

KEC International

Performance Highlights

₹ cr	4QFY11	4QFY10	% chg (yoy)	3QFY11	% chg (qoq)
Revenues	1,559	1,357	14.9	1,071	45.6
EBITDA	164	133	23.2	125	31.3
EBITDA margin (%)	10.5	9.8	71bp	11.6	(114.3)
Reported PAT	79	63	25.0	58	35.6

Source: Company, Angel Research

KEC International's (KEC) 4QFY2011 results were broadly in line with our estimates. Revenue grew by 14.9% yoy to ₹1,559cr and PAT grew by 25% yoy to ₹79cr. We had estimated revenue and PAT at ₹1,570cr and ₹72cr, respectively. Consolidated order backlog at the end of the current quarter stood at ₹7,800cr. Order intake during the quarter totaled ₹1,300cr. **We maintain our Buy recommendation on the stock.**

Acquisitions aid growth and margins: Consolidated revenue reported steady growth of 14.9% yoy to ₹1,559cr. EBITDA margin improved by 71bp yoy to 10.5%. However, it is pertinent to note that the corresponding year-ago period did not carry the numbers for RPG Cables and the owned subsidiary SAE Towers. A similar treatment, if followed, during the current quarter would reveal that adjusted revenue declined by 10.3%, indicating lower execution. Margin expansion was largely aided by lower raw-material cost during the quarter. Interest cost increased by 65.3% yoy to ₹32cr (₹19cr) for 4QFY2011, reflecting incremental debt raised to finance the acquisition of SAE Towers. The high interest cost was partially offset by margin improvement. Accordingly, PAT grew by 25% yoy to ₹79cr (₹63cr) during the quarter.

Outlook and valuation: Transmission EPC companies are expected to register increased order inflow on the back of ongoing investments in the domestic power sector. Order inflow from PGCIL has been relatively low during FY2011. However, industry commentary indicates that ordering activity from PGCIL is likely to gather pace after 1HFY2012. Additionally, acquisition of Texas-based SAE Towers is yielding promising results so far. Further, this would enable KEC to leverage the former's customer base to foster relationship with power utilities to secure EPC contracts in the future. At the CMP, the stock trades at 8.4x and 6.2x FY2012E and FY2013E EPS, respectively. We maintain our Buy recommendation on the stock with a target price of ₹115.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	3,906	4,474	5,399	6,419
% chg	14.0	14.5	20.7	18.9
Adj. PAT	190	214	247	333
% chg	62.4	12.9	15.3	34.7
EBITDA (%)	10.4	10.5	11.0	11.3
EPS (₹)	7.7	8.3	9.6	12.9
P/E (x)	10.5	9.7	8.4	6.2
P/BV (x)	2.7	2.2	1.9	1.5
RoE (%)	30.8	25.5	23.9	26.3
RoCE (%)	32.3	24.3	24.9	28.7
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	6.7	7.1	5.6	4.4

Source: Company, Angel Research

BUY

CMP	₹81
Target Price	₹115

Investment Period	12 Months
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Stock Info

Sector	Capital Goods
Market Cap (₹ cr)	2,070
Beta	0.6
52 Week High / Low	123/70
Avg. Daily Volume	139,325
Face Value (₹)	2.0
BSE Sensex	18,529
Nifty	5,551
Reuters Code	KECL.BO
Bloomberg Code	KECI IN

Shareholding Pattern (%)

Promoters	41.7
MF / Banks / Indian Fls	42.1
FII / NRIs / OCBs	4.9
Indian Public / Others	11.3

Abs. (%)	3m	1yr	3yr
Sensex	5.3	6.9	10.7
KEC	3.2	(22.6)	(30.7)

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Exhibit 1: Quarterly performance (Consolidated)

(₹ cr)	4QFY11	4QFY10	% chg (yoy)	3QFY11	% chg (qoq)	FY2011	FY2010	% chg (yoy)
Net Sales	1,557	1,356	14.8	1,071	45.5	4,474	3,907	14.5
Other operating income	2	1	-	0.3	-	3	0.99	-
Total income	1,559	1,357	14.9	1,071	45.6	4,477	3,908	14.5
Stock adjustments	70	2		(20)		(55)	(9.3)	
Raw Material	717	780	(8.1)	553	29.6	2,310	2,022	14.2
(% of total income)	46.0	57.5		51.6		51.6	51.7	
Erection and sub contracting exp.	371	284	30.6	211	75.5	981	958	2.3
(% of total income)	23.8	20.9	0.0	19.7	0.0	21.9	24.5	0.0
Employee Cost	82	45	82.0	86	(4.9)	275	169	62.7
(% of total income)	5.3	3.3		8.1		6.1	4.3	
Other Expenses	155	114	36.6	116	34.3	493	362	36.2
(% of total income)	10.0	8.4		10.8		11.0	9.3	
Total Expenditure	1,395	1,224	14.0	946	47.4	4,003	3,501	14.3
EBITDA	164	133	23.2	125	31.3	474	407	16.4
(EBITDA %)	10.5	9.8		11.6		10.6	10.4	
Interest	32	19	65.3	29	11.6	108	86	24.3
Depreciation	12	7	68.6	11	4.9	41	27	51.0
Other Income	-	-	-	-	-	-	-	-
PBT (excluding exceptional item)	120	106	12.5	85	41.5	325	293	10.9
(% of total income)	7.7	7.8		7.9		7.3	7.5	
Exceptional item	-	-	-	-	-	8	-	-
PBT (including exceptional item)	120	106	12.5	85	41.5	317	293	8.0
Total Tax	27	44	(38.8)	27	0.0	111	104	7.1
(% of PBT)	34.4	40.9		31.5		35.1	35.3	
Reported PAT	79	63	25.0	58	35.6	206	190	8.4
Adj PAT	79	63	25.0	58	35.6	214	190	12.9
(% of total income)	5.0	4.6		5.4		4.8	4.9	
EPS (₹)	3.1	2.4	25.0	2.3	35.6	8.0	7.6	5.4

Source: Company, Angel Research

Exhibit 2: Actual vs. estimates

(₹ cr)	Actual	Estimates	Var (%)
Revenue	1,559	1,570	(0.7)
EBITDA	164	161	1.4
PAT	79	72	8.9
EPS	3.1	2.8	8.9

Source: Company, Angel Research

Margin aided by low-cost inventory, supported by SAE Towers: The reported margin of 10.5% for the quarter was largely aided by low-cost inventory of raw material, supported by SAE Towers. Raw-material cost as a percentage of total income was surprisingly lower at 46% for the current quarter compared to 57.5% for 4QFY2010. Continuing from the previous quarter, SAE Tower's high-margin run is expected to normalise to 12–13% going ahead, as guided by the management.

Acquisition-led growth – SAE Towers contributing positively

Consolidated revenue for 4QFY2011 grew by 14.9 % yoy to ₹1,559cr, which also included turnover from RPG Cables (₹156cr) and SAE Towers (₹184cr). For FY2011, RPG Cables and SAE Towers contributed revenue of ₹480cr and ₹354, respectively. For the quarter, SAE Towers delivered attractive EBITDA margin of 14%. SAE Towers' order backlog at the end of the quarter stood at ₹892cr, which increased from ₹580cr during 3QFY2011.

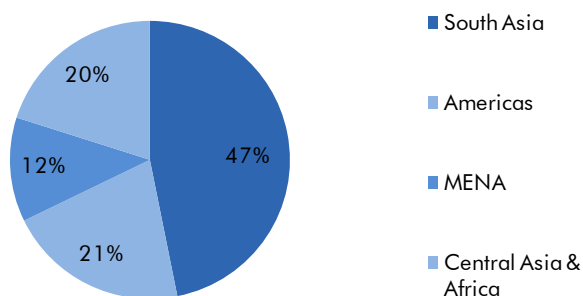
Strong order book imparts revenue visibility: Order backlog at the end of 4QFY2011 stood at ₹7,800cr, split across transmission (62.4%), SAE Towers (11.4%), power systems (18.7%), railways (5%), cables (1.6%) and telecom and waters (0.9%). Geographically, the order backlog was spread across South Asia (47%), MENA (15%), Americas (21%) and Central Asia and Africa (20%).

Order intake for the quarter totaled ₹1,300cr. Key orders received include:

- 1) Turnkey transmission line order from Maharashtra (₹367cr).
- 2) Three turnkey transmission line orders from PGCIL (₹224cr).
- 3) Turnkey transmission line orders from APTRANSCO (India), Saudi Arabia, South Africa and variation orders totaling ₹320cr
- 4) Valuable orders secured by SAE Towers, which include order worth ₹333cr from the US, Mexico and Brazil.

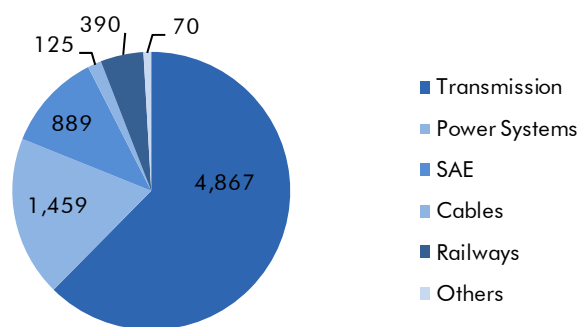
During the year, the company marked its entry into new segments such as water and electrical BoP and bagged orders worth ₹31cr and ₹40cr, respectively.

Exhibit 3: Order book – Geography wise



Source: Company, Angel Research

Exhibit 4: Order book – Segment wise



Source: Company, Angel Research

Key highlights of the conference call

- Margins to hover around 10% with a deviation of plus/minus 1%. Margin for SAE Towers will settle at 12–13%, while growth is estimated at 10–12%
- Capex for FY2011 amounted to ₹180cr. Planned capex for FY2012 is ₹175cr.
- The company is in the process of setting up a cable manufacturing facility at Baroda. The company expects the facility to be ready by FY2012 or in the beginning of FY2013. Management expects ₹300cr of revenue from this facility from FY2014.

Investment arguments

Huge opportunity for transmission EPC players: The government has envisaged investment of ₹240,000cr in the transmission segment in the XIIth Plan, an increase of over 70% from the investments planned during the XIth Plan. As per our estimates, this has opened up a substantial potential opportunity for transmission EPC players such as KEC, JSL and Kalpataru Power Transmission.

American presence to boost revenue and profitability: KEC's recent acquisition of SAE Towers for US\$95mn makes it the largest lattice tower manufacturer globally. Power utilities in the US generally procure steel structures directly from tower manufacturing companies and thereafter give it to transmission EPC companies for subsequent erection and commissioning. Also, there is preference to source equipment and towers from local vendors within NAFTA, which effectively creates a protected market. With a dominant market share of over 40%, SAE Towers is a market leader in the US, and we expect KEC to leverage SAE Towers' customer base to develop relationships with power utilities and secure EPC contracts going ahead, while ensuring that the equipment is supplied by SAE Towers.

Diversification into railways, telecom and e-BoP segments – A major positive: KEC has forayed into the telecom, railway and e-BoP segments and is in the process of executing various contracts. Although these divisions currently account for a small portion of its revenue, future prospects of the segments are very bright. KEC also plans to enter tracking, signaling and platform construction work in the railway segment.

Outlook and valuation: Transmission EPC companies are expected to register increased order inflow on the back of ongoing investments in the domestic power sector. Order inflow from PGCIL has been relatively low during FY2011. However, industry commentary indicates that ordering activity from PGCIL is likely to gather pace after 1HFY2012. Additionally, acquisition of Texas-based SAE Towers is yielding promising results so far. Further, this would enable KEC to leverage the former's customer base to foster relationship with power utilities to secure EPC contracts in the future. At the CMP, the stock trades at 8.4x and 6.2x FY2012E and FY2013E EPS, respectively. **We maintain our Buy recommendation on the stock with a target price of ₹115.**

Exhibit 5: Key assumptions

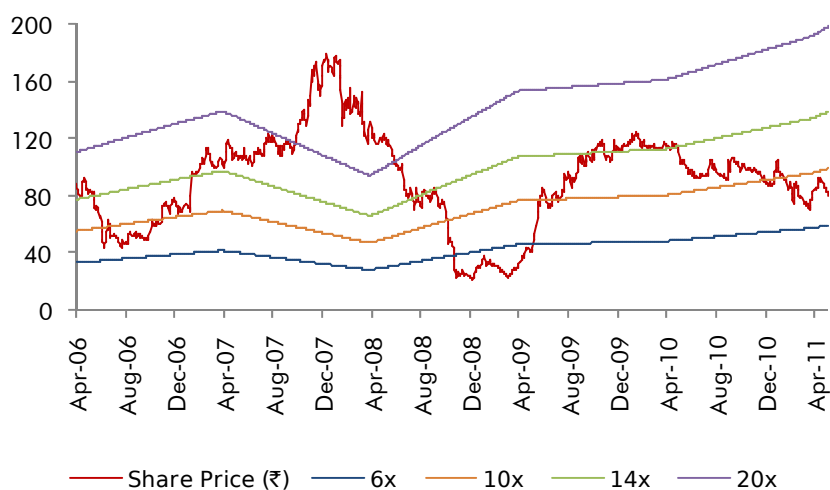
Order book	FY2012E	FY2013E
Order inflow (₹ cr)	7,000	7,500
Order backlog (₹ cr)	9,000	8,500
Order book to sales (%)	37.5	38.5

Source: Company, Angel Research

Exhibit 6: Angel EPS forecast

	Angel forecast	Bloomberg consensus	Var (%)
FY2012E	9.6	9.9	(2.8)
FY2013E	12.9	12.0	7.8

Source: Company, Angel Research

Exhibit 7: One-year forward P/E band


Source: Company, Angel Research

Exhibit 8: Peer comparison

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside/ (Downside) (%)	P/BV(x)		P/E(x)		FY2011-13E EPS CAGR	RoCE (%)		RoE (%)	
					FY12E	FY13E	FY12E	FY13E		FY12E	FY13E	FY12E	FY13E
ABB*	Sell	875	595	(32.0)	6.4	5.4	36.9	29.7	213.1	26.0	27.9	18.7	19.7
Areva T&D*	Neutral	271	-	-	5.4	4.6	27.9	25.0	17.9	24.0	26.9	20.8	19.8
BHEL	Neutral	2,050	-	-	4.1	3.4	14.5	12.9	13.5	32.1	36.1	29.5	26.6
BGR Energy	Buy	490	700	42.8	2.9	2.1	9.9	5.8	41.5	24.2	31.3	33.7	42.2
Crompton Greaves	Buy	239	300	25.3	3.8	3.1	15.7	12.8	16.1	30.4	31.1	26.8	26.3
Jyoti Structures	Buy	78	110	40.7	0.8	0.7	5.8	4.6	27.6	26.4	26.4	18.0	16.6
KEC International	Buy	81	115	42.9	1.9	1.5	8.4	6.3	24.1	24.9	28.7	23.9	26.3
Thermax	Neutral	607	-	-	4.3	3.4	16.2	14.0	16.4	39.0	36.1	29.6	27.3

Source: Company, Angel Research; *Note: December year end

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Operating income	2,814	3,427	3,906	4,474	5,399	6,419
% chg	37.9	21.8	14.0	14.5	20.7	18.9
Total Expenditure	2,460	3,128	3,501	4,003	4,805	5,697
Raw Materials	1,415	1,976	2,013	2,255	2,629	3,165
Mfg costs	618	575	958	981	1,393	1,621
Personnel Costs	121	142	169	275	269	313
Other Costs	306	435	362	493	514	598
EBITDA	354	300	405	471	594	722
% chg	40.7	(15.4)	35.2	13.0	29.8	21.6
(% of Net Sales)	12.6	8.7	10.4	10.5	11.0	11.3
Depreciation & Amortisation	25	23	27	41	43	46
EBIT	329	277	378	430	551	676
% chg	50.7	(16.0)	36.7	13.8	28.2	22.6
(% of Net Sales)	11.7	8.1	9.7	9.6	10.2	10.5
Interest & other Charges	68	100	86	108	182	178
Other Income	0	2	2	3	3	3
(% of PBT)	0.1	1.1	0.6	0.8	0.8	0.6
Recurring PBT	262	179	293	325	372	501
% chg	63.8	(31.8)	64.2	10.9	14.5	34.7
Extraordinary Expense/(Inc.)	0	0	0	8	0	0
PBT (reported)	262	179	293	317	372	501
Tax	90	62	104	111	125	169
(% of PBT)	34.3	34.6	35.3	34.2	33.7	33.7
PAT (reported)	172	117	190	206	247	333
Add: Share of earnings of asso.	0	0	0	0	0	0
Less: Minority interest (MI)	0	0	0	0	0	0
Prior period items	0	0	0	0	0	0
PAT after MI (reported)	172	117	190	206	247	333
ADJ. PAT	172	117	190	214	247	333
% chg	64.5	(32.2)	62.4	12.9	15.3	34.7
(% of Net Sales)	6.1	3.4	4.9	4.8	4.6	5.2
Basic EPS (₹)	7.0	4.7	7.7	8.3	9.6	12.9
Fully Diluted EPS (₹)	7.0	4.7	7.7	8.3	9.6	12.9
% chg	25.7	(32.2)	62.4	8.4	15.3	34.7

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity Share Capital	60	49	49	51	51	51
Preference Capital	10	0	0	0	0	0
Reserves & Surplus	435	509	736	895	1,142	1,449
Shareholders' Funds	506	558	785	947	1,193	1,500
Minority Interest	-	-	-	-	-	-
Total Loans	592	622	787	1,432	1,387	1,262
Deferred Tax Liability	20	30	46	50	50	50
Total Liabilities	1,107	1,210	1,620	2,428	2,630	2,812
APPLICATION OF FUNDS						
Gross Block	521	632	836	1,016	1,216	1,316
Less: Acc. Depreciation	90	125	157	198	240	286
Net Block	431	507	679	818	975	1,029
Capital Work-in-Progress	19	51	38	55	35	35
Goodwill	-	-	-	281	281	281
Investments	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	-	-
Current Assets	1,973	2,539	2,680	3,587	3,839	4,445
Cash	68	144	73	161	135	131
Loans & Advances	270	303	396	472	551	584
Inventories	205	226	250	336	343	390
Debtors	1,430	1,866	1,962	2,618	2,810	3,341
Others	-	-	-	-	-	-
Current liabilities	1,317	1,888	1,778	2,281	2,502	2,979
Net Current Assets	656	651	903	1,306	1,338	1,466
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,107	1,210	1,620	2,428	2,630	2,812

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PAT	172	117	190	206	247	333
Adjustments	190	223	175	268	323	360
Opr Profits Before W/Cap Chg.	362	340	364	474	570	693
Changes in Working Capital	(267)	101	(252)	(315)	(58)	(133)
Taxes Paid during the year	(91)	(64)	(78)	(111)	(122)	(158)
Cash Flow from Operations	4	377	35	48	390	402
(Inc.)/Dec in Fixed Assets	(31)	(139)	(59)	(124)	(180)	(100)
(Inc.)/Dec in Investments	(0)	0	0	(281)	0	0
(Inc.)/Dec in Loans/advances	0	0	0	0	0	0
Other Income	0	1	8	0	0	0
Cash Flow from Investing	(31)	(138)	(51)	(458)	(180)	(100)
Issue of Equity	0	0	0	2	0	0
Inc/(Dec) in Loans	147	(21)	55	645	(45)	(125)
Dividend Paid (incl.Tax)	(20)	(29)	(29)	(36)	(36)	(36)
Others	(73)	(120)	(94)	(110)	(155)	(146)
Cash Flow from Financing	55	(169)	(68)	502	(237)	(307)
Cash generated/(utilised)	28	70	(84)	92	(27)	(4)
Cash at start of the year	21	69	141	70	161	135
Cash at end of the year	68	141	70	161	135	131

Key Ratio

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	11.5	17.0	10.5	9.7	8.4	6.2
P/CEPS	10.1	14.2	9.2	8.1	7.1	5.5
P/BV	4.8	4.0	2.7	2.2	1.9	1.5
Dividend yield (%)	1.2	1.2	1.5	1.5	1.5	1.5
EV/Sales	0.9	0.7	0.7	0.7	0.6	0.5
EV/EBITDA	7.1	8.2	6.7	7.1	5.6	4.4
EV / Total Assets	3.0	2.6	1.9	1.6	1.5	1.3
Per Share Data (₹)						
EPS (Basic)	7.0	4.7	7.7	8.3	9.6	12.9
EPS (fully diluted)	7.0	4.7	7.7	8.3	9.6	12.9
Cash EPS	8.0	5.7	8.8	9.9	11.3	14.7
DPS	1.0	1.0	1.2	1.2	1.2	1.2
Book Value	16.7	20.1	29.8	36.8	43.5	55.0
DuPont Analysis(%)						
EBIT margin	11.7	8.1	9.7	9.6	10.2	10.5
Tax retention ratio (%)	65.7	65.4	64.7	65.8	66.3	66.3
Asset turnover (x)	4.5	4.0	3.5	2.7	2.6	2.8
RoIC (Pre-tax)	52.2	32.4	33.7	25.7	26.3	29.3
RoIC (Post-tax)	34.4	21.2	21.8	16.9	17.4	19.4
Cost of Debt (Post Tax)	9.1	10.8	7.9	6.4	8.6	8.9
Leverage (x)	1.3	1.1	1.0	1.2	1.2	0.9
Operating ROE	67.8	32.7	35.2	29.3	28.2	29.4
Returns (%)						
RoCE (Pre-tax)	50.8	31.0	32.3	24.3	24.9	28.7
Angel RoIC (Pre-tax)	53.1	33.8	35.2	26.4	26.8	29.8
RoE	51.4	25.7	30.8	25.5	23.9	26.3
Turnover ratios (x)						
Asset Turnover (Gross Block) (X)	5.7	6.0	5.3	5.7	6.5	6.5
Inventory / Sales (days)	23	23	22	24	23	21
Receivables (days)	151	176	179	187	183	175
Payables (days)	164	181	186	180	173	164
WC cycle (ex-cash) (days)	53	58	62	81	79	72
Solvency ratios (x)						
Net debt to Equity	1.3	1.0	1.0	1.3	1.1	0.8
Net debt to EBITDA	1.5	1.6	1.8	2.7	2.1	1.6
Interest Coverage	4.9	2.8	4.4	4.0	3.0	3.8

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Disclosure of Interest Statement

	KEC Intl'
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)