

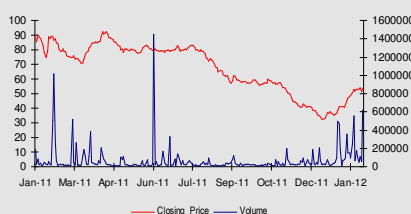
Transmission Line Towers

| | |
|---------------------|--------------|
| CMP | Rs 53 |
| Target Price | Rs 71 |

Key Data

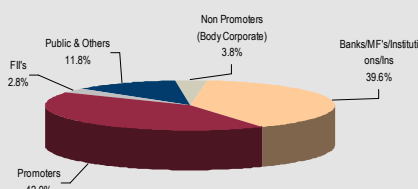
| | |
|-----------------------------|---------|
| Face value | Rs 2 |
| Market Cap (Rs in mn) | 13626 |
| Total O/S shares (Rs in mn) | 257.1 |
| Free Float | 58.24% |
| 52 week High/Low | 95/32 |
| Avg. Monthly Volume (BSE) | 173944 |
| Avg Monthly volume (NSE) | 529221 |
| BSE Code | 532714 |
| NSE Code | KEC |
| Bloomberg code | KECI IN |
| Beta | 0.71 |
| Date of Incorporation | 2005 |
| Last Dividend Declared | 60% |
| Indices | BSE500 |
| FCCB's O/s | N.A. |
| WarrantsO/s | N.A. |

One Year Price / Volume Chart



Source: Capitaline

Share Holding Pattern (31.12.2011)



Source: Company, KJMC Research

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KEC International Ltd

BUY

KEC International's Q3FY12 result was inline with our expectation. The consolidated revenue grew by 36.3% yoy to Rs 14.6 bn while consolidated PAT grew by 39% yoy to Rs 806 mn. The PAT growth in the quarter was backed by Rs 537.5 mn one time income from sale of land at Vashi. If we adjust the same PAT witnessed a yoy decline. The consolidated EBITDA margin for the quarter declined sharply by 400 bps to 7.6%. The margin continued to remain under pressure on account of increased competitive environment and contribution from new verticals where margins are presently lesser. The consolidated order book at the end of the quarter stood at Rs 92 bn with Rs 25 bn of new order inflows in Q3FY12. The order book included Rs 8.2 bn of orders from US subsidiary, SAE Towers.

Key highlights

- ▶ **Revenue growth backed by strong execution:** The company reported 36.3% yoy growth in the Q3FY12 consolidated net revenue which was backed by strong execution. The revenue included Rs 2.62 bn contribution from SAE Towers as against Rs 1.49 bn in corresponding quarter last year. At standalone level also the revenue grew at 31% yoy on account of strong execution.
- ▶ **EBITDA margin continued to remain under pressure:** The consolidated EBITDA margin for the quarter stood at 7.6% in Q3FY12, witnessed 397 bps yoy fall which was below our expectation. The margin took a hit on account of increased competition in T&D and also on revenue contribution from new verticals where the margins are presently lower. In addition, the margins in SAE towers were also at a lower level of 10%.
- ▶ **PAT grew by 39% yoy on Rs 537.5 mn of one time income from land sale:** The consolidated PAT for the quarter grew by 39% yoy to Rs 806 mn on account of Rs 537.5 mn of one time other income from land sale at Vashi. If we adjust the same there is a sharp fall of over 20% in the PAT. The interest cost rose by 29.7% yoy on increased interest rates. The net working capital at the end of Q3FY12 was at Rs 15.11 bn which has declined from Rs 15.87 bn in Q2FY12. The consolidated debt was at Rs 15.84 bn and cash balance was at Rs 1.73 bn of the end of Q3FY12.

Consolidated Financial Snapshot

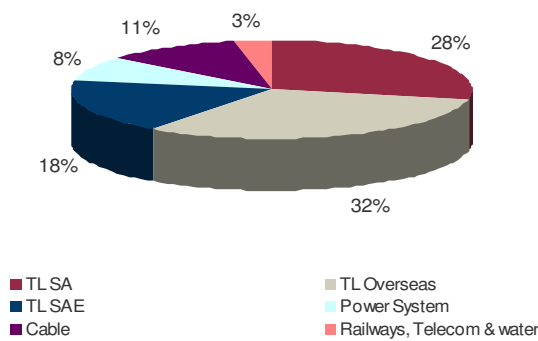
(Rs in mn)

| Particulars | FY09 | FY10 | FY11 | FY12E | FY13E |
|--------------------|--------|--------|--------|--------|--------|
| Net Sales | 34,288 | 39,072 | 44,742 | 54,258 | 61,311 |
| Growth (%) | 0.0 | 14.0 | 14.5 | 21.3 | 13.0 |
| EBITDA | 3,473 | 4,598 | 4,709 | 4,689 | 5,425 |
| EBITDA Margins (%) | 10.1 | 11.8 | 10.5 | 8.6 | 8.8 |
| PAT | 1,631 | 2,436 | 2,056 | 1,634 | 2,033 |
| EPS (Rs) | 6.6 | 9.5 | 8.0 | 6.4 | 7.9 |
| P/E(x) | 8.0 | 5.6 | 6.6 | 8.3 | 6.7 |
| EV/EBITDA (x) | 5.1 | 4.5 | 5.6 | 6.4 | 5.6 |
| ROE (%) | 29.2 | 36.2 | 23.7 | 16.2 | 17.6 |
| ROCE (%) | 27.5 | 31.4 | 21.8 | 16.2 | 16.9 |

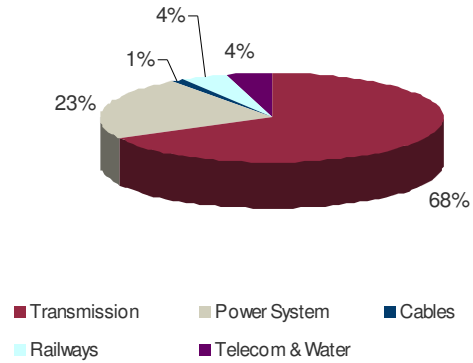
Source: Company, KJMC Research

- ▶ **Order book grew to robust Rs 92 bn:** The Company has consolidated current order book of Rs 92 bn. During the quarter it added Rs 25 bn of new order inflows. The order book includes ~ Rs 8.2 bn of order from SAE Towers. The order book has average execution period of 18-24 months. 57% of the orders are international and 43% are domestic orders.
- ▶ **Vadodara cable plant would be operational by Q1FY13:** The greenfield cable plant at Vadodara is on schedule and is expected to be operational by Q1FY13.

Q3FY12 Revenue breakup in terms of business segments



Q3FY12 Order backlog break up in terms of business segments



Source: Company

Q3FY12 Results – Standalone

(Rs in mn)

| Particulars | Q3FY12 | Q3FY11 | YoY % | 9MFY12 | 9MFY11 | YoY % |
|-----------------------------------|--------------|--------------|--------------|---------------|--------------|-------------|
| Net Sales | 11416.6 | 8690.9 | 31.4 | 28906.6 | 26430.7 | 9.4 |
| Expenditure | 10608.6 | 7845.7 | 35.2 | 26908.0 | 23942.8 | 12.4 |
| EBITDA | 808.0 | 845.2 | -4.4 | 1998.6 | 2487.9 | -19.7 |
| EBITDAM% | 7.1 | 9.7 | -264.8 bps | 6.9 | 9.4 | -249.9 bps |
| Other Income | 545.4 | 2.7 | - | 744.8 | 9.1 | - |
| PBIDT | 1353.4 | 847.9 | 59.6 | 2743.4 | 2497.0 | 9.9 |
| Depreciation | 92.6 | 86.0 | 7.7 | 267.4 | 254.6 | 5.0 |
| Interest | 315.3 | 246.4 | 28.0 | 923.6 | 709.2 | 30.2 |
| PBT | 945.5 | 515.5 | 83.4 | 1552.4 | 1533.2 | 1.3 |
| Tax | 232.5 | 164.4 | 41.4 | 394.5 | 577.1 | -31.6 |
| Extraordinary Items | 0.0 | 0.0 | - | 9.8 | 84.9 | - |
| PAT (after Extra-ordinary) | 713.0 | 351.1 | 103.1 | 1148.1 | 871.2 | 31.8 |
| PATM% | 6.2 | 4.0 | 220.5 bps | 4.0 | 3.3 | 67.6 bps |
| Equity Capital | 514.2 | 514.2 | 0.0 | 514.2 | 514.2 | 0.0 |
| EPS | 2.8 | 1.4 | 103.1 | 4.5 | 3.4 | 31.8 |

Source: Company

Q3FY12 Results – Consolidated

(in Rs mn)

| Particulars (Rs Mn) | Q3FY12 | Q3FY11 | YoY % | 9MFY12 | 9MFY11 | YoY % |
|------------------------|----------------|----------------|-------------------|----------------|----------------|------------------|
| Net Sales | 14588.1 | 10706.8 | 36.3 | 37443.5 | 29168.0 | 28.4 |
| Total Expenditure | 13473.7 | 9463.8 | 42.4 | 34469.0 | 26078.3 | 32.2 |
| EBITDA | 1114.4 | 1243.0 | -10.3 | 2974.5 | 3089.7 | -3.7 |
| EBITDAM% | 7.6 | 11.6 | -397.0 bps | 7.9 | 10.6 | 264.9 bps |
| Other Income | 545.8 | 3.2 | 16956.3 | 551.5 | 9.8 | 5527.6 |
| Interest | 372.0 | 286.8 | 29.7 | 1080.3 | 754.9 | 43.1 |
| Depreciation | 125.6 | 113.2 | 11.0 | 363.8 | 289.4 | 25.7 |
| PBT | 1162.6 | 846.2 | 37.4 | 2081.9 | 2055.2 | 1.3 |
| Tax | 356.6 | 266.5 | 33.8 | 723.3 | 699.6 | 3.4 |
| Extraordinary Expenses | 0.0 | 0.0 | - | 9.8 | 84.9 | -88.5 |
| PAT | 806.0 | 579.7 | 39.0 | 1348.8 | 1270.7 | 6.1 |
| PATM% | 5.5 | 5.4 | 11.1 bps | 3.6 | 4.4 | -75.4 bps |
| Equity | 514.2 | 514.2 | 0.0 | 514.2 | 514.2 | 0.0 |
| EPS | 4.7 | 2.3 | 108.6 | 5.2 | 4.9 | 6.1 |

Source: Company

Valuation

We expect that the revenue booking by KEC would continue to be strong in the next quarter backed by strong order book buildup. We maintain our estimates and BUY recommendation on the stock along with the target price of Rs 71. At our target price the stock discounts FY12E and FY13E earnings by 11x and 9x respectively.

| | | | |
|--------------------------|---------------------------------|------------------------|---------------|
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| Mr. Suresh Parmar | A.V.P. - Institutional Equities | suresh.parmar@kjmc.com | 4094 5551 (D) |
| Mr. Vipul Sharma | A.V.P. - Institutional Sales | vipul.sharma@kjmc.com | 4094 5556 (D) |

Recommendation Parameters

Expected returns in absolute terms over a one-year period

| | |
|-----------------------|--|
| Buy | - appreciate more than 20% over a 12- month period |
| Accumulate | - appreciate 10% to 20% over a 12- month period |
| Hold / Neutral | - appreciate up to 10% over a 12- month period |
| Reduce | - depreciate up to 10% over a 12- month period |
| Sell | - depreciate more than 10% over a 12- month period |

KJMC Research Basket

| Products | Contains | Frequency |
|---|--|--------------|
| (A) Fundamental Reports | | |
| Company Reports | Initiating Coverage on Company based on Fundamental Research | Time to Time |
| Company Updates | Quarterly / Event Update on companies covered | Time to Time |
| Visit Note / Analyst Meet Note / Concall Update | Reports containing management meet, analyst meet & concall update on companies | Time to Time |
| IPO Note | Reports based on IPO Analyst Meet and Company Fundamentals | Time to Time |
| Event Report | Reports based on special events such Budget, Monetary policy etc. | Time to Time |
| Morning Market Compass | Morning Market Compass containing information on Indian & Global Markets, Indices and key company events. | Mon-Fri |
| (B) Alternative Research | | |
| Dividend Yield Stocks | Reports based on analysis of Dividend Yield. | Time to Time |
| Special Situation Research | Investments based on Open Offer, Buy-Back, FPO Arbitrage, IPO/FPO, Delisting, Merger/Demerger,etc. | Time to Time |
| What's in & What's out | List of companies, Purchase / Sold in particular month by different AMC's. | Monthly |
| (C) Mutual Funds & IPO's Research | | |
| Daily Performance Report for Liquid & Liquid Plus Funds | Report containing daily, weekly, monthly, half yearly & yearly performance of only Liquid & Liquid Plus plans along with ranking of each fund for Corporates & Institutions. | Mon-Fri |
| Daily Performance Report for all Debt & Equity Funds | Report containing daily, weekly, monthly, half yearly & yearly performance along with ranking of each fund. | Mon-Fri |
| Product Notes | Brief Details about different products like Mutual fund, Fixed Deposits, Bonds, IPOs, Insurance & Home Loans. | Time to time |

Data Sources : Capitalline, Companies, Bloomberg, Various Websites & publication available on Public domain.

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