

KEI Industries (KEII) reported strong results. Revenues grew 22.3% YoY to Rs 10,814m, EBITDA by 32.2% to Rs 1139m and PAT by 42.2% YoY to Rs 458m. In spite of a 370 bps drop in gross margins, EBITDA margins were up 80 bps YoY on back of higher fixed cost absorption. Due to the seasonal nature of business, sequential comparisons would be misleading.

During the quarter Institutional cables sales were up ~21.0% YoY to Rs 5.3bn (Domestic Rs 4.2bn, Export Rs 1.1bn). Sales through dealer/ distributor network were up 23% YoY at Rs 3.7bn and total active working dealers as on 30th June'19 were more than 1500. EHV sales in the quarter were Rs 780m as compared to Rs 390m in 1QFY19. EPC Sales (other than cable) grew by 23.0% to Rs 1.95bn. Order book as on date is ~Rs 44.1bn plus L1 Rs 1.2bn of EHV.

Management has guided 18% growth in revenues and EBITDA margins of 10.5-11% in FY20E on back of better product mix (increase in EGV and export sales) and operating leverage. In cables, growth is well diversified and coming from various sectors in India and overseas such as oil and gas, renewable, aluminium, power, steel and other traditional sectors. On the housing wire side, affordable housing is witnessing good traction and ~25% growth seems sustainable.

Buoyant demand, strong order book visibility and expanded capacities will help drive revenue/EBITDA/PAT CAGR of 16.6%/18.4%/26.7% over FY19-21E. We have revised our EBITDA estimates upwards by 0.9% and 1.8% in FY20E and FY21E based on better EBITDA margins but PAT estimates remain unchanged due to higher depreciation. **At CMP, the stock is trading at PER of 14.5x FY20E and 11.8x FY21E. Maintain BUY with a TP of Rs 599.**

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	34,588	42,270	50,535	57,421
Growth (%)	31.6	22.2	19.6	13.6
EBITDA (Rs m)	3,384	4,422	5,348	6,198
PAT (Rs m)	1,445	1,819	2,379	2,921
EPS (Rs)	18.4	23.2	30.4	37.3
Growth (%)	54.0	25.8	30.8	22.8
CEPS (Rs)	22.6	27.5	37.1	44.3
Net DPS (Rs)	1.0	1.2	1.0	1.0
Profitability & Valuation	2018	2019	2020E	2021E
EBITDA margin (%)	9.8	10.5	10.6	10.8
RoE (%)	27.1	26.3	26.6	25.4
RoCE (%)	32.5	31.8	31.9	29.6
EV / sales (x)	1.2	0.9	0.8	0.7
EV / EBITDA (x)	12.5	8.7	7.3	6.4
PE (x)	23.9	19.0	14.5	11.8
P / BV (x)	5.7	4.4	3.4	2.7
Net dividend yield (%)	0.2	0.3	0.2	0.2

Source: Company Data, PL Research

Q1FY20 Result Update

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Rating	BUY
Price	Rs 440
Target Price	Rs 599
Implied Upside	36.0%
Sensex	36,977
Nifty	10,950
Bloomberg Code	KEII:IN
Reuters Code	KEIN:NS

(Prices as on August 06, 2019)

Tracking Data

Market Cap (Rs bn)	34.5
Shares O/s (m)	78.4
3M Avg. Daily Value (Rs m)	165.4

Major Shareholders

Promoters	45.9%
Domestic Inst.	19.0%
Public & Others	35.1%

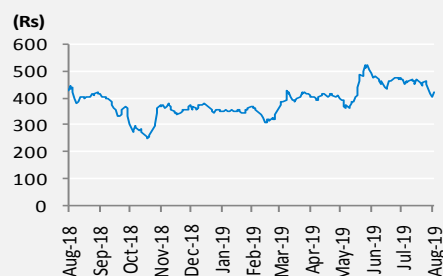
Stock Performance

(%)	1M	6M	12M
Absolute	(13.0)	12.1	(8.4)
Relative	(5.0)	13.9	(3.8)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	30.4	29.7	2.4
2021E	37.3	36.8	1.4

Price Chart



Existing capacities at 90% utilisation, new capacity addition on schedule

The current capacities are already operating at 90% utilisation and hence the company has added capacities in LT and MHV cables last year and further adding capacities in housing wires too.

KEI already commissioned the second phase for **MHV cables at Pathredi** in Feb 2019. They spent ~Rs 350m on it and it can generate incremental revenues of up to Rs 2.0bn.

The company will undertake debottling at **Pathredi for control and instrumentation cables** during FY20 at a cost of Rs 140-150m which will add up to Rs 1.2bn to revenues. It is likely to be completed in the next 3-4 months.

Further, the company commenced production at its first phase of expansion at **Silvassa for housing wire** and has spent Rs 550m so far on it. Production is expected to stabilize by mid August. Phase II will be completed by February 2020 (at balance cost of Rs 400m). Together these two phases will generate incremental revenues of Rs 6bn.

Higher EHV and export sales cause margins to expand; could improve further

EBITDA margins during the quarter improved to 10.9% compared to 9.7% last year on back of richer product mix (EHV sales were up 100% and exports also grew by 41.8% YoY) as well as higher fixed cost absorption. Management is confident of sustaining margins at the current levels given the strong order book position on EHV and exports, with a possibility to improve them further as volumes grow which will result in operational efficiencies. On the export front the company is accessing newer countries in the Middle East and Africa through international EPC companies for supply of cables in the oil and gas industry.

New EPC order received from Nepal

The company recently got an order for Rs 4.5bn from Nepal funded by the Asian Development Bank for replacing overhead cables with underground cabling. It has to be completed within the next two years. The order is of strategic importance as it will enable the company to establish its presence in that country and create awareness in the neighboring ones.

Housing wire to continue to grow

KEI reported YoY growth of 21.7% in the housing wire segment. The company undertook various above and below the line brand building measures such as electricians meets which helped grow dealer network sales. Management is confident of sustaining growth in housing wires as the base is relatively smaller compared to its peers and they are more aggressive in the market. Presently KEI has a dealer network of 1,500 which was ~1450 at end of FY19.

Strong order book position

The company has an order book of Rs 44.1bn excluding orders worth Rs 1.2bn where it is L1. Further it includes orders worth Rs 22bn towards EPC, Rs 5.32bn for EHV cables, Rs 10.3bn for cables, and Rs 6.4bn for exports.

Financial Overview and Valuations

Management has guided 18% growth in revenues and EBITDA margins of 10.5-11% in FY20E on back of better product mix (increase in EGV and export sales) and operating leverage. In cables, growth is well diversified and coming from various sectors in India and overseas such as oil and gas, renewable, aluminum, power, steel and other traditional sectors. On the housing wire side, affordable housing is witnessing good traction and ~25% growth seems sustainable.

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Q1FY20 Result Overview (Rs m)					
Y/e March	Q1 '20	Q1 '19	YoY gr.%	Q4 '19	QoQ gr.%
Net Revenue	10,814	8,839	22.3	12,588	(14.1)
Raw Material Cost	7,473	5,784	29.2	9075	(17.7)
<i>% of revenue</i>	<i>69.1</i>	<i>65.4</i>		<i>72.1</i>	
Employee Cost	515	405	27.2	473	8.9
<i>% of revenue</i>	<i>4.8</i>	<i>4.6</i>		<i>3.8</i>	
Other Expense	1,316	1,286	2.4	1538	(14.4)
<i>% of revenue</i>	<i>12.2</i>	<i>14.5</i>		<i>12.2</i>	
Sub Contractor expenses	370	503	(26.5)	126	193.4
<i>% of revenue</i>	<i>12.2</i>	<i>14.5</i>		<i>1.0</i>	
Total Expenditure	9,674	7,977	21.3	11,212	(13.7)
EBITDA	1,139	862	32.2	1,376	(17.2)
<i>Margin (%)</i>	<i>10.5</i>	<i>9.7</i>		<i>10.9</i>	
Depr. & Amortization	152	84	81.6	86	75.6
EBIT	988	778	26.9	1,289	(23.4)
Net Interest	330	287	15.0	423	(22.1)
Other Income	52	11	357.8	37	40.9
Profit before Tax	710	503	41.2	903	(21.4)
Total Tax	252	181	39.3	304	(17.1)
<i>Effective tax rate (%)</i>	<i>35.5</i>	<i>36.0</i>		<i>33.6</i>	
Profit after Tax	458	322	42.2	599	(23.6)
<i>PAT Margin (%)</i>	<i>4.2</i>	<i>3.6</i>		<i>4.8</i>	
EPS	5.8	4.1	42.2	7.6	(23.6)

Revenue Breakup (Rs m)					
Segment wise	Q1 '20	Q1 '19	YoY gr %	Q4 '19	QoQ gr %
Domestic	6,034	5,069	19.0	7,198	(16.2)
Dealer	3,660	2,980	22.8	4,060	(9.9)
Exports	1,120	790	41.8	1,330	(15.8)
Total	10,814	8,560	22.3	12,588	(14.1)
Product wise					
LT Cables	4,040	3,140	28.7	4,710	(14.2)
HT Cables	1,560	1,490	4.7	1,950	(20.0)
EHV	780	390	100.0	940	(17.0)
HW	2,190	1,800	21.7	2,220	(1.4)
SS Wire	310	310	0.0	370	(16.2)
EPC Other than cables	1,950	1,580	23.4	2,470	(21.1)
Others	-	130	-	120	(113.7)
Total	10,814	8,840	22.5	12,780	(15.3)

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2018	2019	2020E	2021E
Net Revenue	34,588	42,270	50,535	57,421
Raw Material Expenses	24,111	29,347	35,071	39,850
Gross Profit	10,477	12,923	15,464	17,571
Employee Cost	1,472	1,734	1,959	2,214
Other Expenses	5,621	6,767	8,157	9,159
EBITDA	3,384	4,422	5,348	6,198
Depr. & Amortization	322	339	528	552
Net Interest	1,113	1,362	1,362	1,362
Other Income	93	72	202	209
Profit before Tax	2,042	2,793	3,660	4,494
Total Tax	596	974	1,281	1,573
Profit after Tax	1,445	1,819	2,379	2,921
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	1,445	1,819	2,379	2,921
Avg. Shares O/S (m)	78.4	78.4	78.4	78.4
EPS (Rs.)	18.4	23.2	30.4	37.3

Cash Flow Abstract (Rs m)

Y/e March	2018	2019	2020E	2021E
C/F from Operations	1,412	6,702	697	816
C/F from Investing	(435)	(1,158)	(310)	(88)
C/F from Financing	(547)	(4,353)	(856)	(1,356)
Inc. / Dec. in Cash	430	1,192	(469)	(628)
Opening Cash	333	763	1,954	1,486
Closing Cash	763	1,955	1,485	858
FCFF	977	5,544	387	728

Key Financial Metrics

Y/e March	2018	2019	2020E	2021E
Growth				
Revenue (%)	31.6	22.2	19.6	13.6
EBITDA (%)	25.8	30.7	20.9	15.9
PAT (%)	54.0	25.8	30.8	22.8
EPS (%)	54.0	25.8	30.8	22.8
Profitability				
EBITDA Margin (%)	9.8	10.5	10.6	10.8
PAT Margin (%)	4.2	4.3	4.7	5.1
RoCE (%)	32.5	31.8	31.9	29.6
RoE (%)	27.1	26.3	26.6	25.4
Balance Sheet				
Net Debt : Equity	1.3	0.5	0.5	0.4
Net Wrkng Cap. (days)	71.6	31.0	59.2	72.0
Valuation				
PER (x)	23.9	19.0	14.5	11.8
P / B (x)	5.7	4.4	3.4	2.7
EV / EBITDA (x)	12.5	8.7	7.3	6.4
EV / Sales (x)	1.2	0.9	0.8	0.7
Earnings Quality				
Eff. Tax Rate	29.2	34.9	35.0	35.0
Other Inc / PBT	0.0	0.0	0.1	0.0
Eff. Dep. Rate (%)	7.0	5.9	8.0	8.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2018	2019	2020E	2021E
Non-Current Assets	4,490	5,385	5,403	5,169
Net fixed assets	4,040	4,857	5,145	4,893
Capital Work In Progress	230	316	-	-
Intangible assets	30	30	27	24
Non-Current Investments	28	16	31	31
Loans	41	69	78	87
Other financial assets	3	6	7	8
Other Non-Current Assets	119	92	115	127
Current Assets	17,676	22,257	24,418	29,058
Inventories	5,556	6,896	8,142	9,251
Trade receivables	10,206	10,946	13,087	16,907
Cash & Bank Balance	763	1,954	1,486	858
Loans	14	46	53	61
Other financial Assets	521	1,039		
Other Current Assets	616	1,375	1,650	1,980
Total Assets	22,166	27,643	29,821	34,228

Equity

Equity Share Capital	157	158	158	158
Other Equity	5,889	7,631	9,916	12,743
Total Networth	6,045	7,789	10,074	12,901
Non-Current Liabilities	1,922	1,245	1,355	1,365
Long Term borrowings	1,457	717	817	817
Provisions	67	86	96	106
Deferred tax liabilities	398	442	442	442
Current Liabilities	14,199	18,609	18,391	19,962
ST Debt / Current of LT Debt	6,042	3,865	4,365	4,465
Trade payables	6,272	10,203	8,963	10,184
Other Financial Liabilities	1,333	3,855	4,241	4,325
Short Term Provisions	111	135	162	194
Other current Liabilities	407	457	549	659
Current Tax Liability(net)	34	93	112	134
Total Equity & Liabilities	22,166	27,643	29,821	34,228

Quarterly Financials (Rs m)

Y/e March	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	9,968	10,875	12,588	10,814
EBITDA	1,008	1,177	1,376	1,139
% of revenue	10.1	10.8	10.9	10.5
Depr. & Amortization	84	85	86	152
Net Interest	305	347	423	330
Other Income	12	11	37	52
Profit before Tax	631	756	903	710
Total Tax	218	272	304	252
Profit after Tax	414	484	599	458

Source: Company Data, PL Research.

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