

Key data

Sector	Capital Goods
Market Cap	Rs26.9bn/US\$0.6bn
52 Wk H/L (Rs)	770/303.2
Avg. daily vol. (6 month)	57,350

BSE Code	532714
NSE Code	KEC
Bloomberg	KECI IN
Reuters	KECL.BO

Sensex	19,838
Nifty	5,901

Shareholding pattern (%)

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	16.6	16.6
MFs and institutions	33.4	33.3
Promoters	34.2	34.6
Others	15.6	15.5

Absolute returns (%)

	1mth	3mth	12mth
KEC International	22.3	19.1	137.2
Sensex	14.7	27.6	53.0

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KEC International

Buy
Current Price: Rs725
Target price: Rs927
Results were above our estimates
Figure 1: Actual Vs Religare Estimates

	Q2FY08A	Q2FY08E	Difference (%)	Consensus
Net sales	5629.6	5,374	4.8	NA
EBITDA	745.4	661	12.8	NA
EBITDA margins (%)	13.2	12.3	90bps	NA
PAT	338	250	35.1	NA
PAT margins (%)	6.0	4.7	130bps	NA

Source: Religare Institutional Equity Research, Bloomberg

Financial highlights

- **Net sales** were up 20% YoY to Rs 5.6bn.
- **EBITDA** was up 32% YoY. The EBITDA margins expanded by 120bps YoY to 13.4%. The margin improved YoY due to the execution of higher margin orders in the quarter.
- **Adjusted PAT** was up 56% YoY as interest costs remained flat YoY.

Valuations and Recommendation

The stock is trading at 17x its 1 year forward earnings. We have upgraded our earnings by 12.4%, 10.9% and 10.5% in FY08, FY09 and FY10 respectively. As we expect the strong earnings growth to continue, we are upgrading our target multiple to 16.5x from 15x, to reflect the company's ability to throw up positive surprises. We have revised our target price for the stock to Rs 927 in order to reflect the impact of upgradation of earnings, a higher multiple and rolling forward of earnings. We maintain our **Buy** rating on the stock.

Figure 2: Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QA	FY07	FY08E
Net Sales	4,124	4,677	5,723	6,409	5,116	5,630	20,932	25,591
<i>Change %</i>	8.9	13.3	25.1	34.0	24.1	20.4	21.2	22.3
EBITDA	430	571	805	707	639	754	2,513	3,263
<i>EBITDA margin (%)</i>	10.4	12.2	14.1	11.0	12.5	13.4	12.0	12.7
<i>Change (%)</i>	26.4	47.0	82.6	56.4	48.5	32.1	55.0	29.9
Depreciation	88	84	83	80	88	68	334	317
Other Income	0	2	2	3	1	3	7	11
Interest exp/(inc)	118	157	149	168	163	157	593	629
PBT	224	333	574	461	388	529	1,593	2,328
<i>PBT margin (%)</i>	5.4	7.1	10.0	7.2	7.6	9.4	7.6	9.1
<i>PBT growth (%)</i>	46.8	88.9	158.5	115.9	73.0	59.1	108.2	46.2
Extraordinary exp/(Inc)	0	0	0	0	0	0	0	0
Tax	79	116	192	160	135	191	546	810
<i>Effective tax rate (%)</i>	35.1	34.8	33.5	34.6	34.8	36.1	34.3	34.8
PAT reported	146	217	382	302	253	338	1,046	1,517
Adjusted PAT *	146	217	382	302	253	338	1,046	1,517
<i>Adj PAT margin (%)</i>	3.5	4.6	6.7	4.7	4.9	6.0	5.0	5.9
<i>Change (%)</i>	71	125	133	105	74	56	112	45
Equity Capital (Rs mn)	377	377	377	377	377	377	377	377
Adj EPS	3.86	5.75	10.14	8.01	6.71	8.97	27.75	40.24

* Excluding extraordinary

Other business highlights

- The order book of the company stood at Rs 48bn (including L1 orders). Nearly 75% of the order book came from international orders and 25% from domestic orders.
- The company is awaiting court approval for the proposed merger of RPG Transmission and NITEL into the KEC International. The merger is EPS dilutive by 2% based on FY07 PAT.
- We have upgraded our earnings by 12.4%, 10.9% and 10.5% in FY08, FY09 and FY10 respectively, to reflect the better than expected margin outlook for the company.

Figure 3: Table for earnings revision

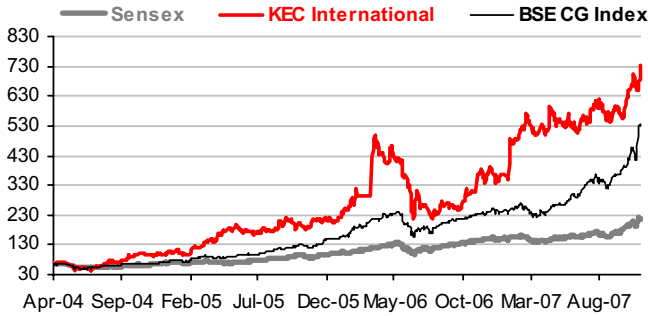
(Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade) (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Net Sales	25591	31681	38225	25591	31681	38225	0.0	0.0	0.0
EBITDA	3151	3790	4461	3262.6	3923.9	4543.6	3.5	3.5	3.1
EBITDA margin (%)	12.3	12.0	11.9	12.7	12.4	12.2	40bps	40bps	30bps
PBT	2069	2548	3141	2327.6	2938.4	3607.7	12.5	15.3	14.9
Adj PAT	1350	1696.5	2073.5	1517	1881	2291	12.4	10.9	10.5
Adj PAT margin (%)	5.3	5.4	5.4	5.9	5.9	6.0	60bps	50bps	60bps
Adj EPS (Rs)	35.8	45	55	40.2	49.9	60.8	12.4	10.9	10.5

Source: Religare Institutional Equity Research, Bloomberg

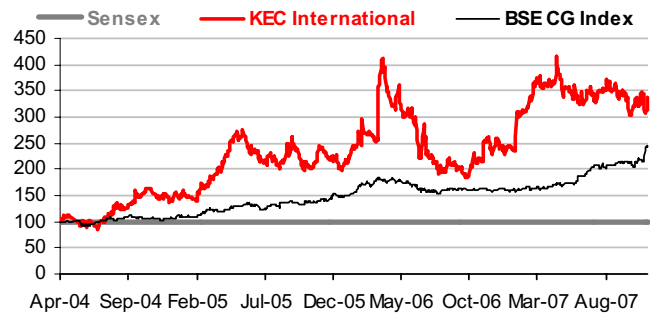
Stock performance

KEC International

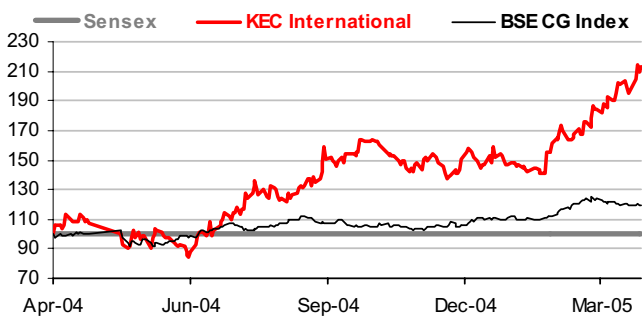
Absolute Perf. From Apr 04



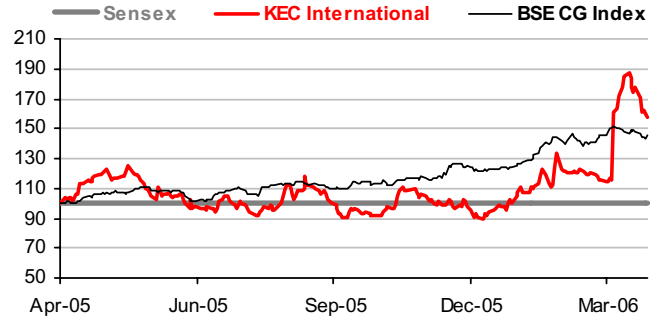
Relative Perf. From Apr 04



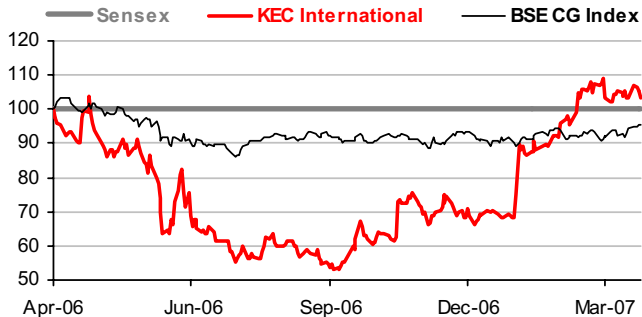
Relative Perf. From Apr 04 to Mar 05



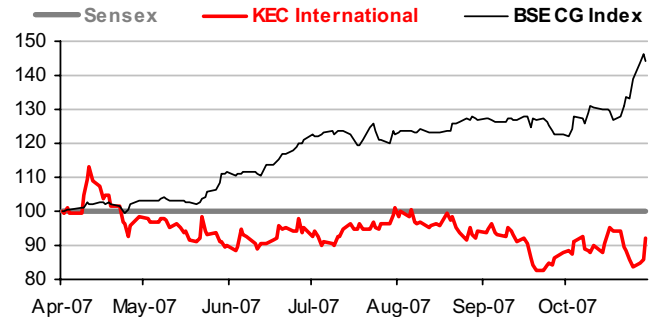
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Mar 06 to Mar 07



Relative Perf. From Apr 07

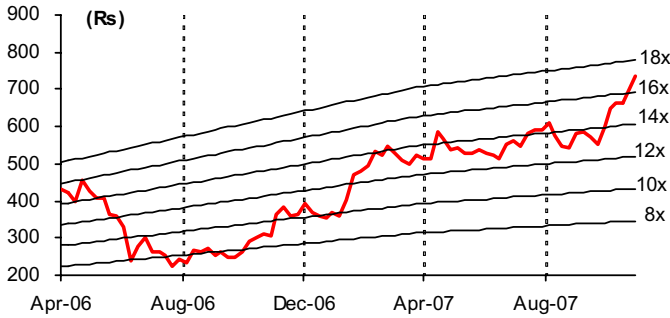


Source: Bloomberg, Religare Institutional Equity Research

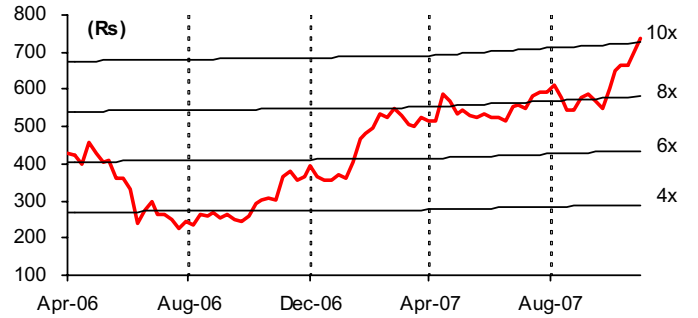
12 month forward rolling band charts

KEC International

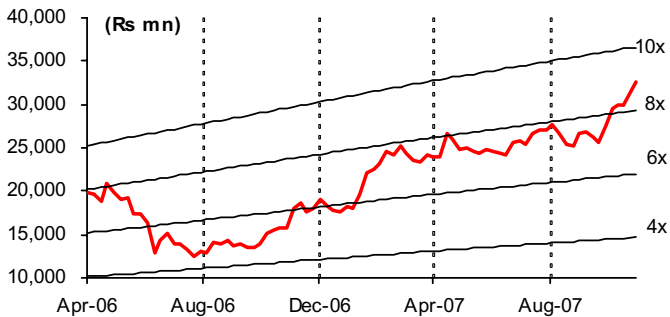
P/E Band



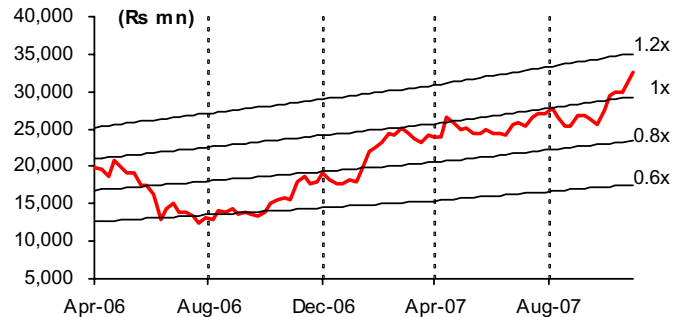
P/BV Band



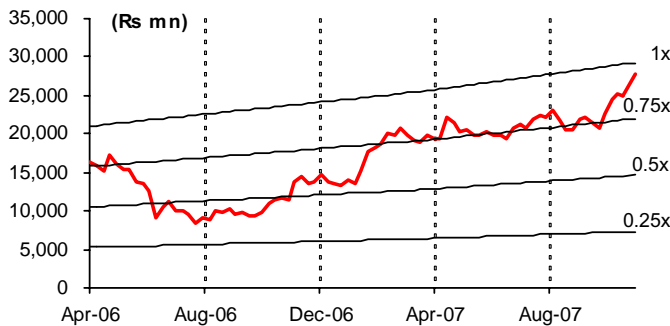
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Net sales	17,276	20,932	25,591	31,681	38,225
EBITDA	1,626	2,513	3,263	3,924	4,544
EBITDA margin (%)	9.4	12.0	12.7	12.4	12.2
Depreciation	269	334	317	390	395
EBIT	1,356	2,178	2,946	3,534	4,148
Other income	-	7	11	50	120
Interest Exp/(Inc)	593	593	629	645	661
PBT (Operating)	763	1,593	2,328	2,938	3,608
PBT margin (%)	4.4	7.6	9.1	9.3	9.4
Extra ord (inc)/exp	-	-	-	-	-
Taxes	272	546	810	1,058	1,317
Minority interest	-	-	-	-	-
PAT (Reported)	492	1,046	1,517	1,881	2,291
Less: Extra ordinary income / Others	-	-	-	-	-
Adj PAT	492	1,046	1,517	1,881	2,291
Adj PAT margin (%)	2.8	5.0	5.9	5.9	6.0

Quarterly – Financials

(Rs mn)

Y/E, 31st March	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	4,676.6	5,722.7	6,409.2	5,116	5,629
Changes (%)	13.3	25.1	34.0	24.1	20.4
EBITDA	571.2	804.5	706.5	639	744
Changes (%)	47	83	56	48.5	30.3
Margin (%)	12.2	14.1	11.0	12.5	13.2
PAT	216.8	382.1	301.8	253	338
PAT adj	216.8	382.1	301.8	253	338
Changes (%)	125.1	133.4	104.7	73.8	56.0
Margin (%)	4.6	6.7	4.7	4.9	6.0
EPS adj (Rs)	5.8	10.1	8.0	6.7	9.0
EPS dil (Rs)	5.8	10.1	8.0	6.7	9.0

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Growth					
Net sales (%)		21.2	22.3	23.8	20.7
EBITDA (%)		54.6	29.9	20.3	15.8
PAT adjusted (%)		112.8	45.0	24.0	21.8
EPS adjusted (%)		112.8	45.0	24.0	21.8
EPS diluted (%)		112.8	45.0	24.0	21.8
EPS Consl and diluted (%)					

Valuations

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
P/E (x)	51.4	24.1	17.1	14.5	11.8
P/BV (x)	14.6	9.9	9.7	6.1	4.2
EV/EBITDA (x)	17.2	11.5	9.1	7.4	6.1
EV/Sales (x)	1.6	1.4	1.2	0.9	0.7

Profitability

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
EBITDA margin (%)	9.4	12.0	12.7	12.4	12.2
Adj PAT margin (%)	2.8	5.0	5.9	5.9	6.0
RoE (%)	28.9	44.4	43.6	37.6	33.4
RoCE (%)	16.0	23.0	25.0	24.6	23.8
RoIC (%)*	18.3	21.3	25.6	27.0	29.4

B/S ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Inventory days	30.8	31.5	31.0	30.0	29.0
Creditor days	148.0	148.6	147.0	147.0	147.0
Debtor days	140.4	155.1	155.0	150.0	152.0
Working Capital days	8.6	27.3	47.8	54.8	26.4
Net debt/equity	1.5	1.4	0.8	0.5	0.2

* ROIC is calculated on post tax basis.

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Liabilities					
Equity share capital	377	377	377	377	377
Total Res. & Surplus	1,365	2,213	3,549	5,204	7,221
Total Shareholders' fund	1,742	2,590	3,926	5,581	7,598
Convertible Debt	-	-	-	-	-
Others Debt	3,326	3,864	3,864	3,864	3,864
Total Loans	3,326	3,864	3,864	3,864	3,864
Deferred tax liability (net)	209	335	335	335	335
Total liabilities	5,407	6,919	8,255	9,910	11,927

Assets

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Net fixed assets & others	4,230	4,076	3,782	3,394	3,001
Capital WIP & others	60	23	2	2	2
Total non-current assets	4,290	4,099	3,784	3,396	3,003
Total investments	205	206	206	206	206
Current assets					
Inventories	1,249	1,506	1,804	2,135	2,509
Sundry debtors	6,803	9,041	10,867	13,313	15,918
Cash & cash equivalents					
<i>Cash</i>	636	214	758	1,523	2,961
<i>Liquid investments</i>	-	-	-	-	-
Other current assets	1,619	1,717	2,047	2,218	1,911
Total current assets	10,307	12,478	15,477	19,188	23,299
Total current liabilities	9,266	9,539	10,746	12,125	13,652
Total provisions	136	370	467	754	929
Net current assets	904	2,569	4,265	6,308	8,718
Misc. expenditure	8	45	-	-	-
Total assets	5,407	6,919	8,255	9,910	11,927

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Cash from operations					
PBT		1,593	2,328	2,938	3,608
Tax paid		(546)	(810)	(1,058)	(1,317)
Dep & amortization		334	317	390	395
Working capital changes		(2,087)	(1,151)	(1,279)	(972)
Others		0	0	0	0
Net cash from operations		(707)	683	992	1,714
Cash from investments					
Capital expenditure		(140)	(2)	(2)	(2)
Sale/purchase of inv & others		38	(45)	0	0
Net cash from investments		(103)	(46)	(2)	(2)
Cash from financing					
Issue of shares & share premium		0	0	0	0
Dividend paid		(125)	(182)	(225)	(274)
Debt change		538	0	0	0
Others		(27)	89	0	(0)
Net cash from financing		386	(93)	(225)	(274)
Net change in cash		(423)	544	765	1,438

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
EPS adjusted	13.0	27.8	40.2	49.9	60.8
EPS diluted - wtd	13.0	27.8	40.2	49.9	60.8
EPS Consl and diluted	-	-	-	-	-
CEPS	20.2	36.6	48.7	60.2	71.2
Book value	46.0	67.5	104.1	148.0	201.5
Dividend	1.2	2.9	4.2	5.2	5.6
O/s shs.-actual (mn)	37.7	37.7	37.7	37.7	37.7
O/s shs.-diluted (mn)	37.7	37.7	37.7	37.7	37.7
O/s shs wtd / diluted (mn)	37.7	37.7	37.7	37.7	37.7

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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