



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Kumar (022) 67141449

Result Update@ Dalal & Broacha

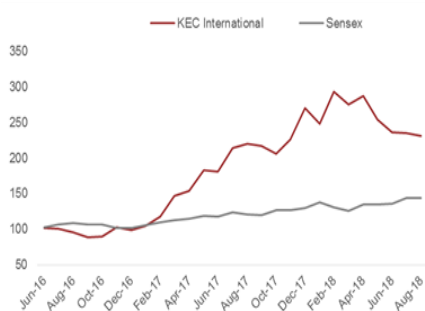
BUY

Current Price	327
Target Price	407
Upside/Downside	22%
52 Week Range	Rs.209/442

Key Share Data

Market Cap (Rs.bn)	84.1
Market Cap (US\$ mn)	1222
No of o/s shares (mn)	257
Face Value	2
Monthly	506,468
Avg.vol(BSE+NSE) Nos	
BSE Code	532714
NSE Code	KEC
Bloomberg	KECI IN

Price performance



% Shareholding

	Jun-18	Mar-18
Promoters	51.0	50.9
FII	12.4	11.3
DII	19.2	20.2
Others	17.4	17.6
Total	100.0	100.0

Results inline and expansion in margins led to earnings growth of 38% YoY:The revenue of KEC International Ltd (KEC) was in line with our estimate showed a steady growth of 13% YoY to Rs21.04 Bn (D&B est Rs21.44 Bn) driven by growth in civil, solar and railway segment. Railways and civil business continued their growth trajectory while near completion of one of the projects (130MW APGENCO) led to a robust growth in the solar segment. Revenues for Railways were up 98% YoY to Rs3.1bn. Growth in cables segment was led by higher sales of HT cables and exports. The dominant T&D segment showed a decline of 14% YoY to Rs12.8 Bn due to a delay in execution (labour shortage due to election in some parts of India) in the domestic market while SAE market grew tremendously by 79% YoY Rs 2.7 Bn despite a nationwide truck strike in Brazil.

Margins expanded by 78BPS to 10.3% led by lower other expenses due to some forex gain despite increase in input cost (+360BPS to 48%) and loss of revenues in T&D segment. Hence, operating profit grew by 23% YoY to Rs2.16 Bn. Despite higher tax outflow; adjusted PAT grew by 38% YoY to Rs 8.7 Bn driven by higher other income due to income tax refund.

Order book showed robust growth despite flat order inflow: KEC's order book stood at Rs182bn (up 34% YoY) providing a revenue visibility of approximately 2 years on TTM revenues and order inflow stood at Rs27.5bn (down 2% YoY). Order inflow was largely driven by international T&D and domestic railway business. KEC is L1 in orders worth Rs32bn.

In domestic market while the T&D market has been slow over last few quarters, the tender pipeline has improved both from state and private side and Railways too is seeing good traction. KEC is expecting orders worth Rs 50bn (Rs40bn in FY18), Revenues of Rs16bn (Rs8.4bn in FY18) from Railways in FY19.

In International markets, KEC continues to see strong traction in markets like SAARC, Brazil and Africa. KEC got its first order in Dubai. Expect some orders to come in from Saudi, Africa, Thailand, Bangladesh and Malaysia.

Outlook: In Domestic T&D market while ordering has been slow, improving tender pipeline indicates positive outlook in coming quarters. Railway and civil business outlook also continues to be robust. In International markets, tender pipeline in MENA/SAARC has improved over the last few quarters. However, due to 1) rising commodity prices 2) increased interest rate 3) higher WC we factor decline in earnings by 2%/3% for FY2019/FY2020. Given the healthy order backlog and its ability to ramp up the execution, along with strong cash flow and leaner balance sheet. We maintain our Buy rating on the stock with revise TP of Rs407 on reduced earnings.

Key Financials

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY16	85178	7.2%	6923	6.0%	1478	89.4%	5.8	65.7	11.5%	12.7%
FY17	85844	0.8%	8179	9.5%	3048	-8.2%	11.9	31.9	19.2%	19.5%
FY18	100580	17.2%	10062	10.0%	4605	51.1%	17.9	21.1	23.1%	24.9%
FY19E	116673	16.0%	11901	10.2%	5361	16.4%	20.9	18.1	21.9%	23.0%
FY20E	140007	20.0%	14701	10.5%	6978	30.2%	27.1	13.9	23.0%	24.9%



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Other key conference call highlights

- Working capital increased by 30 days QoQ to 123 days due to restriction of RBI on rollover facilities and buyers credit leading to reduction in acceptances and trade payables coupled with increase in supplier advances. Moreover, due to unavailability of copper and steel; this led to increase in inventory levels at end of Q1FY2019. Consequently, the rise in Net working capital (NWC) went from 93 days at end of Q4FY2018 to 125 days at end of Q1FY2019 and led to a rise in borrowing levels. However, the management stated that this situation is temporary in nature and expects it to return to normal levels of 95-100 days in future.
- Expect to maintain interest cost 2.4-2.5% range (similar to FY18)
- Received Rs9bn worth of orders from International T&D
- Civil business expected to revenues worth ~Rs 5-6 Bn and an order inflow of Rs 10 Bn by year end.
- KEC has guided for sales growth of 15%, EBITDA margin of 10% and 20% growth in order book for FY19, margins to remain flat.

KEC International Quaterly Results					
In Rs Mn	1QFY19	1QFY18	YoY(%)	4QFY18	QoQ(%)
Total operating income	21,047	18,951	11%	36,642	-43%
Expenses	-18,885	-17,188	10%	-32,943	-43%
Stock	-539	917	-159%	0	
RM	-14,729	-13,526	9%	-27,908	-47%
Employee	-2,034	-1,913	6%	-2,208	-8%
Other expenses	-1,584	-2,666	-41%	-2,827	-44%
EBITDA	2,162	1,763	23%	3,699	-42%
Other income	175	98	79%	126	40%
PBDIT	2,337	1,862	26%	3,824	-39%
Interest	-691	-631	9%	-656	5%
Depreciation	-298	-272	10%	-275	9%
PBT	1,348	958	41%	2,894	-53%
Tax	-480	-329	46%	-930	-48%
Net profit	868	630	38%	1,963	-56%

Key ratios (%)					
RM / Sales	72.5	66.5		76.2	
Empl / Sales	9.7	10.1		6.0	
OE / Sales	7.5	14.1		7.7	
EBITDA margin	10.3	9.3		10.1	
PBT margin	6.4	5.1		7.9	
Tax rate	35.6	34.3		32.2	
PAT margin	4.1	3.3		5.4	
EPS	3.4	2.4		7.6	
PBT margin	11.1	9.8		10.4	
EBIT margin	6.4	5.1		7.9	

Revenue break up					
T&D total	12,770	14,850	-14%	27,750	-54%
Cables	2,590	2,200	18%	2,780	-7%
Railways	3,130	1,580	98%	3,590	-13%
solar	1,600	210	662%	3,150	-49%
Civil	1,190	150			
Inter SBU	(230)	(40)		(630)	
Grand total	21,050	18,950	11%	36,640	-43%



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Financials

Profit & Loss (Rs Mn)	FY17	FY18	FY19E	FY20E
Net Sales	85,844	1,00,580	1,16,673	1,40,007
Raw Materials	-59,489	-72,716	-84,121	-1,00,805
Employee Cost	-7,327	-7,984	-9,217	-10,921
Other Expenses	-10,849	-9,819	-11,434	-13,581
Cost of Sales	-77,665	-90,518	-1,04,772	-1,25,307
Operating Profit	8,179	10,062	11,901	14,701
Depreciation	-1,297	-1,097	-1,177	-1,260
PBIT	6,882	8,965	10,724	13,441
Other Income	289	404	167	97
Interest	-2,536	-2,466	-2,510	-2,478
Profit Before Tax	4,634	6,903	8,381	11,060
Provision for Tax	-1,587	-2,298	-3,020	-4,082
PAT	3,048	4,605	5,361	6,978
Adj. PAT	3,048	4,605	5,361	6,978

Cash Flow Statement (Rs Mn)	FY17	FY18E	FY19E	FY20E
Pre tax Profit	4634	6903	8381	11060
Add: Dep. & Amortization	1297	1097	1177	1260
Total tax paid	(1587)	(2298)	(3020)	(4082)
Other Adjustments	2536	2466	2510	2478
Cash Profit	6881	8168	9048	10716
(Inc) / Dec in				
Sundry Debtors	4798	(8176)	(3257)	(10740)
Inventories	(345)	(2327)	840	(1087)
Loans & Advances	(1519)	(7374)	(1683)	(7096)
Current liabilities & Trade payables	6498	17361	(7868)	11716
Change in Working Capital	9432	(517)	(11969)	(7207)
CF from Operating Activities	16312	7651	(2921)	3509
CF from Investing Activities	(1412)	(963)	1291	(1123)
CF from Financing Activities	(13880)	(6223)	1884	(2608)
Cash at the start of year	853	2080	2313	2567
Cash at the end of year	2080	2313	2567	2345

Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E
Equity Capital	514	514	514	514
Reserves	15,349	19,460	23,952	29,800
Net Worth	15,864	19,974	24,467	30,314
Long term borrowings	19,374	16,111	21,374	22,374
Short term borrowings	1,583	1,583	1,583	1,583
Total Debt	20,957	17,694	22,957	23,957
Capital Employed	36,820	37,668	47,423	54,271
Gross Block	15,066	16,566	18,066	19,566
Accumulated Depreciation	-5,902	-9,096	-10,603	-12,240
Net Block	9,165	7,470	7,464	7,327
Capital WIP	51	51	51	51
Total Fixed Assets	9,216	9,983	7,515	7,378
Goodwill & Intangible	1,910	1,920	1,920	1,920
Investments	1,304	393	393	393
Inventories	3,947	6,274	5,434	6,521
Sundry debtors	42,268	50,444	53,701	64,442
Cash & bank	2,080	2,313	2,567	2,345
Loans & advances and Ot	26,424	33,798	35,481	42,578
Current Liabilities	-26,058	-65,440	-25,017	-30,021
Provisions	-1,047	-1,009	-1,598	-1,918
Working Capital	25,630	26,380	38,603	45,588
Deffered Tax Liabilities	-1,240	-1,008	-1,008	-1,008
Capital Deployed	36,820	37,668	47,423	54,271

Ratios	FY17	FY18	FY19E	FY20E
OPM	9.5	10.0	10.2	10.5
NPM	3.6	4.6	4.6	5.0
Tax Rate %	(34.2)	(33.3)	(36.0)	(36.9)
Growth Ratio (%)				
Net Sales	0.8	17.2	16.0	20.0
Operating Profit	18.1	23.0	18.3	23.5
PAT	106.1	51.1	16.4	30.2
Per Share				
Earning Per Share (EPS)	11.9	17.9	20.9	27.1
Cash Earnings (CPS)	16.9	22.2	25.4	32.0
Dividend	1.6	2.4	2.8	3.7
Book Value	61.7	77.7	95.2	117.9
Free Cash flow	14,900	6,688	-1,630	2,386
Valuation Ratios				
P/E (x)	27.6	18.3	15.7	12.0
P/B (x)	5.3	4.2	3.4	2.8
EV / Sales	1.2	1.0	0.9	0.8
EV / EBITDA	12.6	9.9	8.8	7.2
FCF Yield (%)	4,557	2,045	-499	730
Return Ratios (%)				
ROE	19.2	23.1	21.9	23.0
ROCE*	19.5	24.9	23.0	24.9



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	Mayank.babla@dala-broacha.com	02267141442	IT/Media/Telecom
Mr. Avinash Kumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Ms. Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092

E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com