KEC International

Annual Report Analysis FY21

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Well-timed diversification to cushion muted domestic T&D

KEC International (KEC) AR FY21 talks extensively about T&D opportunities across international markets; additionally, management's focus on scaling Civil business has been quite evident, with a greater emphasis on executing critical infra projects in the near term. Following a successful stint in the railways and civil business, the company has entered the oil and gas pipeline space as part of its long-term diversification strategy. Besides, there has been significant impetus on mechanization and digitalization initiatives with deployment of cutting edge solution (use of drones for surveys and stringing, gin poles, high capacity boom cranes, sophisticated concreting machinery, and virtual inspection) to improve the productivity. KEC is planning for ESG implementation with keen focus on waste management, water harvesting & control over related party transactions. KEC is targeting for order inflow of Rs160-180bn in FY22 given the peaking order of Civil, Railways, and International T&D. We expect near-term challenges to margins on higher commodity prices and cost overruns in SAE but expect margins to normalize by FY23. We retain 'Accumulate' rating with a TP of Rs450, valuing at 14.5x FY23E EPS.

Unlocking potential in Oil & Gas pipeline portfolio

In line with its long term diversification strategy, the company has added Oil & Gas (O&G) pipeline to its portfolio. The management expects that as India transitions to a gas-based economy, an additional 14,700 km of cross-country gas pipelines will be added to the existing network of 16,800 km, with a total investment of USD66 billion in developing gas infrastructure. Furthermore, the company sees opportunities in the 800-1000km of crude and product pipeline that will be laid each year.

Order pipeline remains firm

KEC has an Order backlog of Rs191bn (~1.5 TTM revenues) which provides revenue visibility over the next six quarters. T&D order pipeline remains healthy (ex-India), and management expects order inflows are expected to grow in the range of 10-15% to Rs80-90bn in FY22E. The majority of these orders, however, will be contingent on how the company performs in SAARC and Middle East tenders (big tenders worth Rs8-9bn). In the domestic market, KEC has submitted a bid for one TBCB project in the North East, and a few projects will be bid on in Uttar Pradesh. The management sees the greatest opportunity emerging from the Leh-Ladakh corridor (yet to be materialize). Furthermore, the impact of the SC decision on the GIB project is eagerly anticipated, as this would open up Cabling opportunities for KEC. Overall, the Indian T&D market is expected to remain flat in FY22E.

In the Non-T&D space, there has been some difficulty in awarding railway tenders, though the pipeline remains healthy, with Rs110bn to be bid in the next month. In FY22E, management expects a similar order intake of Rs80-90bn from Railways and Civil. For Solar segment, the company has taken a wait-and-see approach. In continuation with its diversification strategy, the company is planning to explore the opportunities in Oil & Gas pipeline segment.

Balance Sheet to further strengthen

Management expects to improve working capital days through prudent cash flow monitoring, with a focus on high-value receivables collections. KEC has targeted average borrowing level of ~Rs25bn for FY22E. Management stated that there is still room for 15-20% improvement in WC, which would be sufficient to fund the incremental opportunities in Civil, Railways and O&G. Intensity of WC could reduce with scale up in the civil biz as management anticipates relatively better payment terms & upfront advances from customers.

CMP	Rs 418
Target / Upside	Rs 450 / 8%
BSE Sensex	53,130
NSE Nifty	15,923

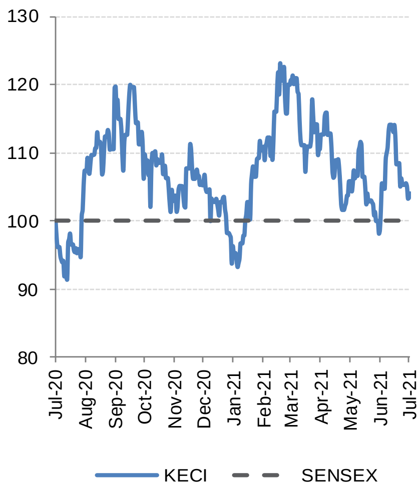
Scrip Details

Equity / FV	Rs 514mn / Rs 2
Market Cap	Rs 107bn
	US$ 1bn
52-week High/Low	Rs 486/Rs 258
Avg. Volume (no)	5,12,086
NSE Symbol	KEC
Bloomberg Code	KECI IN

Shareholding Pattern Mar'21(%)

Promoters	51.8
MF/Banks/FIs	25.6
FIIs	10.8
Public / Others	11.9

KEC Inter. Relative to Sensex



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DOLAT CAPITAL

Annual Report Macro View

Key Management	Mr. Harsh V. Goenka is the Chairman of RPG Enterprises and has served as the Company's Chairman of the Board since 2006. Mr. Vimal Kejriwal is the MD & CEO of KEC International Ltd.
Independent Director	The Board of the Company comprised of ten Directors, with eight Independent Directors, one Non-Executive Director and one Managing Director & CEO. The Chairman is a Non-Executive Director.
Auditors	Price Waterhouse Chartered Accountants LLP continue to be auditors of the company
Pledged Shares	0.58% of the shares have been pledged
Credit Ratings	Credit Rating for the Commercial Papers - CRISIL A1+ and IND A1+.
Macroeconomic factor	The COVID-19 pandemic disrupted global supply chains, business models, and financial ecosystems in FY21, causing long-term shifts in employee and consumer attitudes. Construction came to a halt due to lockdowns, postponed investments, and labor migration. Governments all over the world responded with accommodative monetary policies and swiftly announced USD16trn in fiscal actions via the budget. The price of commodities, base metals, and oil increased significantly in the second half of FY21, affecting the margin. Going forward Global growth is expected to rebound by 6% in the coming years, thanks to low interest rates, liquidity support, and coordinated fiscal stimulus.

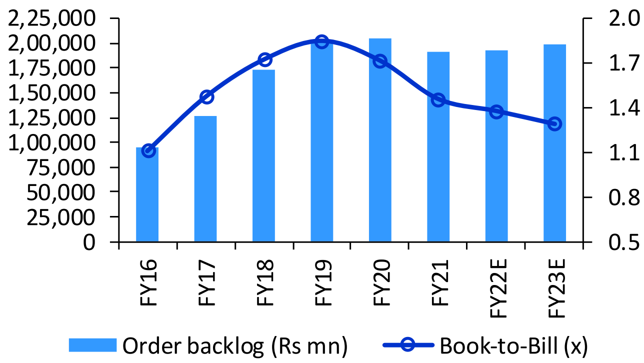
Key Holders

Category of Shareholder (%)	FY21
Promoter Holding	51.8
DII	25.6
FII/FPI	10.8
Public	11.9
Others	0.0
Total	100

Source: Company, DART

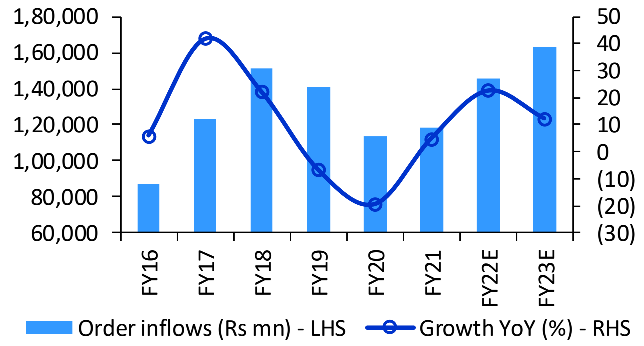
Story in Charts

Exhibit 1: Order backlog



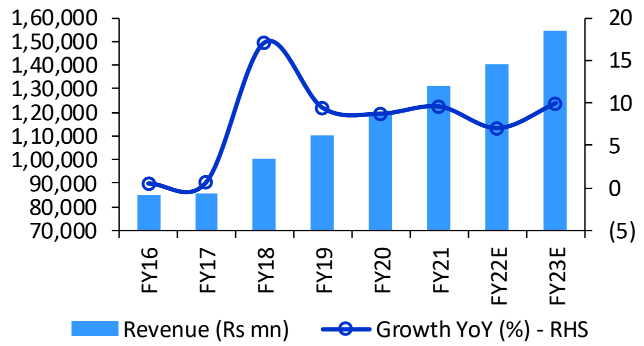
Source: Company, DART

Exhibit 2: Order inflows



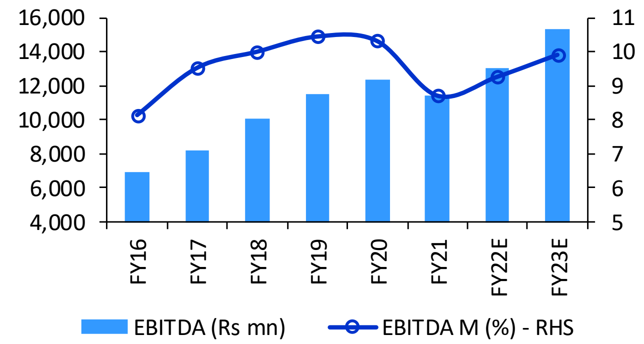
Source: Company, DART

Exhibit 3: Net sales trend



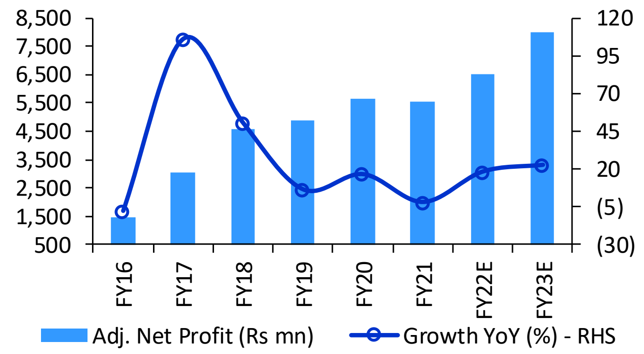
Source: Company, DART

Exhibit 4: EBITDA and EBITDA margin



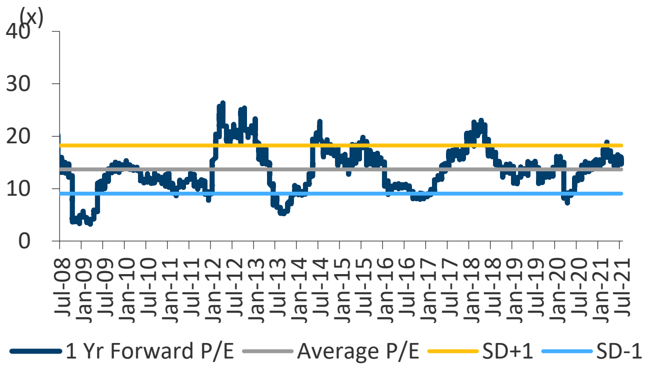
Source: Company, DART

Exhibit 5: Net profit trend



Source: Company, DART

Exhibit 6: PE chart



Source: Company, DART

Segment Analysis

Power T&D

South Asian Business (India and SAARC)

- **India**
  The Company secured several orders from Power Grid Corporation of India Limited (PGCIL), state utilities, as well as private operators in India. The business bagged Tariff Based Competitive Bidding (TBCB) orders of close to Rs15bn in Green Energy Corridor from PGCIL in Rajasthan, further boosting its order book. The Company continues to maintain a strong presence across several states such as Bihar, Karnataka, Tamil Nadu, and West Bengal and is targeting entry into a few more states.

  Advanced technologies such as Static Synchronous Compensator (STATCOMs) are being embarked upon in substation projects. Management expects the share of investments in substations will continue to rise to about 40-45% of the total investments in the sector, especially towards GIS technology in view of increasing demand for technologically-advanced substations increase.

  During the year, the business successfully delivered 19 T&D projects. Some of the key projects commissioned include the 400 kV Pugalur-Arasur Transmission Line in Tamil Nadu (part of PGCIL's prestigious 800 kV Raigarh-Pugalur HVDC project), 765 kV Fatehgarh- Bhadla Transmission Line, 400 kV Pavagada-Devanhalli Transmission Line and 400 kV Devanhalli Substation, 400 kV Silchar and Misa Substations in Assam for the North Eastern Region Strengthening Scheme-II and 400 kV Banaskantha Substation in Gujarat, amongst others.

  Outlook - High voltage transmission lines and substation infrastructure is expected to keep pace with the generation capacity as India's generation capacity is likely to touch 619 GW by the end of 2026-27. Besides, the need for evacuation infrastructure for renewables and cross-border interconnections with SAARC countries and setting up of inter-regional grid capacity is expected to drive growth in T&D. Increasing thrust on Green Energy Corridor (GEC) Aggressive renewable expansion would necessitate strengthening of Transmission sector (Company is currently executing several transmission line and substation projects under this GEC initiative in Gujarat and Rajasthan). Significant chunk of new projects through the TBCB route, is driving participation and ownership from private players.

- **SAARC region**
  The Company has achieved a healthy 33% revenue CAGR in the last four years. Even though the COVID-19 pandemic has delayed planned projects across several countries, there is continued interest of multilateral funding agencies to finance power infrastructure projects in the region.

  The BBIN (Bangladesh, Bhutan, India, Nepal) initiative supported by South Asia Sub Regional Economic Cooperation (SASEC) as well as India's focus on interregional energy connectivity with these countries through power and transportation corridors open up significant T&D infrastructure opportunities for the region. It is expected that the SAARC T&D market will continue to grow and remain a key focus area for the Company in the coming years.

  Bangladesh continues to drive the SAARC market, with its broad-based expansion plan in Power sector, the investment amount is targeted at USD80bn over the next 10 years with 15-20% being in T&D. Between FY20-25, the country plans to add about 22 GW to its power generation capacity, 22,238 ckt km of transmission lines and 1,13,162 MVA substation capacity.

Nepal is emerging as another prominent market in SAARC, with planned capacity addition of 4.6 GW by 2025. About 4,300 km of transmission lines and 59 substations are expected to be built by 2035 in the country. Besides, Indo-Nepal Cross Border Transmission lines along with the Millennium Challenge Corporation (MCC) funded transmission lines and substations open up multiple opportunities for the Company. **Afghanistan** has planned construction of nearly 1,500 km of transmission lines and 34 substations between FY 2020-25, though volatile security situation induces high degree of sensitivity. **Sri Lanka** plans to enhance power generation capacity from 4,043 MW to 6,900 MW (by 1800 through renewables) by 2025. Notably, funding by multi-lateral agencies for T&D projects and USD 100 million Line of Credit by India for solar power development provides more visibility.

International T&D business

The Company strengthened its presence in the International T&D market by securing new orders of over Rs37bn in FY21, a growth of ~4X over last year. These include large-sized orders in Oman and Mozambique in addition to orders in MENA, Africa, and the Americas.

KEC commissioned its sixth tower manufacturing facility in Dubai (50000 MTPA), which has enabled the Company to secure business from reputed utilities and private players in the Middle East and other regions, while increasing cost competitiveness due to fiscal and logistical benefits. Besides, the Company has created a strong foothold with multiple new orders in Oman aggregating to over Rs15bn.

The Company also further strengthened its footprint in the Rest of Africa (ROA) region and re-entered Uganda and Mozambique during the year. Notably, the company commissioned Tanzania's first 400 kV substations at Dodoma and Singida, in addition to 132 kV transmission lines and an associated substation in Zambia.

SAE Towers, has added three new EPC projects in this year, including its first substation EPC order in Brazil. The business has faced considerable challenges in FY21 on account of COVID-19 and unavailability of steel, resulting in delays and cost escalations on the projects. The business is currently executing six projects and 900 km of transmission lines in Brazil. Additionally, KEC is focussing on pivoting its SAE Mexico business from a manufacturing to an EPC driven company.

- **Middle East and North America (MENA)**
  The region is expected to add 88 GW of generation capacity, which translates to an overall investment of USD142bn in generation and a further USD 68 billion for transmission and distribution (T&D). A significant portion of this capacity is already under execution, driven by the UAE (19%), followed by Saudi Arabia (17%) and Egypt (16%) respectively.

  UAE is planning to invest at least USD16.2bn to meet the expected additional 8 GW capacity requirement over the medium term. **Saudi Arabia** has announced significant reforms with focus on increasing Transmission and Distribution network security and reliability to enable effective integration of renewable energy, and interconnection with neighboring countries. The country plans to invest around USD 9 billion to augment generation and T&D capacities. In **Oman**, the Company secured three orders totaling over Rs15bn in the country in FY21.

- **Africa (excluding North Africa)**
  Post relaxation of lockdown in FY21, the company has witnessed increased tendering activities FY21 post relaxation of in countries such as Mozambique, Uganda, Guinea, Nigeria, and Mali. The Company is expecting the momentum to continue in large interconnected electricity transmission infrastructure projects,

including Angola-Nambia project, Burundi- Rwanda project and Tanzania-Zambia project. Countries such as Senegal, Ethiopia, Kenya and Tanzania are also expected to see a pick-up in renewable energy capacity addition under hydro and geothermal power.

It is estimated that around USD 80 billion will be invested in Africa by 2040 to build the transmission infrastructure to absorb current and planned power generation capacities. This amounts to an opportunity of USD 3-4 billion per annum for transmission network expansion. Notably, there has been growth in financing projects, which offers significant opportunities for large players such as KEC, in partnership with global funding agencies.

- **South East Asia**
  SEA has grown by more than 6% over the past 20 years, with 20GW of new generation capacity under construction currently. **Malaysia** plans to add about 29GW generation capacity from 2018-2025 with increasing thrust on expanding renewable capacity. **Thailand** has announced significant stimulus and recovery measures including an “Energy for All” policy, with a two-pronged approach – to counter the slowdown, and support the growth of renewable energy, the country plans to increase renewable energy mix to 30% by 2037.

- **Central Asia**
  The region’s focus has been on integrating electricity grids and upgrading transmission lines, which will reduce the frequency of power shortages. Several ambitious plans such as TUTAP cross-regional power interconnection projects connecting Central and South Asian countries, and the USAID Power Central Asia program to assist Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan are in the pipeline to harness the region’s electricity generation potential and increase opportunities of electricity trade between the regions. Additionally, Georgia is planning to expand its T&D network to implement four transmission lines projects in the country.

- **North America**
  Of the planned USD2trn infrastructure plan, the US Government has proposed to spend USD100bn towards re-energizing America's power infrastructure and upgrading the nation's electric transmission system. This is in line with the administration’s plan to modernize the country's ageing electric grid and produce 100% carbon-free electricity by 2035. Besides, the government has identified more than 20 major transmission projects that are positioned to move from an advanced planning stage into construction. Overall, 44,000 km of transmission lines at 115 kV and above voltage levels are planned to be added to the North American power grid by 2027.

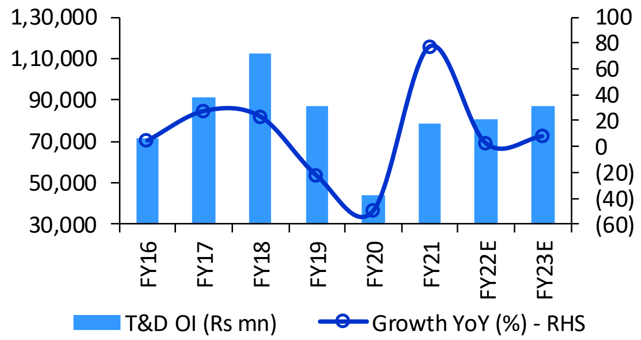
  In **Mexico**, government plans to launch nine new projects in the electricity sector that will require total investments of USD11bn. The country plans to add 4.3 GW of generation capacity in the near term and make large-scale investments in transmission line capacity addition to construct around 20,000 circuit-km of line length during the 2019–32 period. Mexico currently generates 15% of its power from clean sources and aims to generate 35% by 2024 and 50% by 2050.

  In **Canada**, the key enabler for growth of electricity transmission has been growing need to connect new renewable generation capacity and several cross-border projects between Canada and U.S. The country plans to spend CAD4.5bn annually over the next 4-5 years.

- **South America**
  South American Transmission industry is undergoing a phase of regulatory changes to open the sector for private participation, promote renewable energy integration in power grids and encourage sectoral growth. The 10-Year Energy expansion plan 2029 by **Brazil**, envisages investments to the tune of BRL2.3trn for the 10-year period starting 2020. Of the total investments, approximately 20% will be utilized for enhancing electricity generation and transmission in the country. Under this expansion plan, the projected spend on transmission line would be BRL73bn and BRL 30 billion in substations, to construct ~49,000 km of transmission lines and about 162 GVA of transformer network.

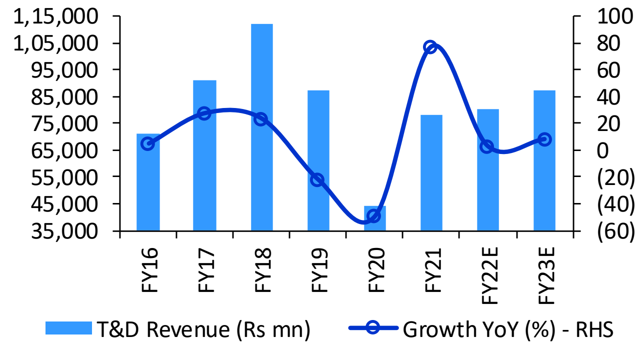
  Chile has committed to generate 60% of electricity through renewables by 2035, thus necessitating the need to build new transmission lines. **Argentina** is focusing on the public–private partnership (PPP) model and has already identified multiple projects envisaging over 3,300 km of transmission lines in the coming years through PPPs. **Peru** is investing significantly in building up generation and transmission capacity with plans to add 6,205 MW of power generation capacity during 2018-2028 and has approved the 10-year transmission development plan for the period 2019-2028, which includes the development of 13 projects at an investment of USD511mn.

Exhibit 7: Order inflows trend



Source: DART, Company

Exhibit 8: Revenue trend



Source: DART, Company

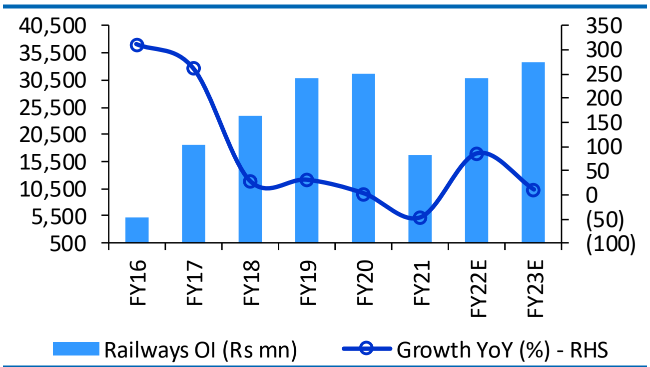
Railway Business

The business continues to be one of the Company's biggest growth drivers delivering a revenue CAGR of ~75% over the last five years. The Company has delivered around 30% of India's overall railway electrification till date, spanning more than 18,800 km, and continues to dominate the OHE segment. The Company has successfully transitioned into a technology player from a conventional EPC player with execution of complex and technology-intensive projects in the areas of Metro, DFCC and High-Speed Rail. The Company is also selectively bidding in international markets by leveraging on the global strengths and experience of its Transmission and Distribution business.

The Company executed 11 projects in FY21, all of which were commissioned ahead of contractual schedule. Notably, the Company has also received early completion bonuses from RVNL and CORE.

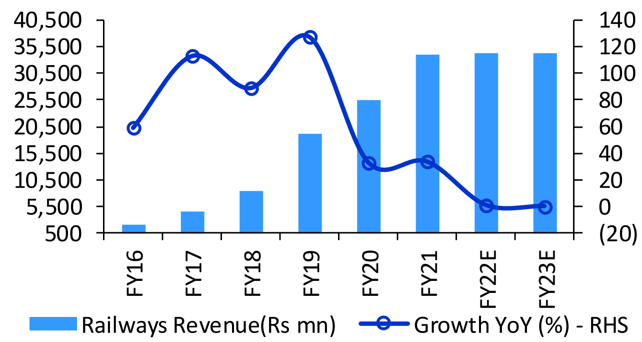
Going forward, KEC sees incremental opportunities from i) 100% railway electrification (by December 2023), ii) upgradation of existing tracks to enhance the speed of passenger trains by March 2024, and iii) development of high-speed rail (HSR), semi-HSR, Suburban Rail, Neo Metro, and various metros across cities. Notably, the union budget has envisaged an outlay for capital expenditure amounting to Rs2.14trn in FY22. Moreover, the Indian Railways, the sector is expected to see an investment requirement to the tune of Rs2.2trn from 2021-22 till 2025-26.

Exhibit 9: Order inflows trend



Source: DART, Company

Exhibit 10: Revenue trend



Source: DART, Company

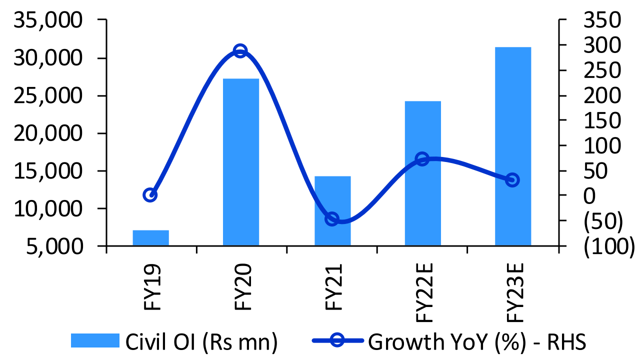
Civil Business

The business has clocked a revenue of Rs10.8bn in FY21, a growth of 3x compared to last year. The business secured breakthrough orders in the warehouse and water pipeline segments in Industrial segment, three repeat orders to construct high-rise towers in the residential segment, and repeat order from Military Energy Services. Notably, the company has expanded its presence in the industrial sector in Chemical, Hydrocarbon, and FGD segment.

Going forward, increasing thrust on infrastructure through National Infrastructure Pipeline, rapid urbanization, development of industrial clusters near highways & rail freight corridors, building of health infrastructure is expected to drive the growth for Civil business

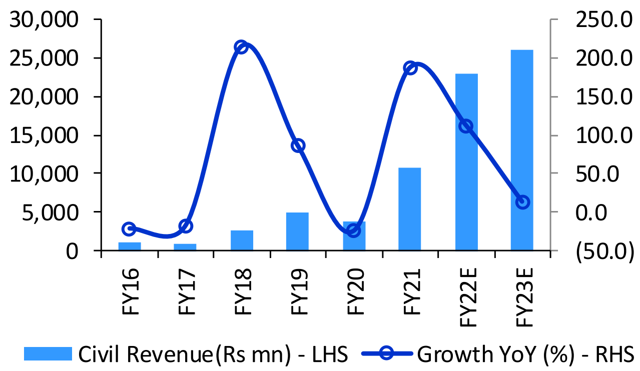
- **Industrial Plants** is expected to benefit from domestic manufacturing through PLI schemes majorly through electronics, food processing, battery storage, automobile components and specialty steel industry.
- **Residential and Commercial Buildings** is expected to receive a further boost with the recent success of Real Estate Investment Trusts. It is anticipated market will grow to Rs650bn by 2040 from Rs130bn in 2020. The management has stated they would be very selective in project selection to minimize execution and cash flow risk. In the commercial space, the company plans to tap opportunities in health infrastructure and data centers.
- The number of operational **Airports** are expected to increase to 190-200 by FY40 (from 103 in 2019) with projects in Maharashtra, Karnataka, Tamil Nadu, Kerala, Arunachal Pradesh, and Rajasthan expected to gain traction. India's aviation industry is expected to witness investments of close to USD5bn in the next four years, which includes USD1.83 billion for development of airport infrastructure and allied services. The Company plans to target airports in growing Tier – II & III cities, in line with the strategy to tap into the mid-size EPC market.
- **Defence** segment witnessed 19% increase in outlay towards modernization and infrastructure development of armed forces. The Budget also proposed the opening of 100 new Sainik Schools in the country in partnership with States, NGOs and private institutions. The Company is already executing three projects for MES and DRDO.
- **Water** and waste treatment is expected to gain traction due to proposed Jal Jeevan mission, with proposed investment of Rs2.87trn. The business has secured two large projects in the state of Odisha. Going forward, management see opportunities arising from few more states and establishing itself in the critical infrastructure segment.

Exhibit 11: Order inflows trend



Source: DART, Company

Exhibit 12: Revenue trend



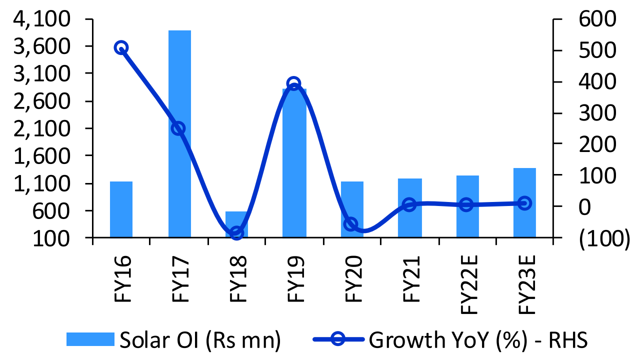
Source: DART, Company

Solar Business

KEC's solar business is amongst the few EPC players in India with capabilities to execute large-scale projects of up to 150 MW, with significant experience in Single Axis Tracker implementation. The Company successfully commissioned a 14 MW ground mount project in Maharashtra, which was completed within 90 days after land handover. During the year, the Company expanded its services portfolio to offer innovative solutions to industries. The Company is executing India's largest carport project, a 20 MW Solar Carport for a leading automobile manufacturer. The business is also constructing 13.6 MW rooftop power plants in the industrial segment for an automobile ancillary company.

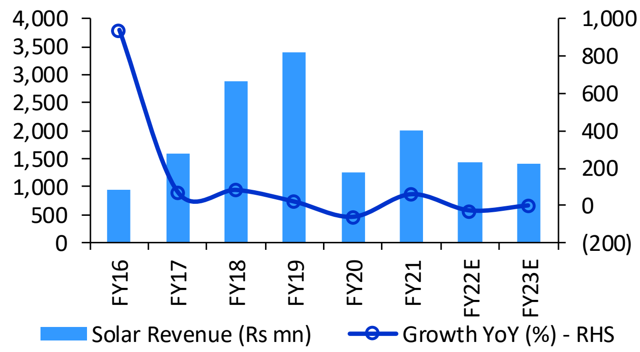
Going forward, prospects remains bright for solar business as the share of renewable energy generation is expected to increase to 44% by 2029-30. Notably, the Indian solar market has added about 3.2 GW of capacity accounting for 48% of new additions during the year. The large-scale solar project pipeline stood at 47 GW, with another 24 GW of tendered capacity pending auctions.

Exhibit 13: Order inflows trend



Source: DART, Company

Exhibit 14: Revenue trend



Source: DART, Company

Urban Infrastructure

To take advantage of growing Metro and Regional Rapid Transit System (RRTS) segment, the company forayed into Urban Infrastructure segment. Post securing multiple orders in the elevated viaduct segment last year, the Company expanded its footprint in FY21 and bagged several new orders in varied sub-segments. In FY21, The Company secured two new elevated viaduct orders/L1 - one from Chennai Metro Rail Limited and a second from Kochi Metro Rail Corporation. The Company is now executing six Metro and RRTS projects with a combined value of Rs38bn, which include two projects each for Delhi Metro Rail Corporation and Kochi Metro Rail Corporation, one for Chennai Metro Rail Limited, and one for National Capital Region Transport Corporation to construct the Delhi-Meerut Regional Rapid Transit System (RRTS).

Moving forward, Urban infra is expected to gain traction as Government has announced an allocation of over Rs880bn to develop new Metro lines in Kochi, Chennai, Bangalore, Nagpur and Nashik. Additionally, two new technologies, MetroLite and MetroNeo, will be deployed in Tier-2 cities and peripheral areas of Tier-1 cities. It is estimated an investment of close to Rs3trn over the next five years for Metro and RRTS lines.

Smart Infrastructure

In smart infra, the company plays a role of a Master System Integrator (MSI). The business has achieved key milestones in the execution of its first two Smart City projects at Aurangabad and Bidkin in Maharashtra. Besides, the Company has forayed into executing smart solutions for the Defence sector and is deploying Airport Perimeter Security Systems for the client. The Union Budget 2021 allocated Rs64.5bn for the ongoing Smart Cities Mission. The Company is working with two cities for developing their scalable Data Centre as part of its ongoing project and will focus on standalone Data Centre opportunities as well going forward. The Company plans to leverage its existing competencies in utilities, to expand it to grid automation and identifies it as a key area of growth.

Oil & Gas Pipeline

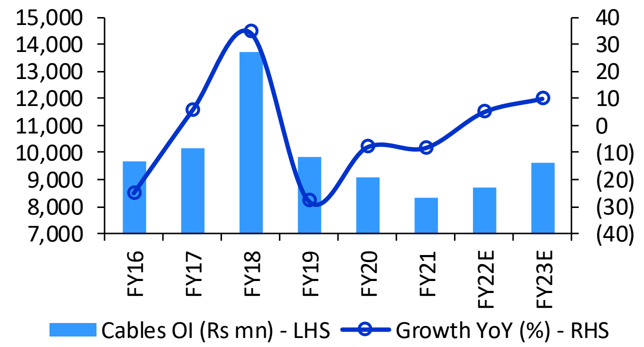
The Company forayed into EPC of Oil & Gas cross-country pipelines, in line with its diversification strategy. The Company has already participated in a few bids for projects during the year and is looking forward to securing its first order in FY22. The Company believes that there is a good window of opportunity in this segment, given the Government's keen interest to promote green energy, which will see a surge in pipelines being laid across the country

Cables Business

The Cables business manufactures a wide range of cables, railway conductors and also offers turnkey cabling solutions across 80+ countries. The Company has already received approvals for manufacturing new products such as Quad cables, Contact wires, Dropper, Jumper & Feeder wires, Earthing conductors and Hybrid cables, and is on track to commercialize them in FY22. Going forward, the domestic Cables market is likely to grow at a CAGR of about 11% to reach Rs1,000-1,100bn by FY 2023- 24 from Rs646bn registered in FY 2018-19. as a strategic partner to the Company's Railway segment, the business has delivered a ~70% growth in the revenue from Railways products during the year.

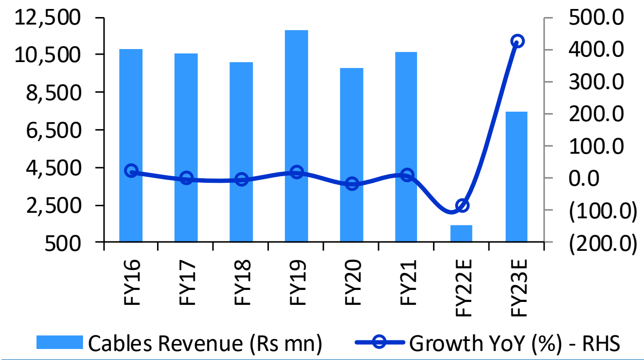
Power cable segment is expected to gain traction due to the large scale infrastructure activities. The demand for EHV cables and turnkey cabling solutions is expected to increase due to the use of EHV cables to connect new GIS substations to the grid. Railway electrification/ Speed Upgradation/ Advanced signaling & telecommunication/ DDFC is expected to drive the demand for several types of railway cables and conductors. Also, The Company expects to gain from the increasing demand from Africa, Middle East, and Australia.

Exhibit 15: Order inflows trend



Source: DART, Company

Exhibit 16: Revenue trend



Source: DART, Company

Contingent Liabilities

Contingent liabilities reduced by 55%, mainly due to reduction in claims related to Service Tax. As a % of Net worth, contingent liabilities dropped to 4.1% in FY21 from 10.9% in FY20.

Exhibit 17: Contingent Liabilities

Particulars (Rs mn)	FY20	FY21
Sales Tax/ Excise Duty/ Service Tax/ GST	2,112	620
Income tax liabilities	904	711
Civil suits	44	44
Guarantees	6,523	5,900
CL (ex-guarantees) as a % of Net worth	**10.9**	**4.1**

Source: DART, Company

Improvement in OCF

KEC reported a healthy Operating Cash flow at Rs8445mn (vs Rs875mn in FY20), this was mainly due to reduction in working capital. The working capital intensity improved to 22.7% from 25.4% in FY20. The optimization of working capital was done through judicious monitoring of cash flows through multi-layered review mechanism, enhancing credit period with vendors, reducing the billing cycle time, and Releasing retention receivables against bank guarantees. Notably, the company's short term borrowing reduced to Rs16.2bn in FY21 (vs Rs19.1bn in FY20).

Exhibit 18: improvement in WC intensity

Particulars (Rs mn)	FY20	FY21
Inventories	7,758	8,422
Receivables	54,259	53,847
Contract Assets	36,648	45,829
Payable	50,073	61,749
Contract Liabilities	22,103	20,786
Core Working Capital	**26,490**	**25,563**
Core WC as a % of sales	**22.1**	**19.5**

Source: DART, Company

Foreign currency risk management

KEC operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions in various currencies that potentially induces Foreign currency risk. The objective of the hedges is to minimize the volatility of the INR cash flows.

Exhibit 19: Foreign currency hedges

Particulars (Rs mn)	USD	BRL	EUR	AED	Others	Total
As at March 31, 2021						
Assets	20,471	1,518	5,920	4,057	13,461	**45,427**
Liabilities	(18,822)	(2,859)	(994)	(3,141)	(5,977)	**(31,792)**
As at March 31, 2020						
Assets	15,454	2,214	5,160	2,360	9,568	**34,756**
Liabilities	(16,784)	(4,224)	(3,267)	(3,821)	(5,095)	**(33,190)**

Source: DART, Company

Following would be potential impact on profit/(loss) before tax and equity gains / (losses) due to 5% appreciation / depreciation in the functional currency of the Company.

Exhibit 20: Sensitivity due to foreign currencies

Exposure to currencies (Rs mn)	Change in rate %	Impact on PBT		Impact on equity	
		FY20	FY21	FY20	FY21
USD	+5	(173)	20	90	46
	-5	173	(20)	(90)	(46)
BRL	+5	-	-	67	101
	-5	-	-	(67)	(101)
AED	+5	(88)	(1)	42	74
	-5	88	1	(42)	(74)
EUR	+5	(253)	(95)	6	0
	-5	253	95	(6)	(0)
Others	+5	(234)	(123)	(140)	(101)
	-5	234	123	140	101

Source: DART, Company

Commodity price risk

The Company is exposed to movement in metal commodity prices of Copper, Aluminum, Zinc and Lead. Most of the contracts with the Indian customers are backed by a price variation for most of these metals. In respect of the Company's commodity derivative contracts, a 10% appreciation/depreciation of all commodity prices underlying such contracts, would have resulted in an approximate gain/(loss) of Rs106.2mn / (Rs71.6mn) and an approximate gain/(loss) of Rs31.4mn / (Rs652.3mn) in the Statement of other comprehensive income for FY21.

Exhibit 21: Exposure to commodities

Cash flow hedges		Foreign Currency (USD mn)				Nominal Amount (Rs mn)				Fair value assets/ (liabilities) (Rs mn)			
		Aluminum	Copper	Zinc	Lead	Aluminum	Copper	Zinc	Lead	Aluminum	Copper	Zinc	Lead
As at March 31, 2021	Less than 3 months	3.1	5.9	1.8	1.0	228.3	438.9	134.0	73.5	12.3	(3.1)	6.8	(1.6)
	3 to 6 months	-	-	0.1	0.1	-	-	7.4	6.8	-	-	3.1	(0.5)
As at March 31, 2020	Less than 3 months	20.3	7.4	3.4	1.6	1,440.9	524.5	240.0	111.1	(175.5)	(41.9)	(33.5)	0.8
	3 to 6 months	4.2	4.5	4.2	0.1	299.0	318.8	300.5	7.0	(13.7)	(39.6)	(38.7)	0.3

Source: DART, Company

Interest rate risk management

The Company is exposed to interest rate risk as Company borrows funds at both fixed and floating interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the company's Profit for the year ended March 31, 2021 would decrease/increase by Rs125.2mn (for the year ended March 31, 2020: decrease/ increase by Rs128.5mn) mainly attributable to the Company's exposure to interest rates on its variable rate borrowings. During the year, the Company's sensitivity in interest rate has decreased due to decrease in variable debt instruments compared to last year.

Particulars (Rs mn)	As at March 31, 2020	As at March 31, 2021
Variable rate borrowing (including interest bearing acceptances)	25,702	25,041
Fixed rate borrowing	9,141	9,469
Total borrowings	**34,843**	**34,510**

Liquid risk management

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of the financial assets and liabilities. The Company has access to various fund/non-fund based bank financing facilities. The amount of unused borrowing facilities (fund and non-fund based) available for future operating activities and to settle commitments is Rs84.4bn as at March 31, 2021 (Rs72bn as at March 31, 2020).

Exhibit 22: Contractual maturity

Particulars (Rs mn)	Less than 1 years	1-3 years	3-5 Years	Total	Carrying amount
As at March 31, 2021					
Interest bearing liabilities	30,843	3,447	219	34,510	34,510
Lease liabilities	225	365	814	1,404	1,404
Trade payables	46,492	0	0	46,492	46,492
Other financial liabilities	210	0	0	210	210
Total	**77,770**	**3,812**	**1,033**	**82,616**	**82,616**
As at March 31, 2020					
Interest bearing liabilities	31,713	3,130	0	34,843	34,843
Lease liabilities	346	643	468	1,456	1,456
Trade payables	38,963	0	0	38,963	38,963
Other financial liabilities	567	0	0	567	567
Total	**71,588**	**3,773**	**468**	**75,829**	**75,829**

Source: DART, Company

Financial analysis

Profit and Loss Analysis

Revenue – KEC revenue increased by 10% in FY21 as Railways/ Civil reported a growth of 26%/ 187% respectively, while T&D revenues declined by 7%.

EBITDA margin – The Company achieved an EBITDA margin of 8.7% for FY21 which was marginally impacted by the steep rise in commodity prices, additional expenditure on account of the pandemic and cost escalation in the Company's Subsidiary in Brazil.

Reduction in Interest cost – Interest cost declined by 15% to Rs2.6bn in FY21 from Rs3bn in FY20 mainly due to better working capital management and reduction of high-cost loans. Interest costs to sales ratio has also reduced to 2.0% in FY21 as against 2.6% in FY20.

Net Profit – Adj. Net Profit remained largely flat at Rs5.5bn in FY21 (vs Rs5.7bn in FY20). EPS stood at Rs21.5 vs Rs22 in FY20.

Order booking and inflows - During the year, the Company secured orders of Rs119bn with a closing order book of Rs191bn. The order intake could have been higher but for the delay in ordering activities and conversion of L1 amidst the pandemic induced global slowdown. The orders during the year were primarily driven by the T&D business.

Balance Sheet and Cash Flow Analysis

Share Capital - The paid-up Equity Share Capital of the Company as on March 31, 2021 was Rs514mn. There was no change in the company's share capital during the year under review.

Net block increased by 10% to Rs9.8bn in FY21 from Rs8.9bn in FY20.

Long term borrowing stands at Rs2.2bn as of March '21, with Short term borrowings at Rs16bn.

Working capital- Inventories reduced by 9% YoY to Rs8.4bn. Inventory days remained stable at 23 days. Debtors declined marginally by 1.1% YoY to Rs53.8bn. Debtor days reduced to 150 days from 166 days last year. Creditors increased by 12% YoY to Rs62.7bn with payable days at 175 days compared to 153 days last year.

Cash flow from operations improved to Rs8.4bn in FY21 (vs Rs 0.8bn in FY20). Capital expenditure stood at Rs1.8n in FY21. FCF increased to Rs8.5bn (vs Rs1.1bn in FY20).

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	**1,19,654**	**1,31,142**	**1,40,413**	**1,54,442**
Total Expense	**1,07,310**	**1,19,730**	**1,27,409**	**1,39,133**
COGS	84,182	96,076	1,02,502	1,11,816
Employees Cost	11,044	11,151	11,708	12,645
Other expenses	12,084	12,503	13,199	14,672
EBIDTA	**12,344**	**11,412**	**13,004**	**15,309**
Depreciation	1,472	1,525	1,607	1,675
EBIT	**10,872**	**9,887**	**11,397**	**13,634**
Interest	3,080	2,627	2,808	3,089
Other Income	111	299	225	248
Exc. / E.O. items	0	0	0	0
EBT	**7,903**	**7,559**	**8,814**	**10,793**
Tax	2,248	2,032	2,292	2,806
RPAT	5,655	5,527	6,522	7,987
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**5,655**	**5,527**	**6,522**	**7,987**

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	514	514	514	514
Minority Interest	0	0	0	0
Reserves & Surplus	27,462	33,083	38,301	44,690
Net Worth	**27,976**	**33,597**	**38,815**	**45,204**
Total Debt	21,729	19,565	19,565	19,565
Net Deferred Tax Liability	920	691	740	814
Total Capital Employed	**50,624**	**53,853**	**59,119**	**65,582**
Applications of Funds				
Net Block	**13,518**	**13,975**	**14,568**	**15,293**
CWIP	840	179	100	100
Investments	4,012	7,491	8,020	8,821
Current Assets, Loans & Advances	**1,10,400**	**1,18,835**	**1,28,758**	**1,40,804**
Inventories	7,758	8,422	9,617	10,578
Receivables	54,448	53,847	57,654	63,414
Cash and Bank Balances	1,862	2,502	4,436	6,176
Loans and Advances	1,081	1,187	1,270	1,397
Other Current Assets	45,252	52,877	55,781	59,238
Less: Current Liabilities & Provisions	**78,145**	**86,627**	**92,326**	**99,435**
Payables	50,073	62,777	65,398	69,816
Other Current Liabilities	28,073	23,850	26,929	29,619
sub total				
Net Current Assets	32,255	32,208	36,431	41,368
Total Assets	**50,624**	**53,853**	**59,119**	**65,582**

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.6	26.7	27.0	27.6
EBIDTA Margin	10.3	8.7	9.3	9.9
EBIT Margin	9.1	7.5	8.1	8.8
Tax rate	28.4	26.9	26.0	26.0
Net Profit Margin	4.7	4.2	4.6	5.2
(B) As Percentage of Net Sales (%)				
COGS	70.4	73.3	73.0	72.4
Employee	9.2	8.5	8.3	8.2
Other	10.1	9.5	9.4	9.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.8	0.6	0.5	0.4
Interest Coverage	3.5	3.8	4.1	4.4
Inventory days	24	23	25	25
Debtors days	166	150	150	150
Average Cost of Debt	15.9	12.7	14.4	15.8
Payable days	153	175	170	165
Working Capital days	98	90	95	98
FA T/O	8.9	9.4	9.6	10.1
(D) Measures of Investment				
AEPS (Rs)	22.0	21.5	25.4	31.1
CEPS (Rs)	27.7	27.4	31.6	37.6
DPS (Rs)	4.1	4.0	5.1	6.2
Dividend Payout (%)	18.6	18.6	20.0	20.0
BVPS (Rs)	108.8	130.7	151.0	175.8
RoANW (%)	21.6	18.0	18.0	19.0
RoACE (%)	18.7	15.6	16.5	17.8
RoAIC (%)	24.5	19.8	21.5	23.9
(E) Valuation Ratios				
CMP (Rs)	418	418	418	418
P/E	19.0	19.4	16.5	13.5
Mcap (Rs Mn)	1,07,464	1,07,464	1,07,464	1,07,464
MCap/ Sales	0.9	0.8	0.8	0.7
EV	1,27,331	1,24,526	1,22,593	1,20,852
EV/Sales	1.1	0.9	0.9	0.8
EV/EBITDA	10.3	10.9	9.4	7.9
P/BV	3.8	3.2	2.8	2.4
Dividend Yield (%)	1.0	1.0	1.2	1.5
(F) Growth Rate (%)				
Revenue	8.8	9.6	7.1	10.0
EBITDA	7.3	(7.5)	14.0	17.7
EBIT	5.3	(9.1)	15.3	19.6
PBT	5.0	(4.3)	16.6	22.5
APAT	16.3	(2.3)	18.0	22.5
EPS	16.3	(2.3)	18.0	22.5

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	875	8,445	5,839	6,465
CFI	(1,179)	(1,274)	(2,602)	(3,127)
CFF	25	(6,639)	(1,304)	(1,597)
FCFF	1,059	8,575	5,316	5,623
Opening Cash	2,894	1,862	2,502	4,436
Closing Cash	1,862	2,502	4,436	6,176

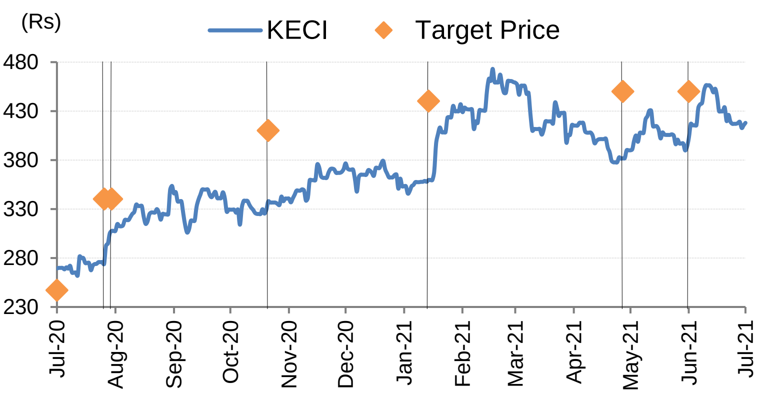
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Buy	247	269
Aug-20	Buy	340	274
Aug-20	Buy	340	308
Nov-20	Buy	410	338
Jan-21	Buy	440	360
May-21	Accumulate	450	382
Jun-21	Accumulate	450	403

*Price as on recommendation date

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