

April 17, 2014

KEC International Ltd.

BSE Code: 532714

NSE Code: KEC

Reuters Code:

KECLNS

Bloomberg Code: KECI IN

Incorporated in 1945, KEC International, Flagship Company of the RPG group is a global player of the infrastructure engineering, procurement and the construction (EPC) space. The company has forayed into six segments viz, Power Transmission, Power Systems, Cables, Railways, Telecom and Water. It has powered infrastructure development in 50 countries across Africa, Americas, Central Asia, Middle East, South Asia and South East Asia.

Investor's Rationale

Strong execution and robust order book boosted revenue – KEC International (KEC) reported better-than-estimated Q3FY14 performance, with consolidated revenue surging 22.5% YoY to ₹22.0 bn, led by strong traction in transmission business and stabilization of new businesses. EBITDA rose 41.2% YoY to at ₹1.3 bn as against ₹0.9 bn in the corresponding quarter of the previous year. On account of higher taxation and higher prior period tax, the net profit of the company plunged 34.7% to ₹0.2 bn. However, the management of the company is confident of 8%+ EBITDA margin in FY15E and is targeting to reduce working capital incrementally with rising focus on receivables and better cash management.

Sustain margin growth to improve profitability – The company's historical margins have been low for the last three quarters; however, the EBITDA margins for Q3FY14 came healthy ~6%, after hitting a low of 4.1% in Q4FY13. Going ahead, the management of the company is confident of attaining 8-9% overall margin for FY15E based on current mix of order book and reducing competitive intensity in transmission business.

Healthy order inflow to enhance earnings visibility – During Q3FY14, the company's order pipeline across India and overseas remains healthy at ₹102 bn. KEC recorded 12% YoY growth in order inflow at ₹25.5bn, while in 9MFY14, order inflow rose 11% YoY. The company expects that the pipeline of new orders, both in domestic and international markets, continues to be robust. Outstanding order book from low-margin new business reduced to ₹1.5 bn in Q3FY14 from ₹1.7 bn in Q2FY13. Further, the management expects to execute the same by Q1FY15.

Power transmission segment to drive growth – KEC is well placed to take the advantage from 10% market share in the domestic T&D space. On account of healthy growth of 64% YoY in South Asia and 59% YoY in other global markets, KEC posted 41% YoY growth from its power segment, which is the major contributor to its revenue, of ~ 78% of the order backlog belongs to the high-margin power transmission. KEC is optimistic about the growth to continue backed by government's initiative of investing ₹1,000 bn during 2014-17 for increasing power generation and transmission.

Market Data

Rating		BUY
CMP (₹)		75.8
Target Price		91
Stop Loss		68
Duration		Medium-term
52-week High-Low (₹)		76.6/23.3
Rise from 52WL (%)		225
Correction from 52WH (%)		1.0
Beta		0.6
1 year Average Volume (mn)		0.3
Stock Return (%)	3M-	37.1
	6M-	137.4
	1Y-	49.6
Market Cap (₹bn)		19.5
Book Value (₹)		44.6

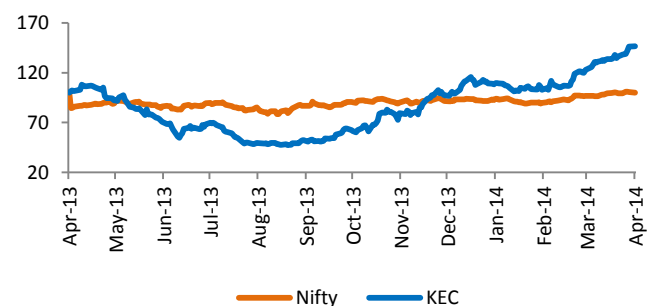
Shareholding Pattern

	Dec'13	Sep'13	Chg
Promoters (%)	48.2	47.7	0.5
FII (%)	2.4	2.3	0.1
DII (%)	33.3	32.7	0.6
Public & Others (%)	16.1	17.2	(1.2)

Quarterly Performance (Consolidated)

(₹bn)	Q3 FY'14	Q3 FY'13	Q2 FY'14	YoY Change(%)	QoQ Change (%)
Sales	22.0	18.0	17.8	22.5	23.8
Op. exp	20.7	17.0	16.8	21.5	23.5
EBITDA	1.3	0.9	1.0	41.2	29.5
OPM (%)	6.0	5.2	5.7	79.1	26.2
Net profit	0.2	0.3	0.2	(34.7)	(13.3)
NPM (%)	0.9	1.6	1.2	(76.6)	(38.0)
EPS (₹)	0.7	1.1	0.9	(35.1)	(14.0)

One Year Price Chart





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