

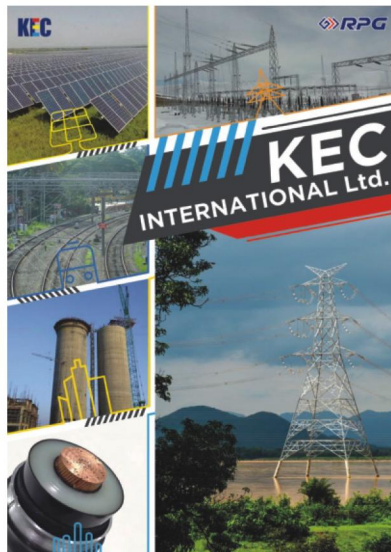
Background & Business

KEC Ltd is the flagship company of the RPG group. KEC is a global EPC player in the Power Transmission and Distribution (T&D) space. The company has over 7 decades of experience in executing power T&D projects on turnkey basis and has the ability to provide end-to-end solutions encompassing designing, manufacturing, supply and construction of power transmission lines. It has interests across Power T&D, Cables, Railways, Telecom, Water and solar sectors. In the year ending March 2019, Power T&D was the largest contributor to the revenue at 66% followed by Railways (17%), Cables (11%), Solar (3%) and Civil (4%).

Investment Thesis

- 1) **Domestic Sectoral Opportunities expected to pick up as new government settles in** - Both T&D and Railways have witnessed heavy capex in the 5 years of NDA government. T&D sector is expected to witness an investment of ~Rs.2.6 tn between 2017-22, while railways would invest ~Rs. 1.58 tn per year for electrification and network expansion going forward. Elections in April 2019 slowed down the new orders in the last 2 quarters, which is expected to pick up in FY20. KEC being **the market leader** in the segment with strong execution capabilities, is expected to be a large beneficiary.
- 2) **Multiple growth levers** - KEC, predominantly a power T&D EPC player, has diversified considerably over the past few years. International orders form 50% of its total order book. Domestically, its order book in T&D and non-T&D segment stand at 69:31, with increasing bias towards non-T&D EPC projects, like railways and civil projects.
- 3) **Strong traction in the order book** - KEC has strong order backlog of Rs.203 bn as of March 2019. Its order book has been growing at a CAGR of 29% over the past 3 years. Order book/Sales ratio stands at 1.9-x as of March 2019, despite lower order inflows in H2FY19 due to elections. This provides ample revenue visibility in the medium term, given long execution cycle of 18-24 months. While the international order inflow remains robust, domestically, ordering from SEBs and PGCIL is expected to pick up in the current post election period.
- 4) **Margins have expanded; to remain stable** - KEC has improved its core operating margins significantly from 6% in FY15 to 10.5% in FY19. Strong focus on execution, cost control and improvement in SAE operations enabled the company to expand margins. As the company achieves critical mass in newly entered segments, operating leverage shall enable the company to maintain margins going forward.

From : 13-05-2013
 To : 31-05-2019
 Performance : 571%
 Recommendation : OPEN



Outlook

For KEC, order execution and tendering is expected to remain strong going forward. Scaling up of railways and continued traction in T&D order book is expected to ensure good revenue visibility. Given the overall favourable environment of the sector and dominant leadership position in the market, we maintain our BUY recommendation on the company.



EQUENTIS
 THINKING FUTURE

www.equentiswealth.com