

Pick of the Week



KEC International

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
238	360	51.1%	443 / 230	61251

Key Highlights:

- Given a strong backlog (Rs 184 Bn in 9MFY19), revenue growth and typical execution pattern of 4QFY19, KEC can reach the upper end of 12-15% revenue growth guidance for FY19. Revenues are expected to grow from Rs 100 Bn in FY18 to Rs 139 Bn in FY20E.
- Order awards in 4QFY19 remain uncertain due to elections. Although KEC has L1 position of Rs18 bn; backlog is strong enough to support 15-20% revenue growth in FY20 as per the management.
- KEC's 3QFY19 execution weakness is transient in nature, given two years of revenue visibility on current order book and limited backlog/receivable exposure to Saudi/domestic jobs.
- The management believes that beyond the election-affected quarters (through Q4FY19 to 1QFY20E), traction can come from ordering in T&D (Green Energy Corridor), railways (electrification) and civil (mainly cement,) areas. Approval delays in SAE and some other international projects led to revenue decline in T&D.
- Leverage will reduce, led by payments received from Saudi Arabia, customer advances and greater share of low-cost forex debt.
- KEC has also won some EUR-denominated projects, which will allow it to borrow low-cost EUR debt to exploit the natural hedge; it is getting 40-50 bps lower rates on CP. The management expects these factors to significantly reduce interest cost to 2.1% of sales for 4QFY19, 2.7% for FY19 and 2.5% for FY20E.
- EBITDA margin is expected to expand from 10% in FY18 to 10.5% in FY20E. PAT is estimated to grow at 18% CAGR between FY18-20E from Rs 4.6 Bn in FY18 to Rs 6.4 Bn in FY20E.
- We arrive at fair value of Rs 360 at 12.5x justified P/E multiple. The stock is trading at attractive 8.5x Dec 2020E EPS and promises upside from new businesses in railways, T&D and civil.

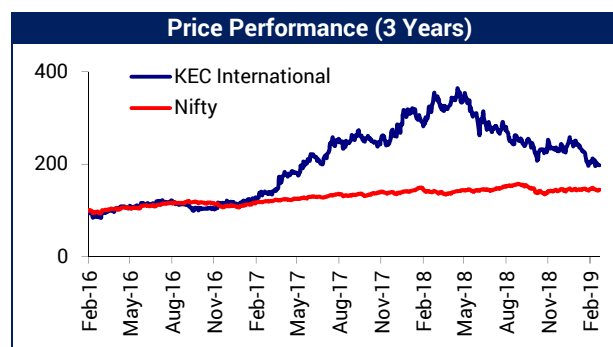
Financials (Rs mn)*	FY18	FY19E	FY20E
Sales	100,580	114,257	138,999
Growth (%)	17.2	13.6	21.7
EBITDA	10,062	11,999	14,607
EBITDA margin (%)	10.0	10.5	10.5
PBT	6,902	7,907	9,833
Net profit	4,604	5,147	6,401
EPS (Rs)	17.9	20.0	24.9
Growth (%)	50.4	11.7	24.5
P/E (x)	13.3	11.9	9.6

Net debt/equity	0.8	1.1	0.9
ROE (%)	25.7	23.2	23.5
RoCE (%)	16.3	15.3	14.8
Free cash flow	5,808	(6,688)	2,110

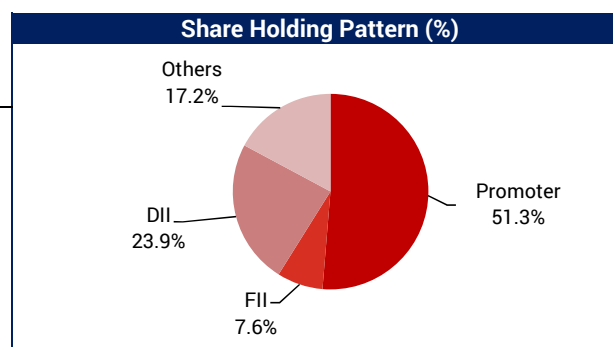
Source: Kotak Institutional Equities; *Consolidated

Financials (Rs mn)*	9M-FY18	9M-FY19	% Chg
Revenues	63,919	71,594	12
EBITDA	6,361	7,509	18
EBITDA Margin (%)	10.0%	10.5%	
PAT	2,629	2,926	11
PAT Margin (%)	4.1%	4.1%	
EPS (Rs)	10.2	11.4	12

Source: Kotak Institutional Equities; *Consolidated



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last two KIE update dated January 29, 2019 and it does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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