

Why KEC is a good bet for investors despite rise in stock price

By [Narendra Nathan](#), ET Bureau | 10 Aug, 2015, 08.00AM IST

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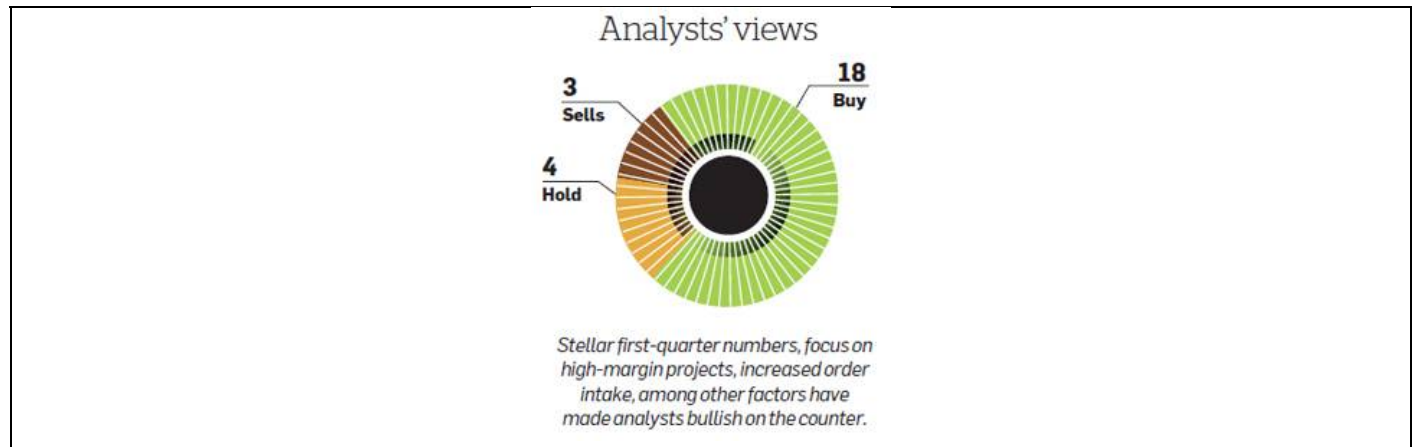
Engineering, procurement & construction (EPC) major KEC beat the Street expectations with a 9% year-on-year (y-o-y) growth in its consolidated net revenue in the first quarter of 2015-16. Its earnings before interest, tax, depreciation and amortisation (EBITDA) jumped up 38% due to improvement in margins—EBITDA margin moved up by 158 basis points y-o-y. Since the increase in depreciation and interest costs moved up only moderately — 8% each — its net profit for the quarter zoomed by 168% y-o-y.

The market has rewarded this stellar performance and the company's stock price has almost doubled in the past five months. Despite this jump in valuation, analysts continue to be bullish on the counter. This is because KEC's revenue visibility has increased significantly because of a 60% y-o-y jump in order intake in the first quarter of 2015-16.

There is improving visibility with regard to its order pipeline. The company is already the lowest bidder in projects worth Rs 3,500 crore and is expected to get these orders in the



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next 2-3 quarters. The order book of the company is spread across power transmission and distribution (T&D), railways, cable, water and renewable businesses.

KEC, which has a geographically diversified business model and operates in 61 countries, despite the jump in orders in the first quarter, has seen its yearly order book at end-June remain almost flat at Rs 10,537 crore, compared to Rs 10,325 crore at end-June 2014.

This is because, over the last few quarters, in a bid to improve the company's margins, the management has taken added precautions in selecting T&D and railway projects. KEC was able to maintain high EBITDA margin—above 7.5%—for the last two quarters—the trend may continue in the future also— because of the decline in low-margin orders that were procured earlier.

The company's joint ventures in West-Asia continue to do well. This, coupled with the government's focus on T&D and railways, over the next 2-3 years, should help KEC show good domestic performance in the coming years. The company is targeting railway projects with higher ticket sizes.

According to the consensus analyst estimates, KEC is expected to report an annualised revenue and net profit growth of 12% and 34% respectively between 2014-15 and 2016-17. Despite the recent jump, this growth stock is still trading at a reasonable valuation—PE of 21. The increased order intake, pick up in execution speed, consistency in margins and increased net profit growth should lead a further re-rating of KEC in terms of PE multiples.

> Fundamentals

	Actual		Consensus estimate	
	2013-14	2014-15	2015-16	2016-17
Revenues (₹ cr)	7,901.83	8,467.80	9,347.25	10,559.60
Operating profit (₹ cr)	446.13	485.86	640.90	793.10
Net Profit / loss (₹ cr)	66.75	160.99	202.55	287.25
EPS (₹)	2.60	6.26	7.53	10.65

> Valuation

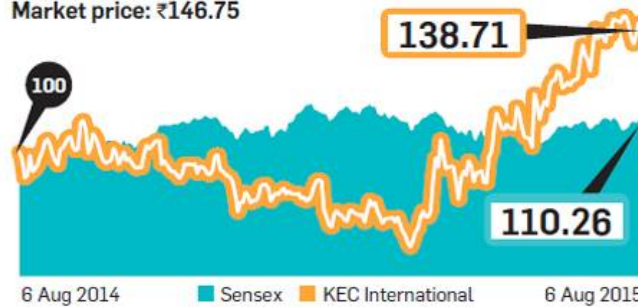
	PBV	PE	Dividend yield (%)
KEC International	3.40	20.96	0.61
Engineers India	3.17	26.43	2.07
Larsen & Toubro	4.59	38.60	0.89
Cummins India	11.13	40.88	1.21
Alstom T&D India	10.41	122.21	0.34

> Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
29 July '15	Centrum Wealth Management Limited	buy	190
29 July '15	ICICIdirect.com	buy	174
28 July '15	Edelweiss Capital	buy	190
28 July '15	Religare Capital Markets	buy	180
28 July '15	India Infoline	buy	175
28 July '15	Reliance Securities	buy	174




> Relative performance

Market price: ₹146.75



Performance of KEC International compared with the Sensex. Figures are normalised to a base of 100. Source: ETIG Database & Bloomberg

Selection Methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to [stocks](#) that are covered by at least 10 analysts.

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