

Retail Equity Research
KEC International Ltd
Capital Goods

BUY

BSE CODE : 532714 NSE CODE: KEC
BLOOMBERG CODE: KECI:IN SENSEX : 48,733

12 Months Investment Period Rating as per SmallCap
CMP Rs. 388 TARGET Rs. 464 RETURN +20% ↑
(Closing: 14-05-21)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Healthy performance in Non-T&D business...

KEC International Limited (KEC) is a global infrastructure Engineering Procurement and Construction major. It has presence in the verticals of Power T&D (Transmission & Distribution), Cables, Railways and Water & Renewable.

- Q4FY21 revenue grew by 18.8% supported by strong execution in non-T&D segment (Civil, Railway, Cable & Solar) while T&D revenue registered a de-growth of 5.7% YoY.
- EBITDA margin declined by 197bps YoY to 8.1% due to headwinds in SAE business (Brazil) and higher commodity prices.
- Order book (incl. L1) stands at Rs.25,000cr supported by strong pick up in T&D orders (79% YoY in FY21).
- Rebound in cable business and pick up in railway & civil business to drive revenue growth in the coming quarters.
- We reduce FY22E/FY23E earnings estimate by 15%/6% respectively due to challenges in T&D-SAE execution and commodity prices.
- We maintain our Buy rating owing to healthy order book & recovery in non-T&D business and value KEC at a P/E of 14x on FY23E EPS.

Non-T&D business supported execution...

Q4FY21 revenue grew by 18.8% YoY to Rs4,361cr supported by strong execution in non-T&D business while T&D revenue got impacted due to headwinds in execution in overseas business especially in Brazil. Delving to the fine print of revenue, civil business grew by 190% YoY, railway grew by 39% YoY and cable segment grew by 61% YoY. FY21 revenue grew by 9.6% YoY to Rs13,114cr. We expect non-T&D business continue to outperform due to improved traction in order inflow and approvals for EPC projects. In FY21, the overall T&D revenue including SAE tower declined by 6.6% to Rs7,637cr and we expect T&D execution is likely to be slower in the near term.

Healthy order book...

FY21 order book (including L1) stands at Rs 25,000cr (1.9x TTM revenue) provide strong visibility for coming years. Management indicated that order pipeline continuous to remain healthy, however there has been a delay in conversion of orders due to pandemic situation. In international market, good traction witnessed in Middle East, Africa, SAARC and MENA region. On the domestic front, segments like Railway, Civil, Urban infra and solar would be key focus area of the company.

Higher commodity prices impacted margin...

EBITDA margin declined by 197bps YoY to 8.1%, due to rise in commodity prices and higher sub-contracting expenses (56.9% YoY). Lower execution in international market due to Covid led disruptions that impacted raw material availability and led to cost & time overruns. Due to challenges in SAE business in Brazil and higher commodity prices we reduce FY22E/FY23E EPS estimate by 15%/6% respectively. During Q4FY21, PAT came in at Rs.194cr, flat on a YoY basis.

Valuations

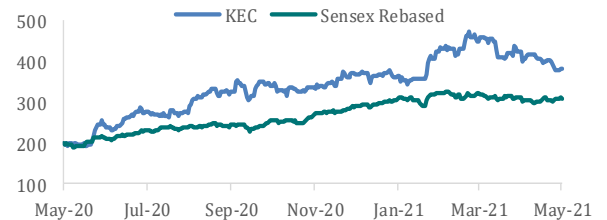
We expect railway, cable & civil business to be the growth drivers. While rise in commodity prices and disruptions in international SAE business may have near term impact on margins. We therefore revised down our TP to Rs 464, value KEC at a P/E of 14x on FY23E EPS and maintain BUY rating.

Company Data	
Market Cap (cr)	₹ 98,16
Enterprise Value (cr)	₹ 11,725
Outstanding Shares (cr)	25.7
Free Float	48.34%
Dividend Yield	0.8%
52 week high	₹ 486
52 week low	₹ 189
6m average volume (cr)	0.06
Beta	0.8
Face value	₹ 2

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	51.82	51.82	51.82
FII's	9.67	9.85	10.75
MFs/Insti	26.87	26.03	25.55
Public	11.64	12.3	11.88
Total	100.0	100.0	100.0
Promoter pledge%	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-10%	14%	92%
Absolute Sensex	-4%	13%	56%
Relative Return*	-6%	1%	37%

*Over or underperformance to benchmark index



Consolidated (bn)	FY21A	FY22E	FY23E
Sales	131.1	147.2	159.9
Growth (%)	9.6	12.2	8.7
EBITDA	11.4	13.2	16.0
EBITDA Margin(%)	8.7	9.0	10.0
PAT Adj.	5.5	6.7	8.5
Growth (%)	-2.3	20.5	28.0
Adj.EPS	21.5	25.9	33.2
Growth (%)	-2.3	20.5	28.0
P/E	17.8	14.7	11.5
P/B	2.9	2.5	2.1
EV/EBITDA	10.0	8.5	7.2
ROE (%)	18.0	18.3	20.0
D/E	0.6	0.5	0.4



Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Sales	4,361	3,671	18.8	3,289	32.6	13,114	11,965	9.6
EBITDA	355	371	-4.4	299	18.7	1,141	1,234	-7.5
EBITDA margins %	8.1	10.1	-197bps	9.1	-95bps	8.7	10.3	-161bps
Depreciation	38	39	-2.9	38	0.1	153	147	3.6
EBIT	317	332	-4.5	261	21.4	989	1,087	-9.1
Interest	63	65	-3.1	66	-4.0	263	308	-14.7
Other Income	12	3	351.6	4	215.3	30	11	169.5
Exceptional Items	-	-	0.0	-	0.0	-	-	0.0
PBT	266	269	-1.3	199	33.6	756	790	-4.3
Tax	71	76	-6.3	54	32.9	203	225	-9.6
Reported PAT	194	193	0.7	145	33.9	553	566	-2.3
Adjustments	-	-	0.0	-	0.0	-	-	0.0
Adj PAT	194	193	0.7	145	33.9	553	566	-2.3
No. of Shares	26	26		26		26	26	
EPS (Rs)	8	8	0.7	6	33.9	21	22	-2.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	14,614	15,799	14,716	15,992	0.7	1.2
EBITDA	1,461	1,627	1,324	1,599	-9.3	-1.7
Margins (%)	10.00	10.30	9.00	10.00	-100bps	-30bps
Adj. PAT	783	909	666	853	-14.9	-6.2
EPS	30.5	35.3	25.9	33.2	-14.9	-6.2

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	10,830	11,965	13,114	14,716	15,992
% change	7.7	10.5	9.6	12.2	8.7
EBITDA	1,122	1,234	1,141	1,324	1,599
% change	11.3	10.1	-7.5	16.1	20.7
Depreciation	130	147	153	165	183
EBIT	991	1087	989	1159	1416
Interest	293	308	263	276	274
Other Income	19.0	11.1	29.9	25.0	26.0
PBT	718	790	756	909	1,168
% change	4.6	10.1	-4.3	20.2	28.6
Tax	232	225	203	243	315
Tax Rate (%)	32	28	27	27	27
Reported PAT	485	566	553	666	853
Adj*	0	0	0	0	0
Adj PAT	485	566	553	666	853
% change	6.4	16.5	-2.3	20.5	28.0
No. of shares (cr)	26	26	26	26	26
Adj EPS (Rs.)	19	22	21	26	33
% change	6.4	16.5	-2.3	20.5	28.0
DPS (Rs.)	2.8	2.9	4.6	4.6	4.7

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	887	937	908	1,074	1,351
Non-cash adj.	17	-17	30	52	-22
Changes in W.C	-579	-867	-155	-581	-883
C.F. Operation	193	87	783	544	445
Capital exp.	-113	-206	-150	-181	-172
Change in inv.	29	85	-145	-8	0
Other invest.CF	15	3	-30	-25	-26
C.F - Investment	-69	-118	-325	-214	-198
Issue of equity	0	0	0	0	0
Issue/repay debt	63	81	-218	-10	-10
Dividends paid	-61	-156	-118	-119	-121
Other finance.CF	-48	403	-263	-73	-331
C.F - Finance	-150	3	-599	-202	-462
Chg. in cash	-27	-28	-140	129	-214
Closing cash	169	153	12	329	115

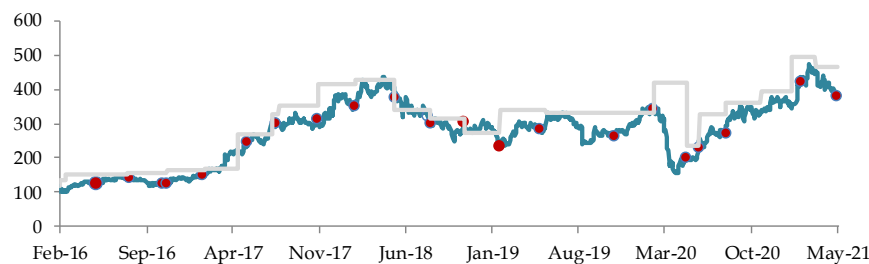
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	175	153	200	329	115
Accounts Receivable	4,875	5,445	5,567	6,249	6,922
Inventories	641	776	842	921	946
Other Cur. Assets	4,460	4,655	5,469	6,092	6,708
Investments	13	23	1	1	1
Gross Fixed Assets	1,427	1,548	1,648	1,848	2,048
Net Fixed Assets	867	1,041	1,116	918	952
CWIP	7	84	18	20	30
Intangible Assets	316	311	282	290	291
Def. Tax (Net)	(118)	(53)	7	13	21
Other Assets	309	368	492	500	500
Total Assets	11,545	12,802	13,993	15,333	16,486
Current Liabilities	7,349	7,866	8,711	9,508	9,937
Provisions	64	76	79	85	88
Debt Funds	1,697	2,062	1,843	1,833	1,823
Other Liabilities	-	-	-	-	-
Equity Capital	51	51	51	51	51
Reserves & Surplus	2,384	2,746	3,308	3,855	4,587
Shareholder's Fund	244	280	336	391	464
Total Liabilities	11,545	12,802	13,993	15,333	16,486
BVPS (Rs.)	95	109	131	152	180

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	10.4	10.3	8.7	9.0	10.0
EBIT margin (%)	9.2	9.1	7.5	7.9	8.9
Net profit mgn.(%)	4.5	4.7	4.2	4.5	5.3
ROE (%)	21.9	21.6	18.0	18.3	20.0
ROCE (%)	13.0	12.2	10.0	12.4	13.2
W.C & Liquidity					
Receivables (days)	314.6	308.1	307.2	306.1	311.1
Inventory (days)	30.0	33.6	32.0	31.0	30.0
Payables (days)	225.0	217.1	234.9	267.3	266.0
Current ratio (x)	1.4	1.4	1.4	1.4	1.5
Quick ratio (x)	0.7	0.7	0.7	0.7	0.7
Turnover & Leverage					
Gross asset T.O (x)	7.9	8.0	8.2	8.4	8.2
Total asset T.O (x)	1.0	1.0	1.0	1.0	1.0
Int. coverage ratio (x)	3.4	3.5	3.8	4.2	5.2
Adj. debt/equity (x)	0.7	0.8	0.6	0.5	0.4
Valuation					
EV/Sales (x)	1.0	1.0	0.9	0.8	0.7
EV/EBITDA (x)	10.1	9.5	10.0	8.5	7.2
P/E (x)	20.2	17.4	17.8	14.7	11.5
P/BV (x)	4.0	3.5	2.9	2.5	2.1

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
11 th May, 2016	Buy	152
03 rd Aug,2016	Hold	157
25 th October,2016	Buy	157
10 th November,2016	Buy	163
07 th February, 2017	Hold	167
24 th May, 2017	Accumulate	270
03 rd August, 2017	Hold	320
07 th November, 2017	BUY	372
14 th February, 2018	Accumulate	406
16 th May, 2018	Accumulate	426
13 th August, 2018	Accumulate	342
09 th November, 2018	Accumulate	314
31 st January, 2019	Accumulate	273
24 th May,2019	BUY	338
13 th November, 2019	BUY	330
14 th February, 2020	BUY	419
7 th May,2020	BUY	237
6 th June, 2020	BUY	329
11 th August, 2020	BUY	362
6 th Nov, 2020	BUY	395
10 th February, 2021	BUY	530
17 th May, 2021	BUY	464

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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