VISIT NOTE

KEC INTERNATIONAL

Changing course; time to BUY

India Equity Research| Engineering and Capital Goods

Edelweiss
Ideas create, values protect

Our recent interaction with KEC International (KEC) management infuses us with optimism on the company's overall profitability and growth potential of its various business segments. Balance sheet improvement post leveraged buyout of SAE Towers (US) and recent hike in promoter stake further cement our conviction on the stock. We upgrade our reco to 'BUY' and revise up our FY14E EPS 4% with a revised TP of INR77/share.

Improved sales, OPM visibility; diversified growth reiterated

KEC has a healthy order book of INR94bn (book to bill), 1.4x FY13E sales, which imparts sufficient visibility for the next 16-18 months. Also, cables, railways, and water divisions are expected to grow higher than T/L revenues with 30% CAGR over FY12-14E versus 13% CAGR for T/L revenue owing to low base and decent order inflow. While profitability of T/L is likely to remain stable, it is expected to improve for most new businesses (railway, cables, water) FY14 onwards on better operating leverage.

Robust balance sheet, cash flow; equipped for future growth

Improvement in the company's financial leverage has been commendable—from 1.5x in FY11 to a reasonable 1.0x in March 2012, owing to optimum WC management and cash flow recovery. We believe KEC's diversified growth target across verticals will be well supported by its efficient WC management, proven ability to manage businesses in new territories, which is superior to its peer set.

Outlook and valuations: Diversified growth; upgrade to 'BUY'

KEC's strategy of a diversified business model across geographies has augured well over the past five-six years; management targets to take most of the new businesses on a global scale, which provides greater flexibility to choose between markets and businesses. We revise up our FY14E EPS 4% building in superior margins and expect the company to continue its outperformance versus peers over the medium to long term. We also upgrade our recommendation/rating from 'HOLD/SP' to **'BUY/Sector Outperformer'** with a revised target price of INR77/share (+40% upside) given attractive valuations (40% discount to 5 year avg. valuation) and limited downside.

Financials (Consolidated)

Year to March	FY11	FY12	FY13E	FY14E
Revenue (INR mn)	44,742	58,147	66,133	77,219
Rev. growth (%)	*14.5*	*30.0*	*13.7*	*16.8*
EBITDA (INR mn)	4,625	4,713	5,392	6,579
Net profit (INR mn)	2,057	1,555	2,189	2,805
Shares outstanding (mn)	257	257	257	257
EPS (INR)	8.0	6.0	8.5	10.9
EPS growth (%)	*4.0*	*(24.4)*	*40.8*	*28.1*
Diluted P/E (x)	6.9	9.1	6.5	5.0
EV/EBITDA (x)	5.8	4.9	4.5	3.8
ROAE (%)	24.0	15.1	18.3	19.8

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: KECL.BO, B: KECI IN)*	
CMP	: INR 55
Target Price	: INR 77
52-week range (INR)	: 69 / 31
Share in issue (mn)	: 257.1
M cap (INR bn/USD mn)	: 14/ 263
Avg. Daily Vol.BSE/NSE('000)	: 298.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	43.9	43.1	42.0
MF's, FI's & BK's	37.4	39.0	39.6
FII's	2.3	2.3	2.4
others	16.5	15.7	16.0

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	0.3	5.0	(1.3)
3 months	12.9	9.5	4.8
12 months	(12.2)	10.2	(22.8)

Amit Mahawar
+91 22 4040 7451
amit.mahawar@edelcap.com

Rahul Gajare
+91 22 4063 5561
rahul.gajare@edelcap.com

Swarnim Maheshwari
+91 22 4040 7418
swarnim.maheshwari@edelcap.com

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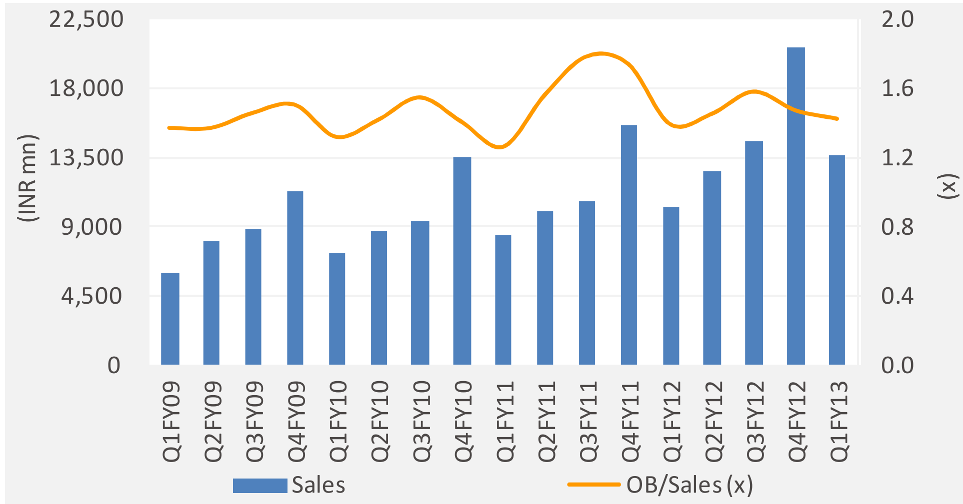
Healthy revenue growth visibility; FY12-14E T/L revenue CAGR at 13%

Order inflow for KEC has been healthy over the past 3-5 months led by both domestic and overseas order intake traction. The company currently has adequate revenue growth visibility and is expected to post 13% revenue CAGR in T/L division over FY12-14E.

Chart 1: Healthy revenue growth visibility

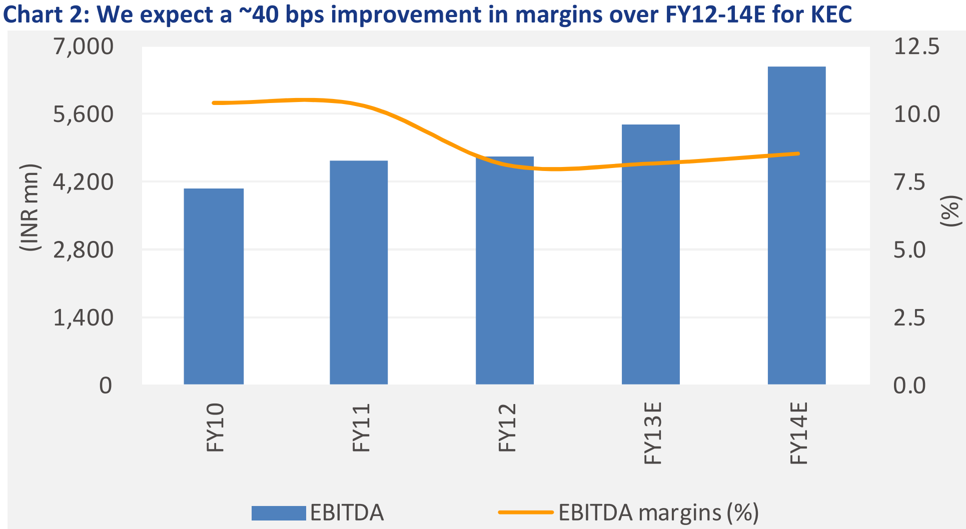


Source: Company, Edelweiss research

EBIDTA margin likely to improve as new businesses stabilise

Over the past five quarters, KEC's margin has been under pressure, with a margin crack of 200bps YoY. This was on account of pressure in the core T/L business margin, entry pricing, and low turnover in new businesses like railway, water, cables etc. With a significant order book in non T/L business, we expect the company's EBIDTA margin to improve from H2FY13-FY14. Also, we expect stable margins in the T/L business given stable pricing scenario in current bids.

Chart 2: We expect a ~40 bps improvement in margins over FY12-14E for KEC



Source: Company, Edelweiss research

Non T&D revenue CAGR higher at 30% over FY12-14E

On low revenue base of water, railway and healthy revenue visibility, we expect non T&D revenue CAGR at 30% over FY12-14E, which will also be aided by capacity expansion in cables (Vadodara cables plant w.e.f. H2FY13). Also, we believe, the company will report an improving EBIDTA margin on blended basis led by operating leverage in railway, cables, and water businesses on higher sales growth and stable outlook in the T&D EPC space. Please note that KEC is pre-qualified for Eastern DFCC, which we have not built in our order intake assumptions. This remains a major upside to our order intake assumptions from Railways for FY13E-14E.

Table 1: Contribution of Non T&D

Revenues	FY11	FY12	FY13E	FY14E
Cables	4,800	5,710	6,552	7,567
Railways	910	1,640	1,995	2,344
Water	-	190	1,303	2,099
Telecom	810	750	1,077	1,873
Total Non T&D revenues	6,520	8,290	10,927	13,882
% share in total revenues	14.6	14.3	16.5	18.0
Total revenues	44,742	58,147	66,133	77,219
Order intake				
Cables	5,448	5,919	7,695	8,849
Railways	3,450	1,169	1,403	1,683
Water	-	3,135	3,292	3,457
Telecom	-	2,752	3,028	3,330
Total Non T&D OI	8,898	12,976	15,417	17,320
% share in total OI	14.0	20.1	21.7	22.2
Total OI	63,502	64,570	71,027	78,130

Source:Company, Edelweiss research

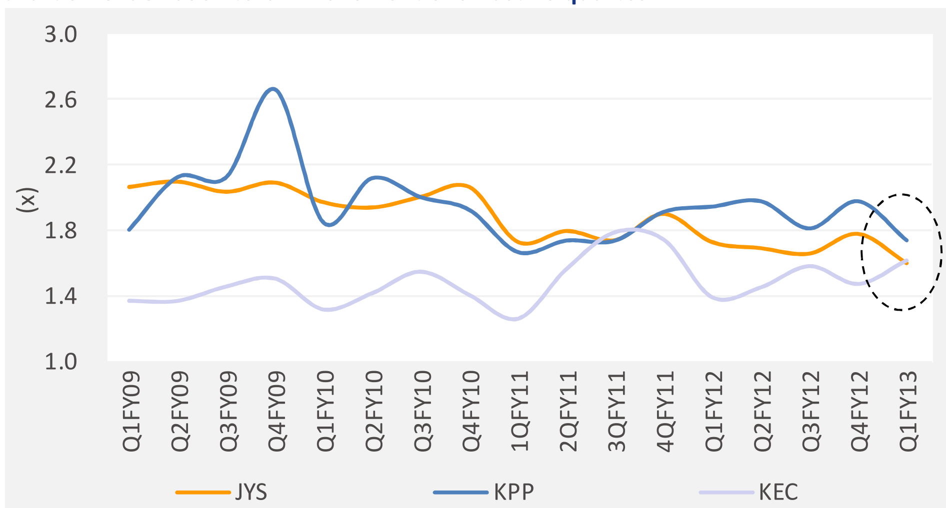
Baroda cables plant could contribute INR3.5bn to FY14E revenue

KEC has incurred INR1.0bn towards phase I of its Baroda HT cables plant and is likely to incur additional INR0.75bn for the EHV plant by October 2012. This will help it post additional peak revenue of INR3.5bn FY14E onwards on a full scale basis. While Mysore plant will continue to manufacture cables up to 33 kv, Baroda has started manufacturing HT cables from July 2012 and is expected to start manufacturing EHV cables by October 2012. The company expects a 15% CAGR in cable revenue over the next two-three years and a much higher growth in PAT owing to superior margin with better product profile.

Operational performance versus peers

- Ordering momentum for KEC has picked up in the past three-four quarters across domestic and export markets.
- KEC's market share in PGCIL orders during Q1FY13 stands at >20% versus 10-11% historical average.

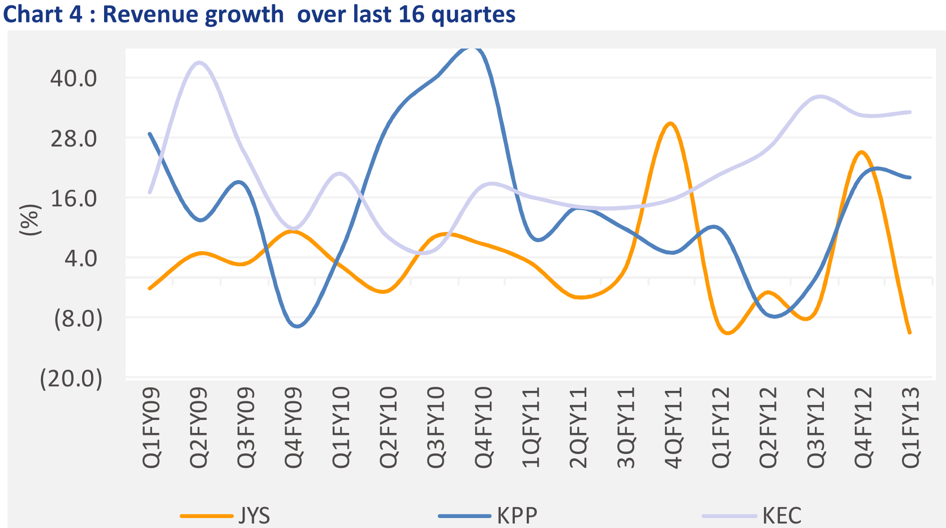
Chart 3 : Order book to bill movement over last 16 quartes



Source: Company, Edelweiss research

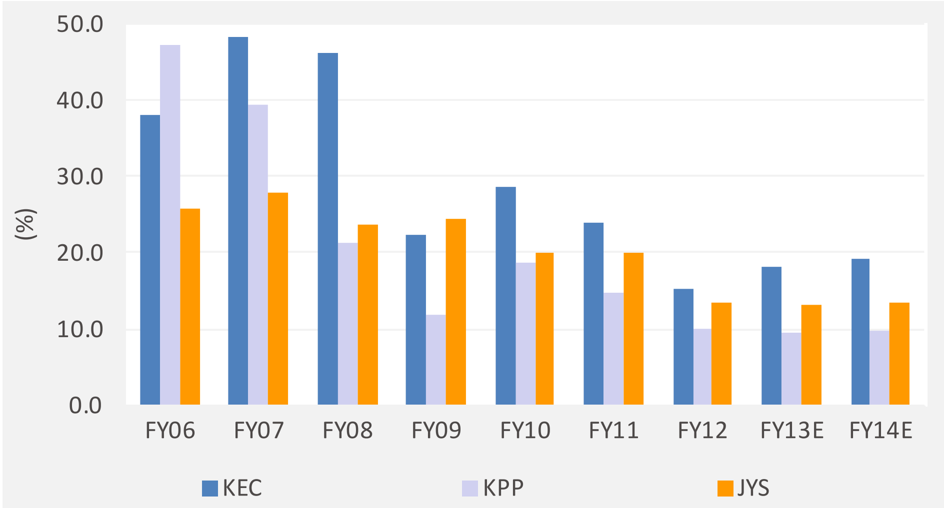
- Revenues for KEC have been healthy versus peers over the past four-five quarters owing to higher delivery schedule and sound execution.

Chart 4 : Revenue growth over last 16 quartes



Source: Company, Edelweiss research

Chart 5 : KEC has always enjoyed superior ROE's over its PEERS

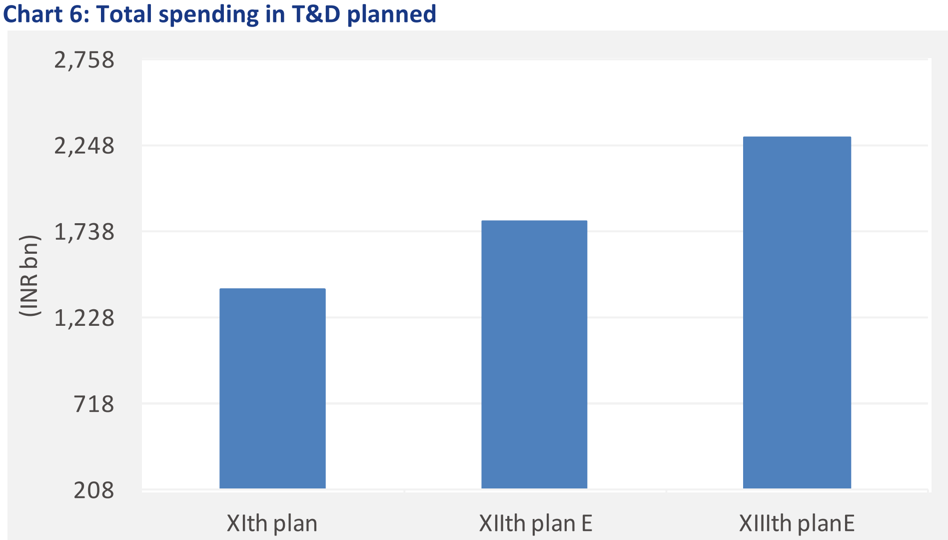


Source: Company, Edelweiss research

India T&D spending likely to be INR1,800bn over XII Plan

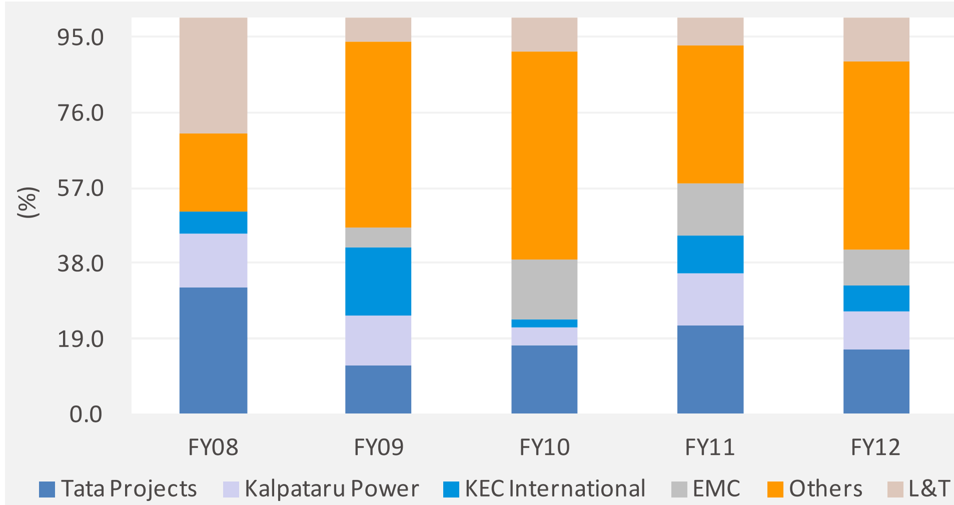
T&D spending is expected to be around INR1,800bn and INR2,300bn over Twelfth and Thirteenth Plans against INR1,400bn in the Eleventh Plan. In the Twelfth Plan, PGCIL spending is expected to be INR1,000bn out of the total INR1,800bn. Going by the thumb rule of 35% share of tower packages in overall spending, the total market size for T&D EPC players for PGCIL is roughly pegged at INR350bn. In the Eleventh Plan, total T&D EPC awarding by PGCIL stood at INR250bn. It augurs well for KEC which has maintained market share of 8-10% over the past five-six years in PGCIL ordering.

Chart 6: Total spending in T&D planned



Source: PGCIL, Edelweiss research

Chart 7 : Share of major T&D EPC players in PGCIL ordering



Source: PGCIL, Edelweiss research

Key Export markets for KEC

- **US: USD1bn opportunity per annum**

  The US transmission and distribution industry is expected to grow significantly in the future, driven by long-term secular trends including stable growing demand for electricity, replacement demand of aging infrastructure, and government stimulus to improve the existing T&D grid. These long-term trends augment substantial growth opportunities for providers of products, services, and technologies that support essential T&D infrastructure.

  As per US Energy Information Administration, ~21,000Ckm transmission capacity is proposed to be added over CY13-17E, ordering of which is expected now. Given that INR10mn is required for every circuit km addition, the total addressable market for KEC in US is roughly ~INR 210bn over the next four-five years or USD1bn per annum

Table 2: Proposed transmission capacity additiion in US

(Ckm)	2013	2014	2015	2016	2017	All years
AC Total	7,208	3,577	5,137	2,524	1,967	20,412
DC Total	-	-	342	640	-	982
Grand Total	7,208	3,577	5,479	3,164	1,967	21,394

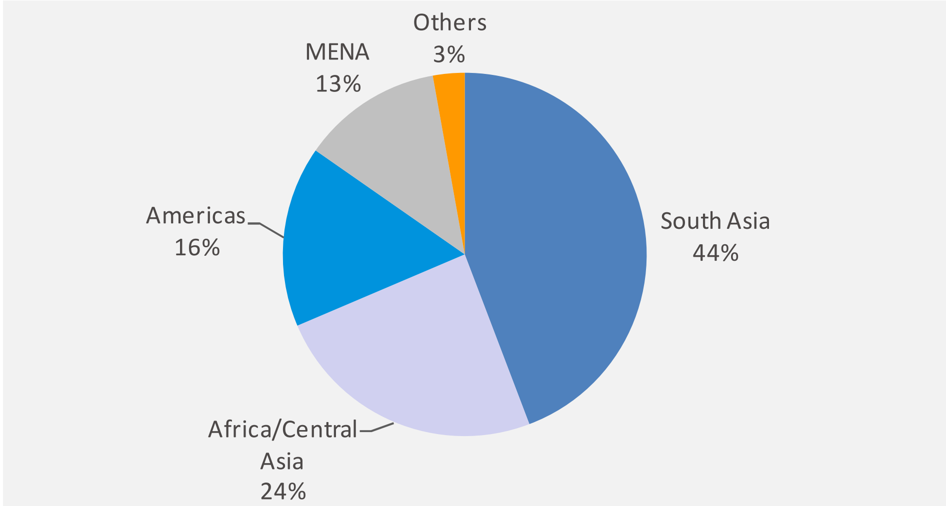
Source: U.S. Energy Information Administration

- **Reasonable prospects for Middle East & Africa**

  Middle East: As per IEA, Middle East is poised to see sustained investment in T&D infrastructure, with investments of more than USD86bn from FY08-30E in transmission and more than USD178bn in distribution. KEC's order intake during FY12 from the region stood at INR7.7bn (Saudi Arabia & Kuwait largely).

  Africa: As per IEA, Africa is expected to see total T&D investment of USD208bn over FY08-30E, implying huge potential for KEC. The company derived INR5.30bn orders in FY12 from Africa and expects a sustained bidding pipeline from the region over the next two-three years.

Chart 8: Diversified OB for KEC:



Source: Company, Edelweiss research

Valuation & TP: Best play on global T&D EPC space

Why prefer KEC now ?

KEC has outperformed peers over the past three-four quarters on back of strong revenue growth visibility led by strong order inflows and superior working capital management. We expect the stock's outperformance versus peers to continue set on operational front with better RoE profile, strong earnings growth, and superior execution over FY12-14E on back of rising contribution of non T/L business and stable margin outlook for the T/L business. **We expect KEC's margin to improve on back of better OPMs and improving RoEs with most of the new businesses contributing to the bottom line FY14 onwards, which will re-rate the stock going ahead.**

We revise our FY14E earnings up 4%, largely building in better OPMs (40bps plus) owing to stabilization of non T&D business with higher sales growth, assigning a higher PE multiple given strong operating performance expectation and improving RoE outlook. Hence, we revise our TP to INR77/share (22% revision) ascribing a PE of 7x on FY14E earnings.

Key triggers and value drivers

- Better-than-expected EBIDTA margins in railway, cables, and SAE poses an upside risk to our assumptions.
- KECs proven capability to enter and establish newer markets keeps it in different league vs peers and could have an upside risk to our intake and PAT assumptions.
- Higher-than-modeled growth in select verticals, especially T/L, railways, cables, in the domestic market, owing to large value awards, poses an upside risk to our modeled assumptions.

Key business risks & investors concerns

- Sharp uptick in key raw material—steel and copper—could impact OPMs.
- Delay in execution of current order book poses a risk to our revenue and OPM assumptions.

Chart 9: EV/EBITDA comparision

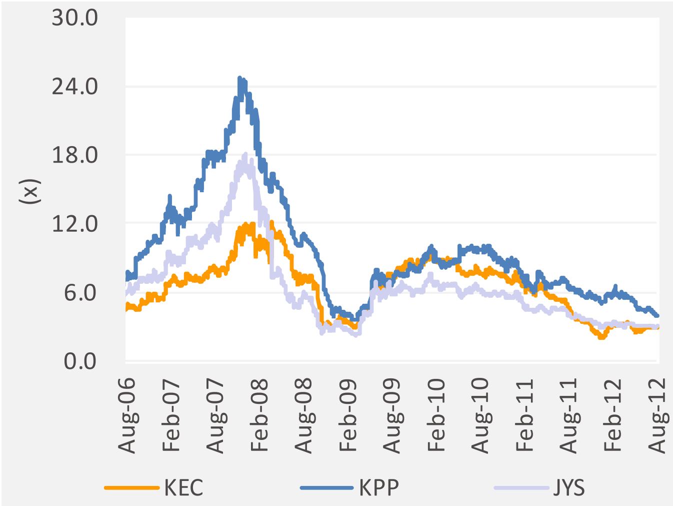
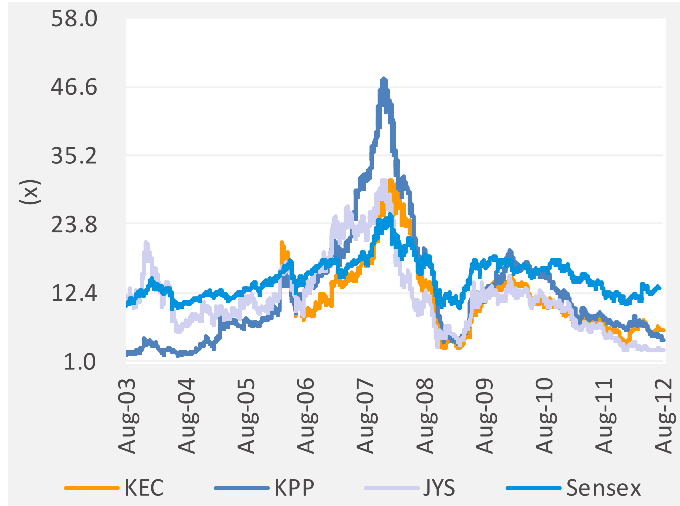


Chart 10: PE band comparision



Source: Edelweiss research

Table 3: Absolute Stock performance (%)

Company	1M	3M	6M	1Yr	3Yr	5Yr
Sensex	2.0	0.7	6.6	10.2	28.5	12.7
KEC	(1.0)	12.3	(6.8)	(7.4)	(17.9)	(10.2)
KPP	(6.6)	(19.4)	(39.3)	(42.4)	(26.4)	(25.2)
JYS	(0.1)	0.8	(18.4)	(41.4)	(35.2)	(28.0)

Source: Bloomberg

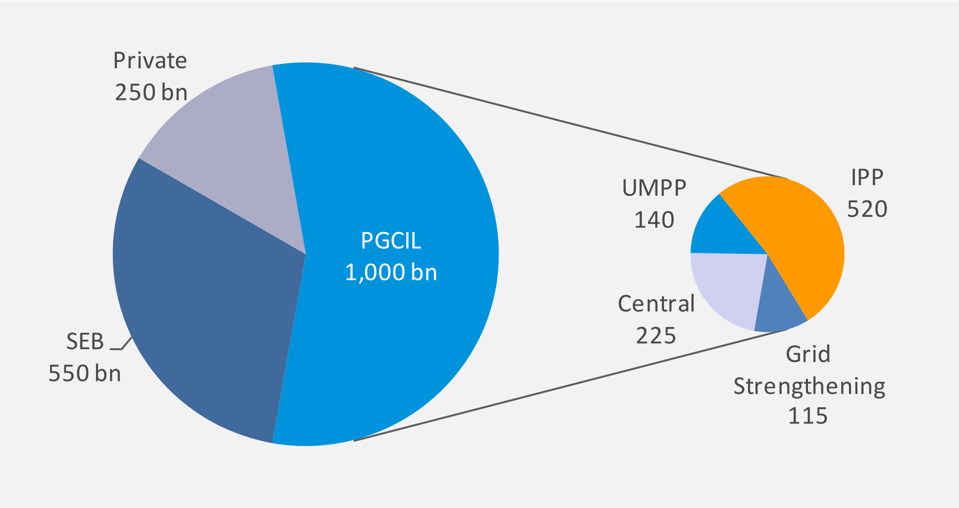
Annexures

Table 1: Peer comparison

	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
ROE's (%)							
KEC	46.3	22.3	28.6	24.0	15.1	18.3	19.8
KPP	21.3	11.8	18.7	14.8	9.9	9.5	9.8
JYS	23.6	24.4	20.0	20.1	13.5	13.1	13.4
OB (INR bn)							
KEC	42.0	51.6	55.0	77.9	85.9	101.5	115.3
KPP	34.0	50.0	50.0	59.1	61.0	66.8	73.7
JYS	34.1	35.8	41.2	42.2	43.2	43.9	44.3
OB visibility (x)							
KEC	1.5	1.5	1.4	1.7	1.5	1.5	1.5
KPP	2.0	2.7	1.9	2.1	2.0	1.9	1.9
JYS	2.5	2.1	2.0	1.8	1.7	1.5	1.4
Revenue growth (%)							
KEC	37.9	21.8	14.0	14.5	30.0	13.7	16.8
KPP	14.0	8.3	37.9	10.7	5.5	14.6	12.6
JYS	41.2	26.2	16.6	18.0	8.9	11.1	10.8
EBIDTA margins (%)							
KEC	12.6	8.8	10.4	10.3	8.1	8.2	8.5
KPP	14.6	11.8	12.8	12.7	10.9	10.4	10.5
JYS	12.5	12.0	11.8	11.5	10.8	10.6	10.7
PAT growth (%)							
KEC	25.8	(32.5)	63.1	4.0	(24.4)	40.8	28.1
KPP	(5.9)	(37.1)	80.7	(3.5)	(13.5)	4.6	12.3
JYS	38.0	19.0	(0.7)	20.5	(22.9)	7.8	16.0

Source: Company, Edelweiss research

Chart 1: Expected spending in the transmission segment during Twelfth Plan period



Source: PGCIL, Edelweiss research

Table 2: Top 10 order in the current OB

Year	Date	Order details	Name of the client	segment	Execution cycle	Amount
FY12	13/04/2011	construction of 400 kV transmission lines	MAHATRANSCO	Power Transmission	18M	3,670
FY13	6-Jun-12	400 kV double circuit transmission line	Tamil Nadu Transmission Corporation Ltd.	Power Transmission	18M	3,610
FY12	18-Jan-12	construction of 765 kV & 400 kV transmission lines in Maharashtra and Gujarat	Sterlite Technologies	Power Transmission		3,400
FY13	20-Apr-12	construction of 765 kV double circuit transmission line on turnkey basis	PGCIL	Power Transmission	32M	3,200
FY12	4-Jan-12	construction of 110kV /132kV double circuit overhead transmission lines	Saudi Electricity Company)	Power Transmission	21M	3,100
FY12	11-Nov-11	380 kV double circuit overhead transmission lines	Saudi Arabia Electricity Co.	Power Transmission	24M	3,060
FY13	4-Jul-12	establishment of 765 kV double circuit transmission lines on turnkey basis	PGCIL	Power Transmission	30M	2,990
FY12	20/06/2011	380 kV transmission line	Saudi Electricity Company	Power Transmission	24M	2,750
FY12	23-Jan-12	construction of 400 kV Double Circuit transmission line	PGCIL	Power Transmission	26M	2,580
FY13	4-Jul-12	establishment of 400 kV double circuit transmission lines on turnkey basis	PGCIL	Power Transmission	27M	2,470

Source: Company, Edelweiss research

Company Description

KEC was incorporated in 1945 as Kamani Engineering Corporation by the RPG Group. It is in the business of designing and manufacturing power transmission towers and telecom infrastructure. Nearly 70% of KEC's revenues came from the international market in FY11. The company's order backlog at the end of FY11 was ~INR 78 bn, with ~79% contributed by transmission projects, and the balance by distribution, railway and telecom projects.

Investment Theme

We believe KEC has a robust order backlog and with higher order flows from Power Grid Corporation (PGCIL) expected, it has balanced order mix between international and domestic orders. We believe KEC is likely to significantly benefit from increased order flows from PGCIL. Further, KEC being present in over 20 countries in the international geographies, is expected to keep international orders flowing in. However currently, margins are under attack due to increase in competitive intensity and entry into new business vertical.

Key Risks

Sharp uptick in key raw material—steel and copper—could impact OPMs. Delay in execution of current order book poses a risk to our revenue and OPM assumptions.

Financial Statements(Consolidated)

Key assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	6.4	7.0
	Inflation (Avg)	3.6	9.9	8.8	7.0	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.3	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	50.0
Company -	Order intake (SA) - INR Mn	40,744	56,842	57,244	62,968	69,265
	Order intake (SAE) - INR Mn	-	6,660	7,326	8,059	8,864
	Order backlog - INR Mn	55,000	77,902	85,870	101,527	115,251

Income statement (INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	39,082	44,742	58,147	66,133	77,219
Materials costs	29,709	32,357	43,173	48,437	56,003
Employee costs	1,689	2,833	4,274	5,156	5,976
Other manufacturing expenses	3,616	4,926	5,987	7,148	8,660
Total operating expenses	35,014	40,116	53,434	60,741	70,639
EBITDA	4,069	4,625	4,713	5,392	6,579
Depreciation & Amortization	270	408	479	488	548
EBIT	3,798	4,217	4,234	4,904	6,031
Other income	-	26	68	70	82
Interest expenses	865	1,075	1,597	1,706	1,896
Profit before tax	2,934	3,168	2,705	3,267	4,217
Provision for tax	1,037	1,111	1,150	1,078	1,412
Net profit	1,897	2,057	1,555	2,189	2,805
Extraordinary income/ (loss)	-	-	538	-	-
Profit After Tax	1,897	2,057	2,093	2,189	2,805
Shares outstanding (mn)	247	257	257	257	257
Diluted EPS (INR)	7.7	8.0	6.0	8.5	10.9
Dividend payout (%)	16.4	14.8	19.6	13.9	10.9

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating expenses	89.6	89.7	91.9	91.8	91.5
EBITDA margins	10.4	10.3	8.1	8.2	8.5
Net profit margins	4.9	4.6	2.7	3.3	3.6

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	14.0	14.5	30.0	13.7	16.8
EBITDA	35.5	13.7	1.9	14.4	22.0
Net profit	63.1	8.5	(24.4)	40.8	28.1

Balance sheet					(INR mn)
As on 31st March	**FY10**	**FY11**	**FY12**	**FY13E**	**FY14E**
Equity capital	514	514	514	514	514
Reserves & surplus	7,162	8,952	10,564	12,398	14,847
Shareholders funds	7,676	9,466	11,078	12,913	15,361
Secured loans	7,755	14,322	11,139	12,639	13,839
Unsecured loans	112	-	-	-	-
Borrowings	7,867	14,322	11,139	12,639	13,839
Deferred tax (net)	461	497	513	513	513
Sources of funds	**16,004**	**24,284**	**22,730**	**26,065**	**29,714**
Gross block	8,291	10,382	10,949	12,199	13,049
Depreciation	1,541	2,366	2,852	3,333	3,881
Net block	6,750	8,016	8,097	8,866	9,168
Capital work in progress	383	392	1,122	1,137	1,152
Goodwill	-	2,813	3,209	3,209	3,209
Investments	19	-	-	200	700
Inventories	2,498	3,359	4,401	5,282	6,003
Sundry debtors	19,450	21,716	25,062	28,736	34,437
Cash and equivalents	678	1,540	2,029	2,613	3,151
Loans and advances	3,973	4,714	5,101	5,611	6,475
Other current assets	-	6,433	6,487	6,812	7,152
Total current assets	26,598	37,760	43,081	49,054	57,218
Sundry creditors and others	17,190	23,937	31,807	36,096	41,427
Provisions	556	760	972	305	305
Total current liabilities & provisions	17,746	24,696	32,779	36,401	41,732
Net current assets	8,852	13,064	10,302	12,653	15,486
Uses of funds	**16,004**	**24,284**	**22,730**	**26,065**	**29,714**
Book value per share (INR)	31.1	36.8	43.1	50.2	59.8

Free cash flow					(INR mn)
Year to March	**FY10**	**FY11**	**FY12**	**FY13E**	**FY14E**
Net profit	2,155	2,489	2,320	2,189	2,804
Depreciation	270	408	479	488	548
Deferred tax	-	166	16	-	-
Others	440	932	1,106	-	-
Gross cash flow	2,866	3,995	3,922	2,677	3,352
Less: Changes in WC	2,519	2,297	(1,568)	1,767	2,295
Operating cash flow	347	1,697	5,490	911	1,057
Less: Capex	588	785	493	1,265	865
Free cash flow	**(242)**	**912**	**4,997**	**(354)**	**192**

Cash flow metrics					
Year to March	**FY10**	**FY11**	**FY12**	**FY13E**	**FY14E**
Operating cash flow	347	1,697	5,490	911	1,057
Investing cash flow	(510)	(5,125)	(406)	(1,465)	(1,365)
Financing cash flow	(678)	3,960	(4,596)	1,145	845
Net cash flow	(841)	532	488	591	537
Capex	(588)	(785)	(493)	(1,265)	(865)
Dividends paid	(285)	(354)	(355)	(355)	(355)

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	28.6	24.0	15.1	18.3	19.8
ROACE (%)	27.1	20.9	18.0	20.2	22.0
Inventory day	29	33	33	36	37
Debtors days	177	168	147	148	149
Payable days	219	232	236	256	253
Cash conversion cycle (days)	(12)	(31)	(56)	(71)	(67)
Current ratio	1.5	1.5	1.3	1.3	1.4
Debt/EBITDA	1.9	3.1	2.4	2.3	2.1
Debt/Equity	1.0	1.5	1.0	1.0	0.9
Adjusted debt/equity	1.0	1.5	1.0	1.0	0.9
Interest coverage	4.4	3.9	2.7	2.9	3.2

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	2.8	2.2	2.5	2.7	2.8
Fixed asset turnover	6.6	6.1	7.2	7.8	8.6
Equity turnover	5.9	5.2	5.7	5.5	5.5

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	7.7	8.0	6.0	8.5	10.9
Y-o-Y growth (%)	*63.1*	*4.0*	*(24.4)*	*40.8*	*28.1*
CEPS (INR)	8.8	10.2	8.0	10.4	13.0
Diluted PE (x)	7.4	7.1	9.4	6.5	5.0
Price/BV (x)	1.8	1.5	1.3	1.1	0.9
EV/Sales (x)	0.5	0.6	0.4	0.4	0.3
EV/EBITDA (x)	5.2	5.9	5.0	4.5	3.8

Peer comparision valuation

			PE (x)		P/BV (x)		ROE (%)	
Name of the companies	CMP	Market cap (INR bn)	2013E	2014E	2013E	2014E	2013E	2014E
KEC	55	14	6.5	5.0	1.1	0.9	18.3	19.8
Kalpataru Power (SA)	69	10	6.1	5.5	0.6	0.5	9.5	9.8
Jyoti structures	38	3.0	3.1	2.8	0.4	0.4	13.1	13.4

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	REDUCE	SU	L	Bajaj Electricals	BUY	SO	M
BGR Energy	REDUCE	SU	M	Bharat Electronics	BUY	SO	H
Bharat Heavy Electricals	HOLD	SP	L	Crompton Greaves	BUY	SO	M
Cummins India	BUY	SO	L	Havells India	BUY	SO	M
Jyoti Structures	HOLD	SP	M	Kalpataru Power	HOLD	SP	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Siemens	HOLD	SO	L	Sterlite Technologies	HOLD	SP	H
Techno Electric & Engineering	BUY	SO	M	Thermax	HOLD	SP	L
Voltamp Transformers	REDUCE	SU	M	Voltas	HOLD	SP	L

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelcap.com*

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, BGR Energy, Bharat Electronics, Bharat Heavy Electricals, Bajaj Electricals, Crompton Greaves, Havells India, Jyoti Structures, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Siemens, Sterlite Technologies, Techno Electric & Engineering, Thermax, Voltamp Transformers, Voltas

Recent Research

Date	Company	Title	Price (INR)	Recos
24-Aug-12	**Bharat Electronics**	Sustaining ace defence play tag ; *Visit Note*	1,258	Buy
21-Aug-12	**Engineering & Capital Goods**	Expectations Galore; *Monthly Update*		
14-Aug-12	**Voltamp Transformers**	Inclement weather continues ; *Result Update*	478	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1 stocks under review	104	60	18	183

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	114	58	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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