



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Kumar (022) 67141449

Result Update@ Dalal & Broacha

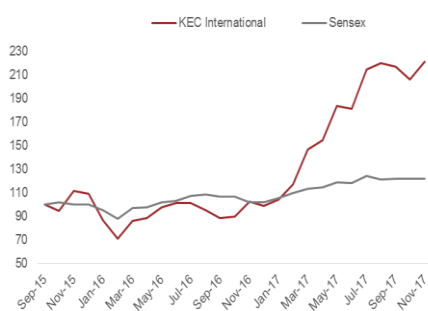
BUY

Current Price	316
Target Price	380
Upside/Downside	20%
52 Week Range	Rs.111/338

Key Share Data

Market Cap (Rs.bn)	81.2
Market Cap (US\$ mn)	1192
No of o/s shares (mn)	257
Face Value	2
Monthly	507,114
Avg.vol(BSE+NSE) Nos	
BSE Code	532714
NSE Code	KEC
Bloomberg	KECI IN

Price performance



% Shareholding	Jun-17	Dec-17
Promoters	50.9	50.9
FII	7.8	10.8
DII	23.6	20.8
Others	17.7	17.5
Total	100.0	100.0

Strong Guidance

KEC International (KEC) reported a net profit of Rs894mn, up 37.4% YoY led by better margins and lower interest cost. Revenue growth at Rs 21.3 bn v/s 20.7 bn (+2.8% YoY on reported basis and 5% YoY on like to like basis) as transition to GST led to delay in raising of invoice and thereby execution. However, margin improved 120bps YoY to 10.1%, led by improved profitability in International T&D business and SAE tower. Order book at the end of Q2FY18 stood at Rs124.2bn (up 15% YoY) and KEC is L1 in orders worth Rs40bn. In the domestic market, KEC has seen improved traction in orders from SEBs while ordering momentum from Powergrid continues to be muted. Outlook on international market remain better with KEC having strengthened footprints across the existing and new geographies. KEC has guided for a sales growth of 10-15% and margin of 9.5-10% for FY18. Focus on deleveraging is also showing in results with reduced debt and interest cost

Segment-wise key highlights

- **Domestic T&D** – While PGCIL orders are muted, state spending has increased meaningfully. Given the inter-region capacity built over the years, states need to upgrade their network. For some of the states (like Gujarat, West Bengal and others) payment cycle is faster than PGCIL. Importantly PGCIL is now tying up with states (UP and Bihar, so far) and it has already started releasing tenders. Expect PGCIL ordering also to pick up in next 1-2 months.
- **International T&D** – With crude prices stabilizing, expect ordering to pick up sooner than later. Importantly Saudi has cleared all the payments of our earlier projects which is a pre-cursor to new project award. It has several tenders in the pipeline given the huge power deficit and hence investments have to pick up. In Africa also, several large inter-connection projects are on the anvil. There also exist good pipeline of projects in the SAARC region (countries like Afghanistan, Nepal, Bangladesh and others). Overall the management expects International order inflows to pick up soon.
- **SAE** – Impacted by slow execution of projects, as environment clearances in Brazil are sought after the project is awarded. The management expects SAE to clock revenues Rs 10bn in FY18 (Flat YoY).

Outlook and valuations: Our estimates remain unchanged post the Q2FY18 results. The management commentary resounds strong confidence and we also believe in its growth prospects. We maintain Buy with a target of Rs 380. Based on a target multiple of 20x FY19E earnings

Key Financials

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY16	85163	7.2%	6793	6.0%	1915	89.4%	7.4	42.4	12.7%	15.0%
FY17	87551	2.8%	8179	9.3%	3043	19.0%	11.8	26.7	19.2%	20.0%
FY18E	102734	17.3%	9842	9.6%	3755	23.4%	14.6	21.6	19.7%	21.6%
FY19E	125615	22.3%	11959	9.5%	4884	30.1%	19.0	16.6	21.1%	23.4%



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Initiating Coverage@ Dalal & Broacha

- Railways – Tendering was delayed owing to GST. Post July, several tenders have been released and the management expect strong order inflows in Nov-Dec18. KEC is confident of clocking order inflows of Rs 20bn from Railways in FY18E. Within railways, KEC is typically eyeing for composite projects (inclusive of electrification works) as competition is higher in a pure civil order. KEC expects to clock revenues of Rs 7.5-8.0bn from railways in FY18E
- Solar – The segment has been negatively impacted due to the anomalies in rate structure under GST. The same has led to a near term slowdown in sector. Hence company is seeking opportunities in the international space.
- Civil – The focus here is primarily on execution. So far, the execution has been on track and hence the segment is PBT positive for KEC. Over the next 3 years, this segment could potentially clock revenues of Rs 10bn, as per the management.

Guidance:

- Order inflows: Rs 130-140bn in FY18E
- Revenue growth: 10-15% YoY growth, despite a muted H1FY18.
- EBITDA margins – in the range of ~9.5-10.0%



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Initiating Coverage@ Dalal & Broacha

Q2FY18 Result Overview – Consolidated (Rs m)					
	2QFY18	Q2FY17	YoY(%)	Q1FY18	QoQ(%)
Total operating income	21,322	20,742	2.8%	18,951	13%
Expenses	-19,163	-18,888	1%	-17,188	11%
Stock	108	-80	-235%	917	
RM	-14,925	-14,553	3%	-13,526	10%
Employee	-1,946	-1,872	4%	-1,913	2%
Other expenses	-2,400	-2,384	1%	-2,666	-10%
EBITDA	2,158	1,853	16%	1,763	22%
Other income	57	55	4%	98	-42%
PBDIT	2,216	1,908	16%	1,862	19%
Interest	-572	-596	-4%	-631	-9%
Depreciation	-279	-308	-9%	-272	3%
PBT	1,365	1,005	36%	958	42%
Tax	-471	-352	34%	-329	43%
Net profit	894	652	37%	630	42%
Extraordinary items	-	-		-	
Reported PAT	894	652	37%	630	42%
Key ratios (%)					
RM / Sales	69.5	70.5		66.5	
Empl / Sales	9.1	9.0		10.1	
OE / Sales	11.3	11.5		14.1	
EBITDA margin	10.1	8.9		9.3	
PBT margin	6.4	4.8		5.1	
Tax rate	34.5	35.1		34.3	
PAT margin	4.2	3.1		3.3	
EPS	3.5	2.5		2.4	
PBT margin	10.4	9.2		9.8	
EBIT margin	6.4	4.8		5.1	



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Initiating Coverage@ Dalal & Broacha

Financials

Profit & Loss (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	84,678	85,163	87,551	102,734	125,615
Raw Materials	(64,527)	(62,198)	(59,489)	(69,468)	(86,272)
Employee Cost	(5,865)	(6,424)	(7,327)	(8,835)	(11,054)
Other Expenses	(9,168)	(9,749)	(12,556)	(14,588)	(16,330)
Cost of Sales	(79,560)	(78,370)	(79,372)	(92,892)	(113,657)
Operating Profit	5,118	6,793	8,179	9,842	11,959
Depreciation	(881)	(876)	(1,305)	(1,495)	(1,625)
PBIT	4,237	5,917	6,874	8,347	10,333
Other Income	1,462	103	289	280	219
Interest	(3,089)	(2,774)	(2,536)	(2,761)	(2,918)
Prior period items	0	0	0	0	0
Profit Before Tax	2,611	3,245	4,627	5,866	7,634
Provision for Tax	(1,001)	(1,331)	(1,584)	(2,111)	(2,750)
PAT	1,610	1,915	3,043	3,755	4,884
Extra ordinary items	0	0	0	0	0
Share of JV/ Associate	0	0	0	0	0
Adj. PAT	1,610	1,915	3,043	3,755	4,884

Cash Flow Statement	FY14	FY15	FY16	FY17	FY18E	FY19E
Pre tax Profit	1733	2611	3245	4627	5865	7638
Add: Dep. & Amortiz	705	881	876	1305	1495	1625
Total tax paid	(883)	(1001)	(1331)	(1584)	(2111)	(2750)
Other Adjustments	99	3089	2774	2536	2761	2918
Cash Profit	1654	5579	5565	6884	8009	9432
(Inc) / Dec in						
Sundry Debtors	(432)	(432)	(6737)	4590	(5477)	(8264)
Inventories	99	99	824	2900	(1630)	(1162)
Loans & Advances	(3365)	(3365)	1125	(12884)	(4296)	(8031)
Current liabilities &	1358	1358	(1103)	9613	8316	12165
Change in Working	(2340)	(2340)	(5891)	4219	(3087)	(5293)
CF from Operating	(686)	3239	(327)	11103	4921	4139
CF from Investing A	(866)	65	(899)	(957)	(1500)	(1500)
CF from Financing	1725	(2695)	382	(9997)	(2350)	(2686)
Cash Generated (Utili)	(116)	623	(951)	967	1071	(47)
Cash at the start of y	1556	1440	2063	1113	2080	3151
Cash at the end of ye	1440	2063	1113	2080	3151	3103

Balance Sheet (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Capital	514	514	514	514	514
Reserves	12,784	14,605	15,349	18,513	22,634
Net Worth	13,298	15,119	15,864	19,027	23,148
Long term borrowings	21,894	25,144	19,981	20,981	21,981
Short term borrowings	0	0	0	0	0
Total Debt	21,894	25,144	19,981	20,981	21,981
Capital Employed	35,192	40,263	35,845	40,009	45,129
Gross Block	13,393	13,393	16,443	17,943	19,443
Accumulated Depreciation	(4,747)	(5,374)	(7,278)	(8,773)	(10,398)
Net Block	8,646	8,019	9,165	9,170	9,045
Capital WIP	164	117	51	51	51
Total Fixed Assets	8,811	8,136	9,216	9,221	9,096
Goodwill & Intangible	3,943	4,180	1,910	1,910	1,910
Investments	0	0	1,304	1,304	1,304
Inventories	7,671	6,847	3,947	5,577	6,739
Sundry debtors	40,120	46,858	42,268	47,745	56,009
Cash & bank	2,063	1,113	2,080	3,151	3,103
Loans & advances and Ot	14,664	13,540	26,424	30,720	38,751
Trade Payables	(35,575)	(33,496)	(21,983)	(25,557)	(30,883)
Current Liabilities	(4,759)	(5,818)	(27,033)	(31,428)	(37,977)
Provisions	(1,219)	(1,136)	(1,047)	(1,394)	(1,685)
Working Capital	22,966	27,906	24,655	28,813	34,059
Deferred Tax Liabilities	(527)	(421)	(1,240)	(1,240)	(1,240)
Capital Deployed	35,192	39,801	35,845	40,009	45,129

Ratios	FY14	FY15	FY16	FY17	FY18E	FY19E
OPM	6.2	6.0	8.0	9.3	9.6	9.5
NPM	1.1	1.9	2.2	3.5	3.7	3.9
Tax Rate %	(51.0)	(38.3)	(41.0)	(34.2)	(36.0)	(36.0)

Growth Ratio (%)

Net Sales	7.2	0.6	2.8	17.3	22.3
Operating Profit	3.7	32.7	20.4	20.3	21.5
PAT	89.4	19.0	58.9	23.4	30.1

Per Share

Earning Per Share (E	3.3	6.3	7.4	11.8	14.6	19.0
Cash Earnings (CPS)	6.0	9.7	10.9	16.9	20.4	25.3
Dividend	6.8	0.9	1.0	1.6	2.0	2.6
Book Value	46.3	51.7	58.8	61.7	74.0	90.0
Free Cash flow	(5.7)	3,305	(1,226)	10,145	3,421	2,639

Valuation Ratios

P/E (x)	95.6	50.5	42.4	26.7	21.6	16.6
P/B (x)	6.8	6.1	5.4	5.1	4.3	3.5
EV / Sales	1.3	1.2	1.2	1.1	1.0	0.8
EV / EBITDA	20.5	19.7	15.5	12.1	10.1	8.4
Div. Yield (%)	2.2	0.3	0.3	0.5	0.6	0.8
FCF Yield (%)	-1.8	1,046	(388)	3,210	1,083	835

Return Ratios (%)

ROE	7.1	12.1	12.7	19.2	19.7	21.1
ROCE*	13.2	16.2	15.0	20.0	21.6	23.4

* includes other income



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result Update Q1FY18@ Dalal & Broacha

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D& B (CIN_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result Update Q1FY18@ Dalal & Broacha

Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed

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



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result Update Q1FY18@ Dalal & Broacha
