

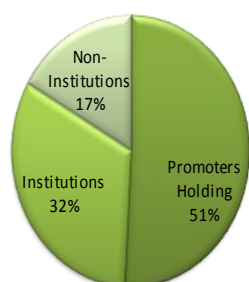
# KEC International Ltd : Annual Analyst Meeting Notes

Engineering-Construction

## Market Data

Current market price (INR):	250.0
52 Week High/Low:	283.50/111.20
Market Capitalization (In INR-Cr)	6536.47

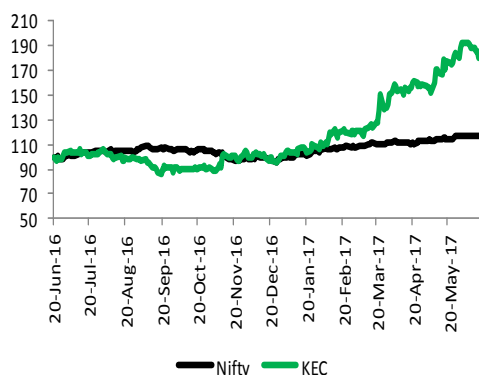
## Shareholding Pattern



## Stock Scan

BSE Code	532714
NSE Code	KEC
Bloomberg Ticker	KECI IN
Reuters Tickers	KECL.BO
Face Value (INR)	2.00
Diluted EPS FY17 (INR)	11.86
Current P/E	21.45
Average P/E	22.99
Beta vs Sensex	1.19
Debt/Equity	1.26
Average Daily Volumes	510741

## Stock Return Vs. Nifty Return Chart



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## KEC International: Key Takeaways from Annual Analyst Meeting

**On June 9, 2017, the RPG group organized a Analyst meeting in Mumbai. The management discussed about the strategy and emphasized on various key aspect on the Company.**

**A few important takeaways from the meeting on KEC International Ltd:**

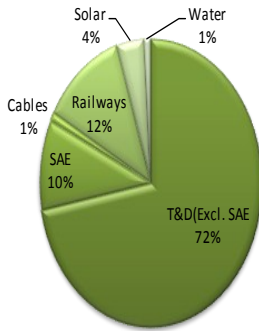
- KEC International management hinted that the current scenario of increasing Government spending on infrastructure and development is likely to help the company going forward.
- Looking at the current demand surge, the Company recently forayed into civil business.
- KEC is now focusing on countries like Jordan, Egypt and South Africa. As these countries have huge business opportunities.
- KEC reduced its total long term debt obligation from INR3098 crores to INR1767 crores. Reduced debt will help the Company to improve its margin.
- Surprisingly, the Company's revenues from Brazil have shown some improvement and the management expects stronger profitability from this region, going forward. As there are very less number of competitors in Brazil, the competition is less and the Company has strong opportunities.
- KEC added capacity to its earlier solar portfolio. It added 20,000 MW in FY17.
- Many major projects are closing now, so no major challenges regarding working capital cycle. Currently the working capital cycle at around 107-108 days from 180-200 days earlier.

## Exhibit: KEC International Ltd.-Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY 2015A	FY 2016A	FY 2017A	FY 2018E	FY 2019E
Net Sales	8346.30	8421.56	8755.00	9904.00	11369.30
Growth (%)	7.20	0.90	4.00	13.10	14.80
EBITDA	511.80	683.37	846.75	940.64	1094.61
EBITDA Margins (%)	6.10	8.10	9.70	9.50	9.60
Net Profit	160.99	191.50	305.00	370.23	454.70
Net Profit Margins (%)	1.90	2.30	3.50	3.70	4.00
Net Profit Growth (%)	141.13	18.90	59.26	21.38	22.81
EPS	6.26	7.45	11.85	14.30	17.70
BVPS	51.73	58.81	61.70	75.30	90.39
P/E	12.79	16.42	17.60	17.68	14.29
P/BV	1.55	2.08	3.38	3.36	2.80
EV/EBITDA	8.10	8.15	8.29	8.70	7.48
ROE (%)	12.77	13.48	19.67	20.13	20.75

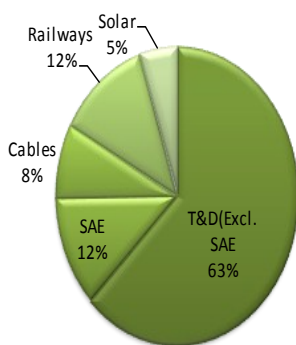
### KEC International Ltd: Key Takeaways from Annual Analyst Meeting (Continued)

#### Order book Break-up by Business, FY 2017



Source: Corporate Presentation

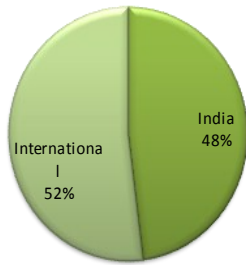
#### Order Intake Break-up by Business, FY 2017 (Order intake has grown by 42% YoY in FY17)



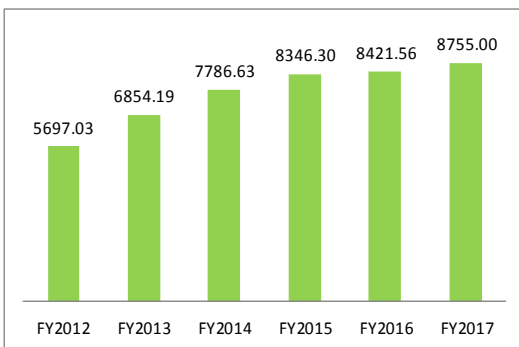
Source: Corporate Presentation

- With increasing government investment order intake of the Company grew by 42% yoy and the total order book grew by 35% yoy, as on March 31, 2017 and International order book grew by 27% yoy.
- KEC International restated and restarted the railway business on a strong note.
- The Company has a presence in over 61 countries. 53% of the total revenues the Company generates from outside India.
- The number of enquiries is increasing, especially from North America
- The Company is very much confident about all the project it has undertaken, as most of these projects are funded by multilateral sources. So the credibility of these projects are high.
- The way states in India are gaining traction, this is a clear sign that the profitability from the country will certainly grow.
- Middle east markets have been a strong territory for the company, and its continued to be a strong market.
- The Company added new customers from Egypt and Jordan.
- But the Company is keen to avoid Saudi Arabia due to warlike situation. So any project in Saudi will not generate any cash flow at this point in time.
- Looking at the geopolitical tension between countries in Middle East, KEC is very choosy about any new project from this region.
- Surprisingly, the Company's revenues from Brazil have shown some improvement and the management expects stronger profitability from this region, going forward. As there are very less number of competitors in Brazil, the competition is less and the Company has strong opportunities.
- Railway is a segment, where the Company is very bullish. The management expects to double its revenues from the segment.
- KEC international is responsible for 40% of the total Railway's electrification.
- Cables business margin maintained at a 6%, which is currently the industry average. The Company is expecting 7-8% by the end of this year.
- Political risk is considered to be a major risk for the company. However, the kind of projects KEC undertook, the market risk is at lower range.
- KEC is planning to invest INR50 crores in Mauritius for upcoming projects.
- Company's resources are plenty to meet the deadlines. Skills are readily available. It has a very strong team of engineers and project managers.
- Most of the projects are funded internally. So interest cost on debts are expected to be on a lower side.

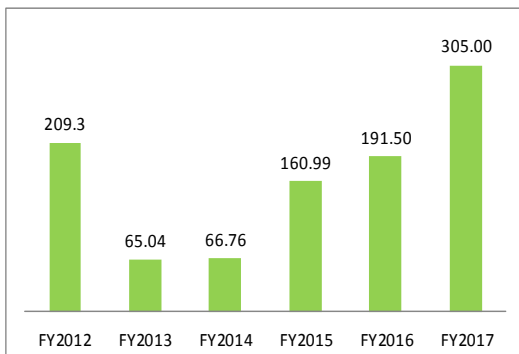
### Order Book by Geography



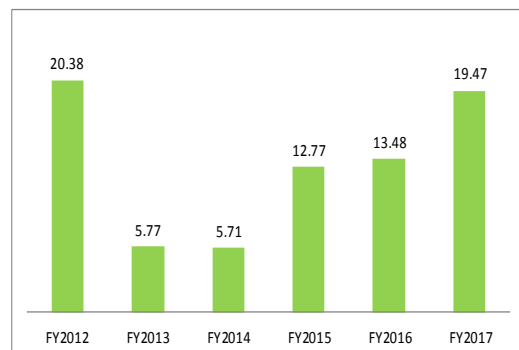
### Revenue Trend (in INR Crore)



### Profit after Tax (in INR Crore)



### ROE (in %)



Source: Company, Bloomberg

- KEC International's Power Substation business has a strong presence amongst peers. FY2017, this segment generated 600 crores of total revenues.
- Power segment has shown 20% order book growth only from the domestic markets. International orders are also ramping up fast. Management is very bullish on this segment, as state wise rural electrification is in place.
- Rural electrification increased by 25% with an total investment of INR48.41 billion.
- KEC is bidding for more new projects as the Company has strong free cash flow structure at this moment.

## Key Growth Drivers

### 1. Resurgence of International business:

- Entered/ re-entered 8 new countries in FY 17
- Secured large sub-station orders in Africa
- Added East Asia Pacific as a new focus region

### 2. Successful broadening of customer base in India

- Balanced order book
- Working with major private developers
- Actively engaging with new entrants

### 3. Remarkable uptick in the railways and solar business

- Revenue doubles, order book triples
- Margins of railways moving closer to T&D
- Increase in budgetary allocation for railways
- Overhead electrification targets doubled
- Installed 65 MW of projects with trackers
- 140 MW of projects currently under execution

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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