

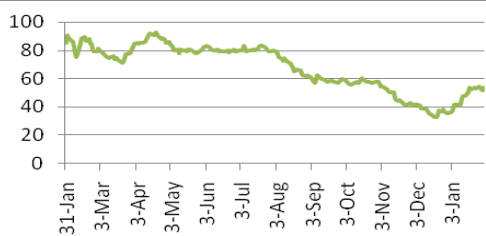
KEC International Ltd

Recommendation	Buy
CMP (01/02/2012)	Rs. 55
Target Price	Rs. 74
Sector	Capital Goods

Stock Details

BSE Code	532714
NSE Code	KEC
Bloomberg Code	KECI IN
Market Cap (Rs cr)	1,410
Free Float (%)	60%
52- wk HI/Lo (Rs)	95/32
Avg. volume BSE (Quarterly)	43,521
Face Value (Rs)	2.00
Dividend (FY 11)	60%
Shares o/s (Cr)	25.62

Relative Performance	1Mth	3Mth	1Yr
KEC	51.06%	-7.21%	-39.0%
Sensex	11.25%	-2.89%	-6.19%



Shareholding Pattern	31 st Dec 11
Promoters Holding	41.99%
Institutional (Incl. FII)	42.02%
Corporate Bodies	3.78%
Public & others	12.21%

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Robust execution and strong order inflows, however margin pressure continues

KEC International Ltd (KEC) reported strong topline growth. The bottomline was boosted by the sale of Vashi land.

Revenues for the quarter stood at Rs. 1459 cr, up 36%, YoY driven by robust execution of its strong order book. Transmission division delivered a strong 40% YoY growth, whereas Cables and Telecom delivered 30% & 24% YoY growth respectively. The Railways and Water divisions have also started contributing to the topline.

EBITDA for the quarter was Rs. 112 cr, down 10%, YoY. This was due to increase in Raw material prices and staff costs which increased 39% & 29% YoY. Erection expenses (increase of 50% YoY) also contributed to the decline in EBITDA. Subsequently EBITDA margin for the quarter was down to 7.6% as compared to 11.4% in Q3FY11, however it showed an improvement of 60 bps on QoQ basis. The management has cited increasing competition and entry into new business segments as a reason for lower EBITDA margins. We don't expect the EBITDA margin to improve significantly in the coming quarters.

PAT for the quarter was Rs. 80.5 cr, up 39%, YoY. This was primarily due to sale of Vashi land which resulted in gains of Rs. 53 cr. Reported PAT margin for the quarter was 5.5%. Removing the onetime gain from the Vashi land PAT stands at Rs. 27.5 cr with a margin of 1.9%, which is significantly down on YoY basis. However, there is a slight improvement on QoQ basis.

The order book at the end of the quarter was Rs. 9200 cr (up 15%, YoY). The company registered its highest ever quarterly order inflow of Rs 2500 cr with a large chunk coming from international markets. The order book is well diversified across geographies.

Valuation & Recommendation

At CMP, the stock trades at 5.2x its FY13E EPS. We continue to maintain our Buy rating on the stock with a target price of Rs. 74. The strong order book gives good revenue visibility, however we remain cautious on its operating margins as they will continue to remain under pressure due to competition and execution of its low margin orders in the new business segments. Expect KEC to continue its good run in order inflows on the back of geographical and business diversification.

Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	EBITDA Margin (%)	PAT (Rs cr)	PAT Margin (%)	EPS	P/E (x)	EV/EBITDA (x)	RoE(%)
FY 10A	3908	14.0	406	10.4	189	4.8	7.3	7.5	2.6	24.0
FY 11A	4476	14.5	473	10.5	205	4.6	8.0	6.9	6.0	21.7
FY 12E	5689	27.1	478	8.4	213	3.7	8.3	6.6	6.1	19.0
FY 13E	6688	17.6	627	9.4	273	4.1	10.6	5.2	4.8	21.1

KEC International Ltd

Q3FY12 – Result Update

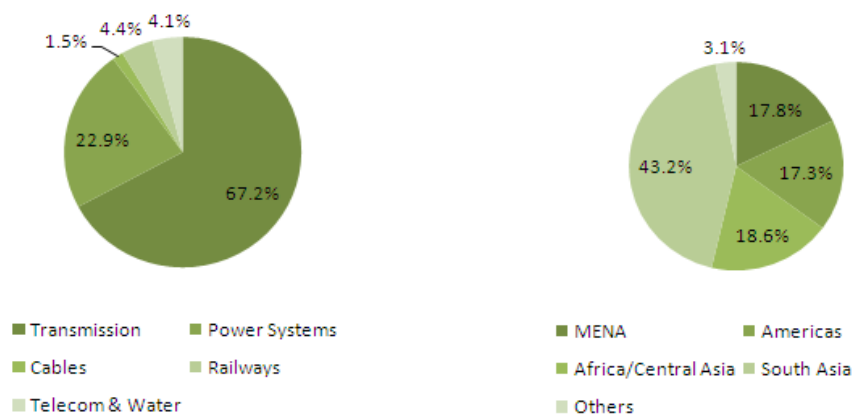
	Q3FY12	Q2FY12	Q-o-Q	Q3FY11	Y-o-Y
Net Revenue	1,460	1,263	16%	1,071	36%
Operating Exp.	1,347	1,174	15%	946	42%
EBITDA	113	90	26%	125	-10%
EBITDA (%)	7.7%	7.1%	62 bps	11.6%	-392 bps
Depreciation	13	12	3%	11	11%
EBIT	100	77	29%	113	-12%
EBIT (%)	6.9%	6.1%	73 bps	10.6%	-372 bps
Interest	37	38	-1%	29	30%
Other Income	0	0	NA	0	NA
Exceptional Items	54	0	NA	0	NA
PBT	117	40	193%	85	38%
Tax Provision	36	19	92%	27	34%
Tax Rate (%)	30.5%	46.7%	-1624 bps	31.5%	-98 bps
Reported PAT	81	21	283%	58	40%
Adj PAT	43	21	104%	58	-25%
Adj PAT Margin (%)	3.0%	1.7%	129 bps	5.4%	-245 bps
EPS	3.1	0.8	277%	2.25	39%
Adj EPS	1.6	0.8	100%	2.25	-29%

Source: Company, Nirmal Bang Research

Segment	Q3FY12	Q3FY11	YoY
Transmission	1126	807	40%
Power systems	116	114	2%
Cables	156	120	30%
Telecom	21	17	24%
Railway	33	13	154%
Water	7	0	NA
Total	1459	1071	36%

Source: Company, Nirmal Bang Research

Order Book Details

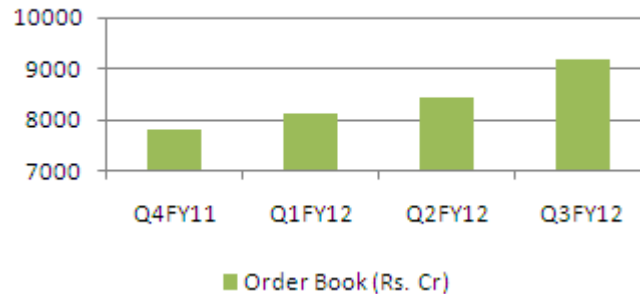


Source: Company, Nirmal Bang Research



KEC International Ltd

Order Book Growth Trend



Source: Company, Nirmal Bang Research

- Highest ever quarterly order intake for the company
- 25% order book is from private sector
- 20% order book is supply orders (not dependent on EPC)
- Well diversified across geographies

Valuation and Recommendation

At CMP, the stock trades at 5.2x its FY13E EPS. We continue to maintain our Buy rating on the stock with a target price of Rs. 74. The strong order book gives good revenue visibility, however we remain cautious on its operating margins as they will continue to remain under pressure due to competition and execution of its low margin orders in the new business segments. Expect KEC to continue its good run in order inflows on the back of geographical and business diversification. We maintain our positive outlook on the company on a long term basis because of its strong order book, execution skills and geographical diversification of its business.

KEC International Ltd

Financials

Y/E - March	FY10	FY11	FY12E	FY13E	Financial Health (Rs. Cr)	FY10	FY11	FY12E	FY13E
Revenues - Net	3,908.2	4,476.7	5,689.3	6,688.4	Share Capital	49.3	51.4	51.4	51.4
% Growth	14.0%	14.5%	27.1%	17.6%	Reserves & Surplus	735.7	895.2	1,068.5	1,241.8
EBITDA	405.9	473.0	478.4	627.5	Net Worth	787.1	946.6	1,119.9	1,293.2
% change in EBITDA	35.3%	16.5%	1.1%	31.2%	Total Loans	786.7	1,430.8	1,546.6	1,623.9
Interest	86.5	107.5	150.8	146.1	Deferred Tax Liab	46.1	49.7	49.7	49.7
EBDT	319.4	365.5	327.6	481.3	Total Liabilities	1,619.9	2,428.5	2,716.2	2,966.8
Depreciation	27.0	40.8	56.3	62.5	Net Fixed Assets	717.0	840.9	954.8	967.3
Other Income	-	-	53.70	-	Investments	3.0	-	-	-
PBT	292.4	324.6	325.0	418.8	Good will	-	281.2	281.2	281.2
Tax	103.7	111.1	114.7	147.8	Inventories	249.8	335.9	473.5	496.3
PAT	188.7	205.1	210.3	271.0	Debtors	1,962.4	2,617.7	3,081.7	3,622.9
Equity(in Cr.)	51.4	51.4	51.4	51.4	Cash & Bank	69.9	161.4	133.1	140.0
EPS	7.3	8.0	8.2	10.5	Loans & Adv	395.6	472.3	557.0	623.6
Cash EPS	8.4	9.6	10.4	13.0	Current Assets	2,677.6	3,587.3	4,245.3	4,882.7
					Current Liabilities	1,721.4	2,224.8	2,709.1	3,098.5
Operational Ratio	FY10	FY11	FY12E	FY13E	Provisions	55.6	56.2	56.1	65.9
EBITDA margin (%)	10.4%	10.6%	8.4%	9.4%	Current liab & Prov	1,777.0	2,281.0	2,765.1	3,164.4
PAT margin (%)	4.8%	4.6%	3.7%	4.1%	Working Capital	900.6	1,306.3	1,480.1	1,718.3
PAT Growth (%)	63.1%	8.7%	2.5%	28.9%	Total Assets	1,620.6	2,428.4	2,716.2	2,966.8
Price Earnings (x)	7.49	6.90	6.72	5.22	Cash Flow (Rs. Cr)	FY10	FY11	FY12E	FY13E
Book Value (Rs.)	31.9	36.8	43.6	50.3	Operating				
ROE (%)	24.0%	21.7%	18.8%	21.0%	EBT	293.4	316.7	325.0	418.8
ROCE (%)	23.4%	17.8%	17.5%	19.0%	Change in WC	(251.9)	(229.7)	(202.1)	(231.2)
Interest coverage	4.4	4.0	3.2	3.9	Interest Exp	86.5	107.5	150.8	146.1
Debt Equity Ratio	1.0	1.5	1.4	1.3	Dep & Other Adjustment	(15.4)	39.8	55.5	(7.2)
Price / Book Value (x)	1.7	1.5	1.3	1.1	Tax Paid	(77.8)	(67.8)	(114.7)	(147.8)
EV / Sales	0.3	0.6	0.5	0.5	CF from Operation	34.7	166.4	214.4	178.7
EV / EBITDA	2.6	6.0	6.2	4.8	Investment				
Orderbook/ Sales	1.5	1.8	1.6	1.6	Capex	(61.8)	(81.1)	(179.8)	(75.0)
Qtrly	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Other Investment	11.0	9.0	9.0	9.0
Revenue	1,557.4	1,022.5	1,263.2	1,459.64	Total Investment	(50.9)	(511.1)	(170.7)	(66.0)
Total Exp.	1,395.4	914.6	1,172.63	1,347.37	Financing				
EBIDTA	163.6	108.3	90.57	112.27	Dividend Paid	(28.5)	(35.4)	(37.0)	(37.0)
EBIDTA Margin (%)	10.3%	10.4%	7.2%	7.7%	Premium / Reserve	-	-	-	-
Depreciation	11.9	11.7	12.14	12.56	Borrowing (Net)	55.1	545.5	115.8	77.3
Interest	32.0	33.2	37.62	37.2	Other Income	-	-	53.7	-
Other Income	0.0	0.0	0	53.7	Interest	(94.4)	(114.0)	(150.8)	(146.1)
EBT	119.7	63.4	40.81	116.21	Total Financing	(67.8)	396.0	(72.0)	(105.8)
Tax	41.1	18.1	18.62	35.66	Net Chg. in Cash	(84.0)	54.4	(28.3)	7.0
PAT	78.6	33.1	22.19	80.55	Cash at beginning	141.0	69.9	161.4	133.1
EPS	3.1	1.3	0.82	3.13	Cash at end	69.9	161.4	133.1	140.0

Source: Company Data, Nirmal Bang Research



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