23.4	28.4
% growth	106.1	50.4	6.1	23.7	21.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	514	514	514	514	514
Reserves	15,349	19,460	23,837	28,775	34,693
Net worth	15,864	19,975	24,351	29,289	35,207
Short-term loans	12,325	9,010	11,558	13,558	13,558
Long-term loans	7,757	7,384	5,411	5,911	6,411
Total loans	20,082	16,394	16,968	19,468	19,968
Deferred tax liability (net)	1,240	1,007	1,183	1,183	1,183
Total liabilities	37,186	37,376	42,502	49,941	56,358
Net block	8,516	8,288	8,666	8,505	8,317
Capital work-in-progress	51	781	73	100	100
Goodwill	2,972	2,834	3,158	3,158	3,158
Investments	1,304	393	132	132	132
Inventories	3,947	6,274	6,410	7,098	8,172
Debtors	42,268	50,444	59,543	68,494	76,412
Cash	2,080	2,313	2,762	3,099	3,750
Other current assets	26,012	33,798	13,365	17,842	21,289
Total current assets	74,306	92,829	82,080	96,533	109,624
Creditors	31,672	46,578	48,009	54,032	59,843
Other current liabilities & provisions	18,291	21,171	3,598	4,456	5,130
Total current liabilities	49,963	67,749	51,607	58,488	64,973
Net current assets	24,343	25,080	30,473	38,045	44,651
Total assets	37,186	37,376	42,502	49,941	56,358

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	6,882	8,960	10,328	12,368	14,521
(Inc.)/dec. in working capital	8,736	(504)	(4,945)	(7,235)	(5,955)
Cash flow from operations	15,618	8,456	5,383	5,133	8,567
Other income	289	207	226	259	298
Depreciation	1,297	1,097	1,171	1,234	1,288
Tax paid (-)	(1,381)	(2,523)	(2,394)	(3,241)	(3,934)
Net cash from operations	15,823	7,237	4,386	3,385	6,219
Capital expenditure (-)	(954)	(1,599)	(842)	(1,100)	(1,100)
Net cash after capex	14,868	5,638	3,544	2,285	5,119
Interest paid (-)	(2,536)	(2,294)	(3,119)	(3,368)	(3,580)
Dividends paid (-)	(494)	(740)	(833)	(1,080)	(1,388)
Inc./(dec.) in short-term borrowing	(11,975)	(3,316)	2,548	2,000	-
Inc./(dec.) in long-term borrowing	1,828	(372)	(1,974)	500	500
Inc./(dec.) in total borrowings	(10,147)	(3,688)	574	2,500	500
Cash from financial activities	(14,227)	(5,811)	(3,117)	(1,948)	(4,468)
Others	585	406	21	-	-
Opening cash balance	853	2,080	2,313	2,762	3,099
Closing cash balance	2,080	2,313	2,762	3,099	3,750
Change in cash balance	1,227	233	449	337	651

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

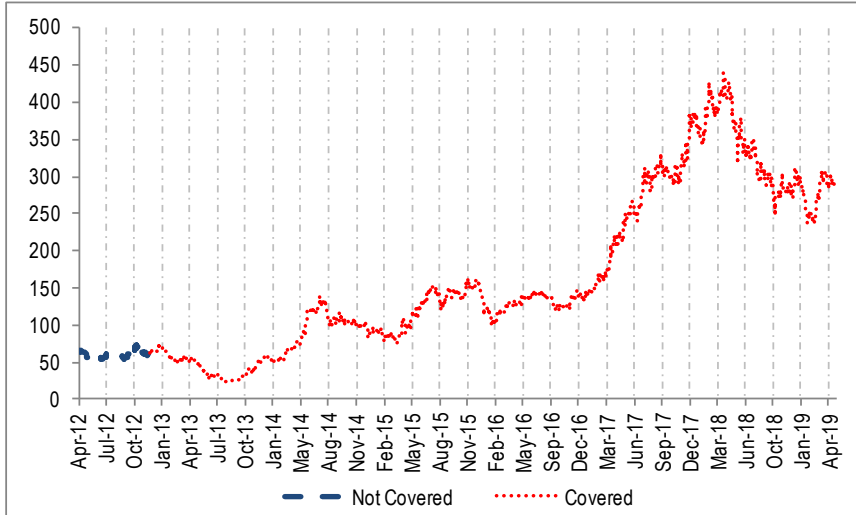
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	11.9	17.8	18.9	23.4	28.4
Book value	61.7	77.7	94.7	113.9	136.9
Valuation (x)					
P/E	24.7	16.4	15.5	12.5	10.3
P/BV	4.7	3.8	3.1	2.6	2.1
EV/EBITDA	11.4	8.9	7.8	6.7	5.8
EV/sales	1.1	0.9	0.8	0.7	0.6
Return ratios (%)					
RoCE	16.9	24.0	25.9	26.8	27.3
RoE	21.2	25.6	21.9	22.4	22.7
RoIC	17.9	26.2	27.8	28.7	29.3
Profitability ratios (%)					
EBITDA margin	9.5	10.0	10.5	10.5	10.6
EBIT margin	8.0	8.9	9.4	9.5	9.7
PAT margin	3.6	4.6	4.4	4.6	4.9
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.7	2.8	2.8	2.8
Debtor days	180	183	198	193	187
Inventory days	17	23	21	20	20
Creditor days	194	234	216	210	202
Solvency ratios (x)					
Debt-equity	1.3	0.8	0.7	0.7	0.6
Interest coverage	2.7	3.9	3.3	3.7	4.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 November 2012	Buy	62	79
2 January 2013	Buy	67	79
7 January 2013	Buy	68	79
31 January 2013	Buy	61	79
2 April 2013	Buy	57	79
9 April 2013	Buy	55	79
9 May 2013	Buy	49	68
22 May 2013	Buy	47	68
9 July 2013	Buy	32	68
6 August 2013	Buy	25	41
7 October 2013	Buy	29	41
29 October 2013	Buy	34	41
13 February 2014	Buy	54	65
5 May 2014	Hold	77	85
1 August 2014	Accumulate	120	126
9 October 2014	Buy	106	126
3 November 2014	Buy	102	130
9 January 2015	Buy	93	130
6 February 2015	Buy	86	124
27 March 2015	Buy	74	124
15 April 2015	Buy	104	124
8 May 2015	Buy	99	131
9 June 2015	Buy	108	131
28 July 2015	Buy	150	176
12 October 2015	Buy	142	176
29 October 2015	Buy	137	176
8 January 2016	Buy	142	176
5 February 2016	Buy	113	171
12 April 2016	Buy	131	171
10 May 2016	Buy	129	175
29 June 2016	Buy	139	175
12 July 2016	Buy	147	175
1 August 2016	Buy	143	175
13 October 2016	Buy	125	175
9 November 2016	Buy	125	177
10 January 2017	Buy	144	177
1 February 2017	Buy	148	177
14 February 2017	Buy	165	191
7 April 2017	Buy	214	191
22 May 2017	Buy	243	285
6 July 2017	Buy	256	305
3 August 2017	Accumulate	297	305
9 October 2017	Accumulate	302	305
7 November 2017	Accumulate	315	325
9 January 2018	Accumulate	388	325
7 February 2018	Accumulate	344	365
6 April 2018	Accumulate	413	365
15 May 2018	Accumulate	379	390
10 July 2018	Accumulate	338	390
6 August 2018	Buy	327	380
9 October 2018	Buy	250	380
5 November 2018	Buy	305	395
9 January 2019	Buy	284	395
30 January 2019	Buy	237	365
9 April 2019	Buy	286	400
9 May 2019	Buy	293	400

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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