

Result update	Buy
CMP	39
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

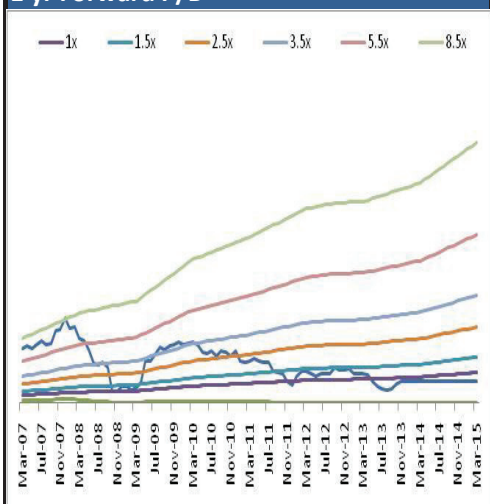
## Stock Performance-%

	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



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 achieve 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 & 4.0x), we believe this is a good time to buy 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 Cambodia 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%
EBITDA Margin	6.3%	5.0%	130 bps	5.1%	120 bps
PAT Margin	1.2%	-0.5%	170 bps	1.0%	20 bps

(Source: Company/Eastwind)

(Consolidated)

# KEC INTERNATIONAL Ltd.

## Key financials :

PARTICULAR	2010A	2011A	2012A	2013A	2014E	2015E	2014E Revised	2015E Revised
<b>Performance</b>								
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 Oridinary 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
<b>Yield %</b>								
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%
Earning Yeild %	6.6%	10.4%	12.5%	4.4%	15.4%	23.0%	13.2%	25.0%
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%
<b>Position</b>								
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
<b>Valuation</b>								
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)