

KEC International Ltd

T&D spending set to intensify

Investments in the Transmission & Distribution (T&D) sector have lagged investments in power generation over the last 5 years. Transmission line additions have been declining yoy since FY11 due to lower spending by the private sector. This in turn has led to congestion in the domestic transmission network and has impacted power generation at many plants. However, the trend has changed in FY15 as capacity additions in transmission lines doubled YTD FY15. We believe orders from Power Grid would increase from FY16 as it is expected to commission large projects in FY15. Strong presence in domestic market and vendor restriction by Power Grid would aid KEC to gain market share going forward. The company has also ventured into the export market and has a strong foothold in MENA, Americas and CIS countries.

Revenue growth to gain momentum from FY16E

KEC's order book at the end of Q1 FY15 stood at Rs103bn, up 2.7% yoy, with BTB of 1.3x. For FY15, the company expects order intake to improve 8-10% yoy. In the international market it has already announced order inflow of Rs10.3bn in Q2 FY15 and expects order inflows from the domestic market to rise from H2 FY15. International orders accounted for 59% of the total order book for the company, higher from 49% at the end of FY13. FY15 order inflow growth could be lower than management guidance at 7% as we expect order inflow momentum to pick up only from FY16. We estimate order inflow growth at 15% post FY15 led by a recovery in the domestic market.

Earnings growth to surge over FY14-16E

KEC managed to report revenue CAGR of 20.9% over FY11-14 on the back of its diversification exercise. However, margins for the company remained under pressure. We believe that margins for KEC have formed a trough and would expand going ahead due to execution of legacy orders by Q2 FY15 and higher share of transmission orders of total order book. We expect debtor days to decline over the next two years leading to a decline in interest costs. Earnings CAGR of 71% over FY14-16E is being supported by faster execution, margin expansion and lower finance costs. KEC stock price has corrected by ~25% over the last 2-months and valuations appear attractive at 9.6x FY16 earnings, given the strong growth in earnings over FY14-16E.

Financial summary

Y/e 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E
Revenues	69,795	79,018	87,678	96,012
yoy growth (%)	20.0	13.2	11.0	9.5
Operating profit	3,813	4,932	6,101	7,062
OPM (%)	5.5	6.2	7.0	7.4
Reported PAT	651	667	2,062	2,751
yoy growth (%)	(72.2)	2.4	209.0	33.4
EPS (Rs)	2.5	3.3	8.0	10.7
P/E (x)	40.6	31.2	12.8	9.6
P/BV (x)	2.3	2.2	1.9	1.7
Debt/Equity (x)	1.3	1.5	1.2	1.0
ROE (%)	5.8	7.3	16.2	18.7
ROCE (%)	13.8	15.3	18.1	20.7

Source: Company, India Infoline Research

Rating:	BUY
Target (1-3 months):	Rs125
CMP:	Rs103
Upside:	21.3%
Exit Trigger*:	Rs88

* Exit trigger is the price level below which investor should exit position

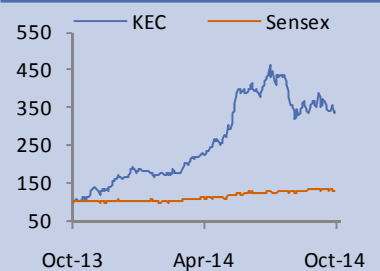
Sector:	Capital Goods
Sector view:	Neutral
Sensex:	26,247
52 Week h/l (Rs):	153 / 29
Market cap (Rscr) :	2,660
6m Avg vol ('000Nos):	620
Bloomberg code:	KECI IB
BSE code:	532714
NSE code:	KEC
FV (Rs):	2

Prices as on October 08, 2014

Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth				■	
Cash Flow			■		
B/S Strength			■		
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern

%	Mar-14	Jun-14	Sep-14
Promoters	49.4	50.0	50.0
Insti	35.8	35.0	34.7
Others	14.8	15.0	15.3

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IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

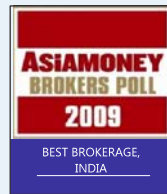
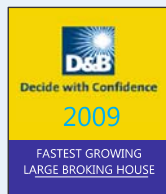
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



An Express Idea is a recommendation based on our view on the sector and / or stock from a near to medium term perspective, typically less than three months. The view can be based on fundamentals and / or technical parameters for the stock and / or our view on the sector on the whole.

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