

Hem Securities Limited
Hem Finlease Private Limited

KEC International Ltd.

14 February 2008

CMP-698

Price target-820

Stock statistics 14 February 2008

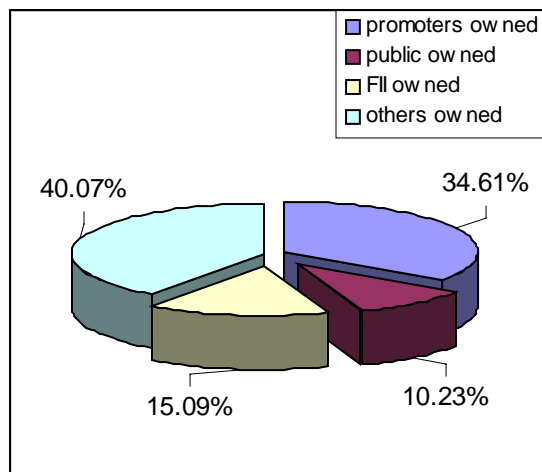
Market Cap (Rs Mn) :	26304.13
52-Week high/low (Rs) :	922/425
Face value :	10
BSE Code :	532714
NSE Code :	KEC
Industry :	TRANSMISSION
Shares outstanding :	37,685,854
Avg. daily vol. (30 days) :	6.40

BUSINESS BACKGROUND

KEC International, part of the RPG group is one of the largest EPC Company for power transmission in the world. KEC was established in 1945 as a trading company by the name of Kamani Engineering Corporation. The company is involved into designing, manufacturing, supplying and construction of turnkey projects of power transmission lines and in the execution of Railway electrification projects, setting up sub stations and power distribution networks, optical fiber cable installations, telecom turnkey infrastructure services and maintenance of power transmission lines. The company has a strong international presence across Middle East, Africa and Central Asia and now has entered the North American markets also. Group companies like National Information Technologies (NITEL) and RPG Transmissions have been merged into KEC International shortly, making the company a giant size and increase the operational arena.

INVESTMENT RATIONALE

Shareholding Pattern (as on 31 Dec. '07)



Key Statistics (as on 14 February 2008)

CMP	:	698.00
BV (FY'07)	:	72.18
PE	:	18.56
PB	:	9.67
Beta	:	1.53
Turnover (Rs Mn)	:	3.22
Net worth (Rs Mn)	:	2720.00

- KEC International has presently emerged as one of the largest power transmission engineering, procurement and construction companies with a vast global footprint and a total order book of over Rs 5,000 crore out of which Rs 3250 crores is from international operations and Rs 1750 crores through domestic business. The company expects to grab orders worth Rs 700-800 crores in the quarter ending March 2008.
- The company has secured a contract worth Rs 56.87 crores for the supply and construction of 400KV Double circuit Ranchi-Rourkela Transmission line on a turnkey basis from Power Grid Corporation. Another contract worth Rs 40.66 crores has been awarded for supply and construction of 132 KV single circuit and Double Circuit Transmission line in North Bihar. The projects are scheduled to be completed by November 2009.
- The company has entered into an equally proportioned joint venture with Power Engineers, a north American engineering company and has floated a new firm called KEC Power. The company shall be responsible for providing technical assistance to the new projects awarded to the company. With this move the company shall be able to access the more advanced outer markets, therefore strengthen its global presence.
- The merger of RPG transmissions and NITEL with the company shall make KEC one of the largest transmission company across the globe. The merger shall increase the total tower manufacturing capacity of the company to 161,000 ton per annum. The merger shall enable the company to effectively utilize the surplus capacities of RPGT and shall also be able to reduce the costs substantially. The operational arena of the company will increase to telecom, railways-related businesses, power transmission and rural electrification.

FINANCIAL STATEMENT ANALYSIS

	Rs. Mn				
Particulars	Q3FY07	Q4FY08	Q1FY08	Q2FY08	Q3FY08
Revenues	5722.70	6409.20	5115.80	5629.60	7089.10
Growth (%)	---	12.00	(20.18)	10.04	25.93
Total Expenditure	4918.20	5702.70	4477.00	4883.80	6063.70
Operating Profit	804.50	706.50	638.80	745.80	1025.40
Growth (%)	---	(12.18)	(9.58)	16.75	37.49
OPM	14.06	11.02	12.49	13.25	14.46
Other Income	1.60	3.20	0.20	-0.40	0.30
EBIDTA	806.10	709.70	639.00	745.40	1025.70
Interest	149.20	168.00	162.50	156.90	177.90
Depreciation	82.50	80.40	88.20	68.40	45.60
PBT	574.40	461.30	388.30	520.10	802.20
Tax	192.30	159.50	135.20	181.20	279.20
Adjusted PAT	382.10	301.80	253.10	338.90	523.00
Growth (%)	---	(21.02)	(16.14)	33.90	54.32
Adjusted NPM	6.68	4.71	4.95	6.02	7.38
Reported PAT	382.10	301.80	253.10	338.90	523.00
EPS	10.14	8.01	6.72	8.99	13.88
Equity Capital	376.90	376.90	376.90	376.90	376.90

The company has posted excellent results for Q3FY08. The net sales have risen to Rs 7089.10 million against Rs 5722.70 million showing growth of 23.87% on YoY basis, although the revenues have jumped up by 25% on quarterly basis. The operating profit for the quarter ended Dec 07 stood at Rs 1025.40 million compared to Rs 804.50 million in the corresponding quarter in the previous year, showing a growth of 27.45%. The operating profit margins stood at 14.46% and the continuation of the increasing trend in the OPM. The EBITDA stood at RS 1025.70 million against the figure of Rs 806.10 million posted in Q3FY07, posting a strong growth of 27%. The company has reduced its depreciation expenses considerably and on the flip side the interest expenses tend to increase. The EBITDA margin stood at 14.47% marginally higher than the margins posted in Q3FY07, showing the operational strength of the company. EBIT has risen from Rs 722 million in Q3FY07 to Rs 979.80 million in Q3FY08 showing a growth of 36%. The net profit for the quarter ended Dec 07 stood at Rs 523 million versus bottom line of Rs 382.10 million posted in Q3FY07, showing a growth of 37%. On QoQ basis, there has been a sharp growth of 54.32 % in the net profit. The net profit margins have seen a steady rise from 6.68% in Q3FY07 to 7.38% in Q3FY08 showing the strength of the company. The earning per share comes out to Rs 37.60(calculated on TTM basis).

VALUATION

The strong order book of the company, robust financial performance and future earnings visibility in the burgeoning sector of transformers make the stock quite lucrative. The company has scented immense potential in the railways segment, both domestically and internationally and is also betting big on new business segment, the railways sector, and plans to undertake earthing, track-laning, signaling and building platforms. KEC International is close to winning orders worth up to Rs 800 crore in the January-March quarter that will further add more lustre to the stock.

Presently, the stock is trading at current market price at Rs 698, which is at 18.56 times to its earnings and 9.82 times to its book value. At this level the stock seems to be likely under priced against the industry standards. Therefore, we initiate a BUY signal on the stock at the current level with a target price of Rs 820 in the medium to long-term investment horizon. expecting an appreciation of 17%.

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