

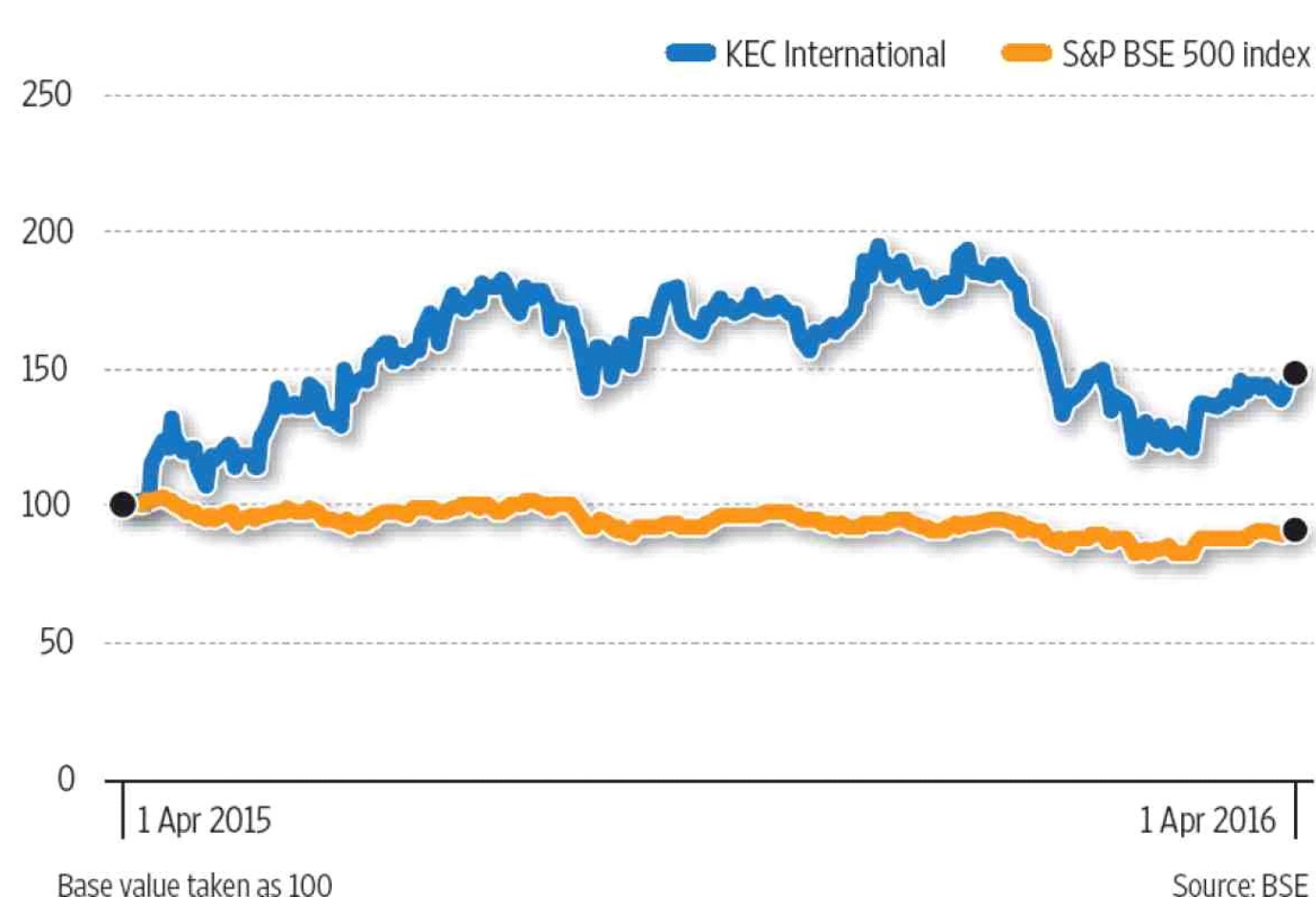
MARK TO MARKET

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STAYING THE COURSE

Shares of KEC International have gained 23% from their February lows after falling sharply in the first two months of this calendar year.



SARVESH SHARMA/MINT

Diversification comes in handy for KEC International

KEC International Ltd gained 2% on Friday after the company said it received new orders worth ₹836 crore.

This is the second large set of orders KEC has won in two weeks. On 17 March, it had announced new orders worth ₹1,041 crore.

With the latest gain, the stock is up 23% from February lows, recouping almost half of the losses it saw earlier this year.

It lost one-third of its value in January and February as the slump in crude oil prices stoked concerns about its business in the West Asian countries. Around 15% of KEC's outstanding order book is from that region. In a conference call with analysts, KEC had said it is yet to see any slackening of its order pipeline in West Asia. But that did not cut much ice—the stock fell after the third quarter results.

Instead, what is helping the stock are strong order inflows and management commentary on prospects in India and other markets. The latest order wins comes on the back of a 26% rise in inflows till the first week of February. More than half of the 17 March orders are from overseas (Ghana, Americas). Last week's orders are mostly from India. This lends credence to the belief that diversification (both geographical and in services) is helping KEC navigate the business environment better, especially the overseas markets from

which it derives half of the business.

The company is seeing large tenders opening in Malaysia, Indonesia and Thailand. Operations in Mexico are turning around. In India, apart from transmission, opportunities are emerging in the railways and solar energy sectors. "KEC highlighted it is also seeing healthy traction in solar and railway segments (tenders worth ₹25 billion (₹2,500 crore) up for bidding)," Prabhudas Lilladher Pvt. Ltd said in a note.

In 2016-17, KEC is targeting revenues to rise 10-12%, which will be a notable improvement from the year gone by. Revenues were flat, or increased just 0.2%, in the first nine months of 2015-16. From ₹3,000 crore in February, KEC's deal pipeline increased to ₹4,200 crore, the company told ET Now. As these bids convert into orders, the order book will rise further.

According to IndiaNivesh Securities Ltd, the outlook for KEC's core transmission and distribution (T&D) business in India is strong with the sector estimated to see an investment of almost ₹3 trillion over the next four years. So, even if West Asia sees any slowdown in T&D spends, KEC can maintain the revenue momentum. While valuations at 13 times 2016-17 earnings are not too expensive, it is crucial the company delivers good revenue growth this year.