India Infoline Result Update
KEC International Ltd *(Q4 FY07 & FY07)*
Rating: BUY CMP: Rs545 Target Price: Rs669 Upside: 22.7%
April 24, 2007

- ✓ Focus on speedy completion of projects resulted into 34% topline growth to Rs6.4bn in Q4FY07 against Rs4.8bn in the corresponding period last year.
- ✓ Operating efficiencies coupled with faster execution helped the company improve its margins to 11% during Q4FY07 from 10.1% Q4FY06
- ✓ Bottomline grows by 88.2% to Rs302mn during Q4FY07 against Rs160mn in the corresponding period last quarter.

Key financial highlights

Period to	03/07	03/06	Growth	03/07	03/06	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Net sales	6,409	4,784	34.0	20,932	17,273	21.2
Expenditure	(5,703)	(4,302)	32.6	(18,420)	(15,650)	17.7
Operating profit	707	482	46.6	2,513	1,623	54.8
Other income	3	(3)	(218.5)	7	4	64.3
Interest	(168)	(174)	(3.6)	(593)	(593)	(0.1)
Depreciation	(80)	(88)	(8.9)	(334)	(269)	24.1
PBT	461	217	112.9	1,593	765	108.3
Tax	(160)	(56)	183.3	(546)	(272)	101.1
PAT	302	160	88.2	1,046	493	112.2
OPM (%)	11.0	10.1	0.9	12.0	9.4	2.6
Equity capital	377	377	-	377	377	-
EPS Annualized (Rs)	32.0	17.0	-	27.8	13.1	-
NPM (%)	4.7	3.4	1.4	5.0	2.9	2.1

- ✓ During the quarter faster execution of various projects helped the company to clock a 34% topline growth for Q4FY07 to Rs6.4bn against Rs4.8bn in the corresponding period last year. However due to flattish performance in the first half, growth was marginally lower at 21.2% for FY07 to Rs20.9bn against Rs17.3bn in the corresponding period last year. With this it managed to close the year and quarter with record revenues. During the year KEC executed some large value orders from Kazakhstan and Abu Dhabi.
- ✓ The company undertook more of EPC projects (own work) where margins are better than low margin job. This coupled with stable raw material scenario enabled the company to expand margins to 11% during Q4FY07 against 10.1% in Q4FY06.

Cost analysis

Period	03/07	03/06	Inc/Dec	03/07	03/06	Inc/Dec
As % of sales	(3)	(3)		(12)	(12)	
Raw material cost	48.6	48.8	(0.2)	44.4	51.5	(7.1)
Erection & Subcontracting Exp	24.0	29.0	(5.1)	24.9	24.2	0.7
Staff cost	4.4	4.9	(0.5)	4.6	4.8	(0.3)
Other expenditure	12.0	7.2	4.8	14.1	10.1	4.0
Total Expenditure	**89.0**	**89.9**	**(0.9)**	**88.0**	**90.6**	**(2.6)**

- ✓ With improving cash flows the company's requirement for higher working capital is being met by internal accruals. As a result the interest cost declined by 3.6% to Rs168mn during Q4FY07 from Rs174mn in Q4FY06. Interest expense remained flat for FY07. It was required to undergo some capex for its Ethiopian project, which resulted into higher depreciation during FY07.

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- ✓ Its bottomline for Q4FY07 registered a growth of 88.2% to Rs302mn against Rs160mn in Q4FY06. Higher turnover coupled with improved margins translates into 112.2% growth in its bottomline to Rs1bn for FY07 against Rs493mn in FY06. It closed the year with earnings of Rs27.8 against Rs13.1 in the corresponding period last year.
- ✓ The company's order book of Rs30bn, 1.4x FY07 revenues, is executable over the next 16 – 20 months. It has successfully managed to reduce this time frame from the earlier 18 – 24months, thereby speeding its receipts. Of the total order book, 75% (Rs22.5bn) comes from exports and the remaining 25% (Rs7.5bn) is from domestic arena. During the year it bagged its first order from North America worth Rs1.7bn, which demands improved welding technology.
- ✓ The company is planning Rs400-500mn capex in its construction equipments department during the year.
- ✓ A healthy order book position of the company provides us with sufficient visibility for the next year. With greater emphasis being laid on APDRP, rural electrification, projects from PFC, projects on BOO basis or projects being awarded by PGCIL the T&D sector should witness an upswing for the next couple of years. The revenue mix could change going forward with contribution from domestic sector improving due to these projects coming on stream. With immense growth potential in the country and international market where developing countries are undergoing power sector reforms encourages us to believe that the company is well poised to take full advantage of this opportunity.
- ✓ We expect the company to capitalize on this growth opportunity and register a topline and bottomline growth of 22.6% and 26.7% CAGR over FY07-09E. With margins expected to remain unchanged over the next two years coupled with strong order pipeline of domestic orders KEC's order book is set to head northwards. The stock is currently trading at 15.5x and 12.2x FY08E and FY09E earnings of Rs35.1 and Rs44.6 respectively. We recommend a ***BUY*** on the stock with a one year price target of Rs669, 22.7% upside.

Projected Income Statement

Period to	FY04	FY05	FY06	FY07P	FY08P	FY09P
(Rs mn)	**(12)**	**(12)**	**(12)**	**(12)**	**(12)**	**(12)**
Net Sales	8,168	12,303	17,272	20,932	25,547	31,473
Operating expenses	(7,187)	(11,135)	(15,650)	(18,420)	(22,494)	(27,704)
Operating profit	981	1,168	1,623	2,512	3,053	3,769
Other income	141	61	5	7	7	7
PBIDT	1,122	1,229	1,627	2,519	3,060	3,776
Interest	(605)	(487)	(593)	(593)	(687)	(848)
Depreciation	(101)	(101)	(269)	(334)	(360)	(370)
Profit before tax (PBT)	417	642	765	1,593	2,013	2,558
Tax	137	(254)	(272)	(546)	(690)	(877)
Profit after tax (PAT)	554	388	493	1,046	1,322	1,681
Extraordinary / prior period items	(260)	40	(0)	-	-	-
Adjusted profit after tax (APAT)	293	427	493	1,046	1,322	1,681
EPS (Rs)	8.8	11.4	13.1	27.8	35.1	44.6
OPM (%)	12.0	9.5	9.4	12.0	12.0	12.0
PAT (%)	3.6	3.5	2.9	5.0	5.2	5.3

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