KEC International Ltd

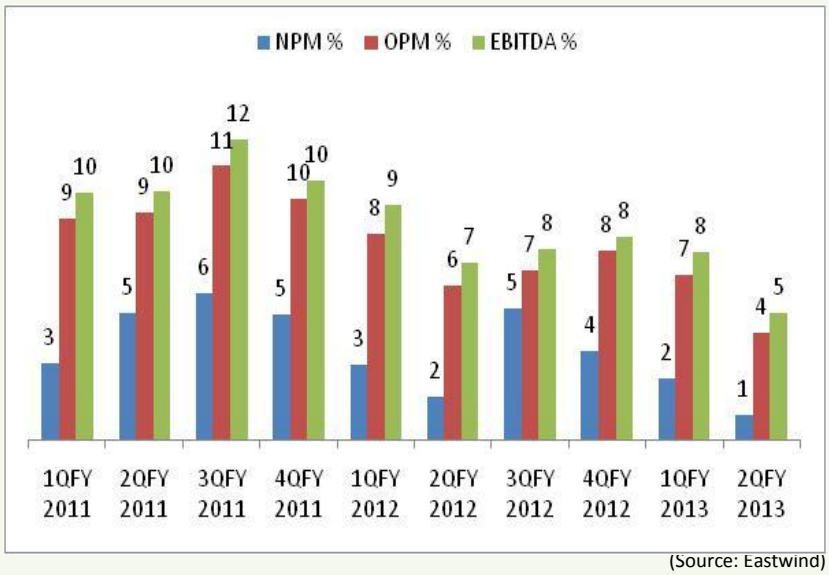
KEC International Ltd registered strong net sales growth of 32.1%, above street estimates, as consolidated net sales increased sharply to Rs 1,668 cr. However, Consolidated EBIDTAM declined by 203 bps to 5.1% on account of increase in raw material cost by almost 470 bps YoY & 1000 bps QoQ, standalone business registered EBIDTAM of 3.8% on account of margin pressure across new verticals and domestic transmission business. Consequently consolidated PAT decreased to Rs. 16.5 cr in Q2FY13. Current order backlog stands at Rs 9,386 cr as company received healthy order inflow worth Rs. 1,470 cr.

On conso. basis net sales increased by 32.1% to Rs. 1,668 cr. Growth was primarily driven by robust sales growth of 222% in power system followed by domestic transmission segment which grew by 40%. SAE towers also registered a growth of 10% on a higher base as sales increased to Rs. 270 cr. Consolidated EBIDTA margins declined to 5.1% as standalone business EBIDTA margins declined sharply to 3.8%. Entry strategy to gain orders in new verticals coupled with competitively priced orders in domestic transmission segment impacted margins. New vertical orders were executed at a loss at EBIDTA levels. However, management commented current order backlog of new verticals are ~4% EBIDTA margins. Avg margins for transmission segment were at 9.6%, which included domestic orders executed at margins in range of 5% (as KEC had bid aggressively in PGCIL tenders to gain lost market share). However, management has guided improvement in margins in H2 as it expects lower proportion of execution of these low margins domestic order. Currently orders won are at relatively higher margins of ~8%. Overall consolidated margins are expected to improve in H2 in range of 7% to 8%."

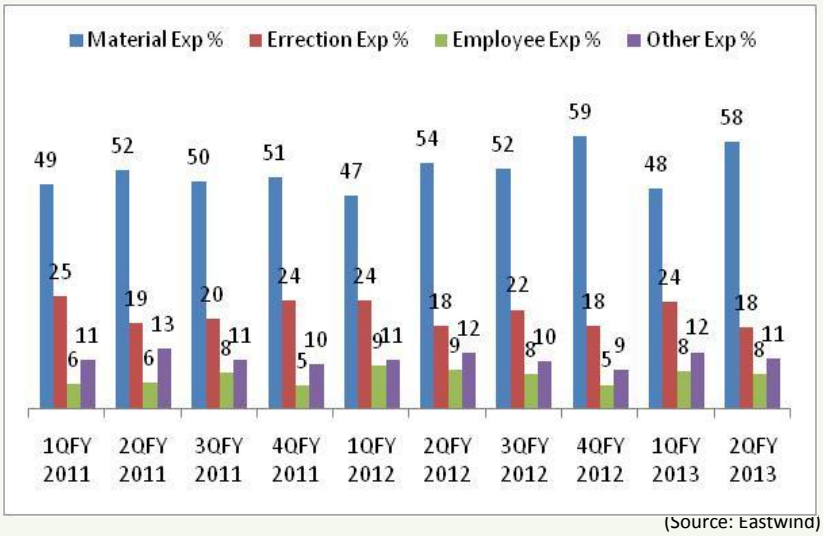
KEC is setting up a Greenfield facility, to manufacture HV and EHV cables, in Vadodara Gujarat. The estimated cost of the project is about Rs 1.8 bn. Phase I of the project is already complete.KEC will be able to manufacture cables up to 400 kv with the completion of phase II. The Company presently manufactures power cables from 33 kv to 132 kv. The plant will have the initial capacity of 4,000 cable kms. Expected revenue from the plant at full capacity is about Rs 3.5-4.0 bn. Today, the company has spread its wings in regions such as Middle East, Americas, and Africa, South Asia and Central Asia. The current order book of the company includes orders from these regions.

The company has acquired SAE Towers Holdings LLC, USA in 2010. Today Americas has become second largest market for KEC after India. America's has the share of 14% in the current order book.

KEC has a robust order backlog and with higher order flows from Power Grid Corporation (PGCIL) expected, it has balanced order mix between international & domestic orders. We believe KEC is likely to significantly benefit from increased order flows from PGCIL. Currently, margins are under attack due to increase in competitive intensity and entry into new business vertical, However, management has indicated that now margin is likely to improve from the current level to a normal of 8-9% as it finds its feet in the new business. Currently the stock is under review.



(Source: Eastwind)



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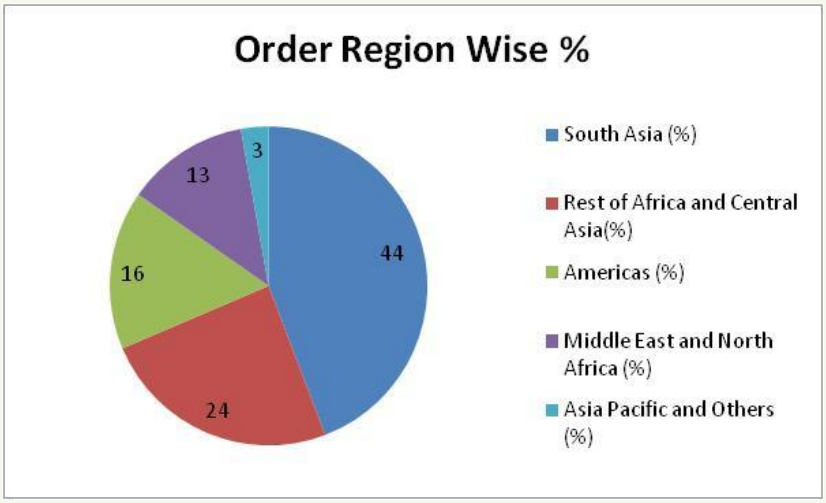

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