

**NOT
RATED**
KECI INTERNATIONAL

| Capital Goods

| 14 September 2022

Analyst meet takeaways: Headwinds abating

- **FY23 order inflow (+15% YoY) and margin guidance remains broadly unchanged**
- **T&D picking up domestically and also has good international prospects. KECI's timely diversification into rail and civil projects paying off**
- **Management sees much of the headwinds abating with working capital expected to normalise from Q3 and SAE losses subsiding**

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Key takeaways from KECI's (Not Rated) recent analyst meet:

Optimistic outlook: KECI expects order inflows to grow at 15-20% YoY over the next few years, with civil and urban infrastructure forming the next growth engine, followed by railways and transmission & distribution (T&D). Competitive intensity is reducing for large projects, especially in railways, due to the need for bid bonds. Mechanisation and digitisation to enhance engineering capabilities are likely to be the key themes.

Guidance intact: Management retained its 15% order growth estimate for FY23. EBITDA margin in Q2 is expected to hold at Q1 levels (5.1%), and expected to normalized (10%) by FY24. The pipeline remains healthy at Rs 1.15tn driven by T&D – domestic and international. Domestic T&D, in particular, is perking up.

Civil business to replicate growth as rail segment: KECI's timely diversification into railways had offset the muted growth in T&D. Management expects growth in the civil business (mainly data centres, water, residential, commercial & metals projects) to track its rail segment over the next few years. Notably, working capital requirements are relatively lower for the civil segment. Also, the business delivered a near-double-digit margin (9.5%) in Q1FY23 and management expects to exceed 10% by Q1FY24.

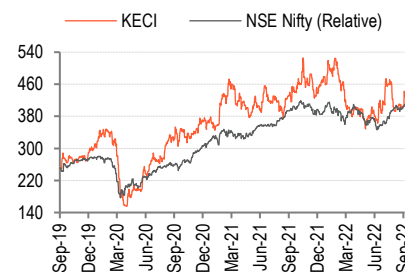
Working capital to normalise from Q3: Net working capital days had risen to 148 in Q1FY23 (+10% QoQ/YoY), which KECI expects will normalise to 130-135 days by FY23-end. Key to this will be (i) normalisation of the inverted GST duty structure which is expected to release Rs 2.5bn-3bn in working capital, and (ii) closure of legacy EPC projects by Q2FY23, unlocking the anticipated milestone payment.

SAE Brazil troubles subsiding: Subsidiary SAE Brazil's troubles largely stem from delays and subsequent cost overruns in its legacy EPC projects. Higher interest rates of 17-18% in Brazil have also exacerbated losses. The company's legacy EPC projects are nearing completion in Q2, and KECI expects its claims worth Rs 2bn-2.5bn to be released upon completion (SAE debt: Rs 4bn). Ex-EPC, SAE Brazil has an order book of Rs 11bn. Management remains hopeful of a turnaround by Q4FY23.

Ticker/Price	KECI IN/Rs 436
Market cap	US\$ 1,411mn
Free float	47%
52wk high/low	Rs 550/Rs 345
Promoter/FPI/DII	52%/12%/27%

Source: NSE | Price as of 14 Sep 2022

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Total revenue	1,00,526	1,10,005	1,19,654	1,31,142	1,37,423
COGS	72,670	81,230	84,182	96,076	1,04,582
Employee Expense	7,984	8,322	11,044	11,151	12,587
Other expense	9,816	8,954	12,084	12,503	11,219
EBITDA	10,057	11,499	12,344	11,412	9,035
EBITDA margin (%)	10.0	10.5	10.3	8.7	6.6
Depreciation	1,097	1,171	1,472	1,525	1,579
EBIT	8,960	10,328	10,872	9,887	7,456
Net interest inc./(exp.)	2,294	3,119	3,080	2,627	3,160
Other inc./(exp.)	207	226	111	299	134
Exceptional items	-	-	-	-	-
EBT	6,873	7,435	7,903	7,559	4,431
Income taxes	2,290	2,571	2,248	2,032	674
Extraordinary items	(21)	(93)	-	-	436
Min. int./Inc. from assoc.	(0)	(0)	(0)	-	-
Reported net profit	4,604	4,958	5,655	5,527	3,321
Adjustments	(21)	(93)	-	-	436
Adjusted net profit	4,583	4,864	5,655	5,527	3,757

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Accounts payables	46,578	48,009	50,073	62,777	68,473
Other current liabilities	20,994	25,980	28,073	23,850	27,490
Debt funds	16,394	16,968	21,729	19,565	30,646
Other liabilities	1,449	1,635	920	691	580
Minority Interest	-	-	-	-	-
Equity capital	514	514	514	514	514
Reserves & Surplus	19,460	23,837	27,462	33,083	35,685
Total liab. and equities	1,05,390	1,16,944	1,28,769	1,40,479	1,63,389
Cash and cash eq.	2,706	2,894	1,862	2,492	2,619
Accounts receivables	50,389	48,753	54,448	53,858	51,061
Inventories	6,274	6,410	7,758	8,422	10,665
Other current assets	29,019	43,454	46,333	54,064	72,524
Investments	-	-	-	-	-
Net fixed assets	11,121	11,822	13,518	13,975	15,377
CWIP	781	73	840	179	25
Other assets	5,100	3,539	4,012	7,491	11,119
Total assets	1,05,390	1,16,945	1,28,770	1,40,480	1,63,389

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Cash flow from	6,596	1,987	875	8,445	(2,837)
Capital expenditures	(1,355)	(1,083)	(2,020)	(1,801)	(1,986)
Change in investments	911	835	(93)	878	(116)
Other investing cash flows	400	(446)	933	(351)	55
Cash flow from investing	(44.6)	(694.5)	(1,179.4)	(1,273.8)	(2,046.9)
Equities issued/Others	-	-	-	-	-
Debt raised/repaid	(3,765)	2,282	4,273	(564)	8,709
Other financing cash flows	(2,616)	(3,781)	(4,247)	(6,075)	(3,750)
Cash flow from	(6,382)	(1,499)	25	(6,639)	4,959
Chg in cash & cash eq.	170	(206)	(280)	533	75

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20A	FY21A	FY22A
Reported EPS	17.91	19.28	22.00	21.50	12.92
Adjusted EPS	17.83	18.92	22.00	21.50	14.61
Dividend per share	2	3	3	4	4
Book value per share	77.7	94.7	108.8	130.7	140.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20A	FY21A	FY22A
EV/Sales	1.4	1.3	1.2	1.1	1.0
EV/EBITDA	13.9	12.2	11.3	12.3	15.5
Adjusted P/E	24.5	23.0	19.8	20.3	29.8
P/BV	5.6	4.6	4.0	3.3	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20A	FY21A	FY22A
Tax burden (Net profit/PBT)	0.7	0.7	0.7	0.7	0.8
Interest burden (PBT/EBIT)	0.8	0.7	0.7	0.8	0.6
EBIT margin (EBIT/Revenue)	0.1	0.1	0.1	0.1	0.1
Asset turnover (Rev./Avg TA)	9.0	9.3	8.9	9.4	8.9
Leverage (Avg TA/Avg Equity)	0.6	0.5	0.5	0.5	0.4
Adjusted ROAE	25.6	21.9	21.6	18.0	10.8

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20A	FY21A	FY22A
YoY growth (%)					
Revenue	17	9	9	10	5
EBITDA	23	14	7	-8	-21
Adjusted EPS	50	6	16	-2	-32
Profitability & Return ratios (%)					
EBITDA margin	10.0	10.5	10.3	8.7	6.6
EBIT margin	8.9	9.4	9.1	7.5	5.4
Adjusted profit margin	4.6	4.4	4.7	4.2	2.7
Adjusted ROAE	25.6	21.9	21.6	18.0	10.8
ROCE	24.6	25.0	21.9	18.6	11.2
Working capital days (days)					
Receivables	183	162	166	150	136
Inventory	23	21	24	23	28
Payables	169	159	153	175	182
Ratios (x)					
Gross asset turnover	9.0	9.3	8.9	9.4	8.9
Current ratio	1.3	1.4	1.4	1.4	1.4
Net interest coverage ratio	3.9	3.3	3.5	3.8	2.4
Adjusted debt/equity	0.8	0.7	0.8	0.6	0.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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