



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result Update@ Dalal & Broacha

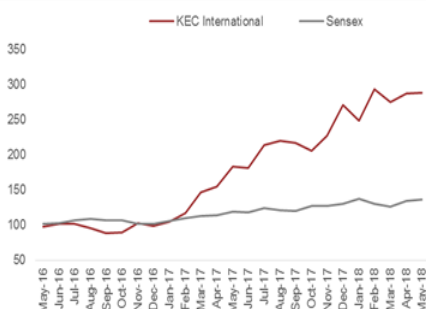
BUY

| | |
|-----------------|------------|
| Current Price | 378 |
| Target Price | 460 |
| Upside/Downside | 22% |
| 52 Week Range | Rs.209/442 |

Key Share Data

| | |
|-----------------------|---------|
| Market Cap (Rs.bn) | 97.1 |
| Market Cap (US\$ mn) | 1439 |
| 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

| | Mar-18 | Dec-17 |
|--------------|--------------|--------------|
| Promoters | 50.9 | 50.9 |
| FII | 11.3 | 11.0 |
| DII | 20.2 | 20.4 |
| Others | 17.6 | 17.7 |
| Total | 100.0 | 100.0 |

Higher order backlog provides strong revenue visibility

KEC International (KEC) 4QFY18 sales grew 29% YoY, driving 35% growth in PAT. Increase in revenues was driven by strong execution in T&D, Rail and Civil EPC, while solar revenues were boosted by execution of APGENCO project. With sustained momentum in inflows (Rs151bn in FY18, 22% YoY), KEC order backlog provides strong revenue visibility (1.7x TTM sales). While the company has exceeded its FY18 sales growth guidance (10-15% growth) with 17% growth, management guided for 15-20% sales growth in FY19 (over the stronger base) with the healthy backlog. Management guided that margins to remain in the same range i.e ~10% for FY19E. KEC to do capex of 2bn in FY19E.

Result Highlights

- Sales grew 29% YoY to Rs36.6bn, 17% above led by strong execution. The segmental revenues reported on a gross basis, and hence not directly comparable YoY post-GST. On a reported basis, T&D/railways grew 21%/75% YoY to Rs27.8bn/3.6bn, while sales for the newer civil segment were 4.5x YoY at Rs1.26bn. Solar revenues at Rs1.9bn (3.1x YoY) were boosted by execution of APGENCO project, while Cables sales declined 8% YoY to Rs2.8bn due to shifting of Silvassa operations to Vadodara facility.
- EBITDA margins declined 50bps YoY off a high base to 10.1% with higher mix of rail, civil EPC and solar businesses that have relatively lower margins vs. T&D.
- PAT grew 35% YoY to Rs 1.96bn. 4QFY17 had higher depreciation for stringing equipment (3 year amortization policy), and depreciation declined 33% YoY to Rs275mn in 4QFY18 in absence of large capex for such equipment.
- FY18 sales grew 17% to Rs100.6bn (20% YoY adjusted for GST impact), surpassing management guidance of 10-15%. On a reported basis, growth was led by T&D (11% YoY to Rs7.8bn), rail and civil EPC (89%/210% YoY to Rs8.4bn/Rs2.7bn). EBITDA margins improved 50bps to 10%, while PAT grew 51% to Rs4.6bn. It has announced dividend of Rs2.4/share (13% payout).
- FY18 Order inflows grew 22% to Rs 151bn led by T&D (3% YoY to Rs96.4bn), Rail EPC (2.74x YoY at Rs39bn) and the newly incubated civil segment (Rs4.8bn). Order book grew 36% YoY to Rs173bn, improving revenue visibility at 1.7x TTM sales. KEC has also announced new orders of Rs14bn (incl. Rs9.3bn orders from Railways), and is L1 on additional orders of Rs15bn.

Outlook and valuations: Outlook and valuations: We remain positive on the business specially the railways and expects T&D to garner improved revenues from SEBs and international exposure. The management commentary resounds strong confidence and we also believe in its growth prospects. We maintain Buy with a target of Rs 460.

Key Financials

| Rs mn | Net Sales | % Growth | EBITDA | OPM% | PAT | % Growth | EPS | P/E (x) | ROE % | RoCE% |
|-------|-----------|----------|--------|-------|------|----------|------|---------|-------|-------|
| 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 | 120696 | 20.0% | 12311 | 10.2% | 5771 | 25.3% | 22.4 | 16.8 | 23.3% | 23.7% |
| FY20E | 148456 | 23.0% | 15588 | 10.5% | 7865 | 36.3% | 30.6 | 12.4 | 25.0% | 26.1% |



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- Net working capital reduced by 15 days to 93 days during FY18, led by collections of retention receivables from Saudi Arabia projects. With working capital improvement and a healthy operating performance, KECI's net debt declined by Rs4bn to Rs15.4bn in FY18.
- KECI has obtained board approval for NCDs of Rs5bn (via private placement) to provide cushion for working capital funds and further optimise finance costs without entailing an overall increase in borrowings for the firm.

| KEC International - 4QFY18 snapshot | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|----------------|---------------|
| Consolidated Profits | | | | | | | |
| Rs m | 4QFY17 | 3QFY18 | 4QFY18 | % YoY | FY17 | FY18 | % YoY |
| Net Sales | 28,492 | 24,049 | 36,642 | 29 | 85,844 | 100,580 | 17% |
| Material costs | 14,790 | 11,720 | 21,134 | 43 | 41,646 | 51,446 | 24% |
| Erection cost | 4,941 | 5,663 | 6,774 | 37 | 17,843 | 21,270 | 19% |
| Employee costs | 1,864 | 1,916 | 2,208 | 18 | 7,327 | 7,984 | 9% |
| Other overheads | 3,886 | 2,310 | 2,827 | (27) | 10,849 | 9,819 | -9% |
| Ebitda | 3,011 | 2,441 | 3,699 | 23 | 8,179 | 10,062 | 23% |
| Ebitda margin | 10.6% | 10.2% | 10.1% | -47bps | 9.5% | 10.0% | 48bps |
| Depreciation | 408 | 272 | 275 | (33) | 1,297 | 1,097 | -15% |
| Interest | 637 | 607 | 656 | 3 | 2,536 | 2,466 | -3% |
| Other income | 114 | 123 | 126 | 10 | 289 | 404 | 40% |
| PBT | 2,081 | 1,686 | 2,894 | 39 | 4,635 | 6,902 | 49% |
| Tax | 625 | 568 | 930 | 49 | 1,587 | 2,298 | 45% |
| Tax rate | 30.1% | 33.7% | 32.2% | | 34.2% | 33.3% | |
| PAT | 1,455 | 1,118 | 1,963 | 35 | 3,048 | 4,604 | 51% |
| PAT Margin | 5.1% | 4.6% | 5.4% | 25bps | 3.6% | 4.6% | 103bps |
| EPS (Rs) | 5.7 | 4.3 | 7.6 | 35 | 11.9 | 17.9 | 51% |
| As % of sales | | | | | | | |
| Gross margin | 48.1 | 51.3 | 42.3 | -577bps | 51.5 | 48.9 | -264bps |
| Employee costs | 6.5 | 8.0 | 6.0 | -51bps | 8.5 | 7.9 | -60bps |
| Other expenses | 31.0 | 33.2 | 26.2 | -478bps | 33.4 | 30.9 | -251bps |
| Interest expenses | 2.2 | 2.5 | 1.8 | -44bps | 3.0 | 2.5 | -50bps |
| Segmental revenue snapshot | | | | | | | |
| Rs bn | 4QFY17* | 3QFY18 | 4QFY18 | % YoY | FY17* | FY18 | % YoY |
| Transmission - (ex SAE) | 20.4 | 15.3 | 24.7 | 21 | 60.3 | 68.0 | 13% |
| Transmission - SAE | 2.6 | 3.2 | 3.1 | 19 | 10.0 | 10.3 | 2% |
| Cables | 3.0 | 2.7 | 2.8 | (8) | 10.5 | 10.1 | -4% |
| Railway | 2.1 | 2.1 | 3.6 | 74 | 4.5 | 8.4 | 89% |
| Civil | 0.3 | 0.9 | 1.3 | 350 | 0.9 | 2.7 | 212% |
| Solar | 0.6 | 0.3 | 1.9 | 215 | 1.6 | 2.9 | 81% |
| Less: Intersegment | (0.2) | (0.5) | (0.6) | | (0.2) | (1.3) | |
| Total | 28.8 | 24.0 | 36.6 | 27 | 87.6 | 101.0 | 15% |
| Transmission | 23.0 | 18.5 | 27.8 | 21 | 70.3 | 78.2 | 11% |
| New businesses | 5.8 | 5.5 | 8.9 | 53 | 17.2 | 22.8 | 32% |
| * Based on gross revenues, hence YoY growth is not directly comparable post-GST | | | | | | | |
| Order inflow snapshot | | | | | | | |
| Rs bn | 4QFY17 | 3QFY18 | 4QFY18 | % YoY | FY17 | FY18 | % YoY |
| Order intake | 37.3 | 55.5 | 38.0 | 2 | 123.6 | 151.0 | 22 |
| Domestic | 12.3 | 33.8 | 30.0 | 144 | 61.4 | 101.2 | 65 |
| International | 25.0 | 21.7 | 8.0 | (68) | 62.2 | 49.8 | (20) |
| Order book | 126.3 | 171.5 | 173.0 | 37 | 126.3 | 173.0 | 37 |
| Domestic | 60.6 | 90.9 | 95.1 | 57 | 60.6 | 95.1 | 57 |
| International | 65.7 | 80.6 | 77.8 | 19 | 65.7 | 77.8 | 19 |
| OB/ TTM sales (x) | 1.5 | 1.9 | 1.7 | | 1.5 | 1.7 | |



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| Financials | | | | |
|-------------------------|--------------|---------------|---------------|---------------|
| Profit & Loss (Rs Mn) | FY17 | FY18 | FY19E | FY20E |
| Net Sales | 85,844 | 100,580 | 120,696 | 148,456 |
| Raw Materials | (59,489) | (72,716) | (87,022) | (106,888) |
| Employee Cost | (7,327) | (7,984) | (9,535) | (11,580) |
| Other Expenses | (10,849) | (9,819) | (11,828) | (14,400) |
| Cost of Sales | (77,665) | (90,518) | (108,385) | (132,868) |
| Operating Profit | 8,179 | 10,062 | 12,311 | 15,588 |
| Depreciation | (1,297) | (1,097) | (1,177) | (1,260) |
| PBIT | 6,882 | 8,965 | 11,134 | 14,328 |
| Other Income | 289 | 404 | 167 | 97 |
| Interest | (2,536) | (2,466) | (2,510) | (2,478) |
| Profit Before Tax | 4,634 | 6,903 | 8,791 | 11,947 |
| Provision for Tax | (1,587) | (2,298) | (3,020) | (4,082) |
| PAT | 3,048 | 4,605 | 5,771 | 7,865 |
| Adj. PAT | 3,048 | 4,605 | 5,771 | 7,865 |

| Cash Flow Statement (Rs Mn) | FY17 | FY18E | FY19E | FY20E |
|-------------------------------------|----------------|---------------|----------------|---------------|
| Pre tax Profit | 4634 | 6903 | 8791 | 11947 |
| Add: Dep. & Amortization | 1297 | 1097 | 1177 | 1260 |
| Total tax paid | (1587) | (2298) | (3020) | (4082) |
| Other Adjutments | 2536 | 2466 | 2510 | 2478 |
| Cash Profit | 6881 | 8168 | 9458 | 11603 |
| (Inc) / Dec in | | | | |
| Sundry Debtors | 4798 | (8176) | (5109) | (12777) |
| Inventories | (345) | (2327) | 653 | (1293) |
| Loans & Advances | (1519) | (7374) | (2907) | (8442) |
| Current liabilities & Trade paybles | 6498 | 17361 | (5848) | 13938 |
| Change in Working Capital | 9432 | (517) | (13212) | (8574) |
| CF from Operating Activities | 16312 | 7651 | (3754) | 3029 |
| CF from Investing Activities | (1412) | (963) | 1291 | (1123) |
| CF from Financing Activities | (13880) | (6223) | 1818 | (2752) |
| Cash at the start of year | 853 | 2080 | 2313 | 1669 |
| Cash at the end of year | 2080 | 2313 | 1669 | 823 |

| Balance Sheet (Rs Mn) | FY17 | FY18 | FY19E | FY20E |
|---------------------------|---------------|---------------|---------------|---------------|
| Equity Capital | 514 | 514 | 514 | 514 |
| Reserves | 15,349 | 19,460 | 24,296 | 30,887 |
| Net Worth | 15,864 | 19,974 | 24,811 | 31,402 |
| 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 | 47,767 | 55,358 |
| 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 | 5,621 | 6,914 |
| Sundry debtors | 42,268 | 50,444 | 55,553 | 68,330 |
| Cash & bank | 2,080 | 2,313 | 1,669 | 823 |
| Loans & advances and Ot | 26,424 | 33,798 | 36,705 | 45,147 |
| Current Liabilities | (26,058) | (65,440) | (25,880) | (31,833) |
| Provisions | (1,047) | (1,009) | (1,653) | (2,034) |
| Working Capital | 25,630 | 26,380 | 38,947 | 46,675 |
| Deferred Tax Liabilities | (1,240) | (1,008) | (1,008) | (1,008) |
| Capital Deployed | 36,820 | 37,668 | 47,767 | 55,358 |

| Ratios | FY17 | FY18 | FY19E | FY20E |
|--------------------------|--------|--------|---------|--------|
| OPM | 9.5 | 10.0 | 10.2 | 10.5 |
| NPM | 3.6 | 4.6 | 4.8 | 5.3 |
| Tax Rate % | (34.2) | (33.3) | (34.4) | (34.2) |
| Growth Ratio (%) | | | | |
| Net Sales | 0.8 | 17.2 | 20.0 | 23.0 |
| Operating Profit | 18.1 | 23.0 | 22.4 | 26.6 |
| PAT | 106.1 | 51.1 | 25.3 | 36.3 |
| Per Share | | | | |
| Earning Per Share (EPS) | 11.9 | 17.9 | 22.4 | 30.6 |
| Cash Earnings (CPS) | 16.9 | 22.2 | 27.0 | 35.5 |
| Dividend | 1.6 | 2.4 | 3.0 | 4.1 |
| Book Value | 61.7 | 77.7 | 96.5 | 122.1 |
| Free Cash flow | 14,900 | 6,688 | (2,462) | 1,906 |
| Valuation Ratios | | | | |
| P/E (x) | 31.9 | 21.1 | 16.8 | 12.4 |
| P/B (x) | 6.1 | 4.9 | 3.9 | 3.1 |
| EV / Sales | 1.4 | 1.1 | 1.0 | 0.8 |
| EV / EBIDTA | 14.2 | 11.2 | 9.6 | 7.7 |
| FCF Yield (%) | 3,942 | 1,769 | (651) | 504 |
| Return Ratios (%) | | | | |
| ROE | 19.2 | 23.1 | 23.3 | 25.0 |
| ROCE* | 19.5 | 24.9 | 23.7 | 26.1 |

* includes other income



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