

KEC INTERNATIONAL Ltd.

"Disappointing performance; can do better"

"Buy"
10th May' 13

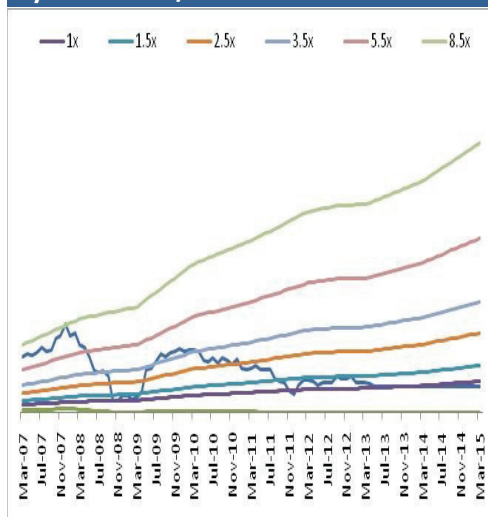
Result update	Buy
CMP	48
Target Price	75
Previous Target Price	75
Upside	56%
Change from Previous	0%

Market Data	
BSE Code	532714
NSE Symbol	KEC
52wk Range H/L	48/76
Mkt Capital (Rs Crores)	1234
Average Daily Volume	162535
Nifty	

Stock Performance-%	1M	1yr	YTD
Absolute	(11.4)	(8.1)	(15.7)
Rel. to Nifty	(20.7)	(29.5)	(22.5)

Share Holding Pattern-%	Current	4QFY13	3QFY13
Promoters			
FII			
DII			
Others			

1 yr Forward P/B



Kec International 4QFY13 margins were disappointment on account of low margins order and change in sales mix. However, as per the management margins are expected to improve from next year onwards (expected to be in range of 6% to 7%). Further the stock has languished in the last few months given some demand slowdown and low margin order. We think FY13 will be the year of all the concerns bottoming out and the revival of economy in FY14 can help KEC International to achive similar growth as shown in previous up cycles. With strong order backlog of 95bn, likely earning growth and attractive valuation (FY14E & FY15 P/E of 7.8x & 5.2x), we belive this is a good time to buy the stock.

Strong revenue growth while margin pressure continue; KEC reported robust revenue growth for the year FY13, where ne sales stands at Rs. 6979 crore as against Rs. 5815 crore in the previous year, and registering a growth of 20% Y-o-Y, while for the period Q4FY13, net sales stands at Rs. 2150 crore in the corresponding quarter previous year, registering a growth of 3.9% Y-o-Y. EBITDA margin for the period Q4FY13 dipped 410 bps to 4.1% Y-o-Y, while for the fiscal FY13 it stands at 5.1% dipped by 265 bps on Y-o-Y. Downside in EBITDA margin is mainly on account of entrv strategv into new business at lower margins.

Order backlog improves; Company's order book continues to remain robust. The order book stood at Rs 9470 crore as of FY13, as against Rs 8572 crore as on FY12 grew 10.45% on Y-o-Y. Ther order is approximately split equally betwwen domestics and overseas. Order intake for the current quarter is Rs. 1720 crore. However for fiscal FY13 it stand 7500 crore surged by 21% as compared to the same period during the previous year. It secured orders from all business verticals with a good mix of private and government orders. The company expects the order book continue at more then Rs 10,000 crore level, inspite of thier execution going up (Execution is up by 30%).

Valuation; Though we have built in a decline in FY13E PAT, we believe valuation multiples in all respect are trading at rock bottom (P/BV, P/E and EV/EBITDA). This implies that the downside is limited but re-rating on the upside will take time until margins issues are resolved. At the current price the stock is discount its FY14E EPS of INR6.3 by 7.8x and FY15E EPS of INR9.3 by 5.2x. We advised to our readers to hold the stock and to accumulate it on every dip as a medium term to long term investment with a price target of Rs. 75

Financials	Rs, Crore				
	4QFY13	3QFY13	(QoQ)-%	4QFY12	(YoY)-%
Revenue	2150.0	1797.0	19.6%	2069.0	3.9%
EBITDA	88.9	103.6	-14.1%	169.5	-47.6%
PAT	-13.8	29.4	-146.9%	74.4	-118.5%
EBITDA Margin	4.1%	5.8%	(170) BPS	8.2%	(410) BPS
PAT Margin	-0.6%	1.6%	(220) BPS	3.6%	(420) BPS

(Source: Company/Eastwind)

KEC INTERNATIONAL Ltd.

Company profile :

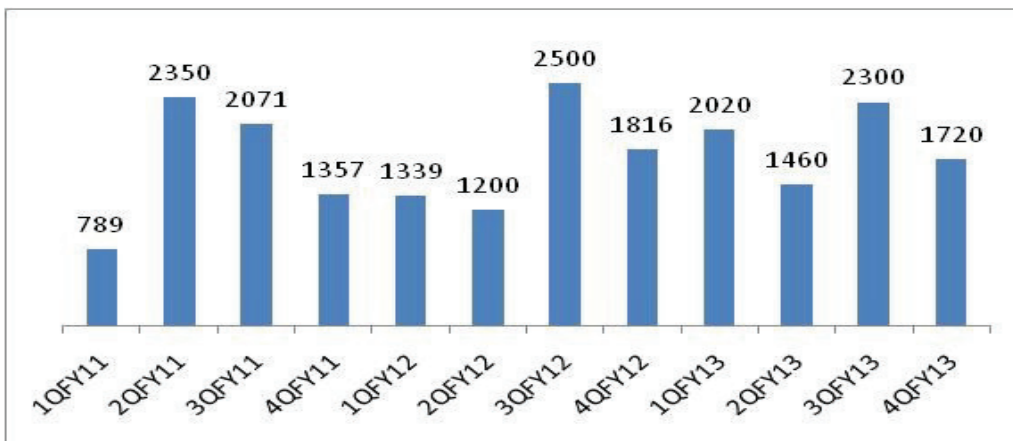
KEC International is a global infrastructure engineering, procurement and construction (EPC) major. It has presence in the verticals of power transmission, power systems, cables, railways, telecom and water. The company has powered infrastructure development in 46 countries across South Asia, Middle East, Africa, Central Asia and Americas. It is a flagship company of the RPG Group.

Other key highlites :

- The major reason for company's margins being under pressure is the new businesses that it has entered in last two or three years. Those businesses quoted at a very low margin and that has impacted overall profitability number.
- Management indicated that margins should improve in the domestic business as sensible bidding is seen at PGCIL.
- With a very robust order book of Rs 9500 crore, management expects, the company will register a decent growth for FY14 over FY13.
- The production of Cables at Thane plant has been discontinued from February 11, 2013. The complete range of products manufactured at Thane plant is now being manufactured at new cable plant at Vadodara.
- The transmission business margin continues to be in the region of 8.75 even in this quarter. So, for the year as well as for the quarter the transmission business margin are intact.

Story in graphs :

Order Intake (Q-o-Q) :

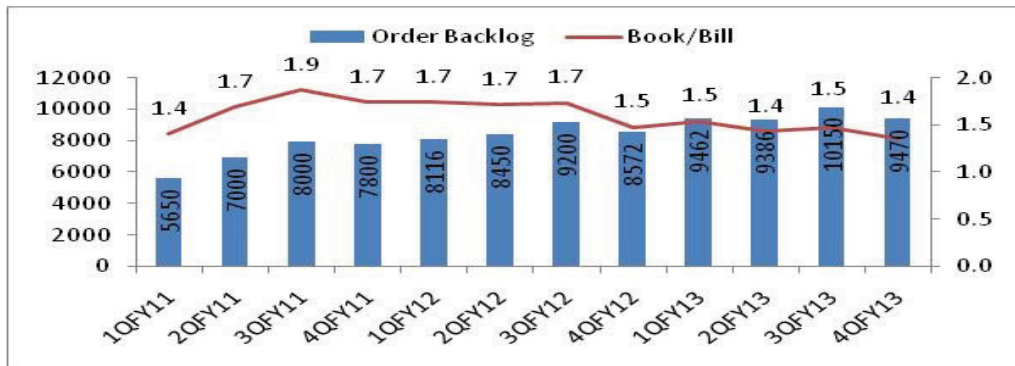


(Ammount in crore)

(Source: Company/Eastwind)

KEC INTERNATIONAL Ltd.

Order backlog to B/B (Q-o-Q):



(Ammount in crore)

(Source: Company/Eastwind)

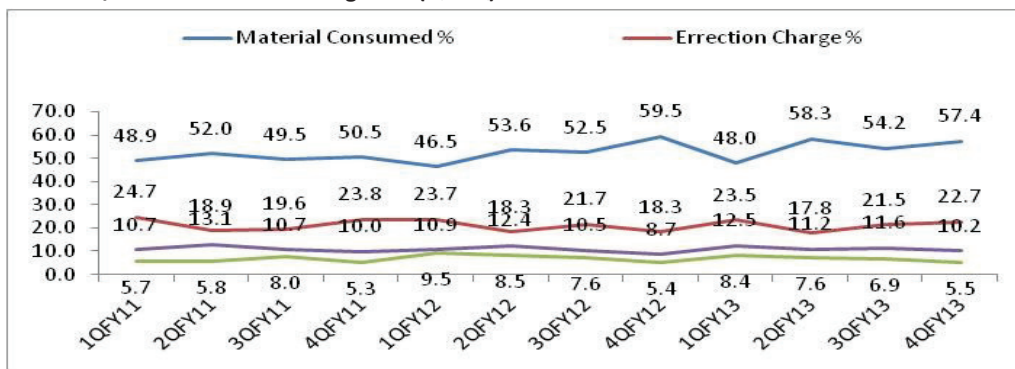
Revenue & Growth % YoY (Q-o-Q):



(Ammount in crore)

(Source: Company/Eastwind)

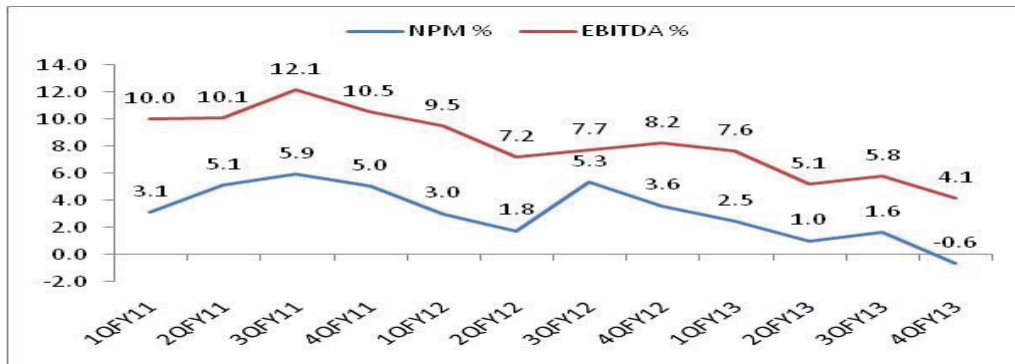
Electrical/Electro Mechanical segment (Q-o-Q):



(Source: Company/Eastwind)

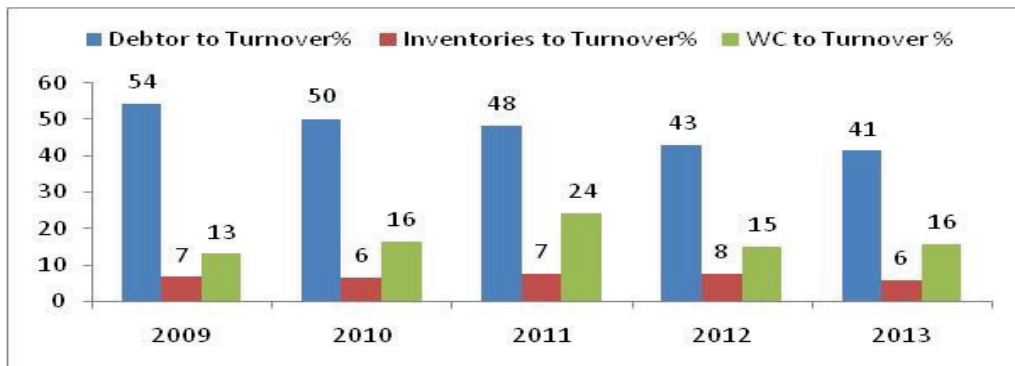
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Margin profile (Q-o-Q):



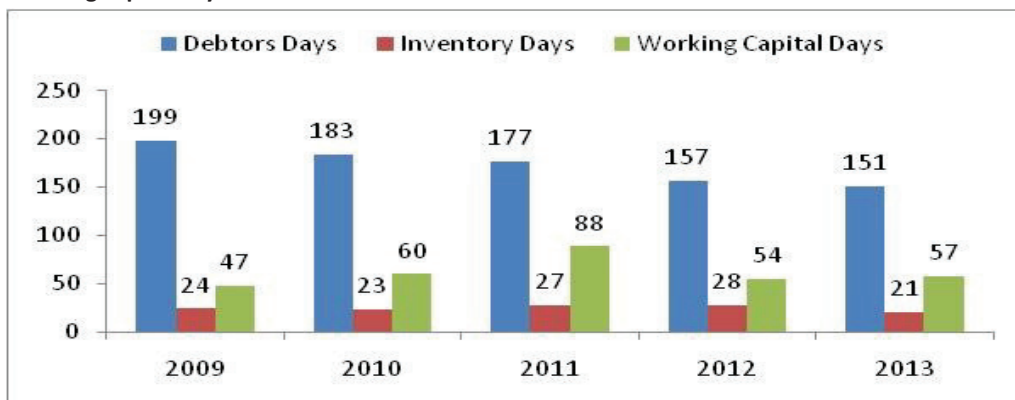
(Source: Company/Eastwind)

Working capital to T/O %:



(Source: Company/Eastwind)

Working capital days:



(Source: Company/Eastwind)

KEC INTERNATIONAL Ltd.

Key financials :

PARTICULAR	2009A	2010A	2011A	2012A	2013A	2014E	2015E
Revenue	3427	3906	4483	5815	6979	7857	8845
Other Income	1	1	0	62	16	16	16
Total Income	3428	3907	4483	5876	6996	7873	8861
EBITDA	300	405	483	472	381	511	619
EBIT	277	378	443	424	325	450	554
Depreciation	23	27	41	48	56	61	65
Intrest Cost	100	86	118	160	194	216	199
PBT	177	293	317	325	147	250	371
TAX	62	104	111	115	82	88	132
Extra Oridiniary Items	0	0	(8)	(1)	(0)	0	0
Reported PAT	115	189	205	210	65	161	240
Adjusted PAT	115	188	211	170	58	151	229
EBITDA %	8.7%	10.4%	10.8%	8.1%	5.5%	6.5%	7.0%
NPM %	3.4%	4.8%	4.6%	3.6%	0.9%	2.0%	2.7%
Tax %	34.9%	35.5%	35.1%	35.4%	55.7%	35.4%	35.4%
ROE %	20.7%	24.0%	21.7%	18.9%	5.7%	12.6%	16.1%
ROCE%	10.9%	13.3%	8.9%	9.4%	2.5%	5.8%	8.0%
Dividend Yeild %	3.3%	1.1%	1.6%	1.8%	0.9%	2.5%	2.5%
Book Value	22.6	31.9	36.8	43.1	44.6	49.7	57.8
P/B	1.3	3.7	2.1	1.5	1.3	1.0	0.8
P/E	6.5	15.2	9.6	8.0	22.8	7.8	5.2
EV/EBITDA	4.2	8.7	6.9	5.9	7.7	5.4	4.4
EPS	4.7	7.7	8.0	8.2	2.5	6.3	9.3
Dividend Per Share	1.0	1.3	1.2	1.2	0.5	1.2	1.2
Net Worth	558	787	947	1108	1147	1278	1486
Total Debt	497	629	1349	1114	1456	1500	1500
Capital Employed	1056	1416	2296	2222	2603	2778	2986
No of Share (Adj)	25	25	26	26	26	26	26

(Ammount in crore)

(Source: Company/Eastwind)