

KEI Industries (KEII) Q1 revenues de-grew 31.1% YoY and 40.8% QoQ to Rs 7,453m and EBITDA by 36.6% YoY and 40% QoQ to Rs 723m. EBITDAM contracted by 80 bps YoY to 9.7% on back of 120 bps fall in GRM. Interest cost was halved to Rs 168m. PBT was down 30% YoY to Rs 495m however, PAT is down only 20% due to lower taxation.

During Q1, Institutional cable revenues de-grew ~24.4%, Stainless steel by 35% and EPC by 43% YoY. Stainless steel margins came off sharply to 0.5% v/s 6% last year, EPC margins fell by 430 bps to 10.1% while margins on cables improved by 120 bps to 11.6%. QoQ margins were nearly flat in cables and EPC. Sales through dealer network were down 49.2% YoY to Rs 1.9bn and total active dealers decreased marginally from 1650 in Q4 to 1648 in Q1. Exports grew 45.5% YoY to Rs 1,630m in Q1. Order book stands at ~Rs 29.5bn. The entire proceeds of QIP stands utilized towards repayment of debt/meeting WC needs (Rs 4.85bn) and QIP expenses (Rs 146m). Net debt increased to Rs 3.5bn v/s Rs 1.5bn at March - end.

Post results we have marginally revised our profit estimates upwards by 3% on back of lower depreciation and higher other income for FY21 with no change in revenue estimates and by 3% in revenues and profits for FY22E. In FY22 after assuming 18% topline and 48% PAT growth, the company will be at par with its FY20 performance. We expect growth to be driven by exports, EPC, EHV cables. While contribution of housing wire dropped to 25% v/s 34% last year, going head its likely to pick up and revert to its original levels of 35%.

KEI has sufficient capacities to generate revenues of Rs 56bn, a strong execution record, pre qualifications with almost all leading institutional clients, pan India distribution network, sufficient room to borrow to fund the greenfield capex incase demand picks up sooner and fairly stable margins(~10%), we feel the company is well poised to capture growth when the cycle turns. However given the recent run up in price, we feel that the stock may not delivery any immediate returns and at 13.1x FY22E EPS appears richly valued and hence we revise our rating to Accumulate from Buy with a revised TP of Rs 386 and will keep a keen watch on uptick in domestic revenues and dealer based sales.

Key financials (Y/e March)	2019	2020	2021E	2022E
Revenues (Rs m)	42,270	48,843	41,516	49,820
Growth (%)	22.2	15.6	(15.0)	20.0
EBITDA (Rs m)	4,422	4,960	3,775	4,962
PAT (Rs m)	1,819	2,551	1,735	2,551
EPS (Rs)	23.2	28.5	19.4	28.5
Growth (%)	25.8	22.8	(32.0)	47.0
CEPS (Rs)	27.5	34.8	26.0	36.5
Net DPS (Rs)	1.2	1.5	1.5	1.5
Profitability & Valuation	2019	2020	2021E	2022E
EBITDA margin (%)	10.5	10.2	9.1	10.0
RoE (%)	26.3	22.3	10.9	14.3
RoCE (%)	31.0	27.7	15.2	17.9
EV / sales (x)	0.7	0.6	0.8	0.7
EV / EBITDA (x)	6.4	5.8	8.7	7.1
PE (x)	13.3	10.8	19.4	13.2
P / BV (x)	3.1	1.8	2.0	1.8
Net dividend yield (%)	0.4	0.5	0.4	0.4

Source: Company Data, PL Research

## Q1FY21 Result Update

Monday, August 10, 2020

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Rating	ACCUMULATE
Price	Rs 376
Target Price	Rs 386
Implied Upside	2.7%
Sensex	38,041
Nifty	11,214
Bloomberg Code	KEII:IN
Reuters Code	KEIN:NS

(Prices as on August 07, 2020)

### Tracking Data

Market Cap (Rs bn)	33.5
Shares O/s (m)	89.5
3M Avg. Daily Value (Rs m)	178.7

### Major Shareholders

Promoters	40.5%
Institutions.	40.0%
Public & Others	19.5%

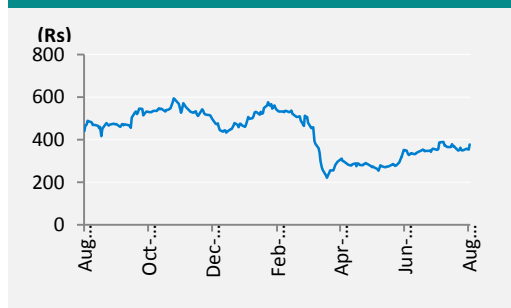
### Stock Performance

(%)	1M	6M	12M
Absolute	0.6	(33.5)	(24.0)
Relative	(3.1)	(26.0)	(27.2)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2021E	19.4	24.6	(21.1)
2022E	28.5	34.0	(16.2)

### Price Chart



**Reasonably strong Order Book with continued monthly bidding of Rs 2.5-3bn**

Order book stood at Rs 6.3 bn – mainly from transmission utilities and likely to remain strong. The company is bidding Rs 2.5 – 3n worth of tender every month. The management has guided that they should be able to achieve ~85% of FY20 revenues.

**Exports doing better than domestic sales**

Institutional exports witnessed a huge uptick of 69%. The last remaining order from Dangote will be completed in August. Company expects to achieve export revenues of ~ Rs 5.5bn in FY21 which is at par with export revenues ex of Dangote done in FY20. The order book of Rs 5.1bn comprises of Rs 1.2bn from cable, Rs 3.9bn EPC (Rs 1 bn of cable portion). Company has 35-40% of conversion rate in export bids. New export orders are coming from Middle East (Oil & Gas, PetroChem), Australia (Solar, Wind, Metro, T&D utilities) and Africa (T&D projects). Margins in exports are better by 100-150bps.

**Dealer Network Sales – to achieve normalcy by FY21 end**

Dealer based sales are down by 49% due to lockdown in Metros and factories. Most dealers started operations from May 15 but activity picked up from June onwards resulting to decrease in contribution of dealer sales to 25% v/s 34% last year. However, the same is likely to revert to 35% going ahead.

Retail sales in FY21 will be ~75% of last year's level. Company is witnessing better growth from Tier-II and Tier-III cities. Dealer sales in July were at 95% level of last year.

**Capex plans for FY21 revised downwards**

First phase of the ongoing capex at Silvassa Plant for Rs 900m was completed last year and second phase will begin operations from Q2FY21 onwards. So far the company has spent Rs 715m. Further capex for FY21E is expected to be Rs 200m. Greenfield capacity expansion is likely to begin from Q4FY21.

**Debt to remain at FY20 levels**

Debt increased to Rs 4.6bn at end of Q1 v/s Rs 3.7bn as on March-20 mainly due to increase in receivables. Debtor levels remain elevated at Rs 13.7bn due to lockdown but expected to normalize by October. Interest cost as a % of sales came down to 2.25% v/s 3.05% last year on back of Rs 70-80m reduction in LC charges and interest on WC Loan.

### Financial Overview & Valuations

Post results we have marginally revised our profit estimates upwards by 3%/1.5% for FY21/22 on back of lower depreciation and higher other income while maintaining our topline estimates. In FY22 after assuming 18% topline and 48% PAT growth, the company will be at par with its FY20 performance. We expect growth to be driven by exports, EPC, EHV cables. While contribution of housing wire dropped to 25% v/s 34% last year, going head its likely to pick up and revert to its original levels of 35%.

KEI has sufficient capacities to generate revenues of Rs 56bn, a strong execution record, pre qualifications with almost all leading institutional clients, pan India distribution network, sufficient room to borrow to fund the greenfield capex incase demand picks up sooner and fairly stable margins(~10%), we feel the company is well poised to capture growth when the cycle turns. However given the recent run up in price, we feel that the stock may not delivery any immediate returns and at 13.1x FY22E EPS appears richly valued and hence we revise our rating to Accumulate from Buy with a revised TP of Rs 386 and will keep a keen watch on uptick in domestic revenues and dealer based sales.

<b>Q1FY21 Result Overview (Rs m)</b>					
<b>Y/e March</b>	<b>Q1 '21</b>	<b>Q1 '20</b>	<b>YoY gr.%</b>	<b>Q4 '20</b>	<b>QOQ gr.%</b>
<b>Net Revenue</b>	<b>7,454</b>	<b>10,814</b>	<b>(31.1)</b>	<b>12,585</b>	<b>(40.8)</b>
Raw Material Cost	<b>5,243</b>	<b>7,473</b>	<b>(29.8)</b>	<b>8,582</b>	<b>(38.9)</b>
<i>% of revenue</i>	70.3	69.1		68.2	
Employee Cost	447	515	(13.3)	602	(25.8)
<i>% of revenue</i>	6.0	4.8		4.8	
Other Expense	843	1,316	(36.0)	1,643	(48.7)
<i>% of revenue</i>	11.3	12.2		13.1	
Sub-Contractor expenses	198	370	(46.4)	552	(64.1)
<i>% of revenue</i>	2.7	3.4		4.4	
<b>Total Expenditure</b>	<b>6,731</b>	<b>9,674</b>	<b>(30.4)</b>	<b>11,379</b>	<b>(40.8)</b>
<b>EBITDA</b>	<b>723</b>	<b>1,139</b>	<b>(36.6)</b>	<b>1,206</b>	<b>(40.1)</b>
<i>Margin (%)</i>	9.7	10.5		9.6	
Depr. & Amortization	146	152	(3.8)	137	6.2
<b>EBIT</b>	<b>577</b>	<b>988</b>	<b>(41.6)</b>	<b>1,069</b>	<b>(46.0)</b>
Net Interest	168	330	(49.1)	277	(39.3)
Other Income	86	52	65.6	24	262.3
<b>Profit before Tax</b>	<b>495</b>	<b>710</b>	<b>(30.3)</b>	<b>816</b>	<b>(39.3)</b>
Total Tax	133	252	(47.3)	207	(36.0)
<i>Effective tax rate (%)</i>	26.8	35.5		25.4	
<b>Profit after Tax</b>	<b>362</b>	<b>458</b>	<b>(20.9)</b>	<b>608</b>	<b>(40.5)</b>
<i>PAT Margin (%)</i>	4.9	4.2		4.8	
<b>EPS</b>	<b>4.0</b>	<b>5.1</b>	<b>(20.9)</b>	<b>6.8</b>	<b>(40.5)</b>

Source: Company Data, Idea Research

**Income Statement (Rs m)**

Y/e March	2019	2020	2021E	2022E
<b>Net Revenue</b>	<b>42,270</b>	<b>48,843</b>	<b>41,516</b>	<b>49,820</b>
Raw Material Expenses	29,347	33,786	28,812	34,475
Gross Profit	12,923	15,056	12,704	15,344
Employee Cost	1,734	2,276	2,390	2,700
Other Expenses	6,767	7,820	6,539	7,682
<b>EBITDA</b>	<b>4,422</b>	<b>4,960</b>	<b>3,775</b>	<b>4,962</b>
Depr. & Amortization	339	567	588	713
Net Interest	1,362	1,292	1,108	1,108
Other Income	72	165	240	270
<b>Profit before Tax</b>	<b>2,793</b>	<b>3,267</b>	<b>2,320</b>	<b>3,411</b>
Total Tax	974	716	585	859
<b>Profit after Tax</b>	<b>1,819</b>	<b>2,551</b>	<b>1,735</b>	<b>2,551</b>
Ex-Od items / Min. Int.	-	-	-	-
<b>Adj. PAT</b>	<b>1,819</b>	<b>2,551</b>	<b>1,735</b>	<b>2,551</b>
<b>Avg. Shares O/S (m)</b>	<b>78.4</b>	<b>89.5</b>	<b>89.5</b>	<b>89.5</b>
<b>EPS (Rs.)</b>	<b>23.2</b>	<b>28.5</b>	<b>19.4</b>	<b>28.5</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2019	2020	2021E	2022E
C/F from Operations	6,224	(501)	3,343	1,871
C/F from Investing	(1,158)	(838)	(121)	(2,937)
C/F from Financing	(3,876)	1,528	(869)	(969)
Inc. / Dec. in Cash	1,190	190	2,353	(2,036)
Opening Cash	763	1,953	2,143	4,496
Closing Cash	1,953	2,143	4,496	2,461
FCFF	5,066	(1,339)	3,222	(1,066)

**Key Financial Metrics**

Y/e March	2019	2020	2021E	2022E
<b>Growth</b>				
Revenue (%)	22.2	15.6	(15.0)	20.0
EBITDA (%)	30.7	12.2	(23.9)	31.4
PAT (%)	25.8	40.3	(32.0)	47.0
EPS (%)	25.8	22.8	(32.0)	47.0
<b>Profitability</b>				
EBITDA Margin (%)	10.5	10.2	9.1	10.0
PAT Margin (%)	4.3	5.2	4.2	5.1
RoCE (%)	31.0	27.7	15.2	17.9
RoE (%)	26.3	22.3	10.9	14.3
<b>Balance Sheet</b>				
Net Debt : Equity	0.5	0.1	(0.1)	0.1
Net Wrkng Cap. (days)	31.0	44.3	54.0	56.0
<b>Valuation</b>				
PER (x)	13.3	10.8	19.4	13.2
P / B (x)	3.1	1.8	2.0	1.8
EV / EBITDA (x)	6.4	5.8	8.7	7.1
EV / Sales (x)	0.7	0.6	0.8	0.7
<b>Earnings Quality</b>				
Eff. Tax Rate	34.9	21.9	25.2	25.2
Other Inc / PBT	0.0	0.1	0.1	0.1
Eff. Dep. Rate (%)	5.9	8.8	8.5	8.0

Source: Company Data, PL Research

**Balance Sheet Abstract (Rs m)**

Y/e March	2019	2020	2021E	2022E
<b>Non-Current Assets</b>	<b>5,385</b>	<b>5,829</b>	<b>5,617</b>	<b>8,125</b>
<b>Net fixed assets</b>	<b>4,857</b>	<b>4,960</b>	<b>4,834</b>	<b>6,121</b>
Capital Work In Progress	316	112	-	1,200
Intangible assets	30	29	26	24
Right of Use Asset	-	547	547	547
Non-Current Investments	16	6	20	30
Loans	69	124	133	142
Other financial assets	6	9	10	11
Other Non-Current Assets	92	41	46	50
<b>Current Assets</b>	<b>22,258</b>	<b>26,857</b>	<b>26,933</b>	<b>28,160</b>
Inventories	6,896	8,638	7,381	8,303
Trade receivables	10,946	13,676	12,686	14,669
Cash & Bank Balance	1,953	2,143	4,496	2,461
Loans	46	29	34	39
Other financial Assets	1,040	867	823	947
Income Tax Assets	-	20	-	-
Other Current Assets	1,375	1,484	1,514	1,741
<b>Total Assets</b>	<b>27,643</b>	<b>32,687</b>	<b>32,550</b>	<b>36,285</b>

**Equity**

Equity Share Capital	158	179	179	179
Other Equity	7,631	14,889	16,462	18,852
<b>Total Networth</b>	<b>7,789</b>	<b>15,068</b>	<b>16,641</b>	<b>19,031</b>
<b>Non-Current Liabilities</b>	<b>1,721</b>	<b>1,094</b>	<b>1,004</b>	<b>1,114</b>
Long Term borrowings	1,193	527	427	527
Provisions	86	111	121	131
Deferred tax liabilities	442	310	310	310
Other Non-Current liab	-	146	146	146
<b>Current Liabilities</b>	<b>18,133</b>	<b>16,525</b>	<b>14,905</b>	<b>16,140</b>
ST Debt	3,865	2,624	3,124	3,324
Trade payables	10,203	11,690	9,604	10,534
Other Financial Liabilities	3,379	722	736	751
Short Term Provisions	135	81	98	117
Other current Liabilities	457	1,390	1,320	1,386
Current Tax Liability(net)	93	19	23	28
<b>Total Equity &amp; Liabilities</b>	<b>27,643</b>	<b>32,687</b>	<b>32,550</b>	<b>36,285</b>

**Quarterly Financials (Rs m)**

Y/e March	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>12,302</b>	<b>13,142</b>	<b>12,585</b>	<b>7,454</b>
<b>EBITDA</b>	<b>1,222</b>	<b>1,393</b>	<b>1,206</b>	<b>723</b>
% of revenue	9.9	10.6	9.6	9.7
Depr. & Amortization	137	141	137	146
Net Interest	355	330	277	168
Other Income	43	46	24	86
<b>Profit before Tax</b>	<b>773</b>	<b>968</b>	<b>816</b>	<b>495</b>
Total Tax	11	245	207	133
<b>Profit after Tax</b>	<b>762</b>	<b>723</b>	<b>608</b>	<b>362</b>
<b>Adj. PAT</b>	<b>762</b>	<b>723</b>	<b>608</b>	<b>362</b>

Source: Company Data, PL Research

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