

**Estimate change**

**TP change**

**Rating change**

**CMP: INR197**
**TP: INR230 (+17%)**
**Buy**

Bloomberg	KECI IN
Equity Shares (m)	257
M.Cap.(INRb)/(USDb)	50.6 / 0.7
52-Week Range (INR)	358 / 155
1, 6, 12 Rel. Per (%)	6/-10/-21
12M Avg Val (INR M)	108

**Financials & Valuations (INR b)**

Y/E Mar	2020	2021E	2022E
Sales	119.7	122.7	133.3
EBITDA	12.3	12.3	13.4
PAT	5.7	5.4	5.9
EBITDA (%)	10.3	10.0	10.0
EPS (INR)	22.0	21.2	23.0
EPS Gr. (%)	16.3	(3.6)	8.4
BV/Sh. (INR)	108.8	126.8	146.5

**Ratios**

Net D/E	0.8	0.7	0.6
RoE (%)	20.2	16.7	15.7
RoCE (%)	16.6	14.3	14.3
Payout (%)	12.3	12.7	11.8

**Valuations**

P/E (x)	13.8	14.3	13.2
P/BV (x)	2.8	2.4	2.1
EV/EBITDA (x)	8.1	8.1	7.4
Div Yield (%)	0.9	0.9	0.9
FCF Yield (%)	(1.5)	5.6	6.7

**Shareholding pattern (%)**

As On	Mar-20	Dec-19	Mar-19
Promoter	51.7	51.6	51.4
DII	27.5	27.8	24.5
FII	8.7	7.6	6.6
Others	12.2	13.0	17.5

FII Includes depository receipts

**Steady performance in volatile times**

- KEC's 4QFY20 operating results were slightly below our estimates, with revenue miss of 9%. However, lower interest expense (down 23% YoY) was a positive surprise on account of change in the borrowing mix as well as lower average borrowing (v/s last year).
- KEC is steadily diversifying its business to avoid concentration risk from the power T&D business. Non-T&D business' share has increased to 46% of the order book from 12% in FY14, and we expect it to further increase to 60% by FY22E, led by the Railways/Civil segment.
- We have cut our FY21/22E earnings by 12%/10% due to lower order inflow assumption. We forecast revenue/EBITDA/adj. PAT CAGR of 6%/4%/2% over FY20-22E, taking into account the order book position and the need to keep working capital under control. Strong promoter parentage and focus on the balance sheet should help KEC emerge stronger post the COVID-19 crisis v/s peers. Maintain **Buy** with reduced TP of INR230 (prior: INR250).

**Miss on operating performance; Lower debt key positive**

- **4QFY20:** Revenue came in at INR36.7b, down 4.4% YoY (9% below est.). EBITDA stood 7% lower YoY at INR3.7b with EBITDA margin down 30bp YoY to 10.1%. PBT came in at INR2.7b, down 10% YoY. Owing to lower effective tax at 28.3% (v/s 33.7% YoY), adj. PAT was flat YoY at INR1.9b. **This is 13% below our expectation.**
- Reduction in interest cost to INR652m in 4QFY20 v/s INR846m in 4QFY19 is a positive surprise.
- Collections were normal even during the COVID-19 led lockdown, with the company re-paying INR2.1b worth of NCD's on 20<sup>th</sup> Apr'20.
- **FY20:** Revenues were up 9% YoY to INR120b. EBITDA was up 7% YoY to INR12.3b, with EBITDA margin slightly lower at 10.3% (down 20bp YoY). Adj. PAT stood at INR5.6b, up 16% YoY.
- Order book (OB; including L1 position) stood at INR240b. Excluding L1, OB stood at INR205b at end-FY20. KEC garnered orders worth INR113b in FY20.

**Key takeaways from management commentary**

- KEC could not collect ~INR3-4b in the last few days of Mar'20 (due to the lockdown). However, the same was collected in Apr'20. In fact, higher government exposure helped in collections. Management is also positively surprised by the payment clearances from the government, given the uncertain environment and fiscal concerns.
- Around 50% of KEC's labor force is back at various project sites. The company is operating at 80% of its pre-COVID capacity. Management believes that there is no wage inflation risk to EBITDA margins due migration of laborers; however, KEC is planning to use automation increasingly to bring down labor intensity going forward.

**Valuation and view**

- We have cut our FY21/22E earnings by 12%/10% due to lower order inflow assumption. Maintain **Buy** with a reduced TP of INR230 (prior: INR250).

## Quarterly performance

(INR M)

Y/E March	FY19				FY20				FY19	FY20	MOFSL 4QE	Var. Vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Sales</b>	<b>21,047</b>	<b>24,085</b>	<b>26,466</b>	<b>38,412</b>	<b>24,125</b>	<b>28,088</b>	<b>30,731</b>	<b>36,710</b>	<b>110,005</b>	<b>119,654</b>	<b>40,199</b>	<b>-9%</b>
Change (%)	13.4	13.1	10.1	4.8	14.6	16.6	16.1	-4.4	9.4	8.8	4.7	
<b>EBITDA</b>	<b>2,162</b>	<b>2,532</b>	<b>2,814</b>	<b>3,990</b>	<b>2,513</b>	<b>2,938</b>	<b>3,185</b>	<b>3,707</b>	<b>11,499</b>	<b>12,343</b>	<b>4,236</b>	<b>-12%</b>
Change (%)	22.6	17.5	15.3	7.9	16.2	16.1	13.2	-7.1	14.3	7.3	6.2	
As of % Sales	10.3	10.5	10.6	10.4	10.4	10.5	10.4	10.1	10.5	10.3	10.5	
Depreciation	298	304	309	261	366	347	367	392	1,171	1,472	368	
Interest	691	768	857	846	795	822	811	652	3,119	3,080	858	
Other Income	175	17	36	63	27	36	21	27	226	111	101	
Extra-ordinary Items	0	-15	-15	-49	0	0	0	0	93	0	0	
<b>PBT</b>	<b>1,348</b>	<b>1,492</b>	<b>1,698</b>	<b>2,997</b>	<b>1,379</b>	<b>1,805</b>	<b>2,028</b>	<b>2,691</b>	<b>7,342</b>	<b>7,903</b>	<b>3,111</b>	<b>-14%</b>
Tax	480	514	575	1,009	493	414	579	762	2,571	2,247	887	
Effective Tax Rate (%)	35.6	34.4	33.8	33.7	35.7	22.9	28.5	28.3	35.0	28.4	28.5	
<b>Reported PAT</b>	<b>868</b>	<b>978</b>	<b>1,124</b>	<b>1,988</b>	<b>886</b>	<b>1,391</b>	<b>1,449</b>	<b>1,929</b>	<b>4,771</b>	<b>5,655</b>	<b>2,225</b>	<b>-13%</b>
Change (%)	37.9	9.5	0.9	1.2	2.0	42.2	29.0	-3.0	3.6	18.5	11.9	
<b>Recurring PAT</b>	<b>868</b>	<b>963</b>	<b>1,109</b>	<b>1,939</b>	<b>886</b>	<b>1,391</b>	<b>1,449</b>	<b>1,929</b>	<b>4,864</b>	<b>5,655</b>	<b>2,225</b>	<b>-13%</b>
Change (%)	37.9	8.9	-0.4	-1.2	2.0	44.4	30.7	-0.5	5.7	16.3	14.7	

## Current order book provides decent medium-term revenue visibility

- Order book stood at INR205b (excl. L1 position) with OB/Rev ratio of 1.7x. Order inflows were lower by 20% YoY at INR113b, owing to delayed tendering activity due to the COVID-19 led shutdown. Of all segments, Railways' order book stood at ~INR60b, with management confident of growing it ~30% YoY in FY21E. In 4QFY20, Cables and Civil segment saw healthy order inflows, while Railways reported a drop in orders due to delayed tendering activity.

## Exhibit 1: Order book break-up trend

Order book (INR m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Power T&D	60%	60%	63%	59%	60%	56%	49%	50%
SAE	10%	10%	10%	10%	10%	9%	6%	5%
Railways	26%	25%	23%	26%	25%	29%	31%	29%
Solar	0%	1%	0%	1%	1%	1%	1%	1%
Cables	1%	2%	2%	2%	2%	2%	2%	2%
Civil	2%	2%	2%	2%	2%	4%	11%	13%
<b>Order backlog</b>	<b>1,81,910</b>	<b>2,01,350</b>	<b>2,05,920</b>	<b>2,03,070</b>	<b>1,90,160</b>	<b>1,80,850</b>	<b>2,20,110</b>	<b>2,05,030</b>
Growth	34.4%	43.7%	20.1%	17.4%	4.5%	-10.2%	6.9%	1.0%
<b>OB/Rev</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>1.7</b>

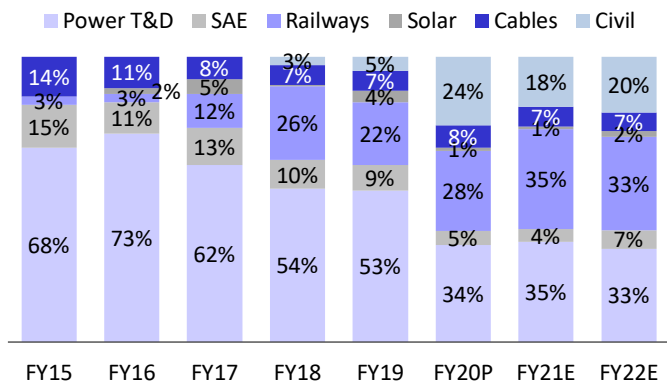
Source: MOFSL, Company

## Exhibit 2: Revenue trend

Revenue (INR m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Power T&D (incl. SAE)	12,770	15,180	17,580	27,520	15,990	19,780	21,350	24,620
Railways	3,130	4,210	5,510	6,330	5,220	5,680	6,010	8,610
Solar	1,600	1,330	160	330	340	110	90	320
Cables	2,590	2,650	3,100	3,490	2,630	2,490	2,490	2,170
Civil	1,190	1,060	1,100	1,630	650	600	1,200	1,630
<b>Gross revenue</b>	<b>21,280</b>	<b>24,430</b>	<b>27,450</b>	<b>39,300</b>	<b>24,830</b>	<b>28,660</b>	<b>31,140</b>	<b>37,350</b>
Others/eliminations	-233	-346	-984	-888	-706	-572	-409	-640
<b>Net revenue</b>	<b>21,047</b>	<b>24,085</b>	<b>26,466</b>	<b>38,412</b>	<b>24,125</b>	<b>28,088</b>	<b>30,731</b>	<b>36,710</b>
<b>Growth</b>	<b>13%</b>	<b>13%</b>	<b>10%</b>	<b>5%</b>	<b>15%</b>	<b>17%</b>	<b>16%</b>	<b>-4%</b>
Power T&D rev growth	-14%	-11%	-5%	-1%	25%	30%	21%	-11%
Non-power T&D rev growth	123%	110%	60%	22%	-2%	-7%	6%	11%

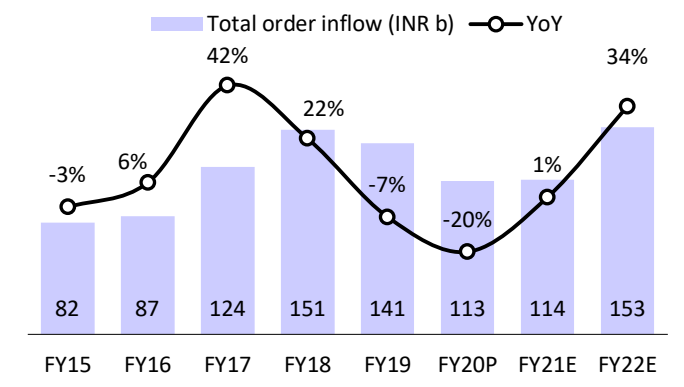
Source: MOFSL, Company

**Exhibit 3: Concentration risk in order inflow declining as share of Power T&D (incl. SAE) is expected to decrease**



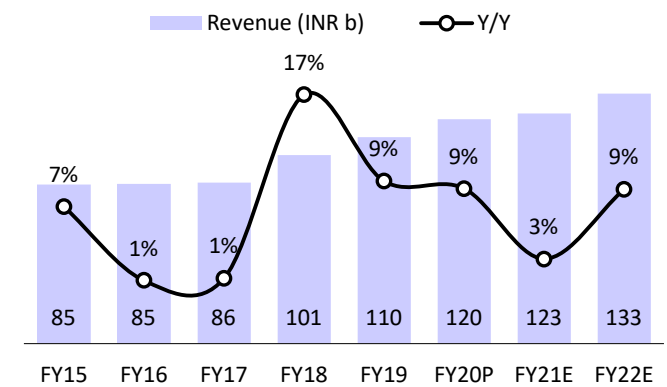
Source: MOFSL, Company

**Exhibit 4: We build in order inflows of INR114b/INR153b for FY21/FY22E**



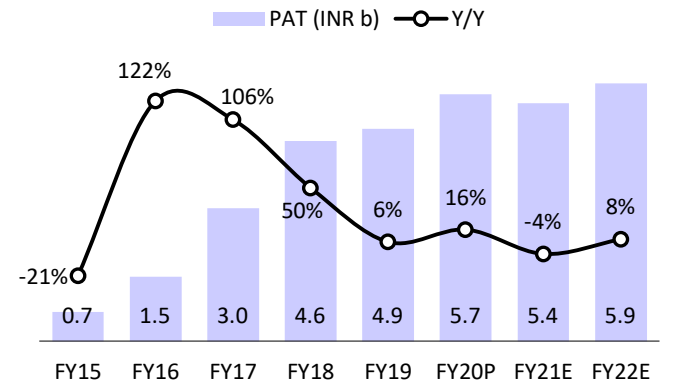
Source: MOFSL, Company

**Exhibit 5: Estimate revenue CAGR of 6% over FY20-22E**



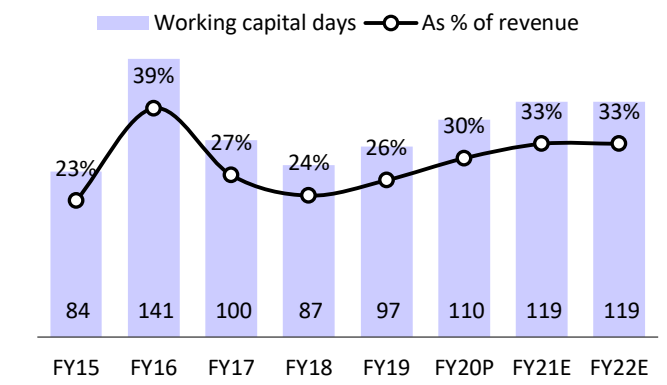
Source: MOFSL, Company

**Exhibit 6: Estimate PAT CAGR of 2% over FY20-22E**



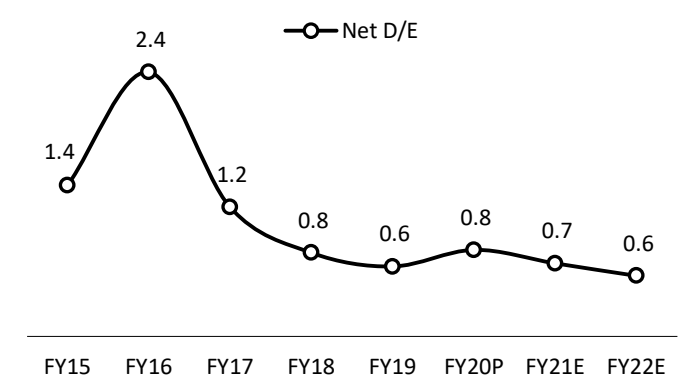
Source: MOFSL, Company

**Exhibit 7: We have built higher working capital cycle, given uncertain macro environment**



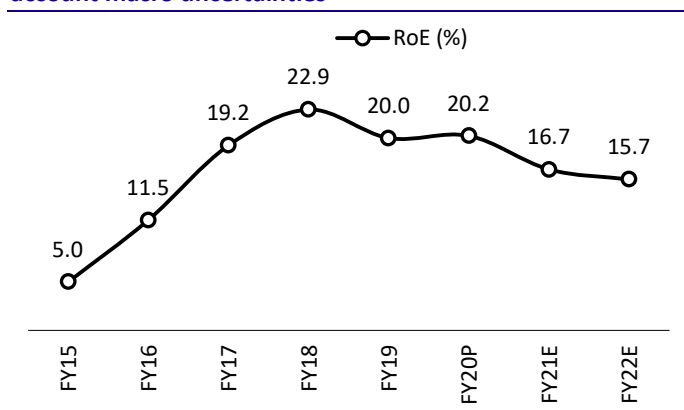
Source: MOFSL, Company

**Exhibit 8: Leverage to remain under control**



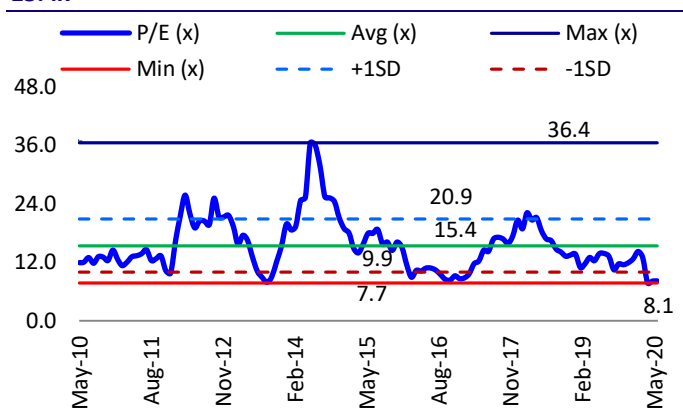
Source: MOFSL, Company

**Exhibit 9: RoEs to remain healthy, despite taking into account macro uncertainties**



Source: MOFSL, Company

**Exhibit 10: KEC trading at a discount to long-term average of 15.4x**



Source: MOFSL, Company

**Valuation and outlook**

- Business diversification over past 5 years:** For long, KEC has been seen as a proxy play on Power Grid’s capex, which is now slowing down, leading to concerns around the growth outlook of the company. However, management has been able to successfully reduce dependency on its traditional single-largest client. Non-T&D business share has increased to 46% of the order book from 12% in FY14 and we expect it to increase further to 60% by FY22E, led by the Railways/Civil segment.
- Leverage to remain under control:** KEC has been able to scale down its Net D/E from peak of 2.4x in FY16 to 0.8x in FY20. We expect net D/E ratio to further decline. Increase in leverage was due to its entry into the transmission BOOT project, which had led to an increase in debt of INR10b. With KEC monetizing the asset and preferring to remain an asset-light EPC player, the balance sheet risk is likely to remain under control.
- Maintain Buy:** We maintain **Buy** rating on the stock with a reduced TP of INR230 given (a) the strong order book position (INR205b; 1.7x its TTM revenue + L1 position of INR40b), (b) the declining business concentration risk due to foray into railways, civil, etc., and (c) reasonable valuations. Strong promoter parentage and focus on the balance sheet should help the company emerge stronger post-COVID compared to peers, in our view.

**Exhibit 11: We cut our FY21/FY22E earnings by 12%/10%**

Earnings Change Rs m	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1,28,002	1,35,477	1,22,670	1,33,349	-4%	-2%
EBITDA	13,380	14,162	12,323	13,396	-8%	-5%
EBITDA margin	10.5%	10.5%	10.0%	10.0%	-0.4%	-0.4%
Adj. PAT	6,164	6,544	5,449	5,905	-12%	-10%

Source: Company, MOFSL

## Financials and valuations

Income Statement					(INR M)
Y/E March	2018	2019	2020	2021E	2022E
<b>Total Revenues</b>	<b>1,00,526</b>	<b>1,10,005</b>	<b>1,19,654</b>	<b>1,22,670</b>	<b>1,33,349</b>
Change (%)	17.1	9.4	8.8	2.5	8.7
Raw Materials	72,670	81,230	84,182	86,304	93,817
Staff Cost	7,984	8,322	11,044	11,654	12,668
Other Expenses	9,816	8,954	12,084	12,389	13,467
<b>EBITDA</b>	<b>10,057</b>	<b>11,499</b>	<b>12,343</b>	<b>12,323</b>	<b>13,396</b>
% of Total Revenues	10.0	10.5	10.3	10.0	10.0
Other income	207	226	111	114	124
Depreciation	1,097	1,171	1,472	1,664	1,838
Interest	2,294	3,119	3,080	3,204	3,479
<b>PBT</b>	<b>6,873</b>	<b>7,435</b>	<b>7,903</b>	<b>7,569</b>	<b>8,202</b>
Tax	2,290	2,571	2,247	2,119	2,297
Rate (%)	33.3	34.6	28.4	28.0	28.0
<b>Adjusted PAT</b>	<b>4,583</b>	<b>4,864</b>	<b>5,655</b>	<b>5,449</b>	<b>5,905</b>
EO Income (net)	21	93	0	0	0
<b>Reported PAT</b>	<b>4,604</b>	<b>4,958</b>	<b>5,655</b>	<b>5,449</b>	<b>5,905</b>
Change (%)	51.1	7.7	14.1	-3.6	8.4

Balance Sheet					(INR M)
Y/E March	2018	2019	2020	2021E	2022E
Share Capital	514	514	514	514	514
Reserves	19,460	23,837	27,462	32,078	37,150
<b>Net Worth</b>	<b>19,975</b>	<b>24,351</b>	<b>27,976</b>	<b>32,592</b>	<b>37,665</b>
Loans	17,604	18,343	23,797	23,797	23,797
Deferred Tax Liability	1,007	1,183	527	527	527
<b>Capital Employed</b>	<b>38,585</b>	<b>43,877</b>	<b>52,300</b>	<b>56,916</b>	<b>61,988</b>
Gross Fixed Assets	16,012	17,563	20,540	22,540	25,040
Less: Depreciation	6,810	7,776	9,248	10,912	12,751
<b>Net Fixed Assets</b>	<b>9,202</b>	<b>9,787</b>	<b>11,292</b>	<b>11,628</b>	<b>12,290</b>
Capital WIP	781	73	840	840	840
Investments	393	132	225	225	225
Goodwill	1,920	2,037	2,226	2,226	2,226
<b>Curr. Assets</b>	<b>92,829</b>	<b>1,04,602</b>	<b>1,13,963</b>	<b>1,20,166</b>	<b>1,31,381</b>
Inventory	6,274	6,410	7,758	7,954	8,646
Debtors	50,444	48,753	54,448	58,814	63,934
Cash & Bank Balance	2,313	2,762	1,637	2,014	2,944
Loans & Advances	604	336	1,130	1,158	1,259
Other Assets	33,194	46,342	48,991	50,226	54,598
<b>Current Liab. &amp; Prov.</b>	<b>66,540</b>	<b>72,755</b>	<b>76,246</b>	<b>78,168</b>	<b>84,973</b>
Current Liabilities	65,531	72,112	75,485	77,388	84,125
Provisions	1,009	643	761	780	848
<b>Net Current Assets</b>	<b>26,290</b>	<b>31,848</b>	<b>37,717</b>	<b>41,998</b>	<b>46,408</b>
<b>Application of Funds</b>	<b>38,585</b>	<b>43,877</b>	<b>52,300</b>	<b>56,916</b>	<b>61,988</b>

## Financials and valuations

<b>Ratios</b>					
<b>Y/E March</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
<b>Adj EPS</b>	<b>17.8</b>	<b>18.9</b>	<b>22.0</b>	<b>21.2</b>	<b>23.0</b>
Cash EPS	22.1	23.5	27.7	27.7	30.1
Book Value	77.7	94.7	108.8	126.8	146.5
DPS	2.4	2.7	2.7	2.7	2.7
Payout (incl. Div. Tax.)	13.4	14.0	12.3	12.7	11.8
<b>Valuation (x)</b>					
P/E	17.1	16.1	13.8	14.3	13.2
EV/EBITDA	9.3	8.2	8.1	8.1	7.4
EV/Sales	0.9	0.9	0.8	0.8	0.7
Price/Book Value	3.9	3.2	2.8	2.4	2.1
Dividend Yield (%)	0.8	0.9	0.9	0.9	0.9
<b>Profitability Ratios (%)</b>					
RoE	23.1	20.4	20.2	16.7	15.7
RoCE	16.5	17.4	16.6	14.3	14.3
RoIC	18.8	18.5	17.5	16.2	16.4
<b>Turnover Ratios</b>					
Debtors (Days)	183	162	166	175	175
Inventory (Days)	23	21	24	24	24
Creditors (Days)	238	239	230	230	230
Asset Turnover (x)	2.6	2.5	2.3	2.2	2.2
<b>Leverage Ratio</b>					
Net Debt/Equity (x)	0.8	0.6	0.8	0.7	0.6
<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
<b>PBT before EO Items</b>	<b>6,902</b>	<b>7,528</b>	<b>7,903</b>	<b>7,569</b>	<b>8,202</b>
Depreciation	1,097	1,171	1,472	1,664	1,838
Interest & other	2,466	3,119	3,080	3,204	3,479
Direct Taxes Paid	-2,298	-2,571	-2,904	-2,119	-2,297
(Inc)/Dec in WC	-1,401	-5,110	-6,995	-3,904	-3,481
<b>CF from Operations</b>	<b>6,386</b>	<b>3,992</b>	<b>2,556</b>	<b>6,414</b>	<b>7,742</b>
(Inc)/Dec in FA	-816	-582	-3,744	-2,000	-2,500
<b>Free Cash Flow</b>	<b>5,571</b>	<b>3,410</b>	<b>-1,188</b>	<b>4,414</b>	<b>5,242</b>
(Pur)/Sale of Investments	0	0	-93	0	0
<b>CF from Investments</b>	<b>-816</b>	<b>-582</b>	<b>-3,837</b>	<b>-2,000</b>	<b>-2,500</b>
(Inc)/Dec in Debt	-2,378	739	5,454	0	0
Interest Paid	-2,205	-3,167	-3,080	-3,204	-3,479
Dividend Paid	-727	-614	-833	-833	-833
Others	234	32	-1,386	0	0
<b>CF from Fin. Activity</b>	<b>-5,076</b>	<b>-3,010</b>	<b>155</b>	<b>-4,037</b>	<b>-4,312</b>
<b>Inc/Dec of Cash</b>	<b>495</b>	<b>400</b>	<b>-1,125</b>	<b>377</b>	<b>930</b>
Add: Beginning Balance	2,079	2,313	2,762	1,637	2,014
<b>Closing Balance</b>	<b>2,574</b>	<b>2,713</b>	<b>1,637</b>	<b>2,014</b>	<b>2,944</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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