

# KEC International

1 June 2020

Reuters: KECL.BO; Bloomberg: KECI IN

## Healthy execution, in-line margins amid COVID-19 impact

KEC International (KEC) reported consolidated revenue of Rs36.7bn, down 4% YoY and 8% above our estimate. Railways/SAE towers sales grew 36%/39% YoY to Rs8.6bn/Rs4.4bn. T&D/Cables sales fell 17%/38% YoY to Rs20.2bn/Rs2.2bn. EBITDA fell 7% YoY to Rs3.7bn, leading to EBITDA margin of 10.1% (down 30bps YoY), exactly in line with our/consensus estimate. Aided by lower tax rate at 28.3% (versus 34.2% YoY), decline in PAT was restricted to 3% YoY to Rs1.9bn, 12%/3% above our/consensus estimate. FY20 order inflow was at Rs113bn, down 20% YoY while order book was flat YoY at Rs205bn. FY20 revenue grew 9% YoY to Rs120bn, while the COVID-19 lockdown led to sales disruption of Rs5bn-Rs6bn in March 2020. Lockdown challenges have made it difficult to ascertain revenue growth guidance for KEC, however order book and pipeline remains robust, while 85% of the projects sites are now operational. While labor and mechanization cost could rise, management feels that pressure on margins is unlikely due to decline in commodity cost/diesel prices and savings in variable expenses. We have tweaked our earnings estimates and retained Buy rating on KEC with a revised target price of Rs255 (Rs300 earlier) based on 10x FY22E earnings.

**Weak T&D affects FY20 order inflow:** Order inflow in FY20 declined 20% YoY to Rs113bn. Segment-wise, FY20 order inflow split was T&D (Rs38.5bn, down 48%), SAE Towers (Rs5.7bn, down 55%), Railways (Rs31.7bn, up 2%), Cables (Rs9.1bn, down 8%) and Civil (Rs27.2bn, up 286%). It is currently L1 in projects worth Rs35bn, majority of which are from the T&D segment. Order book was flat YoY at Rs205bn, contributed largely by T&D (Rs100bn), Railways (Rs59.5bn), Civil (Rs26.7bn) and SAE Towers (Rs10.2bn). Domestic-international order book mix stood at 64%-36%.

**Working capital position:** Net working capital improved to 119 days as on FY20 (vs. 128 days QoQ). Average borrowings reduced to ~Rs26bn in FY20 (vs. Rs31bn YoY) due to focus on Saudi collections and speedy commercial closure of projects. Interest cost reduced to 1.8% of sales in 4QFY20 (vs. 2.2% YoY) and to 2.6% in FY20 (vs. 2.8% YoY) due to high forex debt and lower cost of borrowing. KEC expects to reduce interest cost further to 2.3% in FY21E.

**Key business updates:** (1) **SAE towers** revenue grew 59% YoY to Rs15.4bn in FY20, while its plants/operations in Brazil and Mexico were operational throughout the lockdown as these were considered essential. For FY21E, revenue is expected to be flat/decline marginally considering the current situation in Brazil and 25% depreciation in Brazilian currency (2) **Railways** sales grew 33% YoY to Rs25.5bn in FY20. KEC expects orders worth Rs90bn-Rs100bn to be tendered out in June 2020. With order book of Rs59.5bn, KEC expects revenue growth of 30%-40% for FY21E. (3) **Civil** revenue fell 24% YoY in FY20 to Rs3.8bn. KEC is currently executing projects in defence, metro rail and residential sectors. With robust order book of Rs27bn (vs. Rs4bn YoY), KEC expects revenue of ~Rs15bn in FY21E. (4) **Cables** sales fell 17% YoY to Rs9.8bn in FY20 due to fall in commodity prices as well as COVID-19 challenges. (5) In **Domestic T&D**, KEC has bid for Rs140bn worth of TBCB projects from PGCIL under the GEC scheme in the past two weeks, while some are due for bidding in next week. (6) KEC expects significant tenders from **Middle East countries** such as UAE, Saudi Arabia and Oman (~Rs50bn) and is L1 in projects worth Rs9bn (7) **Total order pipeline** is worth Rs350bn-Rs400bn across T&D, Railways & Civil. (8) KEC is currently operating with 15,000 **laborers**, 50% of its total pre-COVID labor force of 30,000. It is planning to incorporate several mechanization and automation measures to expedite execution as well as production.

**Outlook:** Considering the impact of COVID-19, we expect revenue/earnings CAGR of 6%/8% over FY20-FY22E. Healthy return ratios, strong order book and high scalability of railway and civil segments will support the valuation of KEC, which is at a reasonable level of 7.7x FY22E EPS.

## BUY

**Sector:** Capital Goods

**CMP:** Rs197

**Target Price:** Rs255

**Upside:** 29%

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### Key Data

Current Shares O/S (mn)	257.1
Mkt Cap (Rsbn/US\$m)	50.6/668.8
52 Wk H / L (Rs)	359/154
Daily Vol. (3M NSE Avg.)	553,049

### Price Performance (%)

	1 M	6 M	1 Yr
KEC International	0.8	(30.2)	(38.6)
Nifty Index	(2.8)	(20.5)	(19.6)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Net revenues</b>	<b>38,412</b>	<b>30,731</b>	<b>36,710</b>	<b>(4.4)</b>	<b>19.5</b>	<b>110,005</b>	<b>119,654</b>	<b>8.8</b>
Raw material costs	29,807	21,422	26,444	(11.3)	23.4	81,230	84,182	3.6
Staff costs	2,109	3,014	3,067	45.4	1.8	8,322	11,044	32.7
Other expenses	2,505	3,110	3,492	39.4	12.3	8,954	12,084	35.0
Total expenditure	34,421	27,546	33,003	(4.1)	19.8	98,506	107,310	8.9
EBITDA	3,990	3,185	3,707	(7.1)	16.4	11,499	12,344	7.3
<b>EBITDA margin (%)</b>	<b>10.4</b>	<b>10.4</b>	<b>10.1</b>	-	-	<b>10.5</b>	<b>10.3</b>	-
Interest costs	846	811	652	(22.9)	(19.5)	3,119	3,080	(1.2)
Depreciation	261	367	392	50.3	6.7	1,171	1,472	25.7
Other income	63	21	27	(56.9)	33.2	226	111	(50.9)
PBT	2,948	2,028	2,691	(8.7)	32.7	7,435	7,903	6.3
Tax	1,009	579	762	(24.5)	31.6	2,571	2,248	(12.6)
Extraordinary items	49	-	-	-	-	93	-	-
<b>PAT</b>	<b>1,988</b>	<b>1,449</b>	<b>1,929</b>	<b>(3.0)</b>	<b>33.1</b>	<b>4,958</b>	<b>5,655</b>	<b>14.1</b>
<b>PAT margin (%)</b>	<b>5.2</b>	<b>4.7</b>	<b>5.3</b>	-	-	<b>4.5</b>	<b>4.7</b>	-
<b>EPS (Rs)</b>	<b>7.7</b>	<b>5.6</b>	<b>7.5</b>	<b>(3.0)</b>	<b>33.1</b>	<b>19.3</b>	<b>22.0</b>	<b>14.1</b>

Source: Company, Nirmal Bang Institutional Equities Research

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

**Exhibit 1: Financial summary (consolidated)**

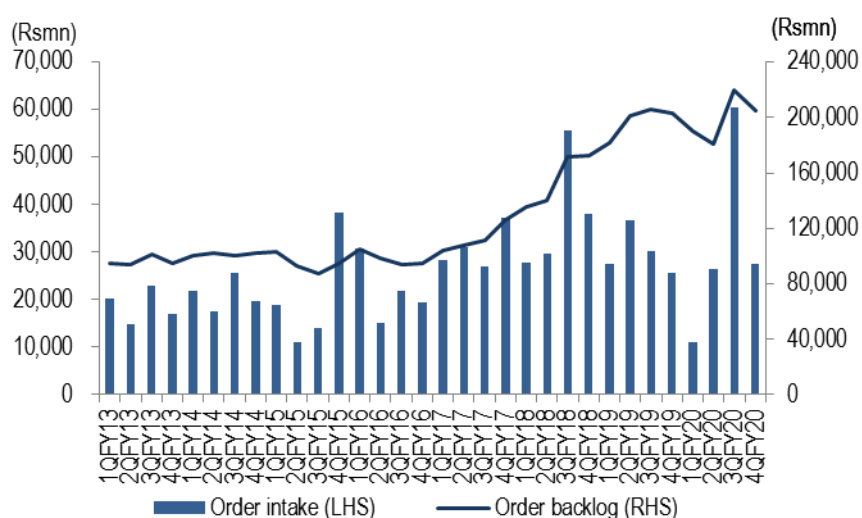
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	100,526	110,005	119,654	115,604	134,846
EBITDA	10,057	11,499	12,344	11,676	14,024
Adjusted net profit	4,583	4,864	5,655	5,279	6,582
Adjusted EPS (Rs)	17.8	18.9	22.0	20.5	25.6
EPS growth (%)	50.4	6.1	16.3	(6.7)	24.7
EBITDA margin (%)	10.0	10.5	10.3	10.1	10.4
P/E (x)	11.1	10.4	9.0	9.6	7.7
P/BV (x)	2.5	2.1	1.8	1.6	1.3
EV/EBITDA (x)	6.4	5.6	5.6	6.0	5.0
Dividend yield (%)	1.2	1.4	1.7	1.8	2.3
RoCE (%)	24.0	25.9	23.7	19.4	21.3
RoE (%)	25.6	21.9	21.6	17.5	18.8

Source: Company, Nirmal Bang Institutional Equities Research

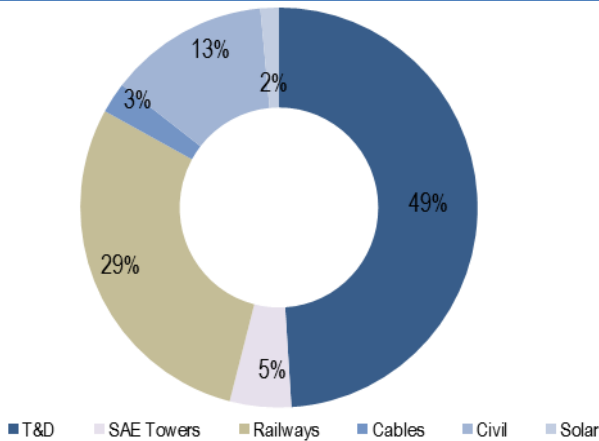
**Exhibit 2: Segment-wise snapshot (consolidated)**

Y/E March	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Revenues (Rsmn)</b>								
T&D	24,340	17,030	20,180	(17.1)	18.5	63,390	66,360	4.7
SAE Towers	3,190	4,320	4,440	39.2	2.8	9,670	15,370	58.9
Cable	3,490	2,490	2,170	(37.8)	(12.9)	11,830	9,780	(17.3)
Railway	6,330	6,010	8,610	36.0	43.3	19,180	25,520	33.1
Civil	1,630	1,200	1,720	5.5	43.3	4,980	3,760	(24.5)
Solar & Smart infra	320	90	320	0.0	255.6	3,410	1,260	(63.0)
<b>Revenue mix (%)</b>								
T&D	61.9	54.7	53.9	-	-	56.4	54.4	-
SAE Towers	8.1	13.9	11.9	-	-	8.6	12.6	-
Cable	8.9	8.0	5.8	-	-	10.5	8.0	-
Railway	16.1	19.3	23.0	-	-	17.1	20.9	-
Civil	4.1	3.9	4.6	-	-	4.4	3.1	-
Solar & Smart infra	0.8	0.3	0.9	-	-	3.0	1.0	-

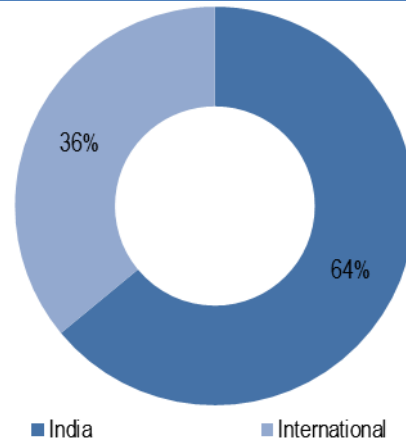
Source: Company, Nirmal Bang Institutional Equities Research

**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**

4QFY20 (Rsmn)	Actual	Our estimates	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	36,710	33,867	8.4	36,824	(0.3)
EBITDA	3,707	3,421	8.4	3,684	0.6
PAT	1,929	1,723	11.9	1,865	3.4

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

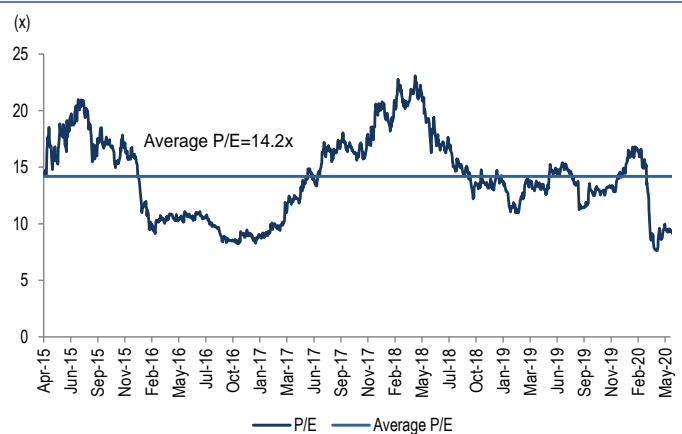
**Exhibit 7: Change in our estimates**

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	131,514	149,889	115,604	134,846	(12.1)	(10.0)
EBITDA	13,414	15,739	11,676	14,024	(13.0)	(10.9)
PAT	6,422	7,772	5,279	6,582	(17.8)	(15.3)

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)	FY18	FY19	FY20	FY21E	FY22E
Net sales	100,526	110,005	119,654	115,604	134,846
% growth	17.1	9.4	8.8	(3.4)	16.6
Raw material costs	72,670	81,230	84,182	80,923	94,932
Staff costs	7,984	8,322	11,044	11,676	13,215
Other overheads	9,816	8,954	12,084	11,329	12,676
Total expenditure	90,469	98,506	107,310	103,928	120,822
EBITDA	10,057	11,499	12,344	11,676	14,024
% growth	23.0	14.3	7.3	(5.4)	20.1
EBITDA margin (%)	10.0	10.5	10.3	10.1	10.4
Other income	207	226	111	116	135
Interest costs	2,294	3,119	3,080	2,774	3,236
Depreciation	1,097	1,171	1,472	1,635	1,717
Profit before tax	6,873	7,435	7,903	7,383	9,206
Tax	2,290	2,571	2,248	2,104	2,624
Adjusted Net profit	4,583	4,864	5,655	5,279	6,582
Extraordinary items	21	93	-	-	-
Reported Net Profit	4,604	4,958	5,655	5,279	6,582
Adjusted PAT margin (%)	4.6	4.4	4.7	4.6	4.9
Adjusted EPS (Rs)	17.8	18.9	22.0	20.5	25.6
% growth	50.4	6.1	16.3	(6.7)	24.7

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Balance sheet**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	514	514	514	514	514
Reserves	19,460	23,837	27,462	31,840	37,266
Net worth	19,974	24,351	27,976	32,355	37,780
Short-term loans	9,010	11,558	19,091	20,091	21,091
Long-term loans	7,384	5,411	1,527	1,527	1,527
Total loans	16,394	16,968	20,618	21,618	22,618
Deferred tax liability (net)	1,007	1,183	527	527	527
<b>Total liabilities</b>	<b>37,375</b>	<b>42,502</b>	<b>49,121</b>	<b>54,500</b>	<b>60,925</b>
Net block	8,288	8,666	10,412	10,717	10,501
Capital work-in-progress	781	73	840	100	100
Goodwill	2,834	3,158	3,106	3,106	3,106
Investments	393	132	225	225	225
Inventories	6,274	6,410	7,758	7,285	8,128
Debtors	50,444	59,543	68,993	69,679	75,735
Cash	2,313	2,762	1,637	1,681	2,906
Other current assets	33,798	13,365	13,473	12,875	15,018
Total current assets	92,829	82,080	91,861	91,520	101,787
Creditors	46,578	48,009	50,073	46,558	49,416
Other current liabilities & provisions	21,171	3,598	7,250	4,610	5,377
Total current liabilities	67,749	51,607	57,322	51,168	54,794
Net current assets	25,080	30,473	34,539	40,352	46,994
<b>Total assets</b>	<b>37,375</b>	<b>42,502</b>	<b>49,121</b>	<b>54,500</b>	<b>60,925</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Cash flow**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	8,960	10,328	10,872	10,041	12,307
(Inc.)/dec. in working capital	(504)	(4,944)	(5,190)	(5,769)	(5,417)
<b>Cash flow from operations</b>	<b>8,456</b>	<b>5,383</b>	<b>5,681</b>	<b>4,273</b>	<b>6,891</b>
Other income	207	226	111	116	135
Depreciation	1,097	1,171	1,472	1,635	1,717
Tax paid (-)	(2,523)	(2,394)	(2,904)	(2,104)	(2,624)
<b>Net cash from operations</b>	<b>7,237</b>	<b>4,386</b>	<b>4,360</b>	<b>3,919</b>	<b>6,118</b>
Capital expenditure (-)	(1,599)	(842)	(3,985)	(1,200)	(1,500)
<b>Net cash after capex</b>	<b>5,638</b>	<b>3,544</b>	<b>375</b>	<b>2,719</b>	<b>4,618</b>
Interest paid (-)	(2,294)	(3,119)	(3,080)	(2,774)	(3,236)
Dividends paid (-)	(743)	(837)	(1,049)	(900)	(1,157)
Inc./(dec.) in short-term borrowing	(3,316)	2,548	7,534	1,000	1,000
Inc./(dec.) in long-term borrowing	(372)	(1,974)	(3,884)	-	-
Inc./(dec.) in total borrowings	(3,688)	574	3,650	1,000	1,000
<b>Cash from financial activities</b>	<b>(5,813)</b>	<b>(3,121)</b>	<b>(572)</b>	<b>(2,674)</b>	<b>(3,393)</b>
Others	408	25	(929)	-	-
Opening cash balance	2,080	2,313	2,762	1,637	1,681
Closing cash balance	2,313	2,762	1,637	1,681	2,906
Change in cash balance	233	449	(1,125)	45	1,225

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Key ratios**

Y/E March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
Adjusted EPS	17.8	18.9	22.0	20.5	25.6
Book value	77.7	94.7	108.8	125.8	147.0
<b>Valuation (x)</b>					
P/E	11.1	10.4	9.0	9.6	7.7
P/BV	2.5	2.1	1.8	1.6	1.3
EV/EBITDA	6.4	5.6	5.6	6.0	5.0
EV/sales	0.6	0.6	0.6	0.6	0.5
<b>Return ratios (%)</b>					
RoCE	24.0	25.9	23.7	19.4	21.3
RoE	25.6	21.9	21.6	17.5	18.8
RoIC	26.2	27.8	25.0	20.1	22.3
<b>Profitability ratios (%)</b>					
EBITDA margin	10.0	10.5	10.3	10.1	10.4
EBIT margin	8.9	9.4	9.1	8.7	9.1
PAT margin	4.6	4.4	4.7	4.6	4.9
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.7	2.8	2.6	2.2	2.3
Debtor days	183	198	210	220	205
Inventory days	23	21	24	23	22
Creditor days	234	216	217	210	190
<b>Solvency ratios (x)</b>					
Debt-equity	0.8	0.7	0.7	0.7	0.6
Interest coverage	3.9	3.3	3.5	3.6	3.8

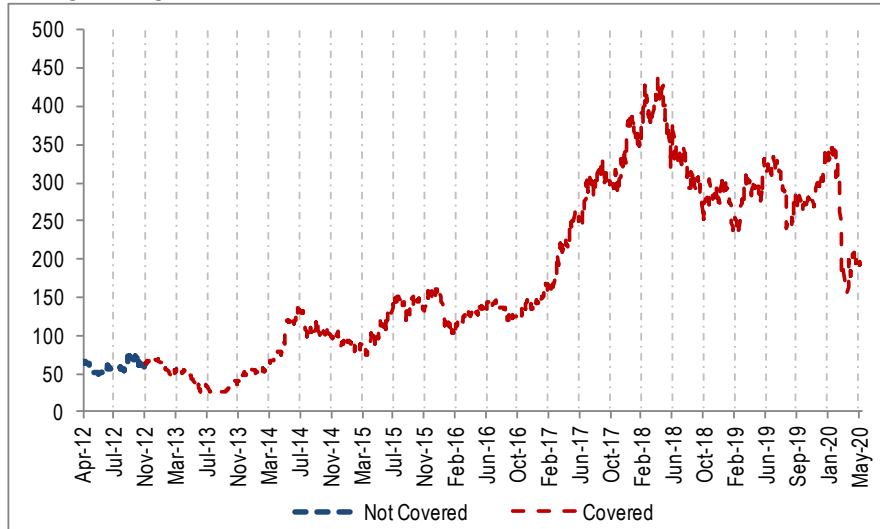
Source: Company, Nirmal Bang Institutional Equities Research

**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
13 June 2019	Buy	323	400
9 July 2019	Buy	319	400
8 August 2019	Buy	293	390
23 September 2019	Buy	288	385
7 October 2019	Buy	265	385

11 November 2019	Buy	265	345
9 January 2020	Buy	311	345
10 February 2020	Buy	346	405
26 March 2020	Buy	175	300
09 April 2020	Buy	158	300
1 June 2020	Buy	197	255

**Rating track graph**



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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