

24 August 2018

Initiating Coverage (BUY)

KEC INTERNATIONAL LTD

CMP

INR 304

Target Price

INR 368

Stock Details

Industry	Heavy Electrical Equipment
Bloomberg Code	KECI:IN
BSE Code	532714
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	29,933.5
52wk. Low/High (Adjusted) (Rs.)	280.00/442.60

Shareholding Pattern June '18

Promoter (%)	51.00
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	49.00
No. of Share Outstanding (mn)	257.08

Valuation Summary

	FY 17A	FY 18A	FY 19P	FY 20P
P/E (x)*	17.59	17.09	16.00	15.00
EV/EBITDA (x)	7.03	8.04	8.01	7.45
P/BV (x)	3.38	3.94	2.80	2.74

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 17A	FY 18A	FY 19P	FY 20P
Net Sales	100,964	109,041	115,583	121,362
EBITDA	8,467	10,466	11,436	13,643
Net Profit	3,048	4,604	4,924	6,302
EPS (Rs.)*	11.9	17.9	19.2	24.5

*Un adjusted

Key Ratios

	FY 17A	FY 18A	FY 19P	FY 20P
EBITDA Margin (%)	9.6	10.3	10.5	11.8
EBIT Margin (%)	8.2	9.2	9.4	10.8
Net Pro. Margin (%)	3.5	4.5	4.5	5.4
Debt/Equity (x)	0.48	0.37	0.26	0.21
RoNW (%)	19.7	25.7	20.5	20.1
RoCE (%)	12.9	17.0	15.0	15.7

One Year Price / Volume



We recommend 'BUY' on KEC INTERNATIONAL LTD for a target of INR 368 - valuing the company at P/E 15x of FY20E Earning.

INVESTMENT RATIONALE:

- Largest manufacturing capacity spread across India & Americas.
- Superior project management, execution expertise and technical prowess in handling large projects.
- Only Company with 4 sophisticated tower testing stations, capable of testing towers up to 1,200 kV.
- Equipped with latest design, detailing and profiling softwares.
- Use of latest technology of Aerial Lidar & Drones to conduct surveys.
- Largest globally operating tower production capacity of 3,12,200 MTs per annum.
- Growth in revenue, improved margins, and reduced interest cost enhanced profitability.
- Domestic Railways business buoyant with international opportunities to be explored.
- Expanding business across the world with a focus on high efficiency and continued value delivery.
- Successful track record of executing projects in inhospitable terrains (seas, rivers, mountains, hills, deserts and forests).

VALUATIONS AND VIEW:

KEC is expanding their business across the world with a focus on high efficiency and continued value delivery. Over the years, it has significantly contributed to the global development story by building icons of growth, cutting across boundaries. **We value the business at 15x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 368 per share.**

RISK & CONCERNS:

- **Commodity price variations and currency fluctuations:** The Company deals with various commodities, such as aluminium, steel, zinc and copper. Fixed price contracts can have a negative impact on the Company's profit if input costs rise without proper hedging mechanisms.
- **Infrastructure investment slowdown:** Infrastructure investment slowdown can lead to lower order intake and lower sales for the Company.
- **Political unrest:** Political unrest in countries and markets where the Company is operational can impact the progress of its projects.
- **Delays in execution of projects:** EPC projects could face delays due to issues relating to Right of Way, forest clearances, manpower shortage and so on. This could lead to payment postponements, thereby prolonging the working capital cycle and increasing overall project costs.

COMPANY BACKGROUND:

KEC International Limited, the flagship company of RPG Group is a global infrastructure Engineering, Procurement and Construction (EPC) major. It has presence in the verticals of Power Transmission & Distribution, Cables, Railways, Civil, Smart Infrastructure and Solar. The Company has powered infrastructure development in 100 countries across Africa, Americas, Central Asia, Middle East, South Asia and South East Asia.

Established in 1979, the RPG Group is a diversified conglomerate with interests in the areas of infrastructure, tyres, information technology, pharmaceuticals, energy and plantations. Founded by Dr. R P Goenka, the group's lineage dates back to the early 19th century. Today, the group has several companies in diverse sectors predominantly CEAT, Zensar Technologies, KEC International, and RPG Life Sciences. Built on a solid foundation of trust and tradition, the RPG name is synonymous with steady growth and high standards of transparency, ethics and governance.

Products:

- Power Transmission & Distribution
- Cables
- Railways
- Renewables (Solar)
- Civil

INDUSTRY OVERVIEW:

With a generation of over 1,300 Billion Units (BU) during FY18, India is the 3rd largest producer and 4th largest consumer of electricity in the world (Source: Ministry of Power, GoI). The country has the 5th largest installed capacity globally, which stands at 340 GW (as of March 2018) (Source: CEA reports). The Indian power sector has witnessed significant growth in its energy demand, generation capacity and transmission & distribution networks in the last few years. In FY18, the sector witnessed a 5.3 percent growth in installed capacity with an addition of 17,170 MW, along with an addition of 23,119 ckm of transmission lines (growing ~6 percent from last year) and 86,193 MVA of substation capacity (growing ~12 percent from last year). Generation from renewable sources increased by 23 percent from last year (Source: CEA reports). The Indian Government continues to exert significant thrust and has embarked on numerous initiatives towards the objective of '24x7 Power for All', with special emphasis on rural electrification. Manufacturing has emerged as one of the high growth sectors in India. Backed by the "Make in India" initiative, India is on the path to becoming the hub for hi-tech manufacturing, as global giants have either set up or are in the process of setting up manufacturing plants in India, attracted by a market of more than a billion consumers.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
B H E L	76	31.5	27,719.1	2.41	155.6	92.50	5,935.5	6.31	4.09
Siemens	166	20.3	36,664.4	0.68	204.4	25.48	3,073.0	15.93	5.24
GE Power	775	35.8	5,213.4	0.39	2.4	(78.46)	443.1	28.71	11.46
A B B	1,270	58.6	26,915.5	0.35	102.2	36.09	2,712.7	21.47	17.39
Kalpataru Power	366	16.9	5,616.7	0.68	81.0	15.03	1,324.9	13.28	31.09
Thermax	991	49.2	11,802.4	0.61	49.0	22.42	1,035.3	18.75	29.29
K E C Intl.	304.0	17.0	7,815.2	0.76	86.8	37.91	2,104.7	13.35	3.91

*TTM

FINANCIAL OVERVIEW

Q2 FY18 Performance Highlight

(in Million)	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	YoY (%)	QoQ (%)
Revenue	17,444.70	18,836.60	20,857.10	33,619.00	18,464.70	5.85%	-45.08%
Other Income	56.3	47.7	49.2	72.8	134.5		
Total Income	17,501.00	18,884.30	20,906.30	33,691.80	18,599.20	6.28%	-44.80%
Expenditure	-16,307.10	-17,340.40	-19,130.20	-30,836.60	-17,224.80		
As a % of Sales	93.48%	92.06%	91.72%	91.72%	93.29%		
Interest	-465.9	-477.3	-495.8	-519.1	-564.8	21.23%	8.80%
PBDT	1193.9	1543.9	1776.1	2855.2	1374.4		
As a % of Sales	6.84%	8.20%	8.52%	8.49%	7.44%		
Depreciation	-236.3	-242.2	-236.2	-239.6	-263		
PBT	957.6	1301.7	1539.9	2615.6	1111.4	16.06%	-57.51%
As a % of Sales	5.49%	6.91%	7.38%	7.78%	6.02%		
Tax	-326	-449.5	-516.8	-822	-383.6	17.67%	-53.33%
Net Profit	631.6	852.2	1023.1	1793.6	727.8	15.23%	-59.42%
As a % of Sales	3.62%	4.52%	4.91%	5.34%	3.94%		
Equity	514.2	514.2	514.2	514.2	514.2	0.00%	0.00%
EPS (Rs)	2.46	3.31	3.98	6.98	2.83	15.04%	-59.46%
CEPS (Rs)	3.38	4.26	4.9	7.91	3.85		
OPM %	6.84	8.2	8.52	8.49	7.44		
NPM %	3.62	4.52	4.91	5.34	3.94		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	84,678	85,163	87,550	100,964	109,041	115,583	121,362
Other Operating Income	1,462	103	289	404	-	245	286
Expenditure	79,560	78,370	79,372	90,902	97,605	102,185	105,884
EBITDA	6,580	6,895	8,467	10,466	11,436	13,643	15,764
Depreciation	881	876	1,297	1,097	1,132	1,134	1,136
EBIT	5,699	6,020	7,171	9,368	10,304	12,509	14,628
Interest Expenses	3,089	2,774	2,536	2,466	2,901	2,950	3,167
PBT	2,611	3,246	4,634	6,902	7,403	9,560	11,461
Tax	1,001	1,331	1,587	2,298	2,479	3,258	3,945
Other Income	-	-	-	-	-	-	-
Net Income Before Adjustment	1,610	1,915	3,048	4,604	4,924	6,302	7,516
Minority Int./Income from Assoc.	(0)	(0)	-	-	-	-	-
Adjusted PAT	1,610	1,915	3,048	4,604	4,924	6,302	7,516

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	514	514	514	514	514	514	514
Reserves & surplus	12,784	14,605	15,349	19,460	27,657	33,958	41,475
Share Warrants	-	-	-	-	-	-	-
Net worth	13,298	15,119	15,864	19,975	28,171	34,473	41,989
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	7,370	6,020	7,656	7,384	7,386	7,384	7,382
Net deferred tax liability	704	662	1,373	1,272	1,272	1,272	1,272
Other Long-term Liabilities	100	100	101	-	-	-	-
Long-term Provisions	111	158	349	177	191	202	212
Total Liabilities	21,583	22,060	25,343	28,810	37,021	43,333	50,858
Net block	12,753	12,777	11,126	11,903	10,707	9,496	8,277
Investment, Loan & Adv.	5,226	5,001	5,605	5,099	5,220	5,335	5,803
Total Current Assets	59,469	63,597	70,550	88,388	80,730	91,586	102,907
Current Liabilities & Provisions	55,865	59,316	61,939	76,582	59,637	63,086	66,132
Net Current Assets	3,604	4,281	8,611	11,806	21,093	28,500	36,776
Total Assets	21,583	22,060	25,343	28,810	37,021	43,333	50,858

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	6,596	(4,317)	8,249	9,948
Cash Flow from Investments	(45)	(479)	(195)	(542)
Cash Flow from Financing	(6,382)	(2,589)	(2,368)	(2,653)
Net Changes in Cash	170	(7,386)	5,686	6,753
Opening Cash	1,755	1,930	(5,456)	230
Closing Cash Balance	1,925	(5,456)	230	6,983

Research Analyst Details

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