

KEI Industries (KEII) reported strong results. Revenues/EBITDA/PBT/PAT grew 20.8%/18.4%/28.1%/49.4% YoY to Rs 13,142m/Rs 1,393m/ Rs968m/ Rs 723m. EBITDA margins declined marginally by 20 bps YoY as employee costs and sub-contractor costs rose. Due to seasonal nature of business, sequential comparisons would be misleading. During 9MFY20, net revenues/EBITDA/PAT grew by 22.2%/ 23.2%/ 59.3% to Rs 36,257m/Rs 3,754m/ Rs 1,943m. Cable division volumes were higher by ~23.0%. EBITDAM remained flat at 10.4% and EPS stood at Rs 24.4

During the quarter Institutional cable revenues were up ~40.0% YoY to Rs 7.4bn (Domestic Rs 4.7bn, Export Rs 2.7bn). In Q3FY20, Sales through dealer/distributor network were up 4.5% YoY to Rs 3.7bn and total active dealers were increased from ~1450 in Q2FY20 to ~1600 in Q3FY20. Housing wire division volumes from dealer network were up 30% while cable division volumes grew 10-12%. Exports grew by 82.6% YoY to Rs 2,720m in Q3FY20 and by 72.8% to Rs 6,030m during 9MFY20. At end of December 2019, order book stood at ~Rs 41.7bn and the company was L1 in orders worth Rs 3.2bn. EHV cables have strong order book of Rs 9.9bn.

Management maintains guidance of 18-19% volume growth in FY20E. Growth is well diversified across various segments. The shareholders' have given their approval for raising funds through QIP.

We maintain our revenue and PAT estimates for FY20E and FY21E. Further, we expect FY22E revenue/EBITDA/PAT to grow at 10%/ 8.9%/ 12.1% to Rs 63.2bn/ Rs 6.8bn/ Rs 3.7bn. **At CMP, the stock is trading at PER of 12.3x FY21E and 11.0x FY22E. We maintain BUY with a TP of Rs 677.**

Key financials (Y/e March)	2019	2020E	2021E	2022E
Revenues (Rs m)	42,270	50,605	57,491	63,241
Growth (%)	22.2	19.7	13.6	10.0
EBITDA (Rs m)	4,422	5,358	6,208	6,763
PAT (Rs m)	1,819	2,723	3,341	3,744
EPS (Rs)	23.2	34.2	42.0	47.1
Growth (%)	25.8	47.5	22.7	12.1
CEPS (Rs)	27.5	41.0	49.1	54.3
Net DPS (Rs)	1.2	1.0	1.0	1.0
Profitability & Valuation	2019	2020E	2021E	2022E
EBITDA margin (%)	10.5	10.6	10.8	10.7
RoE (%)	26.3	29.9	27.7	24.2
RoCE (%)	31.0	34.5	31.6	27.6
EV / sales (x)	1.1	0.9	0.8	0.7
EV / EBITDA (x)	10.1	8.7	7.5	6.6
PE (x)	22.3	15.1	12.3	11.0
P / BV (x)	5.2	3.9	3.0	2.4
Net dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company Data, PL Research

Q3FY20 Result Update

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Rating	BUY
Price	Rs 517
Target Price	Rs 677
Implied Upside	31%
Sensex	41,529
Nifty	12,225
Bloomberg Code	KEII:IN
Reuters Code	KEIN:NS

(Prices as on January 21, 2020)

Tracking Data

Market Cap (Rs bn)	41.1
Shares O/s (m)	79.5
3M Avg. Daily Value (Rs m)	204.3

Major Shareholders

Promoters	45.6%
Domestic Inst.	19.4%
Public & Others	35.0%

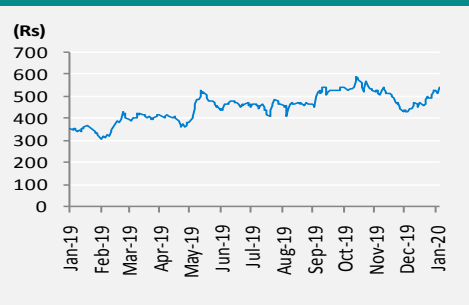
Stock Performance

(%)	1M	6M	12M
Absolute	18.4	9.8	45.9
Relative	18.8	2.7	34.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2021E	42.0	40.3	4.2
2022E	47.1	42.9	9.7

Price Chart



Q3FY20 Result Overview (Rs m)							
Y/e March	Q3 '20	Q3 '19	YoY gr.%	Q2 '20	9M'20	9M'19	YoY gr.%
Net Revenue	13,142	10,875	20.8	12,302	36,257	29,682	22.2
Raw Material Cost	9,218	7,684	20.0	8,513	25,204	20,272	24.3
<i>% of revenue</i>	<i>70.1</i>	<i>70.7</i>		<i>69.2</i>	<i>69.5</i>	<i>68.3</i>	
Employee Cost	592	433	36.9	567	1,674	1,261	32.8
<i>% of revenue</i>	<i>4.5</i>	<i>4.0</i>		<i>4.6</i>	<i>4.6</i>	<i>4.2</i>	
Other Expense	1,610	1,477	9.0	1,644	4,571	4,107	11.3
<i>% of revenue</i>	<i>12.3</i>	<i>13.6</i>		<i>13.4</i>	<i>12.6</i>	<i>13.8</i>	
Sub Contractor expenses	329	105	213.7	356	1,054	995	5.9
<i>% of revenue</i>	<i>2.5</i>	<i>1.0</i>		<i>2.9</i>	<i>2.9</i>	<i>3.4</i>	
Total Expenditure	11,749	9,698	21.2	11,080	32,503	26,635	22.0
EBITDA	1,393	1,177	18.4	1,222	3,754	3,047	23.2
<i>Margin (%)</i>	<i>10.6</i>	<i>10.8</i>		<i>10.5</i>	<i>10.4</i>	<i>10.3</i>	
Depr. & Amortization	141	85	65.9	137	430	253	69.7
EBIT	1,252	1,092	14.6	1085	3,325	2,794	19.0
Net Interest	330	347	(5.0)	355	1,015	939	8.1
Other Income	46	11	304.4	43	141	35	302.2
Profit before Tax	968	756	28.1	773	2,451	1,890	29.7
Total Tax	245	272	(9.9)	11	508	671	(24.2)
<i>Effective tax rate (%)</i>	<i>25.3</i>	<i>36.0</i>		<i>1.4</i>	<i>20.7</i>	<i>35.5</i>	
Profit after Tax	723	484	49.4	762	1,943	1,220	59.3
<i>PAT Margin (%)</i>	<i>5.5</i>	<i>4.4</i>		<i>6.2</i>	<i>5.4</i>	<i>4.1</i>	
EPS	9.1	6.1	49.4	9.6	24.4	15.3	59.3

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2019	2020E	2021E	2022E
Net Revenue	42,270	50,605	57,491	63,241
Raw Material Expenses	29,347	35,120	39,899	43,889
Gross Profit	12,923	15,485	17,592	19,352
Employee Cost	1,734	1,959	2,214	2,502
Other Expenses	6,767	8,168	9,170	10,087
EBITDA	4,422	5,358	6,208	6,763
Depr. & Amortization	339	536	560	576
Net Interest	1,362	1,362	1,362	1,362
Other Income	72	180	180	180
Profit before Tax	2,793	3,640	4,467	5,005
Total Tax	974	917	1,126	1,261
Profit after Tax	1,819	2,723	3,341	3,744
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	1,819	2,723	3,341	3,744
Avg. Shares O/S (m)	78.4	79.5	79.5	79.5
EPS (Rs.)	23.2	34.2	42.0	47.1

Cash Flow Abstract (Rs m)

Y/e March	2019	2020E	2021E	2022E
C/F from Operations	6,224	773	1,240	3,733
C/F from Investing	(1,158)	(600)	(117)	(18)
C/F from Financing	(3,876)	(806)	(1,357)	(1,357)
Inc. / Dec. in Cash	1,190	(633)	(234)	2,358
Opening Cash	763	1,953	1,320	1,086
Closing Cash	1,953	1,320	1,086	3,445
FCFF	5,066	173	1,123	3,715

Key Financial Metrics

Y/e March	2019	2020E	2021E	2022E
Growth				
Revenue (%)	22.2	19.7	13.6	10.0
EBITDA (%)	30.7	21.2	15.9	8.9
PAT (%)	25.8	49.7	22.7	12.1
EPS (%)	25.8	47.5	22.7	12.1
Profitability				
EBITDA Margin (%)	10.5	10.6	10.8	10.7
PAT Margin (%)	4.3	5.4	5.8	5.9
RoCE (%)	31.0	34.5	31.6	27.6
RoE (%)	26.3	29.9	27.7	24.2
Balance Sheet				
Net Debt : Equity	0.5	0.5	0.4	0.2
Net Wrkng Cap. (days)	31.0	59.2	72.0	72.0
Valuation				
PER (x)	22.3	15.1	12.3	11.0
P / B (x)	5.2	3.9	3.0	2.4
EV / EBITDA (x)	10.1	8.7	7.5	6.6
EV / Sales (x)	1.1	0.9	0.8	0.7
Earnings Quality				
Eff. Tax Rate	34.9	25.2	25.2	25.2
Other Inc / PBT	0.0	0.0	0.0	0.0
Eff. Dep. Rate (%)	5.9	8.0	8.0	8.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e March	2019	2020E	2021E	2022E
Non-Current Assets	5,385	5,662	5,421	5,065
Net fixed assets	4,857	5,237	4,977	4,601
Capital Work In Progress	316	-	-	-
Intangible assets	30	27	24	22
Right of Use Asset	-	168	168	168
Non-Current Investments	16	31	31	31
Loans	69	78	87	96
Other financial assets	6	7	8	9
Other Non-Current Assets	92	115	127	139
Current Assets	22,258	24,282	29,318	34,701
Inventories	6,896	8,153	9,263	10,189
Trade receivables	10,946	13,105	16,928	18,621
Cash & Bank Balance	1,953	1,320	1,086	3,445
Loans	46	53	61	70
Other financial Assets	1,040	-	-	-
Other Current Assets	1,375	1,650	1,980	2,377
Total Assets	27,643	29,944	34,740	39,767

Equity

Equity Share Capital	158	159	159	159
Other Equity	7,631	10,258	13,504	17,153
Total Networth	7,789	10,417	13,663	17,312
Non-Current Liabilities	1,721	1,749	1,759	1,769
Long Term borrowings	1,193	1,343	1,343	1,343
Provisions	86	96	106	116
Deferred tax liabilities	442	309	309	309
Current Liabilities	18,133	17,778	19,317	20,686
ST Debt	3,865	4,365	4,465	4,565
Trade payables	10,203	8,975	10,196	11,216
Other Financial Liabilities	3,379	3,717	3,791	3,867
Short Term Provisions	135	162	194	233
Other current Liabilities	457	549	659	791
Current Tax Liability(net)	93	10	11	14
Total Equity & Liabilities	27,643	29,944	34,740	39,766

Quarterly Financials (Rs m)

Y/e March	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	12,588	10,814	12,302	13,142
EBITDA	1,376	1,139	1,222	1,393
% of revenue	10.9	10.5	9.9	10.6
Depr. & Amortization	86	152	137	141
Net Interest	423	330	355	330
Other Income	37	52	43	46
Profit before Tax	903	710	773	968
Total Tax	304	252	11	245
Profit after Tax	599	458	762	723

Source: Company Data, PL Research

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