January 31, 2021

Result Report Q3 FY21 | Sector: Capital Goods

KEC International

BUY	CMP Rs360	Target Rs414	Upside 15%

Steady growth prospects; Retain BUY

Our View: We believe KEC international (KECI) would be one of the major beneficiaries of the government's increasing focus on large infrastructure projects, rural electrification, railway electrification and expansion of metro rail network. The government has planned investments of Rs100trn+ in sectors like energy (~25-27%), roads (~18-20%), urban (~15-17%), and railways (12-13%) amount to ~70-75% of the projected infrastructure investment. The well-diversified order book across sectors, geographies and clientele provides revenue visibility in the near to medium term and reduces order book concentration risk. Opportunities in the domestic railway segment are significant driven by upgradation of rail infrastructure, rising electrification, DFCC projects as well as metro rail networks. With focus on faster execution, even the size of composite contracts is rising. We cut our FY22E earnings estimates by 7% respectively to factor the delay in normalization for international execution owing to COVID led disruptions & commodity price headwinds. We expect KECI to deliver ~20% earnings CAGR over FY21-FY23E. It is currently trading reasonably at ~14x/12x FY22E/FY23E EPS (vs long term avg. 1-yr forward P/E of 14x). Retain 'BUY' with revised TP of Rs414 at 14x earnings as we roll forward to FY23. We remain positive on KECI given its diversified & healthy order backlog, ability to bag orders in tough times & proven execution track record.

Exhibit 1: Financial Summary

Y/e Mar 31 (Rs mn)	FY20	FY21E	FY22E	FY23E
Revenues	119,654	126,030	139,232	152,201
yoy gr (%)	8.8	5.3	10.5	9.3
EBITDAM (%)	10.3	9.0	9.5	9.9
Adj. PAT	5,655	5,349	6,457	7,598
yoy gr (%)	16.3	(5.4)	20.7	17.7
EPS (Rs)	22.0	20.8	25.1	29.6
P/E (x)	16.3	17.3	14.3	12.1
P/BV (x)	3.3	2.8	2.4	2.1
EV/EBITDA (x)	9.1	10.0	8.7	7.5
Net D/E (x)	0.7	0.7	0.6	0.5
ROE (%)	21.6	17.6	18.3	18.7
ROCE (%)	18.3	13.6	14.3	14.5

Source: Company, YES Sec – Research

Key highlights of Q3FY21 earnings con-call

- ✓ Growth in the quarter was led by robust execution in railway & civil business. The result would have been much better but due to intermittent challenges faced at international level especially in Brazil and impact on 3 projects of DMRC, RRTS due to environmental and farmer agitation created huge pressure on steel and cement availability. The company has taken a conscious call of not to continue fast tracking execution in some of the fast track projects in view of increasing commodity prices

UMESH RAUT
Lead Analyst
umesh.raut@ysil.in
+91 7874052571

Tanay Rasal Associate

AMAR AMBANI, Sr. President, Head of Research
amar.ambani@ysil.in

KEC International

- **T&D:** The company has seen progressive ramp up in domestic & International markets. There have intermittent challenges due to Covid in form of delay in approval of visa, work permits and stringent quarantine guideline. Overall, pipeline continues to be strong in international markets especially in SAARC, ME and Africa. In domestic market, revised bidding of Green corridor phase 2 tenders has been concluded for most of the schemes this month, the bidding for balance schemes is expected in next few weeks. Ramp up in India T&D is expected from Q1FY22E due to TBCB and resolving of Essel issue. Bihar, TN, Kerala, Rajasthan are witnessing activity from SEB side and private order in Mumbai from Adani and Tata. Besides, recently acquired tower manufacturing facility in Dubai has been commissioned in Q3.

- **SAE business:** Brazil operations were affected amidst fear of second wave. This has led to severe supply of raw material thereby affecting the execution of EPC as well as power supply projects. Despite these challenges, the company has energized one EPC project in Dec and started work on new EPC project has commenced. The company expects to complete two EPC projects in Q1 & Q2FY22E.

- **Railway:** KECI continued its high growth trajectory. In line with growth strategy the business continued to expand its portfolio in technologically enabled emerging growth areas of DFCC, Metro, and HSR Rail. Railways received first private order including a composite doubling project – track linking, signaling and OHE. Besides, the company undertook project for Metro electrification order from DMRC, ballast less track from Cochi metro, Signaling and telecommunication for DFCC, and construction of Depot cum workshop. This has enabled railway to transform from conventional EPC player to a technology player.

- **Civil:** Business continued to make progress in in the area of Chemical and water pipeline segment. The company received repeat order in cement and residential segment.

- **Cables:** Business has rebounded after muted H1. The business is progressing well due to development of new products and is on track to commercialize new products in Q4. Notably, over the last few year, the cable business has been instrumental in bolstering supply chain for railway business through backward integration.

- Execution of existing smart cities and defence project in smart infra are on track.

- **Guidance:** The management expects Civil and railways business to grow by at least 50% and 20% respectively for FY22E. Interest cost as a % of sales is expected to be around 2% for FY21E

- **Margin impact:** The commodity prices have impacted during the latter part of the quarter; however, major problem is due to SAE, Brazil. The management expects Brazil problem to get over by Q1FY22E. Management has stated benign trend is witnessed in commodity prices and also availability. Though, present margins look sustainable.

- **Increase in Working capital:** As metal prices had increased the company resorted to stocking of inventory, as a result, inventory levels had increased. Besides, one or two large customers had issue in payment during the last two weeks of Dec which are paying now. So, increase in WC is more of a strategic and temperory blip. The management stated with interest cost going down, it is more liberal in stocking and payment related terms. The emphasis is on controlling interest cost than working capital.

- **Ordering pipeline:** The total tenders quoted and tenders to be quoted is ~Rs600bn (Railways ~Rs120-130bn and Civil Rs100-120bn)

- **Forex gain:** KEC had a forex gain of Rs70-80mn during Q3FY21

Key highlights from Q3FY21 results:

- Revenue grew by 7%YoY at Rs32.9bn, in line with our estimates

KEC International

- EBITDA declined by 6%YoY (+8% vs our estimate) at Rs2.98bn, mainly due to higher Erection & sub-contracting expenses.
- EBITDA margin compressed by 128bps YoY at 9.1% (+60bps vs our estimate)
- Adj. PAT came in at Rs1.45bn, flat yoy (+9% vs our estimates)
- YTD Order Intake stood at Rs68bn with robust order book (including L1 orders) of Rs240bn
  - Strengthened order book in International T&D with orders in Middle East and Africa
  - Railways expanded its portfolio in the technologically enabled/ emerging growth areas of Metros, DFCC and High-speed trains
  - Civil continues diversification in new areas - Secured breakthrough orders in the fast-growing Chemical and Water Pipeline segments
  - Solar secured a new order for a 13.6MW rooftop solar project
- Net Working Capital (NWC) stands at 144 days as on 31st Dec'20. Working capital position expected to normalize further in Q4.
- Net debt as on Dec'20 stood at Rs26.5bn

Exhibit 2: Result Table

Particulars (Rs mn)	Q3FY21	Q3FY20	% yoy	Q2FY21	% qoq
Total sales	32,892	30,731	7	32,577	1
EBITDA	2,987	3,185	(6)	2,931	2
EBITDAM (%)	9.1	10.4	(128.4)	9.0	8
Depreciation	380	367	4	374	2
Interest	658	811	(19)	674	(2)
Other income	39	21	91	68	(42)
PBT	1,988	2,028	(2)	1,950	2
Tax	537	579	(7)	525	2
Adjusted PAT	1,451	1,449	0	1,426	2
Exceptional item	0	0		0	
Reported PAT	1,451	1,449	0	1,426	2
PATM (%)	4.4	4.7	(31)	4.4	3
EPS (Rs)	5.6	5.6	0	5.5	2

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. 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 YSL and associates 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. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Umesh Raut, Tanay Rasa

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India
Email: research@ysil.in | Website: https://yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 |INVESTMENT ADVISER: INA000007331| Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338 |

Details of Compliance Officer: Vaibhav Purohit (For Broking / Research / Investment Adviser): Email: compliance@ysil.in / Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking): Email: dhanraj.uchil@ysil.in / Contact No.: 022-33479684

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, NCDEX and MCX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value-added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.