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STOCK BROKING PVT. LTD.

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Result Update@ Dalal & Broacha

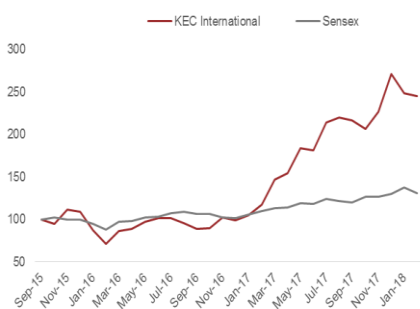
BUY

Current Price	364
Target Price	434
Upside/Downside	19%
52 Week Range	Rs.152/395

Key Share Data

Market Cap (Rs.bn)	94.1
Market Cap (US\$ mn)	1471
No of o/s shares (mn)	257
Face Value	2
Monthly	316,191
Avg.vol(BSE+NSE) Nos	
BSE Code	532714
NSE Code	KEC
Bloomberg	KECI IN

Price performance



% Shareholding

	Sept-17	Dec-17
Promoters	50.9	50.9
FII	7.8	11.0
DII	23.6	20.4
Others	17.7	18.6
Total	100.0	100.0

Strong order book, higher execution to fuel growth in FY19E

KEC International (KEC) reported a net profit of Rs1.1bn, up 79% YoY led by robust topline performance with high revenue recognition from railways which almost doubled YoY backed up by better margins. Revenue growth at Rs24 bn v/s 19.6 bn (+22% YoY on reported basis and 13% YoY on like to like basis) was in line with estimates. Execution for T&D, railways & cables is back on track. Margin improved 90bps YoY to 10.2%, led by improved profitability in T&D & Railway business.

Order book at the end of Q3FY18 stood at Rs171bn (up 53% YoY) and achieved order inflows of Rs 55.5bn. KEC is L1 in orders worth Rs40bn where the major chunk of orders is from railways.

Segment-wise key highlights

Domestic T&D In the domestic market, KEC has seen improved traction in orders from SEBs. Higher orders expected from UP, Bihar, Gujarat & Orissa in FY19, while the ordering momentum from Powergrid continues to be muted. Outlook on railways remains positive and international market is likely to remain buoyant. KEC has maintained its guidance for sales growth of 10-15% and margin of 9.5-10% for FY18. It expects to double its revenue in railways in FY19. The company shared good outlook for FY2019 for orders (double-digit growth), execution (20%+ growth possible), scope of further improvement in margin and of further reduction in interest cost.

International T&D – On the international side, huge tenders are expected in the SAARC region, mainly in Bangladesh. Large inter-connection projects are coming up in Africa and Middle East market has also stabilized now and tenders are expected to pick up there.

SAE – SAE Towers has outstanding EPC orders of Rs14bn, which will start contributing to revenues only from 4QFY19-FY20 onwards. This will boost growth in SAE from FY19-20 onwards. KECI is optimistic on significant EPC order wins for SAE in FY19 with finalisation of large tenders in Brazil.

Outlook and valuations: Outlook and valuations: We have moved to our FY20 est from FY19 and remain positive on the business specially the railways and expects T&D to garner improved revenues from SEBs in the new regions. The management commentary resounds strong confidence and we also believe in its growth prospects. We maintain Buy with a target of Rs 434. Based on a target multiple of 20x FY20E 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	63.8	11.5%	12.7%
FY17	85844	0.8%	8179	9.5%	3048	-8.2%	11.9	31.0	19.2%	19.5%
FY18E	96513	12.4%	9461	9.8%	3834	25.8%	14.9	24.6	20.1%	20.8%
FY19E	111917	16.0%	11393	10.2%	4771	24.5%	18.6	19.8	20.7%	22.0%
FY20E	126046	12.6%	12937	10.3%	5581	17.0%	21.7	16.9	20.1%	22.4%



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Working capital, net debt to normalise by end of FY18

- KEC net working capital has increased by 7 days YoY/ 32 days in 9MFY18 to 140 days. Management highlighted certain timing issues - overdue receivables from Saudi Arabia and balances for some large PGCIL projects in North India (funded by Power Ministry) have been collected in 4QFY18. Further, a large amount of advances slipped from Dec'17 to Jan'18. Thus, working capital cycle should normalise in 4QFY18. KEC Saudi Arabia receivables are ~Rs10bn.
- KEC net debt has remained broadly flat YoY at Rs25bn, but has increased 40% during YTD FY18; it targets to reduce gross debt to flat YoY levels of ~Rs20bn by end of FY18.
- KEC effective interest rates are ~6%, and are not expected to decline further. Although absolute interest costs are unlikely to decline from the current levels with continued investments in the civil and railway segments, KEC targets reduction in interest as percentage of sales with increase in volumes.

Railways inflows continue upward trajectory

- KEC saw strong inflow momentum in this segment, and expects further ordering with increase in budget for electrification, doubling and tripling of lines.
- KEC has won railway orders of Rs26.7bn in YTD FY18, expects to exceed Rs35bn orders in FY18. Its current order book is ~Rs36bn (3x YoY), and it expects to end FY18 with a backlog of Rs40bn+.
- Electrification orders form ~40% of the backlog, and have shorter timelines of ~18 months. Civil work contracts have longer timelines of ~3yrs.
- Management indicated that competition from road construction companies is reducing with an increase in road ordering. With increasing size of rail orders, PQ requirements will also become more stringent and aid larger players such as KECI.
- It has earlier executed rail projects in Turkmenistan, Malaysia and Kenya, and is now targeting rail opportunities from SAARC countries, and the Middle East, Africa, and CIS regions.



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KEC International Quaterly Results					
In Rs Mn	3QFY18	3QFY17	YoY(%)	2QFY18	QoQ(%)
Total operating income	24,049	19,646	22%	21,322	13%
Expenses	-21,608	-17,828	21%	-19,163	13%
Stock	0	114	-100%	0	
RM	-17,383	-13,133	32%	-14,816	17%
Employee	-1,916	-1,857	3%	-1,946	-2%
Other expenses	-2,310	-2,952	-22%	-2,400	-4%
EBITDA	2,441	1,818	34%	2,158	13%
Other income	123	70	76%	57	115%
PBDIT	2,564	1,888	36%	2,216	16%
Interest	-607	-583	4%	-572	6%
Depreciation	-272	-298	-9%	-279	-3%
PBT	1,686	1,006	68%	1,365	24%
Tax	-568	-380	49%	-471	21%
Net profit	1,118	626	79%	894	25%

Key ratios (%)					
RM / Sales	72.3	66.3		69.5	
Empl / Sales	8.0	9.5		9.1	
OE / Sales	9.6	15.0		11.3	
EBITDA margin	10.2	9.3		10.1	
PBT margin	7.0	5.1		6.4	
Tax rate	33.7	37.8		34.5	
PAT margin	4.6	3.2		4.2	
EPS	4.3	2.4		3.5	
PBT margin	10.7	9.6		10.4	
EBIT margin	7.0	5.1		6.4	

Revenue break up					
T&D total	18,510	15,000	23%	17,090	8%
Cables	2,720	2,780	-2%	2,390	14%
Railways	2,080	1,050	98%	1,190	75%
Water / solar/civil	1,210	800	51%	840	44%
Inter SBU	(480)	30		-	
Grand total	24,040	19,660	22%	21,510	12%

Order book break up					
Segmental					
Transmission - Total	125,180	93,962	33%	116,308	8%
Cables	3,430	2,237	53%	2,803	22%
water + solar+civil.	6,859	2,237	207%	7,007	-2%
Railways	36,011	13,423	168%	14,013	157%
Grand total	171,480	111,860	53%	140,130	22%



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Financials

Profit & Loss (Rs Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	85,178	85,844	96,513	111,917	126,046
Raw Materials	(61,798)	(59,489)	(70,454)	(81,700)	(92,014)
Employee Cost	(6,392)	(7,327)	(4,050)	(4,276)	(4,709)
Other Expenses	(10,064)	(10,849)	(12,547)	(14,549)	(16,386)
Cost of Sales	(78,255)	(77,665)	(87,051)	(100,525)	(113,109)
Operating Profit	6,923	8,179	9,461	11,393	12,937
Depreciation	(1,318)	(1,297)	(1,376)	(1,507)	(1,637)
PBIT	5,605	6,882	8,085	9,886	11,300
Other Income	103	289	450	222	301
Interest	(2,794)	(2,536)	(2,545)	(2,594)	(2,812)
Profit Before Tax	2,914	4,634	5,990	7,514	8,789
Provision for Tax	(1,436)	(1,587)	(2,156)	(2,742)	(3,208)
PAT	1,478	3,048	3,834	4,771	5,581
Adj. PAT	1,478	3,048	3,834	4,771	5,581

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18E	FY19E	FY20E
Pre tax Profit	2914	4634	5990	7514	8789
Add: Dep. & Amortization	1318	1297	1376	1507	1637
Total tax paid	(1436)	(1587)	(2156)	(2742)	(3208)
Other Adjustments	2794	2536	2545	2594	2812
Cash Profit	5590	6881	7755	8872	10030
(Inc) / Dec in					
Sundry Debtors	(6946)	4798	(2609)	(6636)	(6503)
Inventories	4069	(345)	(548)	(717)	(658)
Loans & Advances	(10240)	(1519)	(2927)	(4685)	(4297)
Current liabilities & Trade payables	1037	6498	(629)	7734	7094
Change in Working Capital	(12080)	9432	(6713)	(4304)	(4364)
CF from Operating Activities	(6490)	16312	1042	4568	5666
CF from Investing Activities	(879)	(1412)	319	(1500)	(1500)
CF from Financing Activities	5652	(13880)	(2166)	(2367)	(2716)
Cash at the start of year	2063	853	2080	1274	1975
Cash at the end of year	853	2080	1274	1975	3425

Balance Sheet (Rs Mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity Capital	514	514	514	514	514
Reserves	12,390	15,349	18,562	22,561	27,238
Net Worth	12,904	15,864	19,076	23,075	27,752
Long term borrowings	29,255	19,374	20,374	21,374	22,374
Short term borrowings	2,957	1,583	1,583	1,583	1,583
Total Debt	32,212	20,957	21,957	22,957	23,957
Capital Employed	45,116	36,820	41,033	46,031	51,708
Gross Block	14,982	15,066	16,566	18,066	19,566
Accumulated Depreciation	(4,957)	(5,902)	(9,096)	(10,603)	(12,240)
Net Block	10,025	9,165	7,470	7,464	7,327
Capital WIP	84	51	51	51	51
Total Fixed Assets	10,109	9,216	7,521	7,515	7,378
Goodwill & Intangible	1,952	1,910	1,910	1,910	1,910
Investments	254	1,304	1,304	1,304	1,304
Inventories	3,602	3,947	4,495	5,213	5,871
Sundry debtors	47,066	42,268	44,876	51,513	58,016
Cash & bank	853	2,080	1,274	1,975	3,425
Loans & advances and Ot	24,905	26,424	29,350	34,035	38,332
Trade Payables	(20,265)	(21,983)	(26,442)	(30,662)	(34,533)
Current Liabilities	(21,289)	(26,058)	(20,695)	(23,998)	(27,027)
Provisions	(1,036)	(1,047)	(1,322)	(1,533)	(1,727)
Working Capital	33,835	25,630	31,538	36,543	42,356
Deferred Tax Liabilities	(1,034)	(1,240)	(1,240)	(1,240)	(1,240)
Capital Deployed	45,116	36,820	41,033	46,031	51,708

Ratios	FY16	FY17	FY18E	FY19E	FY20E
OPM	8.1	9.5	9.8	10.2	10.3
NPM	1.7	3.6	4.0	4.3	4.4
Tax Rate %	(49.3)	(34.2)	(36.0)	(36.5)	(36.5)

Growth Ratio (%)

Net Sales	0.6	0.8	12.4	16.0	12.6
Operating Profit	35.3	18.1	15.7	20.4	13.6
PAT	(8.2)	106.1	25.8	24.5	17.0

Per Share

Earning Per Share (EPS)	5.8	11.9	14.9	18.6	21.7
Cash Earnings (CPS)	10.9	16.9	20.3	24.4	28.1
Dividend	1.0	1.6	2.0	2.5	2.9
Book Value	50.2	61.7	74.2	89.8	107.9
Free Cash flow	(7,369)	14,900	1,360	3,068	4,166

Valuation Ratios

P/E (x)	63.8	31.0	24.6	19.8	16.9
P/B (x)	7.3	5.9	4.9	4.1	3.4
EV / Sales	1.5	1.3	1.2	1.0	0.9
EV / EBIDTA	18.2	13.8	12.2	10.1	8.9
Div. Yield (%)	0.3	0.4	0.5	0.7	0.8
FCF Yield (%)	(2,008)	4,060	371	836	1,135

Return Ratios (%)

ROE	11.5	19.2	20.1	20.7	20.1
ROCE*	12.7	19.5	20.8	22.0	22.4

* includes other income



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