

KEC International Ltd

Transmitting long-term growth !!

KEC International Ltd

Capital Goods

Transmitting long-term growth !!

Financial Summary

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
FY18	10091	458	17.8	50.4	-	25.3	34.0	-	1.9
FY19	11001	496	19.3	8.2	-	21.6	35.1	-	2.4
FY20E	12607	622	24.2	25.5	12.1	22.7	35.6	5.9	2.6
FY21E	14346	726	28.2	16.7	10.4	21.7	34.3	5.0	3.2

Source: Company, Axis Securities

CMP as on 16th Dec 2019

BUY

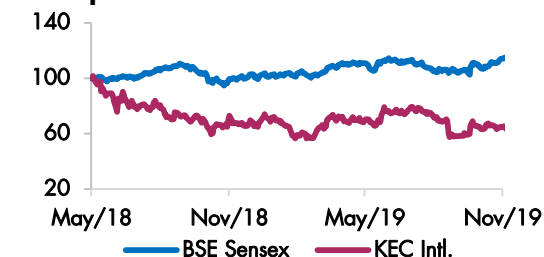
Target Price: Rs 367

CMP : Rs. 294
 Potential Upside : 25 %

MARKET DATA

No. of Shares (Cr) : 26
 Market Cap (Rs Cr) : 7,559
 Free Float : 49%
 Avg. daily vol (6mth) : 1,23,690
 52-w High / Low : Rs 340/Rs 230
 Bloomberg : KEC IN
 Promoter holding : 51%

Price performance



Shareholding pattern

	Sep-19 (%)	Q-o-Q Change (%)
Promoters	51.6	0.2
MFs	7.6	0.8
FPIs/AIFs	24.3	(0.1)
Banks/NBFCs	2.9	1.0
Others	9.7	(0.8)
Public	3.9	(1.2)

Investment Rationale

KEC International Limited, headquartered in Mumbai, India, is the flagship company of the RPG Group. An Engineering, Procurement, and Construction (EPC) major, KEC has delivered several iconic infrastructure projects in more than 100 countries. The Company is delivering projects in key sectors such as Power Transmission & Distribution (T&D), Railways, Civil, Solar, Smart Infra, and Cables. The Company is investing in a host of digital initiatives across the EPC value chain to re-imagine and re-engineer business operations, realize quantum leap in productivity, improve estimation accuracy and enhance compliance to processes. It has 5 tower manufacturing plants spread across India, Brazil and Mexico with total annual capacity of manufacturing 3.7 lakh tonne towers. It also has 2 Cable manufacturing units in India with over 12 lakh Kms cable (Power, instrumental, telecom and optical fibre) production capacity and 6,000 MTs of railways wire.

We expect revenues and earnings to grow at 14% and 21 % CAGR respectively over FY19-21E to be driven by



Diversified business revenues; reduced dependence on T&D, strong traction in Railways and Cables



Robust order book; Increasing SEB's ticket size, opportunity in Green Energy Corridor and exponential growth in Railways



Global presence; footprint in 100+ countries which includes EPC, manufacturing towers and cables export



Operating margins to remain stable; EBITA margin at 10.5% in FY19 vs 7.9% in FY16, PAT to witness benefits of reduced interest and tax cost



Strong financial performance with PAT CAGR of +50% in last 2 years, and lower leverage and better working capital has improved RoCE

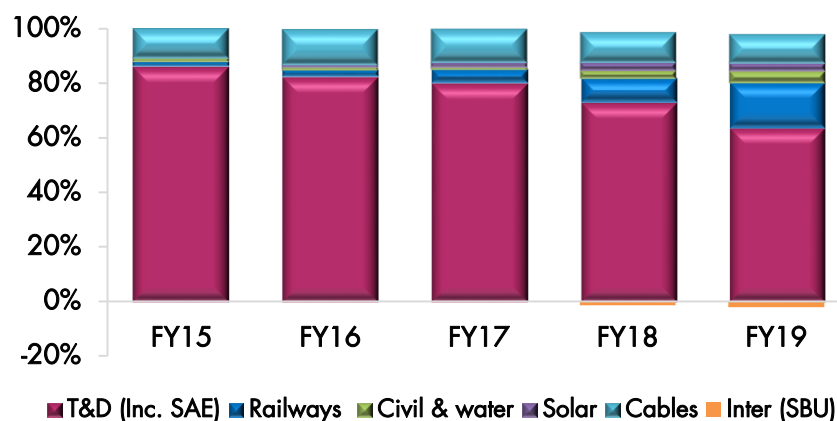
We initiate coverage with "BUY" rating and a target price of Rs 367, 25% upside (implies 13x FY21E)

Investment Rationale

Diversifying business risk

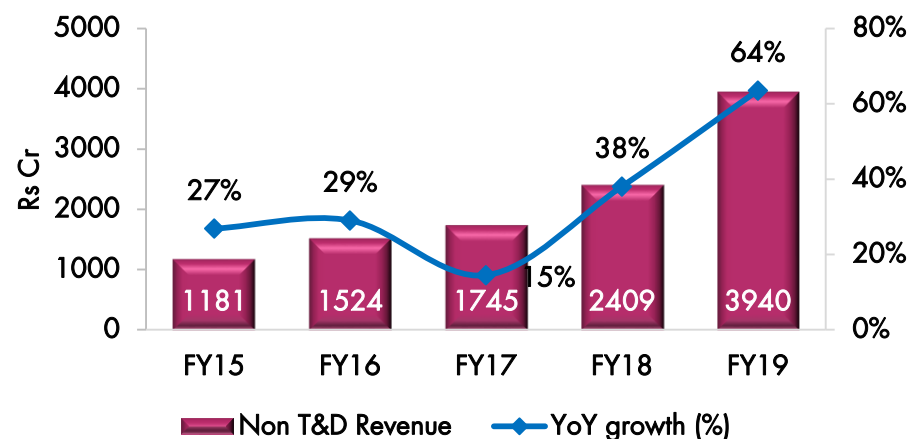
- ✓ KEC has a global leadership position in the Power Transmission and Distribution (T&D) EPC space which is the largest segment of the company contributing 66% to FY19 revenue
- ✓ SAE Towers' acquisition has strengthened KEC's global leadership in Power Transmission space marking KEC's entry into large markets of North and South America
- ✓ KEC has successfully diversified its business concentration from T&D business by venturing its EPC business into Railways, Civil, Solar and manufacturing of Towers and Cables
- ✓ Non-T&D business revenue contribution has more than doubled from 17% in FY16 to 34% in FY19
- ✓ KEC has worked to electrify 40% of total Indian Railway network and has doubled its revenues to Rs 1,918 Crore in FY19 compared to Rs 844 cr in FY18, focus is on Civil business to replicate railway's growth
- ✓ Management has guided composite revenue growth of 15-20% in FY20, and 10-15% in FY21 to be led by pick up in execution and strong order backlog

A diversified play; reducing T&D revenue concentration



Source: Company, Axis Securities

Growing Non-T&D business

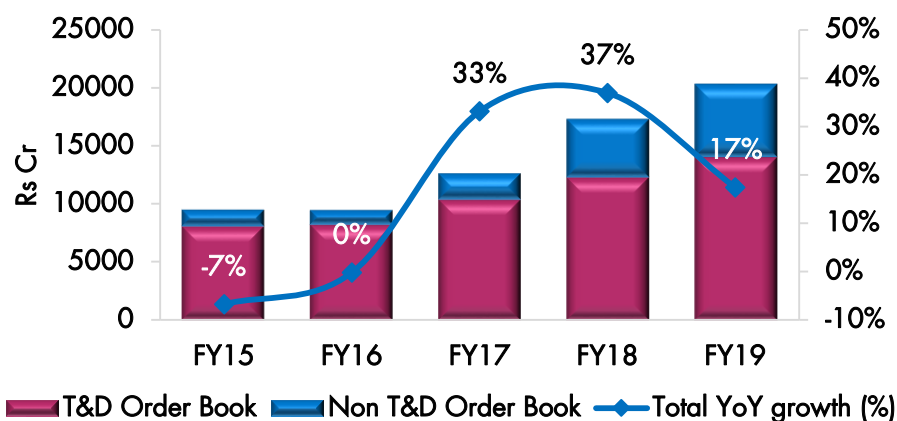


Investment Rationale

Robust Order Book provides visibility

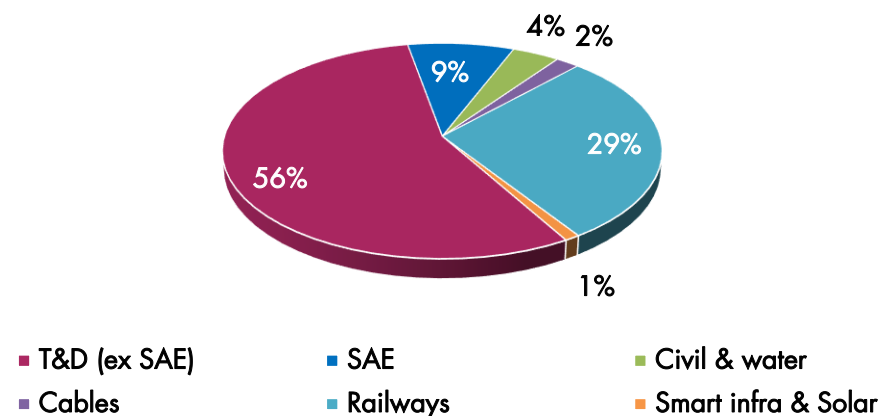
- ✓ KEC order book has grown at a CAGR of 21% over FY16-19 and currently stands at Rs 18,085 cr (Q2FY20), additionally it has ~Rs 5,000 cr L1 order book
- ✓ T&D business that contributes ~65% to order book continues to provide steady growth led by geographic expansion and turnaround of SAE (Brazil Subsidiary)
- ✓ KEC has increased orders from SEBs which combined with Private players/JV is pegged to invest 1.6 lakh crore over 2017-22; SEB's contribute 50% of Domestic T&D order book while Power Grid and Private players/JV contribute 25% each
- ✓ Non-T&D order book would continue to witness strong order traction led by railways and Civil biz; railways contributed 29% in Q2FY20 (vs 6% in FY16) and has L1 order book of + Rs 6000 cr while focus on large metro projects is would strengthen Civil segment
- ✓ Green Energy Corridor projects of Rs 13,000+ cr have been awarded via TBCB* and these projects are targeted to be completed by December 2020, this will drive KECs order inflows in H2FY20

Order book growth



Source: Company, Axis Securities

Segment wise Order book (Q2FY20)



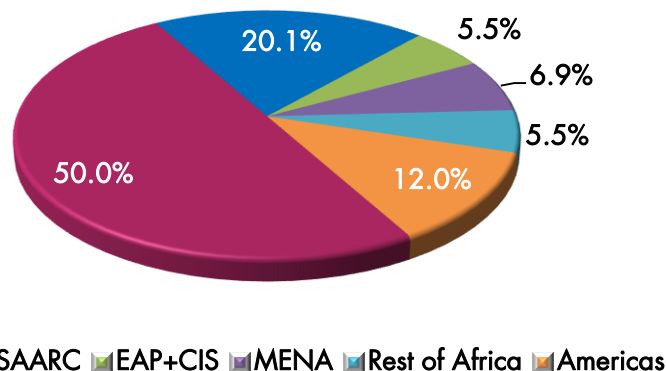
* TBCB – Tariff based competitive bidding

Investment Rationale

Global Presence

- ✓ KEC has established its footprint in 100+ countries across the globe which include EPC, manufacturing and supply of Towers and Cables
- ✓ It has 5 manufacturing units spread across India and the Americas with annual manufacturing capacity of 3.172 lakh tone of tower components operating at 84% capacity utilization making it one of the world's largest tower manufacturer, additionally it has 2 cable manufacturing plants in India
- ✓ International business contributed 40% to FY19 revenue while 50% of current order book constitutes international orders led by SAARC region along with rise in traction in MENA
- ✓ KEC is able to mitigate risk of demand slowdown in infrastructure space within a particular region by diversifying its business presence

Geography wise Order book (FY19)



Source: Company, Axis Securities

SAARC – South Asian Association for Regional Cooperation Countries; MENA – Middle East & North Africa, ROA – Rest of Africa, EAP – East Asia Pacific Countries, CIS – Commonwealth of Independent States

Footprint in 100+ countries

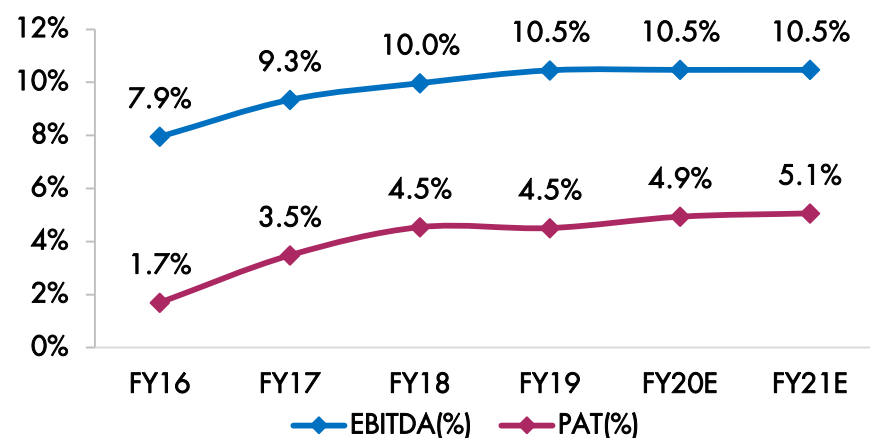
Region	EPC	Tower Supply	Cable Exports
Americas	16	11	5
Europe	1	1	11
MENA	12	13	10
Central Asia	4	4	4
South East Asia	7	7	10
Rest of Africa	19	17	26
India & SAARC	6	6	7
Oceania	3	3	4
Total	68	62	77

Investment Rationale

Improved
margins to
sustain

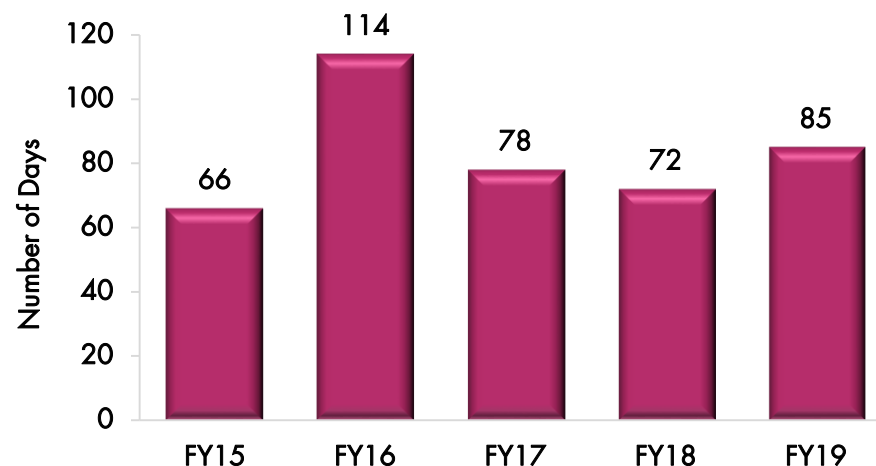
- ✓ KECs focus on execution and cost reduction incentives has led to significant improvement in margins
- ✓ EBITDA margin has grown to 10.5% in FY19 vs 7.9% in FY16 while PAT margin of 4.7% in FY19 has improved from 1.7% in FY16 primarily driven by internal efficiencies in T&D and pick up in Railway businesses
- ✓ Working capital has improved over the years with reduction in debtors. Tight liquidity condition has resulted in reduced payables in past one year, thus increase in working capital requirement. Focus on shifting to large vendors and improvement in liquidity would improve KEC's working capital position
- ✓ KEC is confident of maintaining operating margins at current levels with continued focus on cost optimization and strong execution while PAT margins would be driven by corporate tax cut, lower interest rates (2.5% in FY20E vs 2.8% in FY19) and forex management
- ✓ Non T&D business verticals are still small and provides scope for economies of scale, We believe KEC would be able to maintain its blended operating margins at current level

EBITDA/PAT margin improved significantly



Source: Company, Axis Securities

Focus on working capital improvement

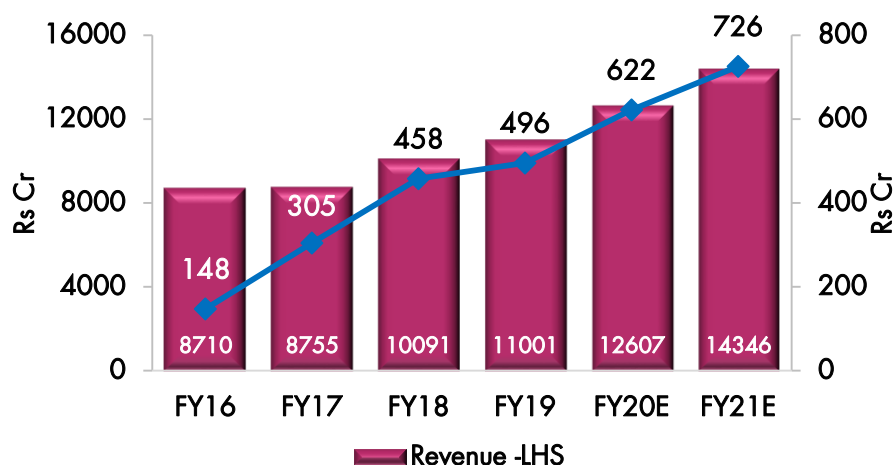


Investment Rationale

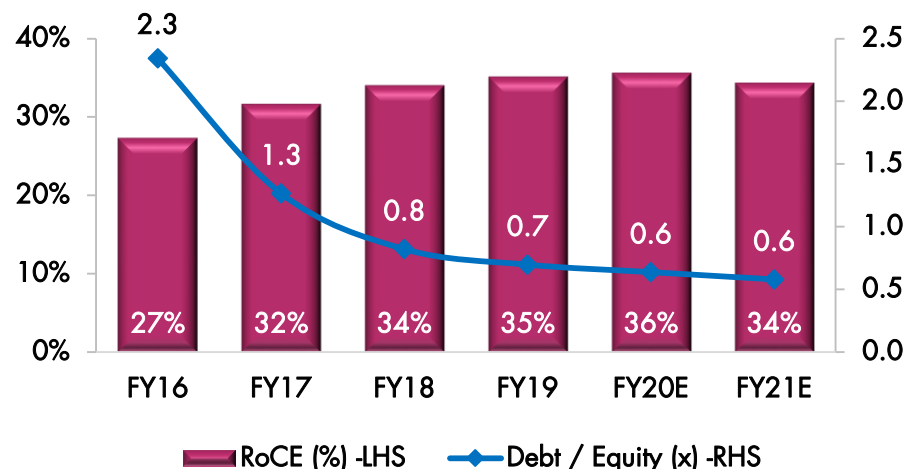
Strong financial performance to continue

- ✓ KEC's revenue has grown at a CAGR of 8% from Rs 8,710 Cr in FY17 to Rs 11,001 Cr in FY19
- ✓ The company has been consistently profitable; PAT has grown at a CAGR of 28% over FY17-19
- ✓ Growth was led by Non-T&D business that has grown at 90% CAGR over FY16-19, majority of which came from Railways and Civil business
- ✓ KEC has brought down its debt significantly, which has helped to improve its Debt to Equity from 1.3x in FY16 to 0.6x in FY19
- ✓ KEC has improved its RoCE from 27% in FY16 to 35% in FY19 and is expected to improve further with better asset turnover and lower leverage
- ✓ Pick up in execution and order backlog of 1.9x FY19 revenue provides strong visibility and we estimate revenues/PAT to grow at 14%/21% CAGR over FY19-21E

Revenue/PAT impetus to continue



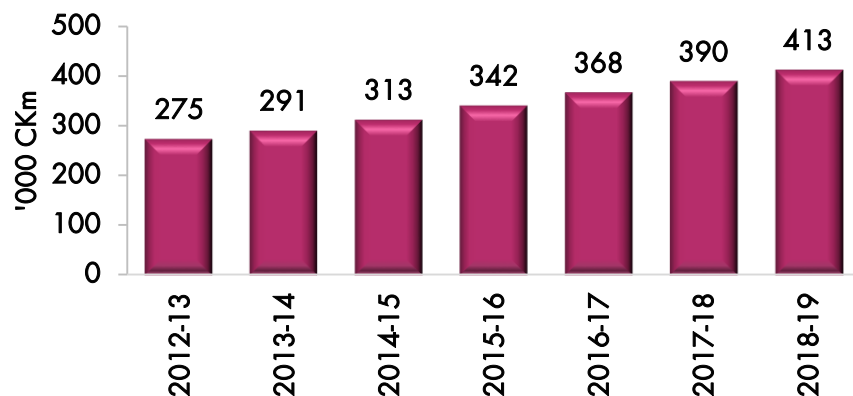
Reduced leverage improve return ratio



Source: Company, Axis Securities

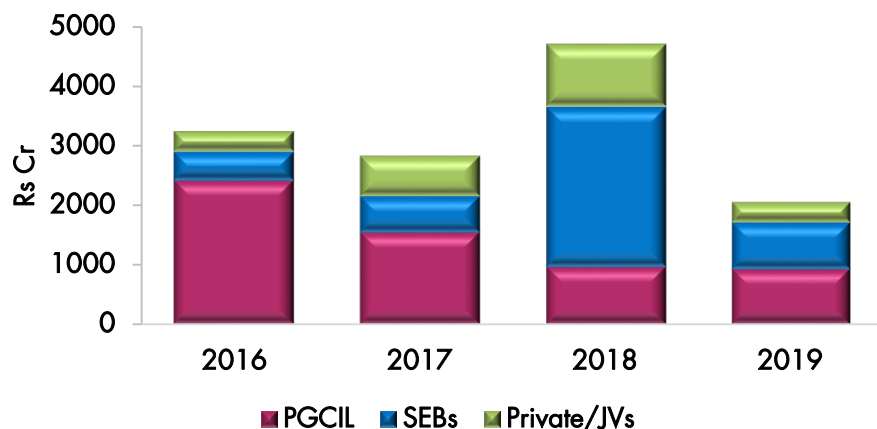
Domestic T&D: SEBs order key amid slowdown pangs

Growth in Transmission Line Length ('000 Ckt. Km)



Source: powerline.net.in

SEBs share increasing in Domestic order inflows



Source: Company, Axis Securities CKM- circuit kilometer

- ♦ With a total installed power generating capacity of 3.56 GVA. In FY19, Power sector witnessed an addition of ~12,000 MW, along with an addition of 22,437 ckm of transmission lines and 72,705 MVA of substation capacity, growth of 6% and 9% respectively compared to FY18.
- ♦ Government thrust towards the objective of '24x7 Power for All (PFA)', with special emphasis on rural electrification offers opportunity in the sector, however, initiatives taken in past to revive ailing power sector has not been successful and sector is witnessing slowdown pangs
- ♦ **Investment** of Rs 2.6 lakh crore is envisaged for capex in the inter-state (ISTS) and intra-state transmission systems capacity addition over 2017-22
- ♦ There is shift visible in capex trend with Rs 1.6 lakh crore to be coming from State electricity board (SEBs), Private players & JV's while investment from central government via PGCIL is pegged at Rs 1 lakh crore during the period. KEC has large orders coming from SEB's and expect ticket size to increase.
- ♦ KEC's order inflow from the SEB's has surged from 15% of domestic inflows in FY16 to 57% and 38% in FY18 and FY19 respectively. This growth is on account of increasing ticket size of SEB's orders and also engaging with new SEB's. Though in the declining phase of PGCIL orders, KEC is consistently maintaining a 25% of the order base from PGCIL.

Domestic T&D space: Expertise for higher kV lines

	At the end of 10th Plan	At the end of 11th Plan	At the end of 12th Plan	Present (Aug 2019)	Expected post 2017-22 addition
--	-------------------------	-------------------------	-------------------------	--------------------	--------------------------------

Transmission lines driven by higher kV lines

HVDC (500/800k V)	5872	9432	15556	15556	19815
765 kV	2184	5250	31240	42388	56731
400 kV	73438	106819	157787	182291	203644
220 kV	114629	135980	163268	176906	190325
Total	196123	257481	367851	417141	470515

Substation

HVDC (500/800k V)	8200	9750	19500	22500	30500
765 kV	0	25000	167500	216000	269000
400 kV	92942	151027	240807	323122	337372
220 kV	156497	223774	312958	359496	373265
Total	257639	409551	740765	921118	1010137

Source: Company, Axis Securities

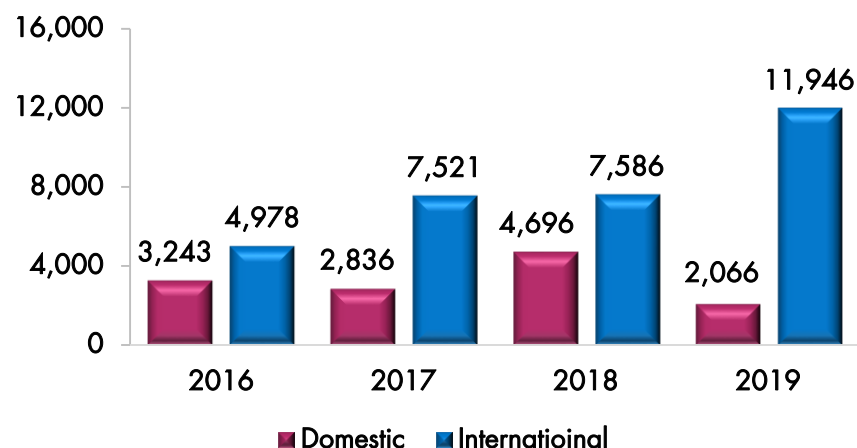
- ♦ KEC's is one of the largest player in domestic T&D EPC business and has succeeded in diversifying its client base by entering new states such as Bihar, tapping substantial opportunities in Tariff Based Competitive Bidding (TBCB)
- ♦ 1,05,580 ckm of transmission line is planned for FY17-22 of which 69% of lines are in 400kv & 765kv to cater regional imbalance which is likely to benefit bigger organized players like KEC
- ♦ Share of investments in substations will rise to about 40-45 % of total investment, with a push towards GIS technology (geographic information system) at voltages of 220/400 kV levels.
- ♦ Green Energy Corridor projects of Rs 13,000+ cr has been awarded via TBCB and these projects are targeted to be completed by December 2020, this will drive KECs order inflow growth in H2FY20

International T&D: Increasing Global Footprint

T&D Capex-FY2016-40 (USD Bn)

Region	2016-25	2026-40
India	291	566
Americas	410	619
Europe	544	755
Asia	1,387	2,310
Middle East	95	218
Africa	202	598
Latin America	158	288
Total	3,087	5,354

T&D Order inflows led by international orders (Rs cr)

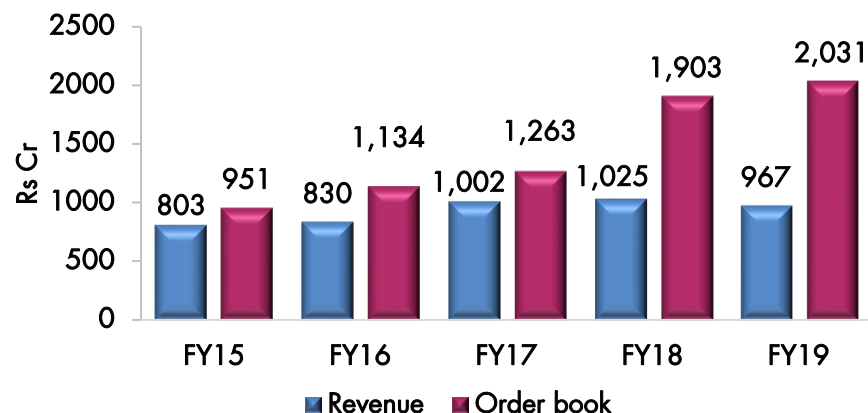


Source: Company, Axis Securities

- ◆ KEC's strategy to diversify T&D business across geographies (68 countries) and product portfolio has yielded rich dividends. During FY19, the International T&D business secured orders of Rs 3,074 cr and entered/re-entered five new markets across varied geographies - Dubai, Nicaragua, Papua New Guinea, Guinea, and Sierra Leone.
- ◆ Middle East and North Africa (MENA): A likely investment of USD 152 bn would be required in generation capacity and an additional USD 108 bn to build and upgrade the transmission and distribution (T&D) network. KEC's strong presence in these markets will be key to growth in these regions
- ◆ Africa's transmission grid requires an estimated investment of USD 61 bn over the next decade. Per capita electricity consumption in sub-Saharan Africa is 153 kWh/year, merely 6 % of the global average. It is anticipated that the electricity consumption in the continent will grow at a CAGR of 5.5 % over the next ten years. Ethiopia, Mozambique and Tanzania are expected to be some of the fastest growing markets in this region, with double-digit growth in electricity consumption.
- ◆ Development authorities across globe are laying a strong emphasis on opening the domestic transmission market and making it lucrative for private investments which present strong opportunities for KEC
- ◆ Within the SAARC region, the company is witnessing strong traction in Afghanistan, Bangladesh, Sri Lanka and Bhutan. The company expects investments to the tune of USD 25-35 bn from SAARC region over the next 5 years. The region is witnessing strong growth of ~25% annually

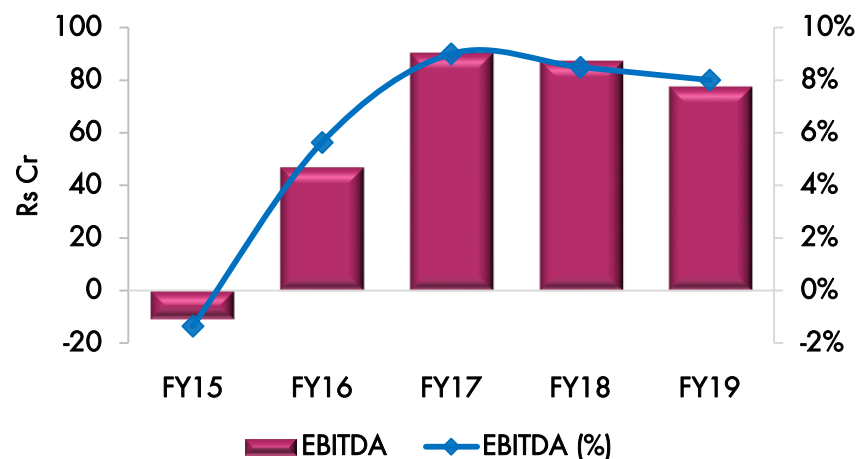
Turnaround of SAE operations

EPC business creating opportunities



- ◆ KEC acquired a 100% stake in SAE Towers Holdings LLC in 2010. SAE is the leading manufacturer of lattice transmission towers in the Americas, with a manufacturing capacity of 100,000 MT per annum
- ◆ KEC has successfully pivoted SAE Towers, from a manufacturing to an EPC company. The business is currently executing ~800 km of transmission lines in Brazil
- ◆ SAE witnessed significant order inflows post entry into the EPC space which now contributes nearly 50% of the SAE order book, auguring well for the growth of the business in the coming year
- ◆ Cost rationalization along with pick up in EPC has helped SAE to post operating profit of Rs 77.4 cr in FY19 as compared to an operating loss of Rs 10.8 cr in FY15
- ◆ Margins have also improved significantly to 8% in FY19 with T&D EPC business yielding margins similar to domestic EPC. A strong execution provides opportunity to further strengthen SAE performance

Operational turnaround



Source: Company, Axis Securities

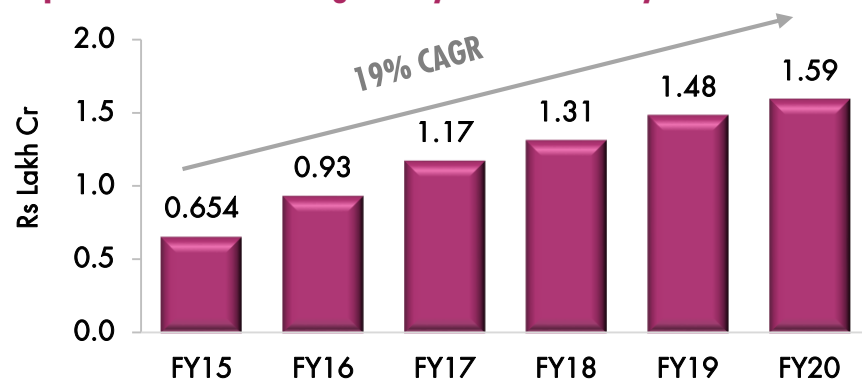
Non-T&D biz; Robust pick up in Railways business

Focus on composite order in Railways



Source: Company, Axis Securities

Capital Investments budgeted by Indian Railways



Primary Investments at present: New lines ~ Rs 34,764 cr, Track renewal ~ Rs 10,120 cr, Gauge conversion ~ Rs 3,548 cr, Doubling of tracks ~ Rs 18,487

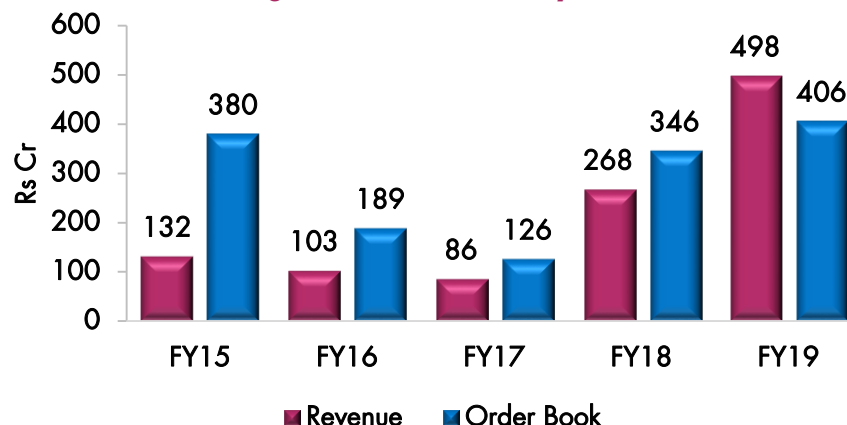
Source: Ministry of Railways

KEC has more than 40% share in Indian Railways electrification

- ◆ KEC is undertaking EPC works for Railways, such as doubling and tripling of tracks, signaling and telecommunication, overhead electrification, traction power supply, and civil works
- ◆ It has over 40% share in electrifying Indian Railways (IR). 30,212 route kilometer (rkm) of IR have been electrified, work is in progress on ~38,000 RKM to achieve 100% electrification by FY22
- ◆ Railways revenue/order book has grown at a CAGR of 95%/83% respectively over last 5 years. KEC has won orders worth Rs 845 cr during Q2FY20 in rail infrastructure, it marks the company's entry into the regional rapid transit system and metro sectors in India
- ◆ KEC has expanded its client portfolio from CORE and RVNL to include the entire gamut viz., IRCON, RITES and PGCIL in domestic market, additionally it is exploring railway opportunities in select international markets such as SAARC and Africa
- ◆ FY20 Budget outlay of Rs 1.59 lakh crore is expected to augur well for the sector. Investment is expected to double from Rs 3.8 lakh crore during 2013-17 to Rs 8 lakh crore in 2018-22E

Non-T&D biz; Focus on Civils to replicate Railways growth

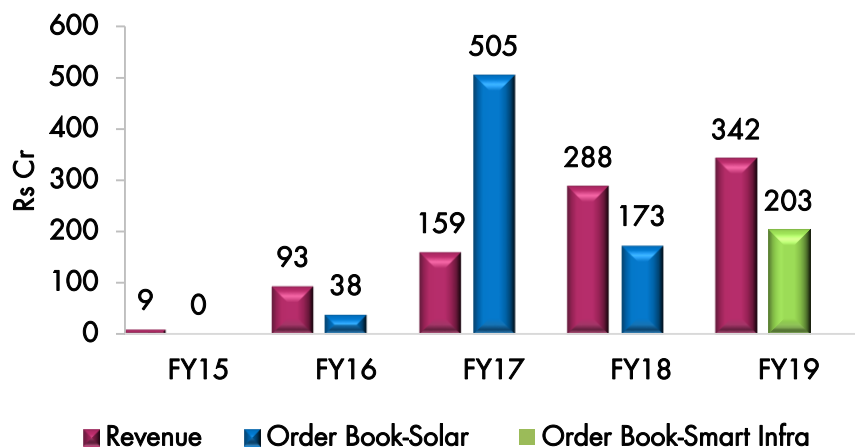
Civil & Water; Strong Inflows in last two years



Civil business gaining momentum

- ♦ KEC ventured in Civil business in FY17 and witnessed strong traction in order inflows. Water segment, where incremental order inflows were not visible has been merged with Civil segment
- ♦ Order inflows during FY18/FY19 were Rs 453 cr/ Rs 704 cr respectively. Ample opportunities in Infrastructure construction industry and water treatment would be key drives for this business
- ♦ KEC is executing EPC turnkey projects comprising factories, warehouses, and residential buildings for clients across industries like Cement, Auto & Auto ancillary, Metals & Mining, Cables, etc.

Envisaging Future with Solar & Smart Infra



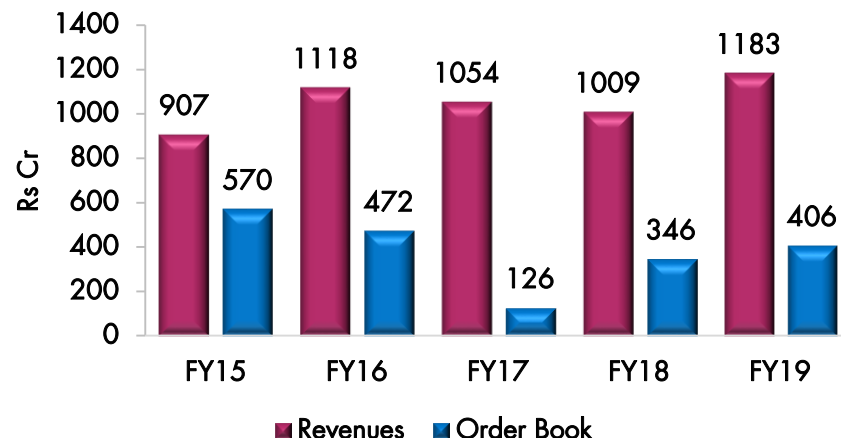
Further business expansion lined up

- ♦ The Indian solar market witnessed an extended slowdown during FY19, with the full year capacity addition expected to be around 6 GW, as against 10 GW during FY18. Indian Government's enhanced push for Renewable Energy (RE) is expected to be a potential game changer for the sector.
- ♦ Developing countries such as SAARC, Africa and the Middle East focusing on expanding power generation through Solar; KEC with its global presence would be beneficiary of same
- ♦ During FY19, KEC expanded business portfolio to include Smart Infrastructure which represents a USD 2.57 trillion global market opportunity by 2025, growing at 18.4% CAGR over 2019-25






Source: Company, Axis Securities

Non-T&D biz: Sustaining momentum in Cables

New products to drive cables growth



Product Portfolio

 <p>Power Cables</p> <ul style="list-style-type: none"> ♦ Extra high voltage: Up to 220 kV ♦ High Voltage: 3.3 kV to 33 kV ♦ Low Voltage: Up to 1.1 kV 	 <p>Railways</p> <ul style="list-style-type: none"> ♦ Contact and Catenary Conductors ♦ Unscreened railway Signaling Cables ♦ 3.3 kV, 25 kV and 33 kV Cables for metros ♦ Quad Cables 	 <p>Special Cables</p> <ul style="list-style-type: none"> ♦ Solar Cable ♦ CPR compliant FR Cables ♦ Lead sheathed LT ♦ Power and Instrumentation Cables ♦ Nylon Sheathed Termite resistant Cables
 <p>Control and Instrumentation Cables</p>	 <p>Telecom Cables</p> <ul style="list-style-type: none"> ♦ Optic Fibre Cables ♦ ADSS Cables ♦ PUJF Cables 	

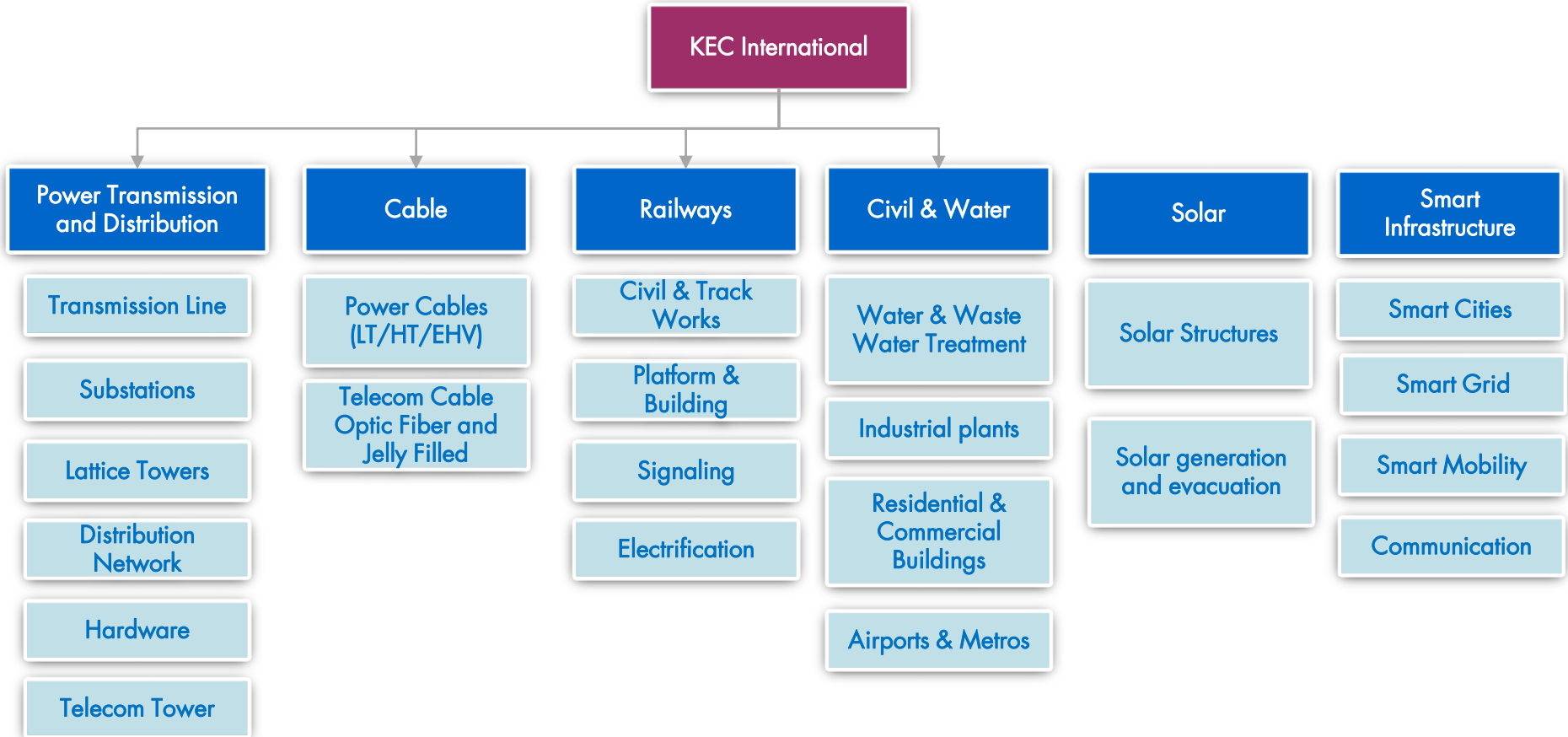
Source: Company, Axis Securities

- ♦ KEC is one of the leading manufacturers of power and telecom cables in India. With two manufacturing facilities in India, it has a capacity to manufacture around 40,000 km p.a. of power cables, 3600 km p.a. of instrumentation cables, 6 lakh cr km p.a. of jelly filled (copper) telecom cables, 6 lakh fibre km of optical fibre cables, 4000 MTs of railway contact wire and 2000 MTs of railway catenary wire
- ♦ The Cables business has grown by 17 % in FY19 as compared to the previous year with revenues of Rs 1,183 Crore for FY19. Growth in revenues with improved profitability has been achieved primarily due to a rise in revenue from exports and EHV (Extra High Voltage) & HT cables that yield higher margins
- ♦ In FY19, KEC exported cables and cabling solutions to 33 countries across the globe; exports business grew by 35% and EHV business grew by 32%
- ♦ Majority of the underground cabling projects for distribution of power are being implemented under the Government's Integrated Power Development Scheme (IPDS), which has allocated Rs 200 crore towards the implementation of ~18,000 km of underground cables across various states. This trend is expected to increase the demand for EHV cables and turnkey cabling solutions segment.

Business Lines

KEC International Ltd

Sector: Capital Goods



In-house capabilities for turnkey solutions



Design & Engineering

- ◆ In-house design centers with 220+ engineers across eight centres in India, the Middle East and Americas
- ◆ >60 years library of transmission lines design database, including towers, hybrid poles and monopoles; expertise across designing substations (AIS, GIS, Hybrid) and solar structures
- ◆ Equipped with latest design, detailing and profiling software



Manufacturing

- ◆ Largest operating manufacturing capacity globally of 3,72,200 MT p.a. (including Transmission towers, Steel poles, Hardware, Structures for Railways, Solar, and Substations)
- ◆ Railway structures' manufacturing capacity of 48,000 MT p.a.
- ◆ Solar structures' manufacturing capacity of 12,000 MT p.a.
- ◆ Five tower manufacturing plants- 3 in India, 1 in Mexico and 1 in Brazil



Tower Testing

- ◆ Only company in the world to have 4 tower testing stations- 3 in India and 1 in Brazil
- ◆ Capable of testing towers up to 1,200 kV which includes all types of tower- Lattice, Guyed, Tubular and Mono poles

Q2FY20 - Robust execution, muted order flows due to deferments

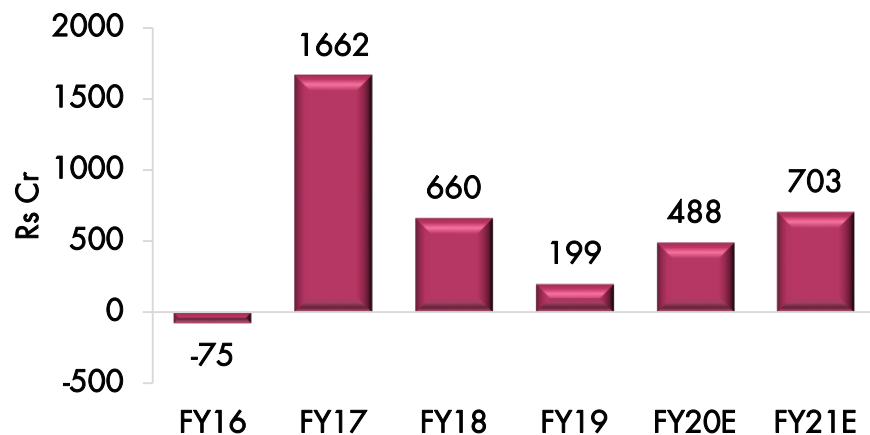
(Rs.Cr.)	Quarterly Performance				
	Q2FY20	Q2FY19	% Change (YoY)	Q1FY20	% Change (QoQ)
Sales	2,809	2,408	17	2,412	16
Other Op. Inc	0	0.0		0.0	
Total Revenue	2,809	2,408	17	2,412	16
Expenditure					
Cost of material consumed	1444	1232	17	1155	25
Change in Inventory	-54	-26	110	-39	37
Erection and subcontracting expenses	554	509	9	572	(3)
Excise Duty on Sale of Goods	0	0			
Employee Cost	275	207	33	222	24
Other Expenses	296	233	27	252	18
Total Expenditure	2515	2155	17	2161	16
EBIDTA	294	253	16	251	17
Oth. Inc.	4	2	110	3	32
Interest	82.2	76.8	7	79.5	3
Depreciation	35	30	14	37	(5)
Exceptional Item	0.0	1.5	NA	0	NA
PBT	181	149	21	138	31
Tax	41	51	(19)	49	(16)
PAT	139	98	42	89	57
EPS (Rs.)	5.4	3.8	42	3.4	57

Source: Company, Axis Securities

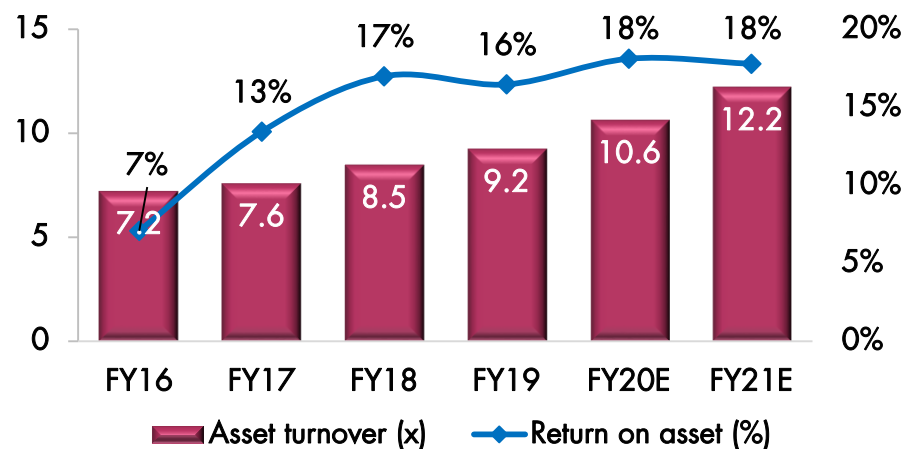
- ◆ KEC's revenues for Q2FY20 of Rs 2,809 crores has grown by 17 % YoY with an EBITDA growth of 16% and margins of 10.5%. PBT has grown at a faster pace than the revenues at 21% YoY, improving by 20 basis points to 6.4% in Q2 FY20 on account of lower interest as a percentage to sales and PAT was up 42% YoY led by corporate tax cuts
- ◆ H1FY20 order inflows have touched Rs 3,766 cr, including the latest order announcement of Rs. 1,806 cr. Order Book stands at Rs 18,085 cr, additionally it has large L1 position of over Rs 5,000 cr
- ◆ T&D revenues, including SAE has grown by 30% YoY on account of execution on large international order book, pick up T&D revenue has been as per expectations. The slowdown in T&D order inflows on account of elections and deferment of international tenders
- ◆ Railways continued its revenue growth momentum with Rs 568 cr of revenues for Q2, up 35% YoY with continued thrust on execution, order book stands at more than Rs 6,000 cr (including L1)
- ◆ Management is confident that railways should continue its revenue growth trajectory for the year and has added some new sub-segments to the railway vertical. Civil business has faced strong headwinds on account of generally prevailing muted industrial CAPEX cycle
- ◆ Borrowings plus interest expenses has reduced significantly by Rs 400 cr over Q2 last year, despite a 17% revenue growth on account of improved receivable days

An efficient play

Operating cash flows to accelerate

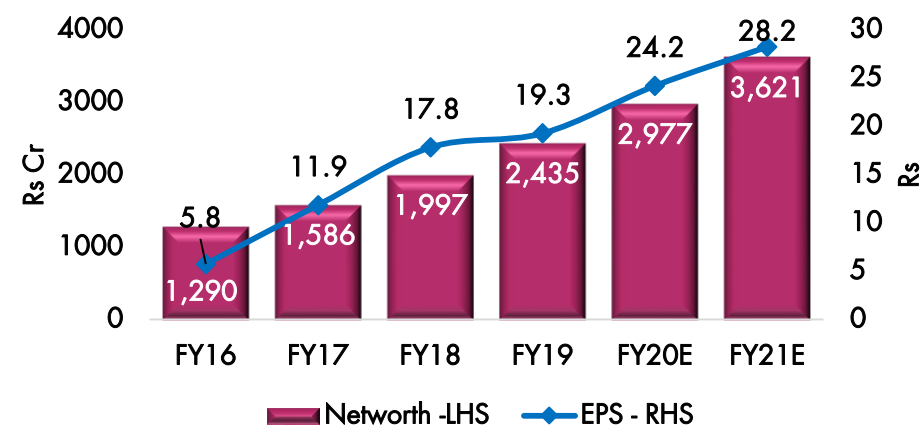


Fixed Asset Turnover improving

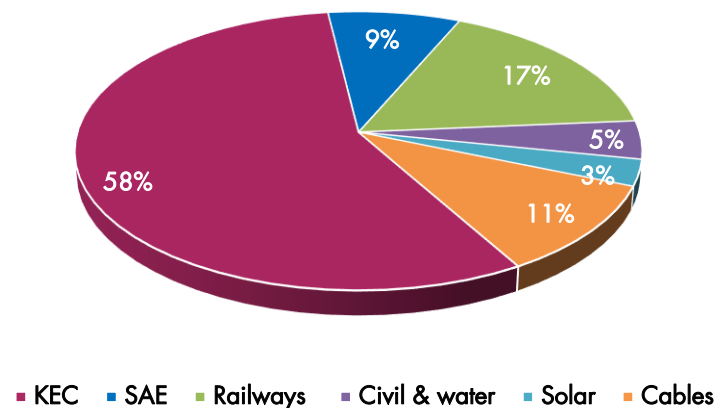


Source: Company, Axis Securities

EPS & Net worth



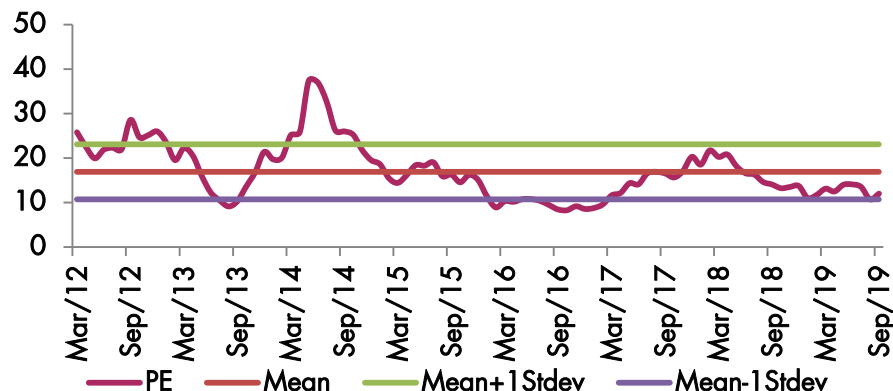
Revenue Breakup (FY19)



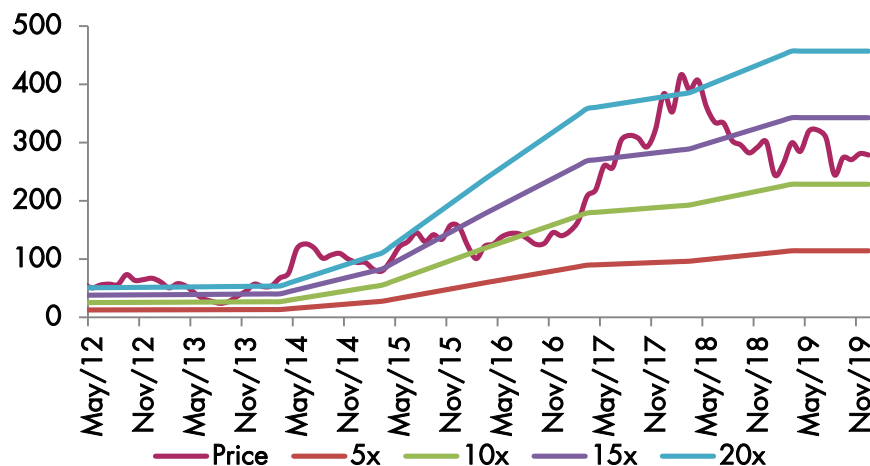
Source: Company, Axis Securities

Valuation Charts

PE Band



12mth fwd P/E (x)



Source: Company, Axis Securities

Valuation

- ♦ We estimate KEC to post Revenue/PAT growth of 14%/21% respectively over FY19-21E. Focus on Non-T&D verticals, geographical diversification and continuous infrastructure push by governments across the globe is expected to augur well for KEC
- ♦ We value KEC at 13x FY21E given the growth prospects on the back of strong order book (~1.9x FY19 revenue), consistent financial performance, comprehensive range of services in its offering and arrive at a target price of Rs 367 (25% upside).

Key Risks and Concerns

- ♦ Delay in orders or cancellation of orders, especially from SEBs can put pressure on T&D business which we expect to grow steadily
- ♦ Delay in Railways order and increased competition in Civil business may lead to inefficiencies within these new verticals
- ♦ Raw material, Steel, is trading low. Any sharp rise in steel prices may put pressure on company's margin as it may not be able to fully pass on cost due to competitive nature of the industry

Financials (Consolidated)

16 DEC 2019

Company Report

KEC International Ltd

Sector: Capital Goods

Profit & Loss

(Rs Cr)

YE March	FY18	FY19	FY20E	FY21E
Net sales	10,091	11,001	12,607	14,346
Net Raw material	5,140	5,410	6,241	7,073
Contribution (%)	49.1%	50.8%	50.5%	50.7%
Other Expenses	3,945	4,441	5,047	5,772
Operating Profit	1,006	1,150	1,320	1,502
Other income	21	23	26	29
PBIDT	1,026	1,173	1,346	1,531
Depreciation	110	117	124	131
Interest & Fin Chg.	229	312	345	377
Pre-tax profit	687	744	876	1,023
Tax provision	229	257	254	297
PAT	458	486	622	726
Profit/Loss from associates	0	9	0	0
Adjusted PAT	458	496	622	726

Balance Sheet

(Rs Cr)

YE March	FY18	FY19	FY20E	FY21E
Total assets	3,782	4,295	5,035	5,887
Net Block	1,112	1,182	1,176	1,165
CWIP	78.1	7.3	9.6	9.6
Investments	211.0	13.6	13.6	13.6
Wkg. cap. (excl cash)	2,149	2,816	3,419	3,951
Cash / Bank balance	231.3	276	416	748
Capital employed	3,782	4,295	5,035	5,887
Equity capital	51.4	51.4	51.4	51.4
Reserves	1,946	2,384	2,925	3,569
Borrowings (Short+Long term)	1,657	1,711	1,911	2,111
Def tax Liabilities	127	150	147	156

Source: Company, Axis Securities

Financials (Consolidated)

16 DEC 2019

Company Report

KEC International Ltd

Sector: Capital Goods

Cash Flow

(Rs Cr)

YE March	FY18	FY19	FY20E	FY21E
Sources	909	1,267	864	984
Cash profit	673	461	746	857
(-) Dividends	(41)	(61)	(80)	(82)
Retained earnings	632	399	666	775
Issue of equity	0	0	0	0-
Borrowings (Long term)	-377	228	198	209
Others	653	639	0	0
Applications	909	1,267	864	984
Capital expenditure	137	113	120	120
Investments	520	595	0	0
Net current assets	234	579	603	532
Change in cash	17	-21	140	332

Ratio Analysis

(%)

YE March	FY18	FY19	FY20E	FY21E
Sales growth	15.3	9.0	14.6	13.8
OPM	10.0	10.5	10.5	10.5
Oper. profit growth	23.0	14.3	14.8	13.8
COGS / Net sales	50.9	49.2	49.5	49.3
Overheads/Net sales	39.1	40.4	40.0	40.2
Depreciation / G. block	6.1	6.0	6.0	6.0
Effective interest rate	12.6	18.7	19.2	18.9
Net wkg.cap / Net sales	0.18	0.20	0.22	0.23
Net sales / Gr block (x)	-	5.6	6.1	6.5
RoCE	34.0	35.1	35.6	34.3
Debt / equity (x)	0.82	0.70	0.64	0.58
Effective tax rate	33.3	34.6	29.0	29.0
RoE	25.3	21.6	22.7	21.7
Payout ratio (Div/NP)	9.0	15.0	12.9	11.3
EPS (Rs.)	17.8	19.3	24.2	28.2
EPS Growth	50.4	8.2	25.5	16.7
CEPS (Rs.)	22.1	23.8	29.0	33.3
DPS (Rs.)	1.9	2.4	2.6	3.2

Source: Company, Axis Securities

Disclaimer

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
 2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
 3. ASL has no material adverse disciplinary history as on the date of publication of this report.
 4. I/We, Kumar Nihal – Manager, Research, MBA (Finance), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.
- Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
 6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:
 - i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
 - ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
 - iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

Instead of a company visit, we have done a conference call with the company's management.

Disclaimer

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022 – 4050 8080 / 022 – 6148 0808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, Pandurang Budhkar Marg, Worli, Mumbai – 400 025.

Compliance Officer: Anand Shaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.