

## **KEC INTERNATIONAL Ltd.**

"Buy" 13th Nov' 13

SEBI Registered Portfolio Manager

"Back on margin confidence......"

Result update				_	
Target Price 75 Previous Target Price 75 Upside 95% Change from Previous 0%  Market Data BSE Code 532714 NSE Symbol KEC 52wk Range H/L 24/76 Mkt Capital (Rs Crores) 1030 Average Daily Volume 162535 Nifty 6018  Stock Performance-%  1M 1yr YTD Absolute 40.5 (34.4) (29.2) Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-% 2QFY14 1QFY14 4QFY13 Promoters 47.7 45.4 44.5 FII 2.3 2.5 2.5 DII 32.7 33.8 34.5 Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -15x -25x -35x -55x -85x					
Previous Target Price 75 Upside 95% Change from Previous 0%  Market Data BSE Code 532714 NSE Symbol KEC 52wk Range H/L 24/76 Mkt Capital (Rs Crores) 1030 Average Daily Volume 162535 Nifty 6018  Stock Performance-%  1M 1yr YTD Absolute 40.5 (34.4) (29.2) Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-%  2QFY14 1QFY14 4QFY13 Promoters 47.7 45.4 44.5 FII 2.3 2.5 2.5 DII 32.7 33.8 34.5 Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -15x -25x -35x -55x -85x					
Upside 95% Change from Previous 0%  Market Data BSE Code 532714 NSE Symbol KEC 52wk Range H/L 24/76 Mkt Capital (Rs Crores) 1030 Average Daily Volume 162535 Nifty 6018  Stock Performance-%  1M 1yr YTD Absolute 40.5 (34.4) (29.2) Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-%  2QFY14 1QFY14 4QFY13 Promoters 47.7 45.4 44.5 FII 2.3 2.5 2.5 DII 32.7 33.8 34.5 Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -15x -25x -35x -55x -85x					
Change from Previous       0%         Market Data         BSE Code       532714         NSE Symbol       KEC         52wk Range H/L       24/76         Mkt Capital (Rs Crores)       1030         Average Daily Volume       162535         Nifty       6018         Stock Performance-%         1M       1yr       YTD         Absolute       40.5       (34.4)       (29.2)         Rel. to Nifty       36.7       (42.1)       (37.2)         Share Holding Pattern-%         2QFY14       1QFY14       4QFY13         Promoters       47.7       45.4       44.5         FII       2.3       2.5       2.5         DII       32.7       33.8       34.5         Others       17.2       18.4       18.4         1 yr Forward P/B       —1x       —15x       —25x       —35x       —55x       —85x		ce			
Market Data BSE Code 532714 NSE Symbol KEC 52wk Range H/L 24/76 Mkt Capital (Rs Crores) 1030 Average Daily Volume 162535 Nifty 6018  Stock Performance-%  1M 1yr YTD Absolute 40.5 (34.4) (29.2) Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-% 2QFY14 1QFY14 4QFY13 Promoters 47.7 45.4 44.5 FII 2.3 2.5 2.5 DII 32.7 33.8 34.5 Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -15x -2.5x -3.5x -5.5x -8.5x				95%	
BSE Code  NSE Symbol  KEC  52wk Range H/L  Mkt Capital (Rs Crores)  Average Daily Volume  162535  Nifty  Stock Performance-%  1M  1yr  YTD  Absolute  40.5  (34.4)  (29.2)  Rel. to Nifty  36.7  (42.1)  (37.2)  Share Holding Pattern-%  2QFY14  1QFY14  4QFY13  Promoters  47.7  45.4  44.5  FII  2.3  2.5  2.5  DII  32.7  33.8  34.5  Others  17.2  18.4  18.4  1 yr Forward P/B  -1x  -15x  -25x  -35x  -55x  -85x	Change from Previ	ous		0%	
BSE Code  NSE Symbol  KEC  52wk Range H/L  Mkt Capital (Rs Crores)  Average Daily Volume  162535  Nifty  Stock Performance-%  1M  1yr  YTD  Absolute  40.5  (34.4)  (29.2)  Rel. to Nifty  36.7  (42.1)  (37.2)  Share Holding Pattern-%  2QFY14  1QFY14  4QFY13  Promoters  47.7  45.4  44.5  FII  2.3  2.5  2.5  DII  32.7  33.8  34.5  Others  17.2  18.4  18.4  1 yr Forward P/B  -1x  -15x  -25x  -35x  -55x  -85x					
NSE Symbol KEC 52wk Range H/L 24/76 Mkt Capital (Rs Crores) 1030 Average Daily Volume 162535 Nifty 6018  Stock Performance-%	Market Data				
52wk Range H/L  Mkt Capital (Rs Crores)  Average Daily Volume  162535  Nifty  6018  Stock Performance-%  1M 1yr YTD  Absolute 40.5 (34.4) (29.2)  Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-%  2QFY14 1QFY14 4QFY13  Promoters 47.7 45.4 44.5  FII 2.3 2.5 2.5  DII 32.7 33.8 34.5  Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -1.5x -2.5x -3.5x -5.5x -8.5x				532714	
Mkt Capital (Rs Crores) 1030 Average Daily Volume 162535 Nifty 6018  Stock Performance-%	NSE Symbol			KEC	
Average Daily Volume  Nifty  Stock Performance-%  1M 1yr YTD  Absolute 40.5 (34.4) (29.2)  Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-%  2QFY14 1QFY14 4QFY13  Promoters 47.7 45.4 44.5  FII 2.3 2.5 2.5  DII 32.7 33.8 34.5  Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -1.5x -2.5x -3.5x -5.5x -8.5x	52wk Range H/L			24/76	
Stock Performance-%         1M       1yr       YTD         Absolute       40.5       (34.4)       (29.2)         Rel. to Nifty       36.7       (42.1)       (37.2)         Share Holding Pattern-%         2QFY14       1QFY14       4QFY13         Promoters       47.7       45.4       44.5         FII       2.3       2.5       2.5         DII       32.7       33.8       34.5         Others       17.2       18.4       18.4         1 yr Forward P/B       -1x       -1.5x       -2.5x       -3.5x       -5.5x       -8.5x	Mkt Capital (Rs Cro	ores)		1030	
Stock Performance-%           1M         1yr         YTD           Absolute         40.5         (34.4)         (29.2)           Rel. to Nifty         36.7         (42.1)         (37.2)           Share Holding Pattern-%           2QFY14         1QFY14         4QFY13           Promoters         47.7         45.4         44.5           FII         2.3         2.5         2.5           DII         32.7         33.8         34.5           Others         17.2         18.4         18.4           1 yr Forward P/B           —1x         -1.5x         -2.5x         -3.5x         -5.5x         -8.5x	Average Daily Volu	me		162535	
1M       1yr       YTD         Absolute       40.5       (34.4)       (29.2)         Rel. to Nifty       36.7       (42.1)       (37.2)         Share Holding Pattern-%         2QFY14       1QFY14       4QFY13         Promoters       47.7       45.4       44.5         FII       2.3       2.5       2.5         DII       32.7       33.8       34.5         Others       17.2       18.4       18.4         1 yr Forward P/B         —1x       —1.5x       —2.5x       —3.5x       —5.5x       —8.5x	Nifty			6018	
1M       1yr       YTD         Absolute       40.5       (34.4)       (29.2)         Rel. to Nifty       36.7       (42.1)       (37.2)         Share Holding Pattern-%         2QFY14       1QFY14       4QFY13         Promoters       47.7       45.4       44.5         FII       2.3       2.5       2.5         DII       32.7       33.8       34.5         Others       17.2       18.4       18.4         1 yr Forward P/B         —1x       —1.5x       —2.5x       —3.5x       —5.5x       —8.5x					
Absolute 40.5 (34.4) (29.2) Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-%	Stock Performan	ce-%			
Rel. to Nifty 36.7 (42.1) (37.2)  Share Holding Pattern-%		1M	1yr	YTD	
Share Holding Pattern-%         2QFY14       1QFY14       4QFY13         Promoters       47.7       45.4       44.5         FII       2.3       2.5       2.5         DII       32.7       33.8       34.5         Others       17.2       18.4       18.4         1 yr Forward P/B         —1x       —1.5x       —2.5x       —3.5x       —5.5x       —8.5x	Absolute	40.5	(34.4)	(29.2)	
Share Holding Pattern-%         2QFY14       1QFY14       4QFY13         Promoters       47.7       45.4       44.5         FII       2.3       2.5       2.5         DII       32.7       33.8       34.5         Others       17.2       18.4       18.4         1 yr Forward P/B         —1x       —1.5x       —2.5x       —3.5x       —5.5x       —8.5x	Rel. to Nifty	36.7	(42.1)	(37.2)	
2QFY14   1QFY14   4QFY13					
2QFY14   1QFY14   4QFY13	Share Holding Pa	ttern-%			
FII 2.3 2.5 2.5  DII 32.7 33.8 34.5  Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -1.5x -2.5x -3.5x -5.5x -8.5x			1QFY14	4QFY13	
DII 32.7 33.8 34.5 Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -1.5x -2.5x -3.5x -5.5x -8.5x	Promoters	47.7	45.4	44.5	
DII 32.7 33.8 34.5 Others 17.2 18.4 18.4  1 yr Forward P/B  -1x -1.5x -2.5x -3.5x -5.5x -8.5x	FII	2.3			
1 yr Forward P/B  —1x —1.5x —2.5x —3.5x —5.5x —8.5x	DII	32.7	33.8	34.5	
—1x —1.5x —2.5x —3.5x —5.5x —8.5x	Others	17.2	18.4		
—1x —1.5x —2.5x —3.5x —5.5x —8.5x					
—1x —1.5x —2.5x —3.5x —5.5x —8.5x	1 vr Forward P/B				
				702000	
Mar-07  Jul-08  Jul-08  Jul-09  Jul-09  Nov-09  Mar-11  Jul-12  Mar-12  Mar-13  Mar-14  Jul-13  Mar-14  Mar-14  Mar-14  Mar-14  Mar-14  Mar-14	—1x —1.5x —	<b>−</b> 2.5x <b>−−</b> 3	.5x — 5.5x	8.5x	
Mar-07   Mar-08   Mar-08   Mar-09   Mar-09   Mar-09   Mar-10   Mar-10   Mar-11   Mar-11   Mar-12   Mar-13   Mar-13   Mar-14   Mar-15   Mar-15   Mar-16   Mar-17   Mar					
Mar-07  Nav-08  Nav-08  Nav-09  Nav-09  Nav-10  Nav-11  Nav-11  Nav-11  Nav-12  Nav-12  Nav-13  Mar-14  Nav-14  Nav-14  Nav-14  Nav-14  Nav-14  Nav-14  Nav-14  Nav-14					
Mar-07 Nav-08 Nav-08 Nav-08 Nav-09 Nav-09 Nav-10 Nav-10 Nav-11 Nav-11 Nav-12 Nav-12 Nav-13 Nav-13 Nav-13 Nav-13 Nav-13 Nav-13 Nav-14 Nav-14				/	
Mar-07   Mar-08   Mar-08   Mar-08   Mar-09   Mar-09   Mar-10   Mar-11   Mar-11   Mar-12   Mar-12   Mar-13   Mar-14   Mar-14   Mar-14   Mar-14   Mar-14   Mar-15   Mar-15   Mar-15   Mar-16   Mar-17   Mar-17   Mar-18   Mar					
Mar-07   Mar-08   Mar-08   Mar-08   Mar-09   Mar-09   Mar-10   Mar-11   Mar-11   Mar-12   Mar-13   Mar-14   Mar-15   Mar-15   Mar-15   Mar-15   Mar-15   Mar-15   Mar-16   Mar-17   Mar-17   Mar-17   Mar-18   Mar					
Mar-07 Jul-08 Jul-08 Jul-08 Jul-08 Jul-09 Jul-09 Jul-09 Jul-09 Jul-10 Jul-11 Jul-11 Jul-11 Jul-13 Jul-13 Jul-13 Jul-13 Jul-13 Jul-13 Jul-13 Jul-14 Mar-14 Mar-14					
Mar-07   Mar-07   Mar-07   Mar-08   Mar-08   Mar-09   Mar-11   Mar-11   Mar-12   Mar-13   Mar-14   Mar-15   Mar-15   Mar-16   Mar-16   Mar-17   Mar-17   Mar-17   Mar-18   Mar					
Mar-07   Mar-07   Mar-08   Mar-08   Mar-09   Mar-09   Mar-11   Mar-11   Mar-11   Mar-12   Mar-12   Mar-12   Mar-13   Mar-13   Mar-13   Mar-14   Mar-15   Mar-15   Mar-14   Mar-14   Mar-15   Mar-15   Mar-16   Mar-17   Mar	~~~	-			
Mar-07 Jud-08 Jud-08 Jud-08 Jud-09 Jud-09 Jud-09 Jud-10 Jud-11 Jud-11 Jud-11 Jud-13 Mar-12 Jud-13 Mar-13 Jud-13 Mar-14 Mar-14 Mar-14 Mar-14 Mar-14 Mar-14 Mar-14		-	~		
Mar-07 Jul-07 Mar-09 Jul-08 Nov-08 Nov-09 Jul-09 Jul-09 Nov-10 Mar-11 Mar-11 Mar-12 Mar-12 Mar-13 Mar-13 Mar-14 Mar-14 Mar-14 Mar-14		-	<del></del>		
	1-07 1-07 1-07 1-08 1-08 1-09 1-09 1-09	64 64 64 64 64 64 64 64 64 64 64 64 64 6	712 712 712 713 713	214 114 114 115	
	N Z N Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z Z	N N N	Z Z Z Z	Z Z Z Z Z Z g	

Kec International 2QFY14 margins were surprised on account of surging margins on core transmission business segment which led to increase EBITDA by 30.4% to Rs. 111.9 crore and PAT by 34.2% to Rs. 22.1 crore. The interest cost and depreciation costs were also up by about 45% and 34% respectively as the full impact of Baroda expansion of about Rs 200 crore was visible from this quarter. Also average interest rate on YoY basis was higher. Company total sales for the quarter stands at Rs. 1778.0 crore increase by 6.6% yoyout of which 48% came from India while rest are from international markets. During the quarter Transmission execution was better at the same time other segments execution like railways, power cables etc were lower. Order Intake was up 9.0% yoy and stands at 1758 crore. The company has an order book position of about Rs. 10,200 crore as on Sep'13, of which 54% are international orders. Management expects that out of the low margin orders of about Rs. 400 crore, more than 50% is executed in H1 FY'14 and the rest will be executed in H2 FY'14. So for FY'15, there will be no legacy orders and hence margins will improve and will be back to normal level of around 8-9% in FY'15. Further the stock has languished in the last few months given some demand slowdown and low margin order. We think 1HFY14 will be the year of all the concerns bottoming out and the revival of core transmission segment in 2HFY14 can help KEC International to achive similar growth as shown in previous up cycles. With strong order backlog of Rs. 10,200 crore, likely earning growth and attractive valuation (FY14E & FY15 P/E of 7 6x & 1 0x) we believe this is a good time to how the stock

## Strong order book position;

In Transmission business, the company has an order book position of about Rs. 10,200 crore as on Sep'13, of which 54% are international orders. During Q2 FY'14, the company secured new orders worth Rs. 1758 crore and order intake for H1 FY'14, stood at Rs. 3943 crore, up by about 13% YoY. The international orders mainly are secured from Saudi Arabia, America, Bangladesh and Combodia market. KEC also secured orders worth Rs. 190 crore in power system business and about Rs 50 crore from Cable business. Not much activity level was there from Railways and the company could not win the 2 large dedicated freight corridor orders which the Railway had tendered

## Valuation;

Though we have built in a decline in FY14E 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 Rs.5.4 by 7.6x and FY15E EPS of Rs. 10.0 by 4.0x. 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	
	2QFY14	1QFY14	(QoQ)-%	2QFY13	(YoY)-%	
Revenue	1778.0	1746.4	1.8%	1668.3	6.6%	
EBITDA	111.9	88.1	27.0%	85.8	30.4%	
PAT	22.1	-8.8	-350.2%	16.5	34.2%	
<b>EBITDA Margin</b>	6.3%	5.0%	130 bps	5.1%	120 bps	
PAT Margin	1.2%	-0.5%	170 bps	1.0%	20 bps	
(Source: Company/East	wind)				(Consolidated)	

Narnolia Securities Ltd,

## **KEC INTERNATIONAL Ltd.**

$\omega$	 221	212		
1/6/	 ıaıı	cia	13	

DARTICULAR	20104	20111	20124	20124	204.45	20455	2014E	2015E
PARTICULAR	2010A	2011A	2012A	2013A	2014E	2015E	Revised	Revised
Performance								
Performance	_							
Revenue	3906	4483	5815	6979	7857	8845	7950	8845
Other Income	1	0	62	16	16	16	20	20
Total Income	3907	4483	5876	6996	7873	8861	7970	8865
EBITDA	405	483	472	381	511	619	518	709
EBIT	378	443	424	325	450	554	448	639
DEPRICIATION	27	41	48	56	61	65	70	70
INTREST COST	86	118	160	194	216	199	255	255
PBT	293	317	325	147	250	371	213	404
TAX	104	111	115	82	88	132	75	143
Extra Oridiniary Items	0	-8	-1	(0)	0	0	0	0
Reported PAT	189	205	210	65	161	240	138	261
Dividend (INR)	31	31	31	31	31	31	31	31
DPS	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
EPS	7.7	8.0	8.2	2.5	6.3	9.3	5.4	10.2
Yeild %	_							
EBITDA %	10.4%	10.8%	8.1%	5.5%	6.5%	7.0%	6.5%	8.0%
NPM %	4.8%	4.6%	3.6%	0.9%	2.0%	2.7%	1.7%	2.9%
	6.6%	10.4%	12.5%	4.4%	15.4%	23.0%	13.2%	25.0%
Earning Yeild % Dividend Yeild %	1.1%	1.6%	1.8%	2.1%	3.0%	3.0%	3.0%	3.0%
ROE %	24.0%	21.7%	18.9%	5.7%	12.6%	16.1%	11.0%	17.6%
ROCE%	19.4%	14.1%	16.6%	10.0%	13.6%	14.7%	12.9%	15.7%
Position								
	_							
Net Worth	787	947	1108	1147	1278	1486	1254	1484
Total Debt	629	1349	1114	1456	1500	1500	1800	1800
Capital Employed	1416	2296	2222	2603	2778	2986	3054	3284
No of Share (Adj)	25	26	26	26	26	26	26	26
CMP	117	77	65	58	41	41	41	41
Valuation	_							
Book Value	31.9	36.8	43.1	44.6	49.7	57.8	48.8	57.7
P/B	3.7	2.1	1.5	1.3	0.8	0.7	0.8	0.7
Int/Coverage	4.4	3.8	2.7	1.7	2.1	2.8	1.8	2.5
P/E	15.2	9.6	8.0	22.8	6.5	4.4	7.6	4.0

Ammount in crores (Source: Company/Eastwind)

Narnolia Securities Ltd,

3