Pick of the week

27th July'20

KEC International Ltd

Recommendation	Time Period
Buy	12 Months

Current Price	Target Price	Potential Upside
₹265	₹342	29.06%

Investment Argument

- Ordering pipeline remains strong. Order inflows for the full year declined by 12% yoy at Rs. 113 bn mainly due to the impact of Covid-19 in March. Despite getting impacted by lockdowns, we expect inflows to improve due to a strong ordering pipeline from PGCIL (worth Rs. 150 bn), railways (worth Rs. 100 bn) and SEBs (worth Rs. 100 bn) to be finalized during 1HFY21.

- International order inflows, after remaining weak in FY20, are expected to improve from SAARC, MENA region, America and Africa. With a strong order backlog, we expect the company to ramp up execution in coming quarters.

- Reductions in borrowings and working capital lend comfort on interest costs. Higher share of foreign borrowings led to lower interest costs as percentage of sales. The company expects to maintain it around 2.3% of sales for FY21E.

- Lockdown during March resulted in pending receivables worth Rs. 3-4 bn, which were cleared in April. This impacted overall borrowings too for FY20. Going forward, the company maintains its focus towards reducing receivables while it expects to continue to support vendors due to liquidity challenges.

- The company has retained its guidance of 15% growth in revenues for FY21 but has mentioned that it is subject to easing of lockdown conditions. It expects margins to get the benefit of lower commodity prices amid higher labour costs.

- Net of roll-forward, our fair value works to Rs. 342. We have a BUY as we expect the company to benefit from a strong ordering pipeline, uptick in railways & civil segment revenues and lower commodity prices.