



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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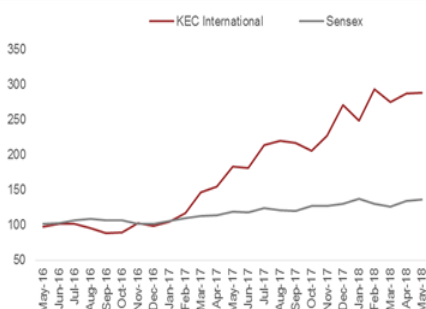
BUY

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 Adjustments	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 payables	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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