

# KEC International Ltd.

- ✧ KEC managed to report 22.2% yoy growth in topline led by strong execution in the T&D space
- ✧ The outperformance was restricted by subdued performance in SAE business
- ✧ Margins contracted 73bps yoy and 35bps qoq due to operating loss at SAE and higher raw material/sales ratio
- ✧ Order inflow at Rs11bn was lower than estimate; the management has indicated that it is L1 in orders worth Rs20bn
- ✧ Bottomline impacted by high interest costs (+37.9% qoq) and lower margins
- ✧ Net Working capital days continued to increase on a sequential basis due to lower customer advances and increase in inventory levels at SAE
- ✧ Management remained confident of delivering margins close to 7% in FY15 and 100bps expansion in FY16
- ✧ We have lowered our FY15 and FY16 estimates to account for weak H1 FY15 and on expectations of a slower decline in working capital
- ✧ Maintain Buy on the stock with a revised price target of Rs132

## Result table

(Rs mn)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
<b>Net sales</b>	<b>21,727</b>	<b>17,780</b>	<b>22.2</b>	<b>17,207</b>	<b>26.3</b>
Material costs	(12,919)	(9,526)	35.6	(8,624)	49.8
Personnel costs	(1,492)	(1,474)	1.2	(1,484)	0.6
Other overheads	(6,108)	(5,661)	7.9	(6,083)	0.4
<b>Operating profit</b>	<b>1,208</b>	<b>1,119</b>	<b>8.0</b>	<b>1,017</b>	<b>18.8</b>
<b>OPM (%)</b>	<b>5.6</b>	<b>6.3</b>	<b>-73 bps</b>	<b>5.9</b>	<b>-35 bps</b>
Depreciation	(222)	(184)	20.8	(210)	6.0
Interest	(910)	(648)	40.3	(660)	37.9
Other income	11	25	(56.7)	15	(26.8)
<b>PBT</b>	<b>87</b>	<b>311</b>	<b>(72.0)</b>	<b>163</b>	<b>(46.4)</b>
Tax	116	(91)	-	(49)	-
<b>Effective tax rate (%)</b>	<b>-</b>	<b>29.1</b>	<b>30.3</b>		
<b>Adjusted PAT</b>	<b>203</b>	<b>221</b>	<b>(8.2)</b>	<b>114</b>	<b>78.5</b>
<b>Adj. PAT margin (%)</b>	<b>0.9</b>	<b>1.2</b>	<b>-31 bps</b>	<b>0.7</b>	<b>27 bps</b>
<b>Reported PAT</b>	<b>203</b>	<b>221</b>	<b>(8.2)</b>	<b>114</b>	<b>78.5</b>
Ann. EPS (Rs)	6.3	6.9	(8.2)	3.5	78.5

Source: Company, India Infoline Research

## Faster execution in T&D business led to 22% yoy increase in topline

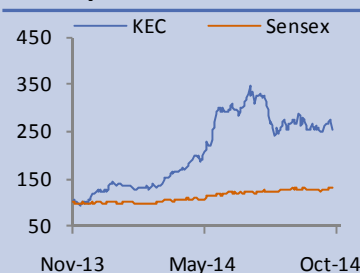
KEC reported a topline growth of 22.2% yoy, higher than expected due to faster execution in the Transmission and Distribution (T&D) and cable business. However, the outperformance was curtailed by delay in shipments in the SAE business. Cable business jumped 71.7% yoy and 19.7% qoq on the back of higher market penetration and rising demand. Water business revenue too registered strong growth during the quarter. The company expects to register strong sales growth in H2 FY15 on the back of the orders received till date. The company has indicated that execution cycles have shortened from 18 months to 15 months.

**Rating:** BUY  
**Target:** Rs132  
**CMP:** Rs102  
**Upside:** 29.4%

**Sector:** Capital Goods  
**Sector view:** Neutral  
**Sensex:** 27,860  
**52 Week h/l (Rs):** 153/36  
**Market cap (Rscr) :** 2,620  
**6m Avg vol ('000Nos):** 591  
**Bloomberg code:** KECI IB  
**BSE code:** 532714  
**NSE code:** KEC  
**FV (Rs):** 2

Price as on November 03, 2014

## Share price trend



## Share holding pattern

	Dec-13	Mar-14	Jun-14
Promoters	49.4	50.0	50.0
Institutions	35.8	35.0	34.7
Others	14.8	15.0	15.3

**Research Analyst:**  
 Tarang Bhanushali  
 research@indiainfoline.com

November 05, 2014

### Segmental revenue

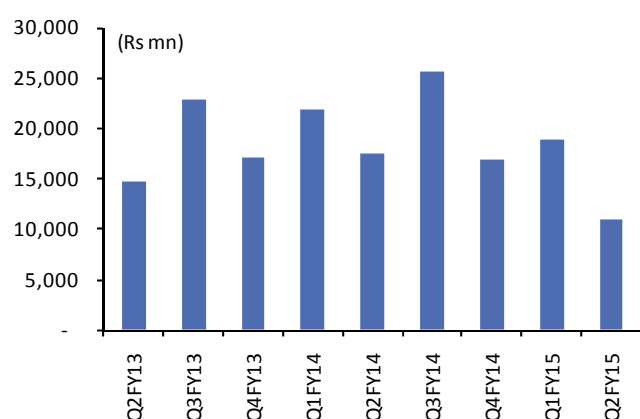
(Rs mn)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
T&D (Excl SAE)	16,920	13,860	22.1	12,840	31.8
SAE	1,840	1,840	-	1,840	-
Cables	2,370	1,380	71.7	1,980	19.7
Railway	290	550	(47.3)	230	26.1
Water	300	140	114.3	320	(6.3)
<b>Total</b>	<b>21,720</b>	<b>17,770</b>	<b>22.2</b>	<b>17,210</b>	<b>26.2</b>

Source: Company, India Infoline Research

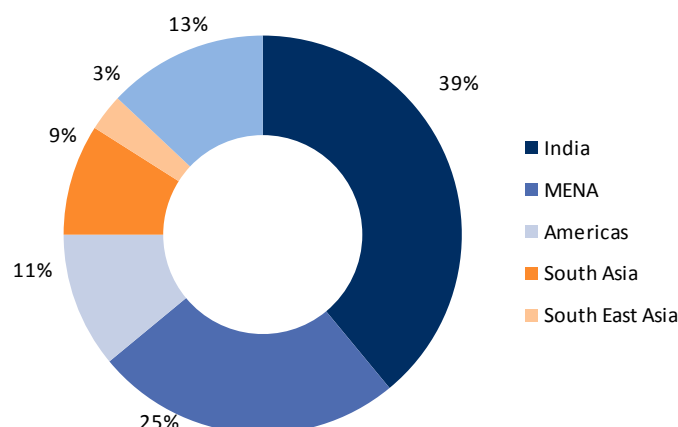
### Order inflow remained weak at Rs11bn

KEC reported a 9% yoy de-growth in total order book to Rs93bn as international orders dried up and Power Grid orders remained low. International orders accounted for 61% of the total order book for the company, higher from 55% at the end of Q4 FY14. For the quarter, order inflow was lower by 37% yoy to Rs11bn. International orders accounted for 47% of total order wins for the quarter. The company expects domestic orders to pick up in H2 FY15. Outlook for International markets also continues to be healthy. Order book of cables segment has doubled on a yoy basis. The company has indicated that it is L1 in orders worth Rs20bn and expects it to be awarded over the next 3-4 months.

#### Quarterly order inflow trend



#### Geographywise orderbook breakup



Source: Company, India Infoline Research

### OPM expansion lower than expected

KEC's operating performance was lower than expected in Q2 FY15 due to slip in performance at SAE. OPM for the quarter declined by 73bps to 5.6%, quite lower than our expectation and the management's full year guidance of 7%. The management has indicated that the underperformance was largely due to delay in sales at SAE and higher purchase of raw materials. Margins were hit by higher RM/sales ratio at 59.5% vs 50.1% in Q1 FY15 and 53.6% yoy, due to extended rain and additional losses of Rs60-70m on legacy orders. The company reported a loss before tax at Rs140mn against a PBT of Rs130mn in Q2 FY15. Operating margins for the domestic transmission business remained above 9% and is expected to remain around current levels for the rest of the year. Management remained confident of delivering margins close to 7% in FY15 and 100bps expansion in FY16. The company has maintained its guidance of 8% margins in future due to a reduction in loss making orders of the total order book. It expects to complete the loss making orders over the next 3-4 months.

#### Quarterly cost analysis

As a % of net sales	Q2 FY15	Q2 FY14	bps yoy	Q1 FY15	bps qoq
Mining & manufacturing	59.5	53.6	589	50.1	935
Personnel costs	6.9	8.3	(142)	8.6	(175)
Other overheads	28.1	31.8	(373)	35.3	(724)
<b>Total costs</b>	<b>94.4</b>	<b>93.7</b>	<b>73</b>	<b>94.1</b>	<b>35</b>

Source: Company, India Infoline Research

### Transmission business to boost earnings growth

Investments in the Transmission & Distribution (T&D) sector have lagged investments seen in power generation over the last 5 years. The trend has changed in FY15 as capacity additions in transmission doubled during YTD FY15 led by Power Grid. We believe orders from Power Grid would increase from FY16 as the company 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. We expect FY15 order inflow growth to be lower than management guidance at 7% as we expect order inflow momentum to pick up from FY16. We estimate order inflow growth at 15% post FY15 led by a recovery in the domestic market. We believe that margins for KEC have formed a trough and margins would expand going ahead due to execution of legacy orders by H2 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 are expected to improve supported by faster execution, margin expansion and lower finance costs. We have lowered our FY15 and FY16 estimates, incorporating weak H1 FY15 numbers, higher working capital requirement and higher interest costs. We maintain our BUY recommendation on the company with a revised price target of Rs132.

### Financial Summary

(Rs mn)	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	5,838	7,062
OPM (%)	5.5	6.2	6.7	7.4
Pre-exceptional PAT	651	848	1,429	2,533
Reported PAT	651	667	1,429	2,533
yoy growth (%)	(72.2)	2.4	114.1	77.3
EPS (Rs)	2.5	3.3	5.6	9.9
P/E (x)	40.2	30.9	18.3	10.3
Price/Book (x)	2.3	2.2	2.0	1.7
EV/EBITDA (x)	10.3	8.7	7.4	5.9
Debt/Equity (x)	1.3	1.5	1.3	1.1
RoE (%)	5.8	7.3	11.5	18.0
RoCE (%)	13.8	15.3	17.0	20.1

Source: Company, India Infoline Research

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

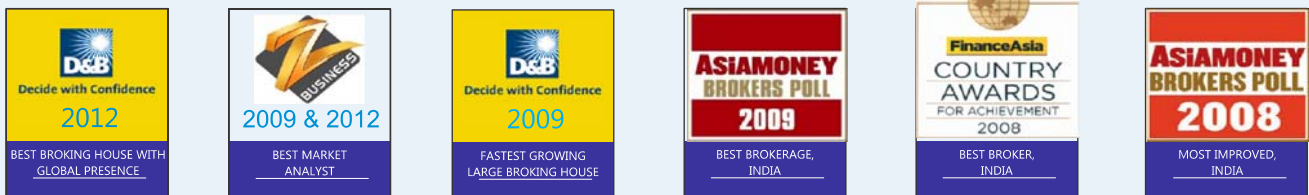
### 'Best Equity Broker of the Year' – Bloomberg UTV, 2011

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



#### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

Published in 2014. © India Infoline Ltd 2014

This report is for the personal information of the authorised recipient and is not for public distribution and should not be reproduced or redistributed without prior permission.

The information provided in the document is from publicly available data and other sources, which we believe, are reliable. Efforts are made to try and ensure accuracy of data however, India Infoline and/or any of its affiliates and/or employees shall not be liable for loss or damage that may arise from use of this document. India Infoline and/or any of its affiliates and/or employees may or may not hold positions in any of the securities mentioned in the document.

The report also includes analysis and views expressed by our research team. The report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Investors should not solely rely on the information contained in this document and must make investment decisions based on their own investment objectives, risk profile and financial position. The recipients of this material should take their own professional advice before acting on this information.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons.

This report is published by IIFL 'India Private Clients' research desk. IIFL has other business units with independent research teams separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIFL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani, Head of Research at [research@indiainfoline.com](mailto:research@indiainfoline.com)

For Sales and Account related information, write to customer care: [info@5pmail.com](mailto:info@5pmail.com) or call on 91-22 4007 1000