



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Management meet Update@ Dalal & Broacha

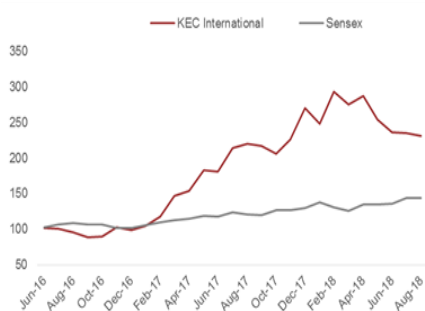
BUY

Current Price	306
Target Price	407
Upside/Downside	33%
52 Week Range	Rs.209/442

Key Share Data

Market Cap (Rs.bn)	78.6
Market Cap (US\$ mn)	1162
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

	Jun-18	Mar-18
Promoters	51.0	50.9
FII	12.4	11.3
DII	19.2	20.2
Others	17.4	17.6
Total	100.0	100.0

We met management of KEC international following are key takeaways.

T&D division to drive steady growth: T&D contributes 75% to total revenue. KEC is seeing good traction in international T&D vertical. The company received orders worth Rs30bn in Q1 of which 50% were contributed international T&D segment. International segment orders contribute 46% to current order book of Rs182bn. KEC received major orders from Nicaragua in Central America, Dubai and Brazil. The Saudi Arabia market is gradually recovering with the recent run-up in crude prices, while other regions, viz. Brazil, SAARC and MENA, are witnessing capex traction, which augurs well for the overall T&D business.

Domestic order inflows to pick up: Management expects domestic order inflows to pick up in H2FY19E. KEC has L1 position for Rs30bn of book. Out of this Rs10bn orders are likely from Power grid. Management expects tenders worth Rs50bn to get finalized over next one month in the domestic market. This is likely to improve order inflows from the domestic market. Management expects margins for this division to be maintained at 11-12%.

Railway growing at a healthy rate: The Railways segment which contributes 15% to the revenues, management expects robust growth going ahead. KEC is present in conventional railways work and the scope of work is majorly overhead electrification in railways. The current order book (OB) for railways stands at Rs 4729 Cr and constitutes 26% of OB. Going ahead the management expects this segment to grow more than 15%. Margins in this segment is also expected to match with T&D margins going ahead. Currently the margins are 100 bps short of T&D margins. KEC tower manufacturing units produce galvanised steel structures for Railways with an installed capacity of 30,000 MTs per annum which caters to the railway orders and expedite the execution. This growth is expected to be primarily driven by a strong uptick in the Railways ordering. The management stated that they have bid for railway projects outside India and expect to bag at least one project by year end.

Outlook: Given the order inflows and the capex allocation to Infra, Railways and Electrification by the govt., we believe KEC is in a good position to take advantage of the opportunities coming their way. KEC order backlog of Rs 181.9bn (all time high OB; 1.8x FY18 revenues) and its ability to ramp up the execution, along with strong cash flow and leaner balance sheet. We maintain our Buy rating on the stock with TP of Rs407. The stock trades at 11x FY20 EPS of Rs 27.

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	65.7	11.5%	12.7%
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	116673	16.0%	11901	10.2%	5361	16.4%	20.9	18.1	21.9%	23.0%
FY20E	140007	20.0%	14701	10.5%	6978	30.2%	27.1	13.9	23.0%	24.9%



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Civil Segment: This segment contributes 6% to the revenues (Rs 1.2 bn). Going ahead the management expect the revenue contribution to go up. The business has received over Rs500 crore of orders and is cash positive and profitable. Currently, executing 15+ EPC turnkey projects comprising factories, warehouses, and residential buildings for clients in Auto, Cement, Metals & Mining sectors, among others. The outlook in this segment remains positive and is driven by strong uptick in civil tendering. Margins in the segment to remain at ~9.5% levels and expect to grow as the revenues increase.

The Cables segment contributes 12% to the revenues and the management expects higher exports and seeing demand in the EHV cables in the solar segment the management feels the domestic scenario is still not good and there is lack of clarity in terms of pricing and sourcing of raw material. Management feel there is a better opportunity outside India and expecting orders from.



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Financials

Profit & Loss (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	85,178	85,844	100,580	116,673	140,007
Raw Materials	(61,798)	(59,489)	(72,716)	(84,121)	(100,805)
Employee Cost	(6,392)	(7,327)	(7,984)	(9,217)	(10,921)
Other Expenses	(10,064)	(10,849)	(9,819)	(11,434)	(13,581)
Cost of Sales	(78,255)	(77,665)	(90,518)	(104,772)	(125,307)
Operating Profit	6,923	8,179	10,062	11,901	14,701
Depreciation	(1,318)	(1,297)	(1,097)	(1,177)	(1,260)
PBIT	5,605	6,882	8,965	10,724	13,441
Other Income	103	289	404	167	97
Interest	(2,794)	(2,536)	(2,466)	(2,510)	(2,478)
Profit Before Tax	2,914	4,634	6,903	8,381	11,060
Provision for Tax	(1,436)	(1,587)	(2,298)	(3,020)	(4,082)
PAT	1,478	3,048	4,605	5,361	6,978
Adj. PAT	1,478	3,048	4,605	5,361	6,978

Balance Sheet (Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	514	514	514	514	514
Reserves	12,390	15,349	19,460	23,952	29,800
Net Worth	12,904	15,864	19,974	24,467	30,314
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
Capital Employed	45,116	36,820	37,668	47,423	54,271
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	9,983	7,515	7,378
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	5,434	6,521
Sundry debtors	47,066	42,268	50,444	53,701	64,442
Cash & bank	853	2,080	2,313	2,567	2,345
Loans & advances and Other	24,905	26,424	33,798	35,481	42,578
Current Liabilities	(21,289)	(26,058)	(65,440)	(25,017)	(30,021)
Provisions	(1,036)	(1,047)	(1,009)	(1,598)	(1,918)
Working Capital	33,835	25,630	26,380	38,603	45,588
Deferred Tax Liabilities	(1,034)	(1,240)	(1,008)	(1,008)	(1,008)
Capital Deployed	45,116	36,820	37,668	47,423	54,271

Cash Flow Statement (Rs Mn)	FY16	FY17	FY18E	FY19E	FY20E
Pre tax Profit	2914	4634	6903	8381	11060
Add: Dep. & Amortization	1318	1297	1097	1177	1260
Total tax paid	(1436)	(1587)	(2298)	(3020)	(4082)
Other Adjustments	2794	2536	2466	2510	2478
Cash Profit	5590	6881	8168	9048	10716
(Inc) / Dec in					
Sundry Debtors	(6946)	4798	(8176)	(3257)	(10740)
Inventories	4069	(345)	(2327)	840	(1087)
Loans & Advances	(10240)	(1519)	(7374)	(1683)	(7096)
Current liabilities & Trade payables	1037	6498	17361	(7868)	11716
Change in Working Capital	(12080)	9432	(517)	(11969)	(7207)
CF from Operating Activities	(6490)	16312	7651	(2921)	3509
CF from Investing Activities	(879)	(1412)	(963)	1291	(1123)
CF from Financing Activities	5652	(13880)	(6223)	1884	(2608)
Cash at the start of year	2063	853	2080	2313	2567
Cash at the end of year	853	2080	2313	2567	2345

Ratios	FY16	FY17	FY18	FY19E	FY20E
OPM	8.1	9.5	10.0	10.2	10.5
NPM	1.7	3.6	4.6	4.6	5.0
Tax Rate %	(49.3)	(34.2)	(33.3)	(36.0)	(36.9)
Growth Ratio (%)					
Net Sales	0.6	0.8	17.2	16.0	20.0
Operating Profit	35.3	18.1	23.0	18.3	23.5
PAT	(8.2)	106.1	51.1	16.4	30.2
Per Share					
Earning Per Share (EPS)	5.8	11.9	17.9	20.9	27.1
Cash Earnings (CPS)	10.9	16.9	22.2	25.4	32.0
Dividend	1.0	1.6	2.4	2.8	3.7
Book Value	50.2	61.7	77.7	95.2	117.9
Free Cash flow	(7,369)	14,900	6,688	(1,630)	2,386
Valuation Ratios					
P/E (x)	54.2	26.3	17.4	15.0	11.5
P/B (x)	6.2	5.1	4.0	3.3	2.6
EV / Sales	1.3	1.2	1.0	0.9	0.7
EV / EBIDTA	16.1	12.1	9.5	8.5	6.9
FCF Yield (%)	(2,362)	4,776	2,144	(522)	765
Return Ratios (%)					
ROE	11.5	19.2	23.1	21.9	23.0
ROCE*	12.7	19.5	24.9	23.0	24.9

* includes other income



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