



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

## Result Update@ Dalal & Broacha

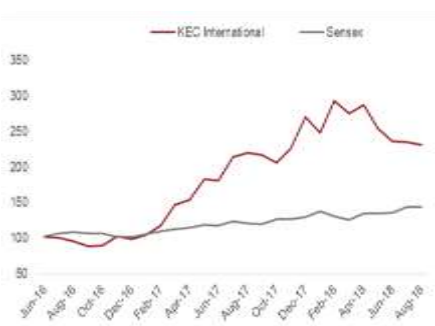
### SELL On RISE

Current Price	246
Target Price	230
Upside/Downside	-7%
52 Week Range	Rs.209/442

### Key Share Data

Market Cap (Rs.bn)	63.2
Market Cap (US\$ mn)	928
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

	Dec-19	Sep-18
Promoters	51.2	51.0
FII	9.8	12.4
DII	18.9	19.2
Others	20.1	17.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Results below expectations -Revenue driven by railways:** The revenue of KEC International Ltd (KEC) was marginally below our estimate showed a growth of 11% YoY to Rs24.68 Bn (Exp: Rs27.2Bn) driven by growth in civil, solar and railway segment. Railways and civil business continued their growth trajectory. Revenues for Railways were up 165% YoY to Rs5.5bn. Growth in cables segment was led by higher sales of HT cables and exports. Cables segment revenue was up 14% yoy. The dominant T&D segment showed a decline of 16% YoY to Rs203 Bn due to a delay in execution in the domestic market, delay in supply of tower in SAE and delay in start of order wins in West Africa. T&D segment contribution decreased from 77% to 73% yoy while non-T&D segments' revenue contribution increased from 23% to 27% yoy.

EBITDA margin increased by 50bps yoy to 10.5%. In spite of increase in low margin segment like railways has increased margin improved yoy due to due to improved gross margin. Hence, operating profit grew by 15% YoY to Rs2.8 Bn (Exp: Rs2.9Bn). Interest cost increased from Rs56cr to Rs86cr yoy as working capital increased to 145days. Post RBI directive KEX replaced foreign debt with domestic high cost debt increasing interest cost. PAT remained flat yoy to Rs1.1Bn.

**Order book showed robust growth:** KEC's order book stood at Rs205.9bn (up 20% YoY) and order inflow stood at Rs21.05bn. Order book contains 73% T&D orders, 23% railways orders and 2% civil and cable orders. 52% are international orders including 10% from SAE. KEC holds L1 position in tenders worth Rs18bn. International orders contribute 53% of total order inflows. 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 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:** Receipt of Rs2.7 bn of payments from Saudi Arabia and customer advances from recent order wins will help deleveraging efforts reducing debt from current Rs32bn to Rs25bn. Management expects interest cost as % of sales to go down from 3.2% to 2.5% by FY20E. Management reduced guidance from 15% topline growth to 12-15% topline growth for FY19E however, maintained guidance of 15-20% topline growth for FY20E on the back of good order book and L1position. However, order inflows to go down due to forthcoming elections. We expect KEC's sales growth to slow down to 11% over FY19E and FY20E. Therefore reduce our sales estimate for FY20E by 7% for FY20E. We expect KEC to post EPS of Rs19.5 and Rs23 over FY19E and FY20E respectively. At CMP KEC is trading at 12.7x FY19E and 10.7x FY20E earnings. Lacklustre order inflows in near term to pose downside risk for KEC. We downgrade KEC to 'SELL on rise'.

### Key Financials

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	85,844	0.8	8,179	9.5%	3,048	106.0	11.9	20.8	19.2	19.5
FY18	100,580	17.2	10,062	10.0%	4,605	51.1	17.9	13.8	23.1	24.9
FY19E	111,717	11.1	11,395	10.2%	5,005	8.7	19.5	12.7	20.7	22.0
FY20E	120,724	8.1	12,676	10.5%	5,912	18.1	23.0	10.7	20.3	21.9



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<b>KEC International Quaterly Results</b>					
In Rs Mn	3QFY19	3QFY18	YoY(%)	2QFY18	QoQ(%)
Total operating income	26,466	24,046	10%	24,095	10%
Expenses	-23,653	-21,609	9%	-21,553	10%
Stock	1,594	-401		256	
RM	-20,596	-16,980	21%	-17,413	18%
Employee	-2,111	-1,919	10%	-2,068	2%
Other expenses	-2,539	-2,309	10%	-2,327	9%
<b>EBITDA</b>	<b>2,814</b>	<b>2,437</b>	<b>15%</b>	<b>2,542</b>	<b>11%</b>
Other income	36	71	-50%	17	108%
PBDIT	2,849	2,508	14%	2,559	11%
Interest	-857	-561	53%	-768	12%
Depreciation	-309	-271	14%	-304	2%
<b>PBT</b>	<b>1,684</b>	<b>1,676</b>	<b>0%</b>	<b>1,487</b>	<b>13%</b>
Tax	-575	-517	11%	-514	12%
<b>Net profit</b>	<b>1,109</b>	<b>1,159</b>	<b>-4%</b>	<b>973</b>	<b>14%</b>
<b>Key ratios (%)</b>					
RM / Sales	71.8	72.3		71.2	
Empl / Sales	8.0	8.0		8.6	
OE / Sales	9.6	9.6		9.7	
EBITDA margin	10.6	10.1		10.5	
PBT margin	6.4	7.0		6.2	
Tax rate	34.2	30.8		34.5	
PAT margin	4.2	4.8		4.0	
EPS	4.3	4.5		3.8	
PBT margin	10.8	10.4		10.6	
EBIT margin	6.4	7.0		6.2	



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### Financials

Profit & Loss (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	85,178	85,844	100,580	111,717	120,724
Raw Materials	(61,798)	(59,489)	(72,716)	(80,548)	(86,921)
Employee Cost	(6,392)	(7,327)	(7,984)	(8,826)	(9,416)
Other Expenses	(10,064)	(10,849)	(9,819)	(10,948)	(11,710)
Cost of Sales	(78,255)	(77,665)	(90,518)	(100,322)	(108,048)
<b>Operating Profit</b>	<b>6,923</b>	<b>8,179</b>	<b>10,062</b>	<b>11,395</b>	<b>12,676</b>
Depreciation	(1,318)	(1,297)	(1,097)	(1,177)	(1,261)
PBIT	5,605	6,882	8,965	10,218	11,415
Other Income	103	289	404	162	215
Interest	(2,794)	(2,536)	(2,466)	(2,910)	(2,806)
Profit Before Tax	2,914	4,634	6,903	7,471	8,824
Provision for Tax	(1,436)	(1,587)	(2,298)	(2,465)	(2,912)
<b>PAT</b>	<b>1,478</b>	<b>3,048</b>	<b>4,605</b>	<b>5,005</b>	<b>5,912</b>
<b>Adj. PAT</b>	<b>1,478</b>	<b>3,048</b>	<b>4,605</b>	<b>5,005</b>	<b>5,912</b>

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18E	FY19E	FY20E
Pre tax Profit	2914	4634	6903	7471	8824
Add: Dep. & Amortization	1318	1297	1097	1177	1261
Total tax paid	(1436)	(1587)	(2298)	(2465)	(2912)
Other Adjustments	2794	2536	2466	2910	2806
<b>Cash Profit</b>	<b>5590</b>	<b>6881</b>	<b>8168</b>	<b>9092</b>	<b>9979</b>
(Inc) / Dec in					
Sundry Debtors	(6946)	4798	(8176)	(977)	(4145)
Inventories	4069	(345)	(2327)	1071	(419)
Loans & Advances	(10240)	(1519)	(7374)	(176)	(2739)
Current liabilities & Trade payables	1037	6498	17361	(10356)	4522
<b>Change in Working Capital</b>	<b>(12080)</b>	<b>9432</b>	<b>(517)</b>	<b>(10438)</b>	<b>(2782)</b>
<b>CF from Operating Activities</b>	<b>(6490)</b>	<b>16312</b>	<b>7651</b>	<b>(1346)</b>	<b>7197</b>
<b>CF from Investing Activities</b>	<b>(879)</b>	<b>(1412)</b>	<b>(963)</b>	<b>676</b>	<b>(1500)</b>
<b>CF from Financing Activities</b>	<b>5652</b>	<b>(13880)</b>	<b>(6223)</b>	<b>1542</b>	<b>(2763)</b>
Cash at the start of year	2063	853	2080	2313	3185
Cash at the end of year	853	2080	2313	3185	6118

Balance Sheet (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	514	514	514	514	514
Reserves	12,390	15,349	19,460	23,655	28,609
<b>Net Worth</b>	<b>12,904</b>	<b>15,864</b>	<b>19,974</b>	<b>24,169</b>	<b>29,123</b>
Long term borrowings	29,255	19,374	16,111	21,374	22,374
Short term borrowings	2,957	1,583	1,583	1,583	1,583
Total Debt	32,212	20,957	17,694	22,957	23,957
<b>Capital Employed</b>	<b>45,116</b>	<b>36,820</b>	<b>37,668</b>	<b>47,125</b>	<b>53,080</b>
Gross Block	14,982	15,066	16,566	18,066	19,566
Accumulated Depreciation	(4,957)	(5,902)	(8,827)	(9,988)	(11,248)
Net Block	10,025	9,165	7,739	8,079	8,318
Capital WIP	84	51	51	51	51
<b>Total Fixed Assets</b>	<b>10,109</b>	<b>9,216</b>	<b>9,983</b>	<b>8,130</b>	<b>8,369</b>
Goodwill & Intangible	1,952	1,910	1,920	1,920	1,920
Investments	254	1,304	393	393	393
Inventories	3,602	3,947	6,274	5,203	5,623
Sundry debtors	47,066	42,268	50,444	51,421	55,566
Cash & bank	853	2,080	2,313	3,185	6,118
Loans & advances and Of	24,905	26,424	33,798	33,974	36,713
Current Liabilities	(21,289)	(26,058)	(65,440)	(23,955)	(25,886)
Provisions	(1,036)	(1,047)	(1,009)	(1,530)	(1,654)
Working Capital	33,835	25,630	26,380	37,690	43,406
Deferred Tax Liabilities	(1,034)	(1,240)	(1,008)	(1,008)	(1,008)
<b>Capital Deployed</b>	<b>45,116</b>	<b>36,820</b>	<b>37,668</b>	<b>47,126</b>	<b>53,080</b>

Ratios	FY16	FY17	FY18	FY19E	FY20E
OPM	8.1	9.5	10.0	10.2	10.5
NPM	1.7	3.6	4.6	4.5	4.9
Tax Rate %	(49.3)	(34.2)	(33.3)	(33.0)	(33.0)
<b>Growth Ratio (%)</b>					
Net Sales	0.6	0.8	17.2	11.1	8.1
Operating Profit	35.3	18.1	23.0	13.3	11.2
PAT	(8.2)	106.1	51.1	8.7	18.1
<b>Per Share</b>					
Earning Per Share (EPS)	5.8	11.9	17.9	19.5	23.0
Cash Earnings (CPS)	10.9	16.9	22.2	24.1	27.9
Dividend	1.0	1.6	2.4	2.6	3.1
Book Value	50.2	61.7	77.7	94.0	113.3
Free Cash flow	(7,369)	14,900	6,688	(670)	5,697
<b>Valuation Ratios</b>					
P/E (x)	42.9	20.8	13.8	12.7	10.7
P/B (x)	4.9	4.0	3.2	2.6	2.2
EV / Sales	1.1	1.0	0.8	0.7	0.7
EV / EBITDA	13.7	10.1	7.8	7.3	6.4
FCF Yield (%)	(12)	24	11	(1)	9
<b>Return Ratios (%)</b>					
ROE	11.5	19.2	23.1	20.7	20.3
ROCE*	12.7	19.5	24.9	22.0	21.9



## Result Update Q1FY18@ Dalal & Broacha

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