KEC International

Growth momentum intact

While the T&D segment is expected to perform steadily, the other businesses are likely to grow at a faster rate

KEC International (KEC) operates in five verticals of power transmission and distribution (T&D), cables, railways, water and the upcoming renewable energy. The global infrastructure engineering, procurement and construction (EPC) major is operating in the T&D segment for more than seven decades, executing infrastructure projects in more than 63 countries.

Consolidated net sales were up by 3% to Rs 2132.15 crore in the September 2017 quarter over a year ago. T&D revenues, contributes around 68% to total sales, decline 4.5% to Rs 1460 crore, mainly on account of the impact of the rollout of the goods and services tax(GST). If not for GST, net sales would have grown 5%. Railways, accounting for around 8% of total sales, contributed 81% of the revenues.

The operating profit margins (OPM) stood at 10.1% compared with 8.9% in the September 2016 quarter, thereby boosting operating profit (OP) 16% to Rs 215.84 crore. The margins in segments other than T&D, particularly in railways, are inching towards double digits, helping in the overall improvement in the OPM, apart from cost-efficiencies. After 34% increase in tax outgo to Rs 47.09 crore, consolidated profit after tax (Pat) increased 37% to Rs 89.37 crore.

Consolidated net sales rose 4% to Rs 3989.01 crore and the OPM inclined 100 basis points to 9.8%, thereby bolstering OP 17% to Rs 392.17 crore in H1 of the fiscal ending March 2018 (FY 2018). Other income spurted 48% to Rs 15.55 crore. Interest cost declined 9% to Rs 120.35 crore and depreciation 8% to Rs 55.08 crore. Profit before tax, thus, jumped 51% to Rs 232.29 crore. After 38% rise in tax outgo to Rs 79.95 crore, consolidated Pat spurted 59% to Rs 152.34 crore.

The order inflow was down 4% to Rs 5747 crore in H1 due to lower tendering from Power Grid Corporation of India (PGCIL), while SAE Towers, a 100% US subsidiary, and the solar, civil and railway sectors saw strong order outflow. The lower flow of orders from PGCIL is getting compensated by orders from private players and distribution companies (discoms). The share of the domestic orders was 65% and international 35%. T&D orders were about 62%, SAE Towers 19%, railways 2%, civil 5%, and solar 1%.

Comfortable pipeline

KEC's order book was Rs 14013 crore end September 2017, with the T&D and segment comprising 68%, SAE Towers 15%, railways 10%, civil 3% and cables 2%

Price on BSE in Rs. FV: Rs 2.

The order book was Rs 14013 crore end September 2017. Of the total order book, T&D orders comprised 68% and SAE tower orders 15%, railways 10%, civil 3%, cables 2% and solar 2%. Most of the domestic order book includes price variation clause. Export orders have sufficient mark-up to cover for increase in raw material costs.

KEC Intl: Consolidated Financials

	1603(12)&	1703 (12)&	1803(12P)&	1903(12P)&
Net Sales	8517.8	8584.4	9083.8	9810.51
OPM %	8.10%	9.50%	10.00%	10.20%
OP	692.33	817.88	906.74	1000.67
Other income	10.26	28.87	35.55	36.27
PBIDT	702.59	846.75	942.29	1036.94
Interest	279.39	253.61	236.25	226.8
PBDT	423.2	593.14	706.04	810.14
Depreciation	131.78	129.69	125.08	126.33
PBT	291.42	463.45	580.96	683.81
PBT after EO	291.42	463.45	580.96	683.81
Total Tax	143.57	158.67	193.62	225.66
PAT	147.85	304.78	387.35	458.15
P/L of asso co.	0.02	0	0	0
PAT after MI & asso co.	147.87	304.78	387.35	458.15
EPS (Rs)*	5.8	11.9	15.1	17.8

*Annualised on equity share capital Rs 51.42 crore; Face value Rs 2. & FY 2017 financials and Projected FY 2018 and FY 2019 financials are as per New Ind AS. EO: Extraordinary items. (P): Projections. EPS is calculated after excluding EO and relevant tax. Figures in Rs crore. *Source: Capitaline Database*

Turnkey solutions are provided in the railway EPC space. These include civil works, laying of tracks, electrification and installing signaling and telecommunication networks. The revenues emanating from Indian Railways was Rs 450 crore in FY 2017. With strong order inflow and tendering pipeline, the hope is to register net sales of Rs 750-800 crore in the current fiscal. Being a qualified player to bid for railway order, there is expectation of bagging orders from the Rs 35000-crore railway electrification program to be completed by FY 2021. Competition in the railway electrification space is low compared with other segments.

In the Middle East market, the traction is from Jordan, Egypt and Abu Dhabi. Saudi Arabia has large tenders. Africa continues to have a lot of interconnection projects in the pipeline. Significant order finalization will happen in the March 2018 quarter. Better traction in revenues and orders are likely from the December 2017 quarter as the problems in implementing GST fade.

.While the core T&D business will continue to grow at a steady pace, the non-T&D business (i.e., railways, civil, infra, cables, solar, water and others), which now has even better margins and visibility, will grow faster and will be around 25% of total sales compared with around 15% currently.

The aim is to achieve a 15% growth in consolidated net sales, with better margins and a strong order book in the current fiscal. The year is expected to end with an order book of Rs 13000 crore, implying a growth of 16-18% over FY 2017. The objective is to reduce working capital days further. These were at 140 days in FY 2015, 102 days in FY 2016 and 100 days in FY 2017. The recent upgrade in credit rating will aid in lowering interest costs, thus helping the bottom line.

We KEC International to register consolidated EPS of Rs 15.1 for FY 2018 and Rs 17.8 for FY 2019. The scrip was trading around Rs 299 on 14 November 2017. ■