

May 16, 2018

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Rating	<b>BUY</b>
Price	Rs379
Target Price	Rs425
Implied Upside	12.1%
Sensex	35,544
Nifty	10,802

(Prices as on May 15, 2018)

#### Trading data

Market Cap. (Rs bn)	95.7
Shares o/s (m)	252.5
3M Avg. Daily value (Rs m)	327

#### Major shareholders

Promoters	50.99%
Foreign	10.66%
Domestic Inst.	20.19%
Public & Other	18.16%

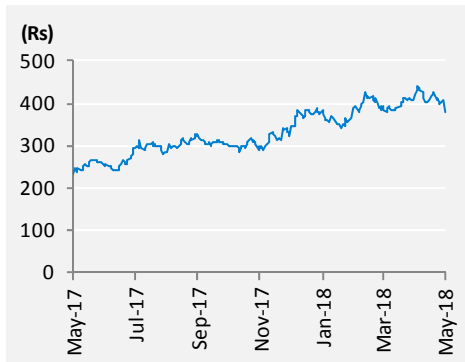
#### Stock Performance

(%)	1M	6M	12M
Absolute	(7.4)	28.9	64.0
Relative	(11.4)	20.4	46.7

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	19.2	20.1	-4.6
2020	22.6	25.1	-10.0

#### Price Performance (RIC: KECL.BO, BB: KECI IN)



Source: Bloomberg

**KEC International (KEC) reported net profit of Rs1.96bn, up 35% YoY, led by strong execution. The company ended the year on a high note, with 22% YoY growth in inflow, 37% YoY growth in order book, net debt reduction by Rs3.9bn and 15 days reduction in net working capital.**

**KEC has guided for sales growth of 15%, EBITDA margin of 10% and 20% growth in order book for FY19. The company highlighted that the margins will remain flat in FY19 (against initial guidance of some improvement in FY19). Investment in capability building in new segments will restrict margin improvement in FY19 after ~400bps improvement shown between FY15-18.**

**In Domestic T&D market, while Power Grid ordering could slow down, traction in SEB ordering continues to be healthy. Railway and civil business outlook also continues to be robust. In International markets, tender pipeline in MENA/SAARC/Brazil has improved over the last few quarters. We believe that a strong order book, improving margin profile and healthy outlook in T&D and emerging segments like Railways/Civil will help KEC deliver 24% earnings CAGR over FY17-20E. We maintain "BUY" with TP of Rs425.**

■ **Healthy execution:** Sales for the quarter was up 28.6% YoY at Rs36.6bn. (PLe: Rs34.1bn). Sales for T&D segment was up 21% YoY to Rs27.8bn (SAE tower sales up 18.5% YoY to Rs3bn) and Revenues for Railways were up 74.6% YoY to Rs3.6bn. Railways and Civil business continued their growth trajectory. EBITDA was up 23% YoY to Rs3.7bn. Margins were down 50bps YoY at 10.1% (PLe: 10.3%). PAT was up 35% YoY to ~Rs2bn. (PLe: Rs1.2bn).

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Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	85,844	100,580	115,667	133,017
Growth (%)	0.8	17.2	15.0	15.0
EBITDA (Rs m)	8,180	19,881	11,408	13,252
PAT (Rs m)	3,049	14,424	4,936	5,798
EPS (Rs)	11.9	56.1	19.2	22.6
Growth (%)	106.2	373.1	(65.8)	17.5
Net DPS (Rs)	1.8	2.7	2.9	3.4

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	9.5	19.8	9.9	10.0
RoE (%)	21.2	81.6	22.6	21.6
RoCE (%)	12.0	44.8	17.3	17.0
EV / sales (x)	1.3	1.1	1.0	0.9
EV / EBITDA (x)	14.1	5.6	10.0	8.5
PE (x)	31.9	6.8	19.7	16.8
P / BV (x)	6.1	5.0	4.0	3.3
Net dividend yield (%)	0.5	0.7	0.8	0.9

Source: Company Data; PL Research

- **Strong order book:** KEC's order book for FY18 stood at Rs173bn (up 37% YoY) and order inflow stood at Rs151bn (up 22% YoY). The company saw significant order inflows in Railways and Civil business in Q4FY18. KEC is L1 in orders worth Rs15bn. In Domestic markets, traction in orders from SEB continues to be strong (TN/Orissa/UP/WB/AP/Telangana etc). Power Grid is working with various states like UP/Bihar to help them build intra-state network. In Domestic market, Railways is seeing good traction. KEC already has orders worth Rs50bn from railways and expects revenues to double in FY19. It is looking at growing order book by ~20% in FY19.
- In International markets, KEC continues to see strong traction in markets like SAARC, Brazil and Africa. Middle East markets like Oman, Egypt, Jordan, Abu Dhabi have started seeing some traction. It expects Brazil to finalize few large EPC orders on T&D side over the next few months. **KEC has guided for sales growth of 15% and margin of 10% for FY19.** Investment in capability building in new segments will restrict margin improvement in the next few quarters. *KEC believes Railways/Sub-station/Civil/Solar segments could be important growth drivers for the company, going ahead.*
- **Other key conference call highlights:** **1)** Working capital decreased by 15 days YoY to 93 days. KEC does not see significant reduction, going forward **2)** Domestic T&D business to grow in double digits, largely from SEBs, SAARC and Brazil **3)** Railway revenues can double next year **4)** Collected Rs14bn from KSA out of which Rs3bn was Retention money **5)** Expect civil business to double in FY19 from Rs2.5bn in FY18 **6)** KEC to focus on Industrials, Buildings and Affordable Housing EPC in the Civil space **7)** Interest as a share of sales to be in the range of 2.4-2.5% **8)** Capex guidance of Rs2bn for FY19 **9)** Competitive intensity has increased in the International markets **10)** Current order book from Afghanistan is 10-12% of the total order book, ~Rs1bn execution hampered currently.
- **Outlook and Valuation:** The stock is trading at 16.8x FY20E earnings. We believe that a strong order book and improving margin profile will help KEC deliver 24% earnings CAGR over FY17-20E. Maintain "**BUY**".

**Exhibit 1: Q4FY18 Result Overview – Consolidated (Rs m)**

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
<b>Net Sales</b>	<b>36,642</b>	<b>28,492</b>	<b>28.6</b>	<b>24,049</b>	<b>100,580</b>	<b>85,844</b>	<b>17.2</b>
RM cost	27,908	19,731	41.4	17,383	72,716	59,489	22.2
<i>% of Net Sales</i>	<i>76.2</i>	<i>69.3</i>		<i>72.3</i>	<i>72.3</i>	<i>69.3</i>	
Employee Costs	2,208	1,864	18.5	1,916	7,984	7,327	9.0
<i>% of Net Sales</i>	<i>6.0</i>	<i>6.5</i>		<i>8.0</i>	<i>7.9</i>	<i>8.5</i>	
Other Costs	2,827	3,886	(27.2)	2,310	9,819	10,849	(9.5)
<i>% f Net Sales</i>	<i>7.7</i>	<i>13.6</i>		<i>9.6</i>	<i>9.8</i>	<i>12.6</i>	
Total Expenditure	32,943	25,481	29.3	21,608	90,518	77,665	16.5
<b>EBITDA</b>	<b>3,699</b>	<b>3,011</b>	<b>22.8</b>	<b>2,441</b>	<b>10,062</b>	<b>8,179</b>	<b>23.0</b>
<i>% of Sales</i>	<i>10.1</i>	<i>10.6</i>		<i>10.2</i>	<i>10.0</i>	<i>9.5</i>	
Depreciation	275	408	(32.6)	271	1,097	1,297	(15.4)
<b>EBIT</b>	<b>3,424</b>	<b>2,603</b>	<b>31.5</b>	<b>2,170</b>	<b>8,964</b>	<b>6,882</b>	<b>30.3</b>
Other Income	126	114	10.3	123	404	289	40.0
Interest	656	637	3.0	607	2,466	2,536	(2.8)
<b>PBT</b>	<b>2,894</b>	<b>2,081</b>	<b>39.1</b>	<b>1,687</b>	<b>6,902</b>	<b>4,634</b>	<b>48.9</b>
Total Tax	930	625	48.8	568	2,298	1,587	44.8
<i>ETR %</i>	<i>32.2</i>	<i>30.1</i>		<i>33.7</i>	<i>33.3</i>	<i>34.2</i>	
<b>Reported PAT</b>	<b>1,963</b>	<b>1,455</b>	<b>34.9</b>	<b>1,118</b>	<b>4,604</b>	<b>3,048</b>	<b>51.1</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2017	2018	2019E	2020E
<b>Net Revenue</b>	<b>85,844</b>	<b>100,580</b>	<b>115,667</b>	<b>133,017</b>
Raw Material Expenses	41,646	72,716	55,983	64,380
Gross Profit	44,198	27,865	59,684	68,637
Employee Cost	7,327	7,984	10,063	11,573
Other Expenses	28,691	—	38,213	43,812
<b>EBITDA</b>	<b>8,180</b>	<b>19,881</b>	<b>11,408</b>	<b>13,252</b>
Depr. & Amortization	1,297	1,097	1,138	1,370
Net Interest	2,536	2,466	2,858	3,407
Other Income	289	404	423	444
<b>Profit before Tax</b>	<b>4,635</b>	<b>16,722</b>	<b>7,835</b>	<b>8,919</b>
Total Tax	1,587	2,298	2,899	3,121
<b>Profit after Tax</b>	<b>3,049</b>	<b>14,424</b>	<b>4,936</b>	<b>5,798</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>3,049</b>	<b>14,424</b>	<b>4,936</b>	<b>5,798</b>
<b>Avg. Shares O/S (m)</b>	<b>257.0</b>	<b>257.0</b>	<b>257.0</b>	<b>257.0</b>
<b>EPS (Rs.)</b>	<b>11.9</b>	<b>56.1</b>	<b>19.2</b>	<b>22.6</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2017	2018	2019E	2020E
C/F from Operations	14,204	8,767	3,766	6,375
C/F from Investing	(962)	(1,819)	(2,000)	(2,000)
C/F from Financing	(12,807)	(6,481)	(713)	(792)
Inc. / Dec. in Cash	436	468	1,052	3,584
Opening Cash	861	1,296	1,764	2,817
Closing Cash	1,296	1,764	2,817	6,400
FCFF	12,725	13,880	(1,366)	653
FCFE	2,578	10,192	1,357	3,868

**Key Financial Metrics**

Y/e March	2017	2018	2019E	2020E
<b>Growth</b>				
Revenue (%)	0.8	17.2	15.0	15.0
EBITDA (%)	18.1	143.1	(42.6)	16.2
PAT (%)	106.2	373.1	(65.8)	17.5
EPS (%)	106.2	373.1	(65.8)	17.5
<b>Profitability</b>				
EBITDA Margin (%)	9.5	19.8	9.9	10.0
PAT Margin (%)	3.6	14.3	4.3	4.4
RoCE (%)	12.0	44.8	17.3	17.0
RoE (%)	21.2	81.6	22.6	21.6
<b>Balance Sheet</b>				
Net Debt : Equity	1.1	0.7	0.7	0.5
Net Wrkng Cap. (days)	(75)	(28)	(64)	(61)
<b>Valuation</b>				
PER (x)	31.9	6.8	19.7	16.8
P / B (x)	6.1	5.0	4.0	3.3
EV / EBITDA (x)	14.1	5.6	10.0	8.5
EV / Sales (x)	1.3	1.1	1.0	0.9
<b>Earnings Quality</b>				
Eff. Tax Rate	34.2	13.7	37.0	35.0
Other Inc / PBT	6.2	2.4	5.4	5.0
Eff. Depr. Rate (%)	9.7	7.2	6.6	7.1
FCFE / PAT	84.6	70.7	27.5	66.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	15,863	19,482	24,160	29,619
Total Debt	20,082	16,394	19,118	22,332
Other Liabilities	1,373	2,269	2,269	2,269
<b>Total Liabilities</b>	<b>37,319</b>	<b>38,146</b>	<b>45,546</b>	<b>54,221</b>
Net Fixed Assets	9,216	10,720	11,282	11,678
Goodwill	1,910	2,834	2,834	2,834
Investments	1,304	393	393	393
Net Current Assets	24,755	24,630	30,574	38,671
Cash & Equivalents	2,080	2,313	2,817	6,400
Other Current Assets	72,638	89,069	87,829	101,004
Current Liabilities	49,963	66,752	60,073	68,733
Other Assets	133	1,713	1,713	1,713
<b>Total Assets</b>	<b>37,319</b>	<b>40,289</b>	<b>46,796</b>	<b>55,290</b>

**Quarterly Financials (Rs m)**

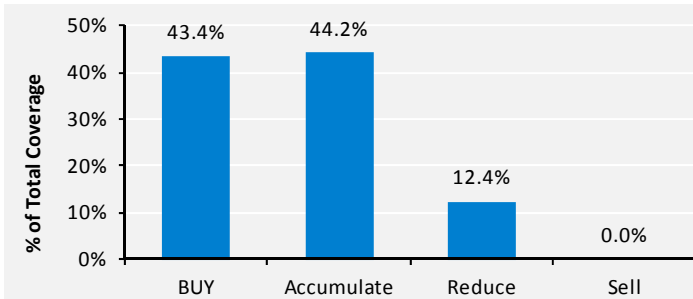
Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>Net Revenue</b>	<b>18,568</b>	<b>21,322</b>	<b>24,049</b>	<b>36,642</b>
<b>EBITDA</b>	<b>1,763</b>	<b>2,158</b>	<b>2,441</b>	<b>3,699</b>
% of revenue	9.5	10.1	10.2	10.1
Depr. & Amortization	272	279	271	275
Net Interest	631	572	607	656
Other Income	98	57	123	126
<b>Profit before Tax</b>	<b>958</b>	<b>1,365</b>	<b>1,687</b>	<b>2,894</b>
Total Tax	329	471	568	930
<b>Profit after Tax</b>	<b>630</b>	<b>894</b>	<b>1,118</b>	<b>1,963</b>
<b>Adj. PAT</b>	<b>630</b>	<b>894</b>	<b>1,118</b>	<b>1,963</b>

Source: Company Data, PL Research.

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<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
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<b>Sell</b>	:	Over 15% underperformance to Sensex over 12-months
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<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
<b>Under Review (UR)</b>	:	Rating likely to change shortly

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