

Reasonable performance despite challenges...

KEC's Q4FY20 revenues came in at ₹ 3671 crore, down 4.4% YoY, marginally better than our estimate of ₹ 3655 crore. During Q4FY20, overall T&D business revenue fell 11% YoY to ₹ 2462 crore, supported by 39% growth in SAE division to ₹ 444 crore. The railways business grew 36% YoY to ₹ 861 crore while civil business segment revenue registered modest growth of 5% YoY to ₹ 172 crore. Cables business fell 38% to ₹ 217 crore YoY. EBITDA margins came in at 10.1%, marginally down 30 bps YoY. During Q4FY20, KEC's order inflow was at ₹ 1511 crore while the FY20 order book was at ₹ 20503 crore.

Strong backlog, execution ramp-up to help sustain growth...

On the order inflow front, KEC's FY20 order inflow was at ₹ 11331 crore, down 19.5%. Also, it has already received orders worth ₹ 739 crore for YTD FY21E. We believe with an L1 of ₹ 3500 crore combined with strong order pipeline in railways (conventional railway, new track lines, overhead electrification), Green Energy Corridor (GEC) as well as new opportunities in Saarc, MENA, Africa and Middle East Region should help KEC see reasonable order inflow in FY21E. KEC expects good traction in order inflows from GEC, SEBs, Railways and expects margins to sustain due to commodity price benefit, automation and mechanisation to improve productivity amid labour migration. On the other hand, overall, current order backlog of ₹ 20503 crore may ensure 5.1% revenue CAGR in FY20-22E.

Contained working capital key to operational performance...

Despite 9% YoY revenue growth in FY20, the borrowings position has improved significantly by ₹ 684 crore. KEC's net debt (excluding acceptances) has declined by ₹ 206 crore, sequentially, to ₹ 2216 crore, as on March 31, 2020. Net working capital days improved by nine days to 119 days on a QoQ basis. As per management, working capital is in a manageable position with no stress yet despite collection loss of about ₹ 300-400 crore that could have further reduced debt. It has increased working capital limits and tied up additional finances as back-up to fund itself, in emergency situation. KEC is also focusing on mechanisation and automation to replace labour and ramp-up the productivity amid labour migration.

Valuation & Outlook

Overall performance has been satisfactory across segments for FY20 barring order inflows, which were impacted by economic slowdown. Efficient working capital management and execution ramp-up despite challenges should comfortably ensure 5.1% revenue CAGR in FY20-22E. We value KEC at 10x FY22E EPS with a revised target price of ₹ 220 and revise our rating from BUY to **HOLD**. Key risk: execution delay, stress on working capital.



Particulars

Particular	Amount
Market Capitalization	5,064.6
Total Debt (FY 20)	₹2061.1 crore
Cash and Inv. (FY 20)	₹151.2 crore
EV	6,974.6
52 week H/L	₹58/ 155
Equity capital	₹51.4 Crore
Face value	₹2

Key Highlights

- Order backlog for FY20 came in at ₹ 20500 crore (while it has L1 position of ₹ 3500 crore plus)
- During Q4FY20, KEC's order inflow was at ₹ 1511 crore while FY20 order inflows muted at ₹ 11331 crore
- Overall T&D EPC business declined 11% to ₹ 2462 crore, mainly due to Covid-19 impact
- Revise rating from BUY to HOLD with revised target price of ₹ 220

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Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	10,058.0	11,000.9	11,965.4	12,235.7	13,210.4	5.1%
EBITDA	1,006.3	1,149.7	1,234.7	1,185.5	1,324.4	3.6%
EBITDA Margin (%)	10.0	10.5	10.3	9.7	10.0	
Net Profit	460.5	494.2	565.9	519.0	564.5	-0.1%
EPS (₹)	17.9	19.2	22.0	20.2	22.0	
P/E (x)	11.0	10.2	9.0	9.8	9.0	
RoNW (%)	23.1	20.1	20.2	16.0	15.2	
RoCE (%)	24.9	24.8	22.3	18.5	18.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (Chg %)	Q3FY20	QoQ (Chg %)	Comments
Revenue	3671.0	3,655.1	3,841.1	-4.4	3,073.1	19.5	Revenues above our estimates on account of better execution in SAE and Railways business
Other Income	2.7	10.0	6.3	-56.9	2.1	33.2	
Employee Expenses	306.7	241.9	210.9	45.4	301.4	1.8	
Raw Material Expenses	1646.8	1,870.0	1,932.6	-14.8	1,438.8	14.5	
Other Operating Expenses	349.2	259.9	250.5	39.4	311.0	12.3	
Erecting and Contracting Expenses	997.7	935.0	1,048.1	-4.8	703.5	41.8	
EBITDA	370.7	348.2	399.0	-7.1	318.5	16.4	
EBITDA Margin (%)	10.1	9.5	10.4	-29 bps	10.4	-27 bps	
Depreciation	39.2	28.1	26.1	50.3	36.7	6.7	
Interest	65.2	90.7	84.6	-22.9	81.1	-19.5	
PBT	269.1	239.4	299.6	-10.2	202.8	32.7	
Total Tax	76.2	57.2	100.9	-24.5	57.9	NM	
PAT	192.9	182.2	198.7	-2.9	144.9	33.1	

Key Metrics

Order inflows	1,511	2,700	4,659	-67.6	6,054.0	-75.0	Muted inflows on account of economic slowdown
Order backlog	18906	20156	20313	-6.9	21066	-10.3	Backlog and execution cycle ensures reasonable visibility in FY21E

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(\$ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10,958.0	12,235.7	11.7	13,058.1	13,210.4	1.2	Backlog visibility to drive revenue CAGR of 5.1% in FY20-
EBITDA	896.7	1,185.5	32.2	1,259.4	1,324.4	5.2	
EBITDA Margin (%)	8.2	9.7	149 bps	9.6	10.0	43 bps	
PAT	304.7	519.0	70.3	544.9	564.5	3.6	
EPS (\$)	11.9	20.2	69.6	21.2	22.0	3.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier		Comments
	FY20	FY21E	FY22E	FY21E	FY22E	
Order Inflow growth	-19.5	-4.7	43.5	-7.0	26.0	Order inflow estimates revised considering bunching up of tendering activities
Order Backlog growth	-6.9	-7.6	13.1	-4.3	7.5	
Revenue growth	8.8	2.3	8.0	-5.9	19.2	Strong revenue growth in railways likely to continue amid expected recovery in T&D
EBITDA Margins	10.3	9.7	10.0	8.2	9.6	Margins expected to sustain

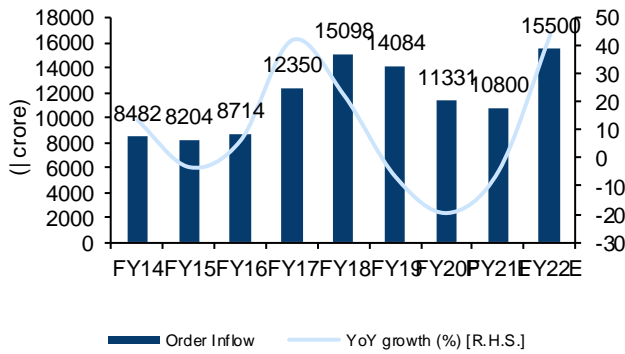
Source: Company, ICICI Direct Research

Conference Call Highlights

- All manufacturing plants are operational in India and facilities at SAE, Brazil and Mexico were operational throughout being classified as essential services. Total 85% of project sites are operational
- Core T&D business revenue came in ₹ 8175 crore (including SAE Tower, Brazil) in FY20 backed by robust execution in international countries in regions like Saarc, Africa
- Growth in SAE was led by simultaneous execution of three large EPC projects. These projects are expected to get completed by Q1FY21. With strong execution at SAE behind us, FY21E should witness flat or marginal revenue dip for the Brazilian subsidiary
- KEC's total order book was at ₹ 20503 crore out of T&D business contributing 54% to order book while non-T&D contributed 46% to order book. Geographically, international order book contributes 36% and domestic contributed 64% to order book. On the order inflow front, T&D contributed 39% followed by Railways (28%), civil (24%) and other (9%)
- Order pipeline: In total close to ₹ 35000 to ₹ 40000 crore tendering opportunities in sectors like Railways, T&D, civil, etc (including ~₹ 25000 crore GEC tenders). Overall pipeline is strong in Saarc (₹ 600 crore to be tendered), MENA, Africa and Saudi Arabia despite crude oil crash as already planned projects are getting tendered. TBCB project worth ₹ 14000 crore are tendered or in the process by PGCIL. In the Middle East ordering, most projects have seen planned tendering but got bunched up. KEC is L1 in ₹ 900 crore orders and is looking for order in ₹ 5000 crore range from Oman, Saudi Arabia, UAE, Abu Dhabi, Dubai
- The company has L1 position in orders worth more than ₹ 3500 crore
- Interest cost as percentage of sales came in at 2.6% for FY20 and is expected to improve further by 20-30 bps in FY21E. This was mainly on account of higher share of foreign borrowings and reduction in debt. Net working capital days improved by nine days to 119 days on a QoQ basis
- For the quarter, interest cost declined 23% YoY to ₹ 65.2 crore. KEC's net debt (excluding acceptances) has declined by ₹ 206 crore sequentially to ₹ 2216 crore, as on March 31, 2020
- FY21 outlook: Though it is difficult to access at this point, achieving more than 10% in the medium term should not be a problem if a ramp-up takes place gradually in the remaining months. Operating margin could sustain at current levels despite some increase in employee or other cost owing to benefit of softening commodity prices. Focus would be on mechanisation and automation to replace labour cost and ramp-up the productivity. They are looking to train and employ local labour

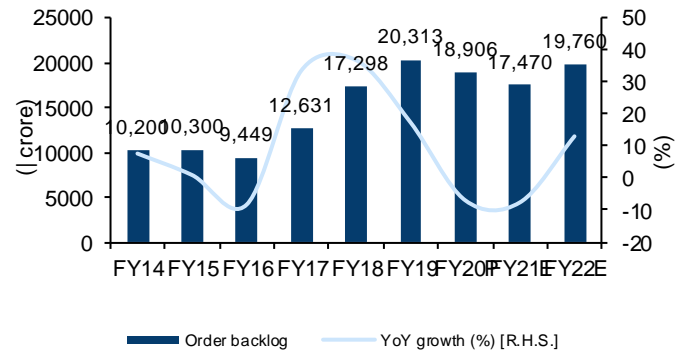
Financial story in charts

Exhibit 4: KEC exhibits strong order inflow trend...



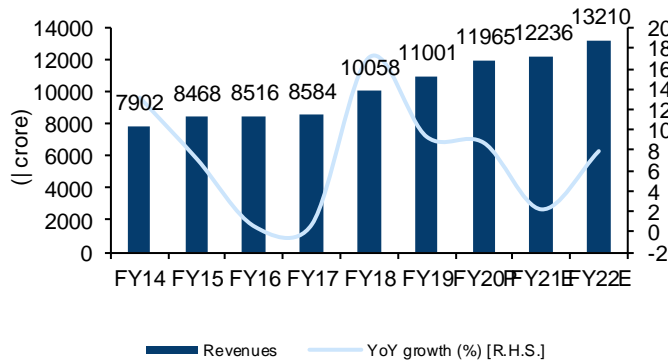
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog trend and visibility



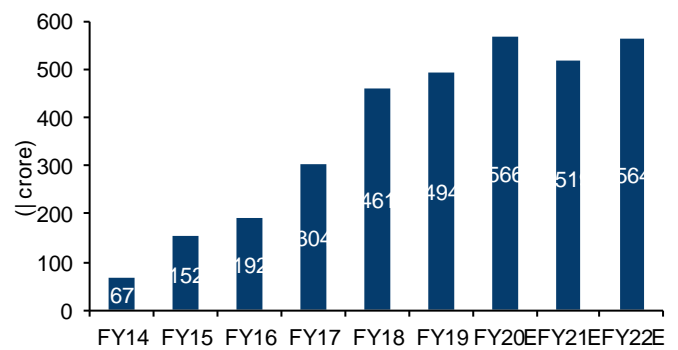
Source: Company, ICICI Direct Research

Exhibit 6: Revenue trend in FY14-22E



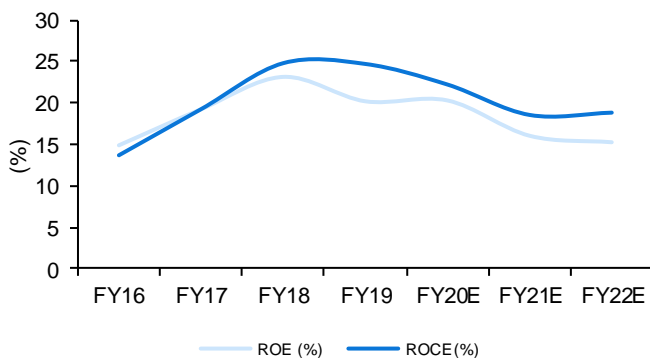
Source: ICICI Direct Research, Company

Exhibit 7: PAT to rise sharply on strong margin recovery



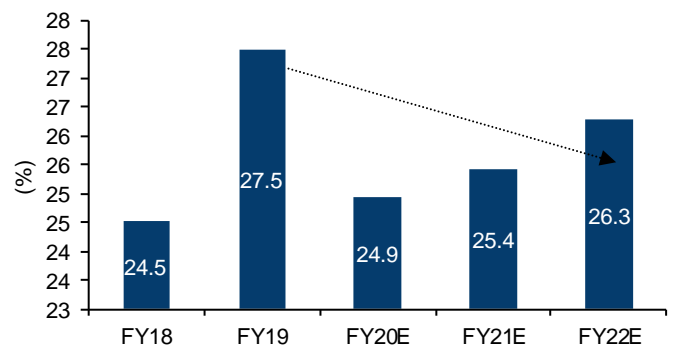
Source: ICICI Direct Research, Company

Exhibit 8: Return ratios



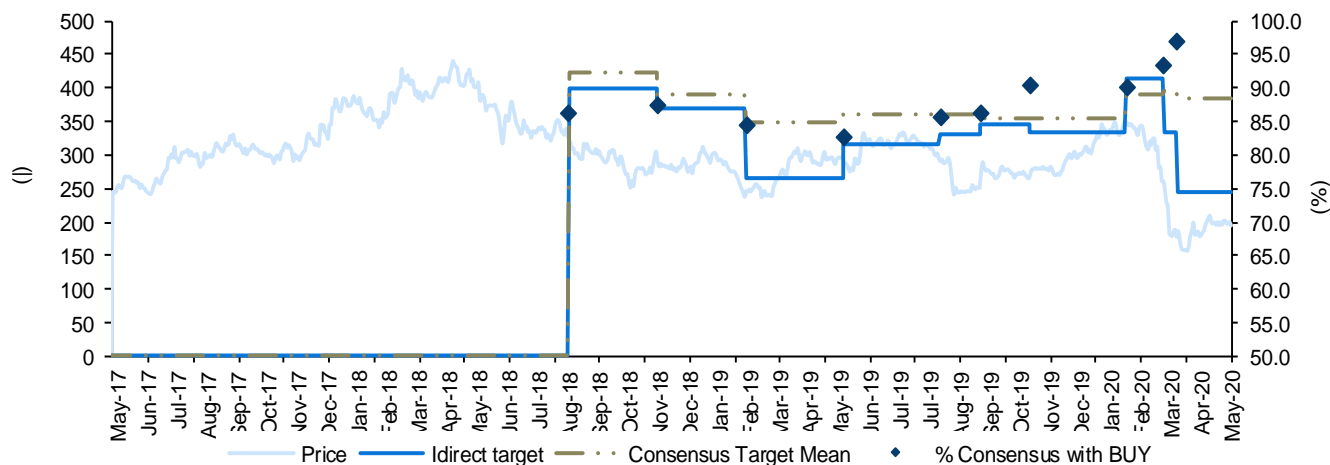
Source: Company, ICICI Direct Research

Exhibit 9: Interest/EBITDA ratio to improve, going ahead



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (%)	Change
1	Swallow Associates L	30-Jun-19	26.4	67.76m	0.00m
2	Summit Securities Lt	30-Jun-19	10.9	27.91m	0.00m
3	Hdfc Asset Managemen	31-Mar-20	9.3	23.77m	0.00m
4	Instant Holdings Ltd	19-Mar-20	8.6	22.01m	0.11m
5	Kotak Mahindra Asset	31-Mar-20	3.2	8.20m	0.20m
6	Aditya Birla Sun Lif	31-Mar-20	3.1	7.91m	(0.04)m
7	Reliance Capital Tru	31-Mar-20	3.0	7.59m	0.09m
8	Idfc Mutual Fund	31-Mar-20	2.3	5.85m	0.00m
9	Stel Holdings Ltd	5-Sep-19	2.0	5.01m	0.16m
10	Goenka Harsh Vardhan	30-Jun-19	1.9	4.85m	4.85m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	51.4	51.4	51.6	51.6	51.7
FII	6.6	6.7	7.6	7.6	8.7
DII	24.5	26.3	27.1	27.8	27.5
Others	17.5	15.6	13.7	13.0	12.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating income	11,000.9	11,965.4	12,235.7	13,210.4
Growth (%)	9.4	8.8	2.3	8.0
Raw Material Expenses	5,409.7	5,591.6	5,839.6	6,422.5
Employee Expenses	832.2	1,104.4	1,079.6	1,105.4
Erecting & Contracting Exp	2,713.8	2,826.3	2,973.9	3,194.9
Administrative Expenses	895.5	1,208.4	1,287.1	1,295.3
Total Operating Expenditure	9,851.2	10,730.7	11,180.2	12,018.1
EBITDA	1,149.7	1,234.7	1,185.5	1,324.4
Growth (%)	14.3	7.4	-4.0	11.7
Depreciation	117.1	147.2	181.5	211.8
Interest	316.2	308.0	301.5	347.8
Other Income	29.1	11.1	14.0	15.0
Exceptional Item	-6.3	0.0	0.0	0.0
PBT	751.8	790.6	716.5	779.8
Total Tax	257.7	224.7	197.4	215.3
PAT	494.2	565.9	519.0	564.5
Adjusted PAT	494.2	565.9	519.0	564.5
Growth (%)	7.3	14.5	-8.3	8.8
EPS (₹)	19.2	22.0	20.2	22.0

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	494.2	565.9	519.0	564.5
Add: Depreciation	117.1	147.2	181.5	211.8
(Inc)/dec in Current Assets	-1,293.5	-973.7	-673.1	-506.4
Inc/(dec) in CL and Provision	641.7	526.1	85.7	78.3
Others	3.3	3.0	5.0	5.0
CF from operating activities	-40.5	265.5	113.2	348.2
(Inc)/dec in Investments	-36.6	80.7	0.0	-35.0
(Inc)/dec in Fixed Assets	-116.6	-393.2	-70.0	-180.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	21.8	-450.5	-170.5	-257.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	57.4	364.3	100.0	30.0
Dividend paid & dividend tax	-74.3	-105.0	-86.5	-98.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	0.9	160.9	29.7	-68.8
Net Cash flow	-17.8	-24.1	-27.6	21.9
Opening Cash	193.0	175.2	151.2	123.6
Closing Cash	175.2	151.2	123.6	145.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	51.4	51.4	51.4	51.4
Reserve and Surplus	2,383.7	2,746.2	3,195.0	3,660.7
Total Shareholders funds	2,435.1	2,797.6	3,246.4	3,712.1
Total Debt	1,696.8	2,061.1	2,161.1	2,191.1
Deferred Tax Liability	149.7	75.1	85.1	90.1
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,295.5	4,950.7	5,508.5	6,008.2
Assets				
Gross Block	1,427.3	1,720.7	1,864.6	2,024.6
Less: Acc Depreciation	560.8	679.6	821.1	992.9
Net Block	866.5	1,041.1	1,043.5	1,031.7
Capital WIP	7.3	84.0	10.0	30.0
Total Fixed Assets	873.8	1,125.1	1,053.5	1,061.7
Investments	114.2	33.5	33.5	68.5
Inventory	641.0	775.8	799.7	865.1
Debtors	4,875.3	5,426.0	6,067.6	6,225.2
Loans and Advances	33.6	102.0	20.4	86.6
Other Current Assets	4,311.9	4,531.5	4,620.8	4,837.9
Cash	175.2	151.2	123.6	145.5
Total Current Assets	10,036.9	10,986.5	11,632.1	12,160.3
Creditors	4,800.9	5,007.4	5,028.4	5,067.0
Provisions	50.3	59.3	65.4	73.5
Total Current Liabilities	7,398.9	7,925.0	8,010.7	8,089.0
Net Current Assets	2,638.0	3,061.5	3,621.4	4,071.3
Others Assets	0.0	0.0	0.0	0.0
Total Assets	4,295.5	4,950.7	5,508.5	6,008.2

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	19.2	22.0	20.2	22.0
Cash EPS	23.8	27.7	27.2	30.2
BV	94.7	108.8	126.3	144.4
DPS	2.4	3.4	2.8	3.2
Cash Per Share	6.8	5.9	4.8	5.7
Operating Ratios (%)				
EBITDA Margin	10.5	10.3	9.7	10.0
PBT / Total Operating income	6.8	6.6	5.9	5.9
PAT Margin	4.5	4.7	4.2	4.3
Inventory days	21.3	23.7	23.9	23.9
Debtor days	161.8	165.5	181.0	172.0
Creditor days	159.3	152.8	150.0	140.0
Return Ratios (%)				
RoE	20.1	20.2	16.0	15.2
RoCE	24.8	22.3	18.5	18.8
RoIC	30.0	27.3	21.9	22.1
Valuation Ratios (x)				
P/E	10.2	9.0	9.8	9.0
EV / EBITDA	5.7	5.6	6.0	5.4
EV / Net Sales	0.6	0.6	0.6	0.5
Market Cap / Sales	0.5	0.4	0.4	0.4
Price to Book Value	2.1	1.8	1.6	1.4
Solvency Ratios				
Debt/EBITDA	1.5	1.7	1.8	1.7
Debt / Equity	0.7	0.7	0.7	0.6
Current Ratio	1.3	1.4	1.4	1.5
Quick Ratio	1.2	1.3	1.3	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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