



Quick Insight

KEC International Ltd.



Industry	Capital Goods - Heavy Electrical Equipment
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CMP	₹301.5
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M Cap (bn)	₹77.49bn
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Buy Range	₹290-300
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Target	₹340-350
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Recommendation	ACCUMULATE
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Highlights

- The company sees robust tendering momentum and continued push to ramp up execution from Railways pertaining to OHE (overhead electrification), Signalling & Communication, etc.
- Order pipeline of ₹100bn in railways sector to be tendered out
- Good working capital management with strong focus on collections to able to meet its net debt target of ₹250bn for FY21.
- Secured one more civil order for Kochi Metro. It will bid for projects in Logistics-Warehouses, Defence-Civil, Water infrastructure and Oil & gas pipelines in coming months
- Good order traction for International T&D projects from MENA (Saudi Arabia, Dubai, Abu Dhabi and Oman) and Bangladesh

KEC International Ltd.

Background

KEC International Ltd, headquartered in Mumbai, India, is the flagship company of the RPG Group. A USD 1.7bn Engineering, Procurement, and Construction (EPC) major, delivering projects in key infrastructure sectors such as Power Transmission & Distribution, Railways, Civil, Urban Infrastructure, Solar, Smart Infrastructure, and Cables. It has operations in the regions of India, SAARC, EAP, Africa, Middle East and the Americas.

Investment Arguments

- **Q1FY21 Performance** – KEC's Q1FY21 revenues came in at ₹22,068mn, down 8.5% YoY. During Q1FY21, the overall T&D business revenue declined 9% YoY to ₹14,540mn, in which SAE division declined by 9% to ₹2,780mn. The railways business revenue came in flat at ₹5,210mn while civil business segment revenue registered growth of 58% YoY to ₹1030mn backed by execution of 3 Metro projects). Cables business fell 39% to ₹1,590mn, YoY. EBITDA margins came in above our estimate at 8.8%, down 160 bps YoY. During Q1FY20, KEC's order inflow came in at ₹19,310mn while the FY20 order book was at ₹196,820mn. After a washed out month of Apr'20, the company smartly resumed execution and both May'20 and Jun'20 recorded growth over previous year. Operational ramp up has been encouraging with all manufacturing units now operating at pre-COVID levels, work resuming across sites and labour strength more than 80% of pre-COVID level. A dearth of labour supply has been partially mitigated by increased mechanization at sites where the company saw increased acceptance towards mechanization (by clients) necessitated by the pandemic.
- **Strong backlog, execution ramp-up to ensure sustained growth** – KEC's order inflow during the quarter was another surprise as the company secured ₹19.3bn (+73% YoY) worth of orders during the quarter (75% from T&D, 13% from Civil and 12% from Cables). The company highlighted continuity of a (1) robust tendering momentum and, (2) continued push to ramp up execution from Railways pertaining to OHE (overhead electrification), Signalling & Communication, etc. While concern remains on the domestic T&D business in terms of re-tendering (on account of government mandated procurement and other restrictions pertaining to neighbouring countries) of the already bid tenders, International T&D business stares at strong ordering prospects particularly from MENA (Saudi Arabia, Dubai, Abu Dhabi and Oman) and Bangladesh geographies. Civil is another area where the company has seen ramp-up of order book (14% of the order book) and remains sanguine particularly in defense civil, warehousing, Water Infrastructure and Metro. The company has an order book of ₹196.8bn (+4% YoY) with an L1 position of ₹48.2bn providing revenue visibility of 12-18 months.
- **Railways business** – Constitutes 28% of order book. Larger order conversion in railways segment followed by international T&D, civil, SAARC and India for FY21. Total ₹5,210mn revenue with flat growth for Q1FY21. However, order book position at ₹55,000mn would enable leadership position and drive decent growth. Roughly ₹100bn tendered to be quoted in railways sector in terms of order pipeline.
- **Civil business** – Decent execution in three metro civil projects for the quarter. Secured one more order for Kochi Metro. It will continue to bid projects in Logistics -Warehouses, Defence-civil, water infrastructure in coming months. Some concern in order intake in residential projects as projects are getting shelved and muted private capex in industrial sector.
- **Cable Business** – Got impacted by lower order intake and COVID-19 disruption. The strategy is to focus on developing new products
- **Working capital moved up to improve operational performance** – Average borrowing level continues to be in line with target of ₹25,000mn. KEC's net debt (excluding acceptances) has increased marginally by ₹1,720mn, sequentially to

Nifty	11,308
Sensex	38,370
Key Stock Data	
CMP	₹301.5
Market Cap (₹)	₹77.49bn
52W High/Low	₹358/155
Shares o/s (mn)	257.1
Daily Vol. (3M NSE Avg.)	482,000
Shareholding pattern (%) Jun'20	
Promoter	51.7
DII	27.7
FII	8.8
Public & Others	11.8

(₹ mn)			
Particulars	FY18	FY19	FY20
Revenues	100,580	110,231	119,654
EBITDA	10,062	11,275	12,344
EBITDA Margin (%)	10.0	10.6	10.3
Net Profit	4,604	5,184	5,655
EPS (₹)	22.2	24.7	27.7
DPS (₹)	2.4	2.0	3.4
RoE (%)	25.7	23.0	21.6
RoCE (%)	25.2	27.0	23.6
P/E (x)	13.6	12.2	10.9
EV/EBITDA (x)	8.6	7.5	7.4
P/BV (x)	3.7	3.0	2.6

Source: Company Data, Way2Wealth Inst Equity

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₹23,880mn, as on 31 June 2020. However, net debt including acceptances has declined by ₹1,820mn YoY. Though net working capital days increased marginally by 13 days to 132 days QoQ, the collections and cash flow situation remains contained. As per the management, working capital is in a manageable position with no stress yet. Interest cost to sale (%) was at 3.0% for Q1FY21 (vs. 3.3% in Q1FY20) and is likely to improve by 20-30bps in FY21. Efforts will be to focus on working capital, keep borrowing levels under check. Maintaining low cost foreign debt at ~60%. Focus on judicious monitoring of cash flows, collections and efforts for expediting commercial closure of projects is on.

➤ **Q4 & FY20 Performance** – Order inflow in FY20 declined 20% YoY to ₹113bn. Segment-wise, FY20 order inflow split was T&D (₹38.5bn, down 48%), SAE Towers (₹5.7bn, down 55%), Railways (₹31.7bn, up 2%), Cables (₹9.1bn, down 8%) and Civil (₹27.2bn, up 286%). Order book was flat YoY at ₹205bn, contributed largely by T&D (₹100bn), Railways (₹59.5bn), Civil (₹26.7bn) and SAE Towers (₹10.2bn). Domestic-international order book mix stood at 64%-36%. The company reported consolidated revenue of ₹36.7bn, down 4% YoY. EBITDA fell 7% YoY to ₹3.7bn, leading to EBITDA margin of 10.1% (down 30bps YoY). Aided by lower tax rate at 28.3% (versus 34.2% YoY), decline in PAT was restricted to 3% YoY to ₹1.9bn, 12%/3%.

- 1) **SAE towers** revenue grew 59% YoY to ₹15.4bn in FY20, while its plants/operations in Brazil and Mexico were operational throughout the lockdown as these were considered essential. For FY21E, revenue is expected to be flat/decline marginally considering the current situation in Brazil and 25% depreciation in Brazilian currency
- 2) **Railways** sales grew 33% YoY to ₹25.5bn in FY20. KEC expects orders worth ₹90-100bn to be tendered out in Jun'20.
- 3) **Civil revenue** fell 24% YoY in FY20 to ₹3.8bn. KEC is currently executing projects in defense, metro rail and residential sectors. With robust order book of ₹27bn (vs. ₹4bn YoY), KEC expects revenue of ~₹15bn in FY21E.
- 4) **Cables** sales fell 17% YoY to ₹9.8bn in FY20 due to fall in commodity prices as well as COVID-19 challenges.
- 5) **In Domestic T&D**, KEC had bid for ₹140bn worth of TBCB projects from PGCIL under the GEC.
- 6) KEC expects significant tenders from **Middle East countries** such as UAE, Saudi Arabia and Oman (~₹50bn). KEC is likely to see revenue growth of 30%-40% for FY21.

Outlook

Though the management refrained from giving guidance, achieving high single digit growth should not be a problem if things ramp up gradually in remaining months. Operating margins could sustain at current levels despite some increase in employee or other cost owing to benefit of softening commodity prices. The pace of ramp-up once lockdown eased (YoY revenue improvement in both May'20 and Jun'20) testifies the agility of the company even in such dire circumstances limiting profit drop to 20% YoY. As a result, the company has ramped back close to near normal in terms of operations ready to execute. **We expect the company to benefit from ramp-up in execution in the coming quarters, strong ordering pipeline, uptick in railways and civil segment revenues and benign commodity prices makes it an ACCUMULATE stock with target range of ₹340-350.**

Financial & Operating Parameters

(₹ mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Sales	24,125	28,088	30,731	36,710	22,068
YoY Growth (%)	14.6	16.6	16.1	(4.4)	(8.5)
EBITDA	2,513	2,938	3,185	3,779	1,949
YoY Growth (%)	16.2	16.1	13.2	(5.3)	(22.4)
EBITDA Margin (%)	10.4	10.5	10.4	10.3	8.8
Net Profit	886	1,391	1,449	2,001	708
YoY Growth (%)	2.0	44.4	30.7	3.2	(20.1)

Source: Company Data, Way2Wealth Inst Equity

Segment-wise analysis

(₹ mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
T&D	12,940	16,210	17,030	20,180	11,760	(9.1)	(41.7)	66,360	63,390	4.7
SAE Towers	3,050	3,560	4,320	4,440	2,780	(8.9)	(37.4)	15,370	9,670	58.9
Cable	2,630	2,490	2,490	2,170	1,590	(39.5)	(26.7)	9,780	11,830	(17.3)
Railway	5,220	5,680	6,010	8,610	5,210	(0.2)	(39.5)	25,250	19,180	31.6
Civil	650	520	1,200	1,720	1,030	58.5	(40.1)	3,760	4,980	(24.5)
Other- Smart & Solar	340	110	900	320	190	(44.1)	(40.6)	1,260	3,410	(63.0)

Source: Company Data, Way2Wealth Inst Equity

Revenue mix (%)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
T&D	53.6	57.7	55.4	55.0	53.3	-	-	55.5	57.5	-
SAE Towers	12.6	12.7	14.1	12.1	12.6	-	-	12.8	8.8	-
Cable	10.9	8.9	8.1	5.9	7.2	-	-	8.2	10.7	-
Railway	21.6	20.2	19.6	23.5	23.6	-	-	21.1	17.4	-
Civil	2.7	1.9	3.9	4.7	4.7	-	-	3.1	4.5	-
Other- Smart & Solar	1.4	0.4	2.9	0.9	0.9	-	-	1.1	3.1	-

Source: Company Data, Way2Wealth Inst Equity

Order book break-up trend

Order book segment-wise (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
T&D	60	56	49	50	51
SAE Towers	10	9	6	5	4
Cable	2	2	2	2	2
Railway	25	29	31	29	28
Civil	2	4	11	13	14
Other- Smart & Solar	1	1	1	1	1
Order backlog (₹ mn)	190,160	180,850	220,110	205,030	196,820

Source: Company Data, Way2Wealth Inst Equity

Technical View

Looking at daily chart, KEC nosedived sharply from its swing high of ~355 and registered a fresh 52 week low of ~154 during mid April, 2020. Looking at over all chart structure, the low of ~154 coincided with the 'Falling Channel' drawn from its all-time high of ~432 and connect its subsequent peak of 355. The said channel played a role of sheet anchor as stock rebound sharply in past few months. Looking at daily chart, stock has been trending in a 'Higher Top Higher Bottom' formation and on every correction stock found support near its daily 45-EMA which is also rising. The daily RSI (14) signaled a 'Positive Reversal' during July 27, 2020. The said pattern is a bullish and target of such pattern comes near 325. Hence, we expect KEC to do well in the near term therefore we advocate investors to accumulate this stock in a range of 300 to 290 with an upside price target of 345. Stop loss should be placed at 257.



13th August 2020**Disclaimer**

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Name of the Security	KEC International Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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