

KEI Industries Ltd

BSE SENSEX
 36,050

S&P CNX
 11,070

CMP: INR 399 TP: INR 537 (+34%)
Buy


Stock Info

Bloomberg	KEII IN
Equity Shares (m)	77.8
52-Week Range (INR)	423 / 133
1, 6, 12 Rel. Per (%)	4 / 62 / 159
M.Cap. (INR b)	31.0
M.Cap. (USD b)	0.49
Avg Turnover, INR m	260
Free float (%)	51

Financials Snapshot (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	33.0	39.5	46.8
EBITDA	3.3	3.9	4.9
PAT	1.3	1.7	2.3
EPS (INR)	17.0	22.3	29.8
Gr. (%)	34.1	30.9	33.9
BV/Sh (INR)	77.0	98.2	126.5
P/E (x)	23.5	17.9	13.4
P/BV (x)	5.2	4.1	3.2
EV/E (x)	11.5	9.7	7.8
Div. PO (%)	5.0	4.9	5.0
RoE (%)	24.7	25.4	26.5
RoCE (%)	16.9	18.0	19.4

* Closing price as on 25th Jan , 2018

Shareholding pattern (%)

As On	Dec-17	Sept-17	Jun-17
Promoter	46.3	46.3	46.6
MFs	12.4	13.5	18.4
FPIs	6.4	5.5	4.0
Others	34.9	34.7	31.0

Investors are advised to refer through disclosures made at the end of the Research Report.

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Q3 marks strong revenue and PAT growth driven by increasing contribution from retail segment with high other income and low interest burden

Strong revenue growth driven by wires and cables segment: For 3QFY18, KEI's revenue grew 24.1%/18.7% on YoY/QoQ basis to INR 8.9bn, driven by strong 19.8% YoY growth in cables segment. Within wires and cables segment, low tension grew at 23.3% on YoY basis, followed by high tension (17.3%), extra high voltage cables (18.8%) and house wires (39.6%).

Increasing contribution from retail segment: For 3QFY18, retail segment revenue grew at 71.0% YoY to INR 3.1bn. The contribution stood at 35.2% in 3QFY18 vs. 25.1% in 3QFY17 and 33.3% in 2QFY18. Management expects the contribution to increase to 40% by FY20. Company added 61 new dealers in 9MFY18 taking total dealer strength to 1,208. Going ahead it targets to grow its existing dealers in size and at the same time add 11% new dealers every year.

Robust PAT growth led by low interest cost and high other income: For 3QFY18, KEI's PAT grew 43.6%/36.9% on YoY/QoQ basis to INR 0.4bn, driven by increase in other income and low interest burden. Decline in interest cost was driven by low bank guarantee charges and low interest rate. Other income was driven by forex gain (INR 69.8mn) mainly on account of import of raw material. However, EBITDA margins declined by 139bps/70bps YoY/QoQ to 9.5% due to higher expense incurred on R&D and testing of EHV cables (400 kV). The same would start contributing to the topline from 1QFY19.

Key con-call highlights: 9MFY18 cables volume growth stood at 19.0% and is expected to be maintained at similar levels. Management is positive on EHV cables growth due to strong bidding in various state transmission utilities (L1 in INR 2bn). In 9MFY18, EPC revenue stood at INR 7.1bn and is likely to be maintained at INR ~10-11bn for the next 2 financial years. Export segment revenue is expected to grow by 10-15% over FY18-20E.

Valuation: We have tweaked our estimates in-line with the management guidance; however, we continue maintain our earnings estimates for FY19 and FY20. KEI is likely to be a major beneficiary of key government initiatives in power, infrastructure and real estate sector. It has high return ratios, free cash flows and low debt to equity. Given the high growth expectation along with healthy financials, we continue to maintain BUY rating with a TP of INR 537/share (at 18x FY20EPS).

Quarterly Standalone Performance (INR mn)

Y/E December	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Revenue	8,887	7,162	24.1	7,488	18.7
EBITDA	843	779	8.2	763	10.6
EBITDA Margins (%)	9.5	10.9	-139bps	10.2	-70bps
Depreciation	82	70	16.7	81	1.8
Interest	251	341	(26.2)	274	(8.1)
Adj. Net Profit	390	272	43.6	285	36.9

Source: Company, MOSL

Story in Charts

Exhibit 1: Strong revenue growth of 18.7% in 3QFY18

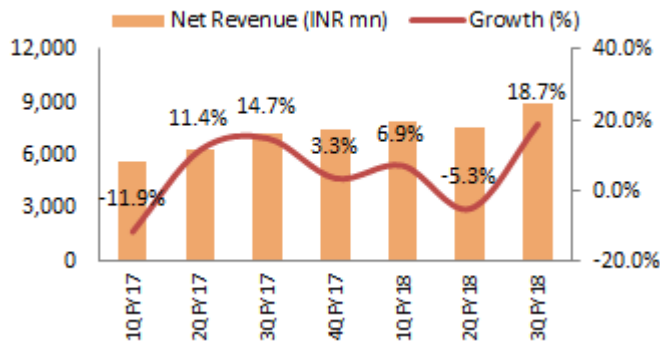
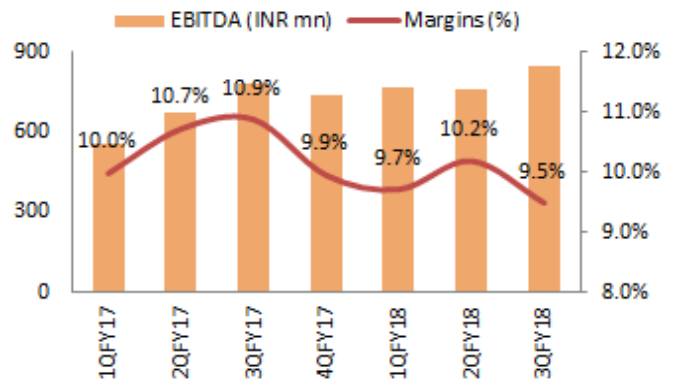


Exhibit 2: R&D and testing for EHV impacted margins



Source: Company, MOSL

Exhibit 3: Strong PAT growth due to low interest cost

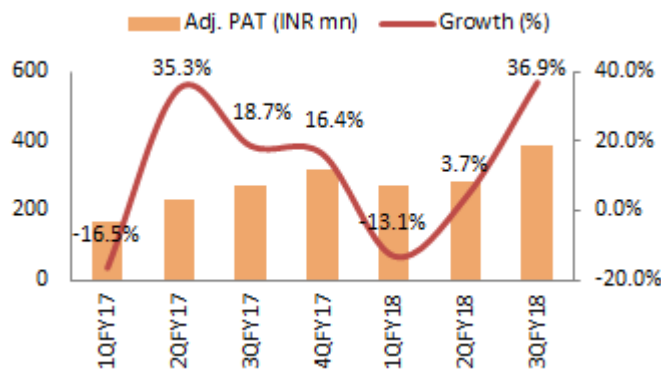
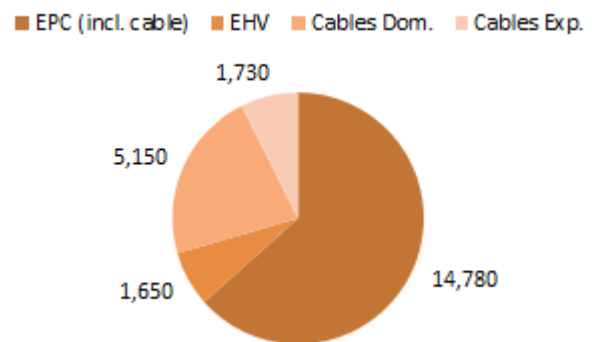


Exhibit 4: 3QFY18 orderbook break-up (INR mn)



Source: Company, MOSL

Exhibit 5: Segment wise revenue mix for 3QFY18

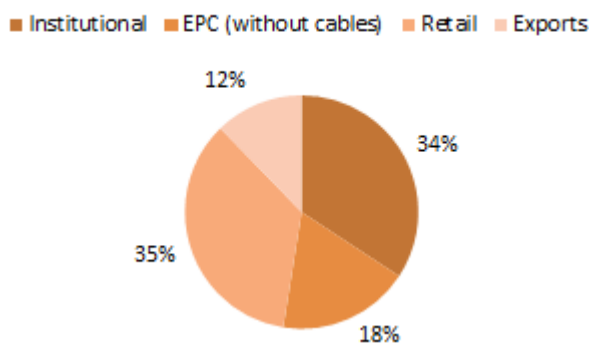
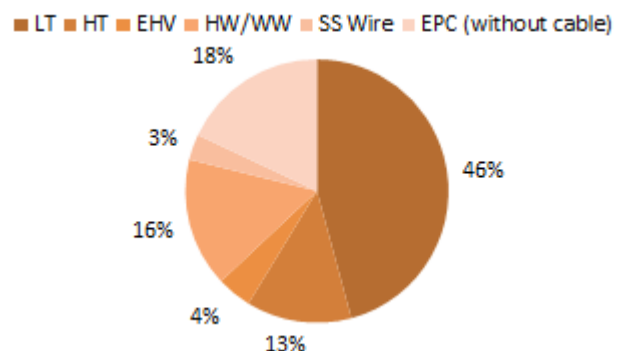


Exhibit 6: Product-wise revenue mix for 3QFY18



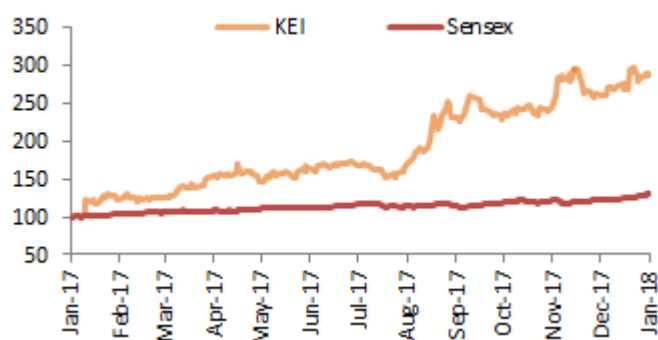
Source: Company, MOSL

Company Profile

Company description

Established in 1968, KEI is engaged in manufacturing and marketing of Power Cables. It has a significant presence in domestic and international markets. It services retail and institutional segments and caters to both private and public sector clients. It has built its manufacturing facilities at Bhiwadi and Chopanki (both in Rajasthan) and Silvassa (Dadra and Nagar Haveli). Its prudent foray into the EHV cable and EPC Services for Power Sector Projects has further expanded the opportunity horizon.

Exhibit 7: 1-year stock performance rebased to 100



Source: Company, MOSL

Exhibit 8: Top holders as on 3QFY18

Holder Name	% Holding
Franklin Templeton Mutual Fund - FBIF	6.57
Sundaram MF - Select Micro Cap Series - XVI	1.38
HDFC Retirement Savings Fund-Equity Plan	1.02
Ashish Kacholia	3.18
Ashish Agarwal	1.69
Madhulika Agarwal	1.45
Ajay Upadhyaya	1.28

Exhibit 9: Top management

Name	Designation
Mr. Anil Gupta	Chairman & M.D.
Mr. Akshit Diviaj Gupta	Whole Time Director
Mr. Rajeev Gupta	E.D. (Fin.) & CFO

Source: Company, MOSL

Exhibit 10: Directors

Name	Name
Mr. Anil Gupta	Mr. K.G. Somani
Mrs. Archana Gupta	Mr. Vijay Bhushan
Mr. Akshit Diviaj Gupta	Mr. Vikram Bhartia
Mr. Pawan Bholusaria	Mr. Rajeev Gupta

Exhibit 11: Auditors

Name	Type
M/s. Pawan Shubham & Co	Statutory
Mr. Baldev Singh Kashtwal	Secretarial Auditor
M/s. S Chander & Associates	Cost Auditor

Source: Company, MOSL

Financials and Valuations

Income Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	17,223	16,584	16,189	20,310	23,256	26,691	33,039	39,496	46,798
Change (%)		-3.7	-2.4	25.5	14.5	14.8	23.8	19.5	18.5
Total Expenditure	15,722	14,878	14,659	18,381	20,833	23,948	29,786	35,547	41,878
% of Sales	91.3	89.7	90.5	90.5	89.6	89.7	90.2	90.0	89.5
EBITDA	1,501	1,705	1,530	1,929	2,423	2,743	3,253	3,949	4,920
Margin (%)	8.7	10.3	9.5	9.5	10.4	10.3	9.8	10.0	10.5
Depreciation	195	204	210	246	253	280	324	341	387
EBIT	1,305	1,501	1,321	1,683	2,170	2,463	2,929	3,608	4,533
Int. and Fin. Charges	962	1,094	1,115	1,204	1,270	1,229	1,093	1,117	1,173
Other Income	16	24	13	24	53	104	109	75	75
PBT	360	431	218	529	953	1,338	1,946	2,566	3,435
Tax	117	167	102	186	331	351	623	834	1,116
Tax Rate (%)	32.4	38.9	46.8	35.2	34.8	26.3	32.0	32.5	32.5
Reported PAT	243	263	116	342	622	986	1,323	1,732	2,319
Adjusted PAT	243	263	116	326	622	986	1,323	1,732	2,319
Change (%)	NA	8.3	-56.0	180.7	91.0	58.6	34.1	30.9	33.9
Margin (%)	1.4	1.6	0.7	1.6	2.7	3.7	4.0	4.4	5.0

Balance Sheet

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	134	140	147	154	154	156	157	157	157
Reserves	2,137	2,415	2,539	2,884	3,512	4,579	5,836	7,484	9,686
Net Worth	2,271	2,556	2,731	3,039	3,666	4,735	5,993	7,641	9,842
Debt	4,872	4,732	5,104	4,520	4,972	7,118	6,540	7,382	7,282
Deferred Tax (Net)	23	106	160	235	362	427	511	511	511
Total Capital Employed	7,166	7,394	7,995	7,794	9,001	12,280	13,044	15,534	17,636
Gross Fixed Assets	4,022	4,124	4,357	4,451	4,995	6,044	6,049	6,664	7,779
Less: Accum. Depri.	841	1,036	1,216	1,470	1,716	1,990	2,314	2,655	3,042
Net Fixed Assets	3,181	3,089	3,141	2,981	3,279	4,054	3,735	4,009	4,737
Capital WIP	2	26	2	44	293	32	600	1,100	1,400
Investments	31	31	31	31	31	31	31	31	31
Current Assets	8,735	8,626	9,261	10,361	11,266	13,993	15,496	18,305	20,819
Inventory	2,922	3,582	4,031	4,403	4,225	4,989	5,522	6,601	7,693
Debtors	4,826	4,212	4,286	4,798	5,674	7,392	8,328	9,739	10,898
Cash and Bank Bal.	44	156	46	47	59	370	108	126	48
Loans and Adv. & OCA	943	676	898	1,113	1,309	1,242	1,539	1,840	2,180
Curr. Liab. & Prov.	4,783	4,378	4,440	5,623	5,869	5,830	6,817	7,910	9,350
Account Payables	4,093	3,948	3,872	4,810	4,323	4,805	5,612	6,709	7,949
Current Liabilities	629	363	498	692	1,395	921	1,086	1,082	1,282
Other LT Liab. & Provs.	62	67	70	122	151	103	119	119	119
Net Current Assets	3,952	4,248	4,821	4,738	5,397	8,163	8,678	10,395	11,468
Appl. of Funds	7,166	7,394	7,995	7,794	9,001	12,280	13,044	15,534	17,636

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)									
EPS	3.1	3.4	1.5	4.2	8.0	12.7	17.0	22.3	29.8
Cash EPS	5.6	6.0	4.2	7.3	11.2	16.3	21.2	26.6	34.8
BV/Share	29.2	32.9	35.1	39.1	47.1	60.9	77.0	98.2	126.5
DPS	0.2	0.2	0.2	0.4	0.5	0.6	0.7	0.9	1.3
Payout (%)	6.4	6.2	14.7	10.9	7.5	5.7	5.0	4.9	5.0
Valuation (x)									
P/E	127.6	117.9	267.6	95.3	49.9	31.5	23.5	17.9	13.4
Cash P/E	70.7	66.4	95.3	54.3	35.5	24.5	18.8	15.0	11.5
P/BV	13.7	12.1	11.4	10.2	8.5	6.6	5.2	4.1	3.2
EV/Sales	2.1	2.1	2.2	1.7	1.5	1.4	1.1	1.0	0.8
EV/EBITDA	23.9	20.9	23.6	18.4	14.8	13.8	11.5	9.7	7.8
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3
FCF per share	2.3	17.2	7.9	23.3	11.3	-7.5	17.5	3.9	15.9
Return Ratios (%)									
RoE	21.4	10.9	4.4	11.3	18.6	23.5	24.7	25.4	26.5
RoCE	25.0	12.9	9.4	14.4	17.9	18.5	16.9	18.0	19.4
Working Capital Ratios									
Asset Turnover (x)	2.4	2.2	2.0	2.6	2.6	2.2	2.5	2.5	2.7
Inventory (Days)	62	79	91	79	66	68	61	61	60
Debtor (Days)	102	93	97	86	89	101	92	90	85
Creditor (Days)	87	87	87	86	68	66	62	62	62
Leverage Ratio (x)									
Net Debt/Equity	2.1	1.8	1.8	1.5	1.3	1.4	1.1	0.9	0.7

Cash Flow Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	360	431	218	529	953	1,338	1,946	2,566	3,435
Depreciation	195	204	210	246	253	280	324	341	387
Interest & Fin. Charges	962	1,094	1,115	1,204	1,270	1,229	984	1,042	1,098
Direct Taxes Paid	-51	-90	-55	-92	-196	-304	-623	-834	-1,116
(Inc)/Dec in WC	-1,181	-181	-711	47	-508	-2,588	-777	-1,698	-1,151
CF from Operations	285	1,458	777	1,933	1,772	-45	1,854	1,417	2,653
Others	37	35	57	46	81	83	84	0	0
CF from Oprt. incl EO	322	1,493	835	1,979	1,853	38	1,938	1,417	2,653
(Inc)/Dec in FA	-146	-151	-220	-168	-977	-624	-573	-1,115	-1,415
Free Cash Flow	176	1,341	615	1,811	876	-585	1,365	302	1,238
(Pur)/Sale of Inv.	0	0	0	0	0	0	0	0	0
Others	2	1	1	1	1	5	109	75	75
CF from Investments	-145	-150	-219	-166	-975	-618	-464	-1,040	-1,340
Issue of Shares	0	59	49	5	0	20	1	0	0
Inc/(Dec) in Debt	484	-122	-111	148	448	-538	-579	843	-100
Interest Paid	-962	-1,094	-1,115	-1,204	-1,270	-1,229	-1,093	-1,117	-1,173
Dividend Paid	-16	-16	-16	-18	-37	-46	-66	-84	-117
Others	235	-58	467	-742	-7	2,685	0	0	0
CF from Fin. Activity	-258	-1,230	-727	-1,811	-866	891	-1,736	-359	-1,390
Inc/Dec of Cash	-81	113	-111	1	12	311	-262	18	-78
Opening Balance	124	44	156	46	47	59	370	108	126
Closing Balance	44	156	46	47	59	370	108	126	48

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KEI Industries Ltd.

* Analyst ownership of 1% or more securities

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