



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

Analyst: Avinash Kumar (022) 67141449

## Analyst meet Update@ Dalal & Broacha

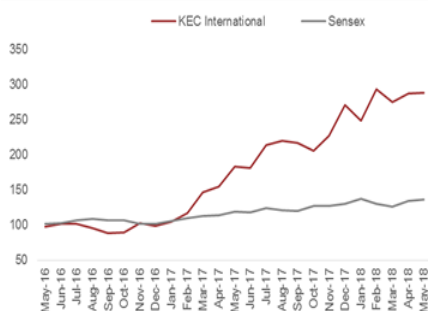
### BUY

Current Price	370
Target Price	459
Upside/Downside	24%
52 Week Range	Rs.209/442

### Key Share Data

Market Cap (Rs.bn)	95.1
Market Cap (US\$ mn)	1405
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
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Domestic T&D comfortably placed:** In the domestic segment, KEC has steady order inflow from PGCIL (~ inflow of Rs 1000 crs in FY18) and is amongst the top 3-4 major players in SEB orders and expects improved inflows from the existing SEBs. New SEBs where KEC see opportunity is in Bihar, Jharkhand, UP and Telangana.

**TBCB:** The management mentioned that states are increasingly looking to award projects on TBCB basis. Large EPC players such as KEC benefit from, as the TBCB project winners prefer companies with strong track record to minimize execution risk and have displayed willingness to pay a premium for it.

### International market: Brazil, SAARC & LATAM outlook positive

Brazil plans to award TBCB projects worth US\$5 bn every year for the next few years and provides a large EPC opportunity for KEC. SAARC and LATAM, such as Bangladesh with funding support from India are large opportunities according to the management. Middle East is focusing increasingly on large-scale solar power projects and KEC is evaluating various countries such as Saudi Arabia, Jordan, Kuwait and UAE for this opportunity. Order backlog in SAE now stands at ~Rs12bn.

**Railways outlook remains strong:** KEC remains bullish on the railway infrastructure segment comprising of civil infrastructure and track works, railway electrification, signaling etc. The company has built capacities in newer businesses of railways and civil. Strong visibility in railways tendering pipeline ( Rs 1lakh cr in which KEC opportunity size being Rs 300 bn) gives confidence & optimism to the management on railways and outlook remains strong irrespective of the elections due next year. Total order intake in the railways segment stood at Rs39bn during FY18 (v/s ~Rs2-3 bn couple of years back). Order backlog in the railways segment now stand at ~Rs50bn as on date.

**Order book:** Order backlog across all business segments stands at Rs173bn (Domestic ~Rs95bn. International ~Rs78bn) to be executed over the next 24-30 months.

**Guidance:** The management provided comfort that KEC has enough internal bandwidth and capacity to keep growing topline at ~15% per annum for the next 5 years. Earlier the management has guided for 15% guidance for FY19. Margins have been stable at 10-11% in both T&D and non T&D and would be in the same range with marginal uptick. Currently non T&D constitute 20% to the topline and expected to improve to 40% in next five years

**Valuation and Risks:** Strong order backlog of Rs173 bn (1.7x FY18 sales) coupled with steady order pipeline in T&D and railways ensures robust revenue visibility for the next couple of years. In the domestic segment, KEC also expects SAE to report strong order flows over the next 3-4 quarters, mainly aided by few large orders that are likely to be tendered out by the Brazilian government. Some of the key challenges company faces is on execution and bidding are commodity price volatility and increasing global interest rates. At CMP, KEC trades at 12x FY20E earnings. We retain BUY with a target price of Rs459, based on 15x FY20E earnings.

### 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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### 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)
<b>Operating Profit</b>	<b>8,179</b>	<b>10,062</b>	<b>12,311</b>	<b>15,588</b>
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)
<b>PAT</b>	<b>3,048</b>	<b>4,605</b>	<b>5,771</b>	<b>7,865</b>
<b>Adj. PAT</b>	<b>3,048</b>	<b>4,605</b>	<b>5,771</b>	<b>7,865</b>

Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E
Equity Capital	514	514	514	514
Reserves	15,349	19,460	24,296	30,887
<b>Net Worth</b>	<b>15,864</b>	<b>19,974</b>	<b>24,811</b>	<b>31,402</b>
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
<b>Capital Employed</b>	<b>36,820</b>	<b>37,668</b>	<b>47,767</b>	<b>55,358</b>
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
<b>Total Fixed Assets</b>	<b>9,216</b>	<b>9,983</b>	<b>7,515</b>	<b>7,378</b>
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)
<b>Capital Deployed</b>	<b>36,820</b>	<b>37,668</b>	<b>47,767</b>	<b>55,358</b>

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
<b>Cash Profit</b>	<b>6881</b>	<b>8168</b>	<b>9458</b>	<b>11603</b>
(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
<b>Change in Working Capital</b>	<b>9432</b>	<b>(517)</b>	<b>(13212)</b>	<b>(8574)</b>
<b>CF from Operating Activities</b>	<b>16312</b>	<b>7651</b>	<b>(3754)</b>	<b>3029</b>
<b>CF from Investing Activities</b>	<b>(1412)</b>	<b>(963)</b>	<b>1291</b>	<b>(1123)</b>
<b>CF from Financing Activities</b>	<b>(13880)</b>	<b>(6223)</b>	<b>1818</b>	<b>(2752)</b>
Cash at the start of year	853	2080	2313	1669
Cash at the end of year	2080	2313	1669	823

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)
<b>Growth Ratio (%)</b>				
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
<b>Per Share</b>				
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
<b>Valuation Ratios</b>				
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
<b>Return Ratios (%)</b>				
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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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