

KEI INDUSTRIES

Solid operational start

India Equity Research | Consumer Durables

KEI Industries (KEI) posted a strong P/L in Q1FY18 led by strong performance in turnkey projects and above industry growth in cables. Key highlights: a) strong execution in turnkey projects (up 119% YoY) led to sharp 44/46% YoY top line/EBITDA spurt; b) sharp rise in copper price coupled with price hike aided 29% YoY surge in cables' top line/EBIT; and c) KEI's sustained focus on B2C business which now has 1,246 dealers (99 added in Q1) apart from target to prune long-term debt substantially. Our optimism on KEI is anchored by management's focus on profitability and its potential for re-rating as the company expands its consumer business. Maintain 'BUY' with TP of INR322 (target PE at 17x FY19E) given strong earnings/RoE (refer [Consumer Durables - Home Run](#))

Strong turnkey execution, robust growth in cables spur beat

KEI's Q1FY18 beat was led by strong execution in turnkey projects (sales up 119% YoY) and 185% YoY EBIT surge. This was complemented by robust spurt in cables (sales up 29% YoY). Strong top line helped prune interest cost from 4.7% to 3.7% (YoY) driving a much higher bottom line growth at 150% YoY. Management maintained annual guidance of 20% top line growth with much better OPM, which in our view is achievable given potential for strong growth in the consumer business led by rising penetration of cables and KEI's focus on distribution network expansion and branding.

Key value drivers over 12-24 months

The company has been expanding its cables capacity to address benign growth prospects across HT, LT & housing cables, apart from focusing on brand promotions. With rising potential of B2C business (~currently 30% of sales), we perceive scope to generate cash over the next 12-24 months, which could help KEI prune long-term debt from INR1.6bn currently. While expanding B2C network in cables, debt reduction potential and brand building are near to medium term triggers, scope for expanding product portfolio compatible with expanding distribution is a strong option value.

Outlook and valuations: Robust visibility; maintain 'BUY'

KEI has expanded its market share/positioning over the past 2-3 years in North India in cables & wires while maintaining focus on profitability. High potential of profitable growth in cables & wires and scope for significant ramp up in distribution renders KEI our preferred pick in the India consumer electrical space. We maintain 'BUY/SO'.

Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	% Chg	Q4FY17	% Chg	FY17	FY18E	FY19E
Net revenues	7,909	5,499	43.8	7,398	6.9	26,312	31,352	37,536
EBITDA	768	525	46.4	736	4.4	2,743	3,337	4,043
Adjusted Profit	275	110	149.8	316	(13.1)	986	1,110	1,464
Diluted EPS (INR)	3.5	1.4	148.0	4.1	(13.1)	12.7	14.3	18.8
Diluted P/E (x)						20.1	17.8	13.7
EV/EBITDA (x)						9.4	7.8	6.4
ROAE (%)						23.5	21.1	22.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: KEIN.BO, B: KEII IN)

CMP	: INR 260
Target Price	: INR 322
52-week range (INR)	: 264 / 99
Share in issue (mn)	: 77.8
M cap (INR bn/USD mn)	: 20 / 316
Avg. Daily Vol.BSE/NSE('000)	: 369.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	46.6	46.6	49.0
MF's, FI's & BK's	18.6	18.7	17.7
FII's	4.0	4.3	5.3
Others	30.8	30.4	28.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	(7.4)	(0.6)	(7.0)
3 months	0.5	5.0	(4.5)
12 months	0.1	14.1	2.7

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August 30, 2017

Table 1: Segmental performance

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change
Revenue (INR mn)					
Cables	6,184	4,796	28.9	6,611	(6.5)
Stainless Steel Wires	290	262	10.7	314	(7.7)
Turnkey Projects	2,952	1,346	119.2	1,759	67.8
Inter segment revenue	1,177	423.1		763	
Total revenue	8,248	5,981	37.9	7,921	4.1
Segment revenue mix (%)					
Cables	75.0	80.2		83.5	
Stainless Steel Wires	3.5	4.4		4.0	
Turnkey Projects	35.8	22.5		22.2	
EBIT (INR mn)					
Cables	689	533	29.2	751	(8.3)
Stainless Steel Wires	1	19	(92.8)	13	(89.7)
Turnkey Projects	314	110	185.5	131	139.7
Total EBIT	925	642	44.0	850	8.8
EBIT margin (%)					
Cables	11.1	11.1		11.4	
Stainless Steel Wires	0.5	7.2		4.2	
Turnkey Projects	10.6	8.2		7.4	
Total EBIT Margin	11.2	10.7		10.7	

Source: Company, Edelweiss research

KEI Q1FY18 conference call: Key highlights

Overall performance

- Sales of cables & wires grew 28% wherein export sales jumped 28% in Q1FY18 to INR1.09bn from INR0.85bn in Q1FY17.
- **Retail business:** KEI has been able to grow sales through the dealer network by 30% to INR2.3bn from INR1.7bn in Q1FY17. Dealers have grown 23% to 1,246 with addition of 99 dealers. The company is targeting 10-15% growth in the number of dealers every year.
- **EPC division:** Revenues were at INR1.7bn (INR0.84bn in Q1FY17) apart from cables sales of INR0.71bn.
- **Order book:** KEI's order book stands at INR24.78bn, of which EPC is INR18bn and balance INR7bn is cables & wires. Of which, INR1.2bn exports are pending execution. UP constitutes 70% of the order book and balance 30% is from other states like West Bengal, Madhya Pradesh and Rajasthan. But management expects this to balance out by the end of the year as KEI has been bidding for projects in other states as well.
- Entire GST impact has been passed on in the form of price increase.

Guidance

- Expects overall revenue growth of 20% in FY18.
- Targeting EPC revenue of INR8-9bn in FY18 including cable sales. Estimated to grow 60-65% in FY18 on a low base.
- The company is also making efforts to increase export geographies, which are expected to bear fruits after one to two years.
- KEI expects margin expansion of 100bps by FY18.
- Long-term debt of INR1.6bn will be reduced completely over the next 3 years
- Order inflow guidance of INR5-6bn for FY18.
- KEI expects promotional expenditure to be between INR120mn and INR130mn for FY18E.
- Capex guidance of INR600mn—INR500mn for expansion and INR100mn for maintenance.

Expansion plan: KEI has an expansion plan in place to increase capacity of LT power and control cables. The company already has land near its Chopanki factory in Rajasthan where it is investing INR500mn for plant and machinery for manufacture of LT cables worth INR3bn. It may also add one manufacturing line for HT cables. This facility is expected to be ready by April FY18.

Overall comments

- The dealer network is spread across the country and KEI is planning to expand it focusing on Tier 1,2 & 3 cities along with rural network expansion
- Retention money was of INR1.4bn as on June 30, 2017
- Stainless Steel Wire margin was impacted due to sudden price fluctuation, but is expected to stabilise by the next quarter.
- KEI did not see any pre-buying before applicability of GST on July 1, 2017.
- The company has strong presence in metros and has orders for Nagpur Metro. Is looking forward for orders from Pune and Bengaluru.
- Market size of EHV cables stands at INR2.5bn.
- The company is focusing more on underground cable projects from IPDS

Working capital position

- Receivables - INR8.25bn vs INR7.97bn as on March 31, 2017.
- Inventory - INR4.99bn vs INR5.61bn as on March 31, 2017.
- Payables - INR4.82bn vs INR5.84bn as on March 31, 2017.

Capacity utilization

- **Chopanki** - 70% overall but 35% in EHV and 90% in HT and LT.
- **Silvassa** - HW - 55% capacity utilization.
- **Bhiwadi** - operating at 90% capacity utilization.

Product breakup

- LT - INR3.12bn vs INR2.56bn in Q1FY17.
- HT - INR1.07bn vs INR0.81bn in Q1FY17.
- EHV - INR0.59bn vs INR0.17bn in Q1FY17.
- HW - INR1.05bn vs INR0.98bn in Q1FY17.
- SSW - INR0.26bn vs INR0.24bn in Q1FY17.
- EPC - INR1.69bn vs INR0.85bn in Q1FY17.

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	7,909	5,499	43.8	7,398	6.9	26,312	31,352	37,536
Staff costs	345	253	36.3	311	10.9	1,109	1,257	1,464
Direct costs	5,500	3,718	47.9	5,390	2.0	18,855	22,588	27,037
Other operating expenses	1,296	1,003	29.2	961	34.8	3,604	4,170	4,992
Total expenditure	7,141	4,974	43.6	6,662	7.2	23,569	28,015	33,493
EBITDA	768	525	46.4	736	4.4	2,743	3,337	4,043
Depreciation	80	66	20.5	77	4.2	280	343	371
EBIT	688	459	50.1	659	4.4	2,463	2,993	3,672
Other income	16	9	70.0	73	(78.6)	104	41	72
Interest	299	278	7.9	304	(1.4)	1,229	1,389	1,542
Profit before tax	404	190	112.6	428	(5.6)	1,338	1,645	2,201
Tax	130	80	61.6	112	15.5	351	535	737
Core profit	275	110	149.8	316	(13.1)	986	1,110	1,464
Extraordinary items								
Adjusted Profit	275	110	149.8	316	(13.1)	986	1,110	1,464
Equity capital(FV INR 2)	156	154		156		156	156	156
No. of shares (mn)	78	77		78		78	78	78
Diluted EPS (INR)	3.5	1.4	148.0	4.1	(13.1)	12.7	14.3	18.8
Diluted P/E (x)	-	-		-		20.1	17.8	13.5
EV/EBITDA (x)	-	-		-		9.4	7.8	6.4
ROAE (%)	-	-		-		23.5	21.1	22.6
As % of net revenues								
Direct costs	69.5	67.6		72.9		71.7	72.0	72.0
Employee cost	4.4	4.6		4.2		4.2	4.0	3.9
Other operating expenses	16.4	18.2		13.0		13.7	13.3	13.3
EBITDA	9.7	9.5		9.9		10.4	10.6	10.8
Adjusted net profit	3.5	2.0		4.3		3.7	3.5	3.9
Tax rate	32.1	42.2		26.2		26.3	32.5	33.5

Company Description

KEI was established in 1968 as a partnership firm Krishna Electrical Industries with prime business of manufacturing house wiring rubber cables. It was converted into a public limited company with the corporate name KEI Industries in December 1992. In 1996, KEI acquired Matchless, a company under same management, which manufactured stainless steel wires. KEI has, over the years, invested in building flexible manufacturing facilities and expanded capacities. The company manufactures and supplies power and other industrial cables. The company operates through 3 segments—cables, stainless steel wires and turnkey projects. It also focuses on EPC business.

Investment Theme

Government's infra push: Potent demand catalyst - Housing For All & improving power availability, in our view, will be key drivers of the domestic cables & wires industry. With the government sharpening focus on power generation, transmission and distribution, demand for cables as part of T&D equipment is expected to expand significantly. KEI's expertise in EPC projects and excellent track record has rendered it the preferred candidate for such projects.

Huge scope to leverage cables business with forward integration in EPC - In EPC, KEI has the advantage of manufacturing (in house) EHV, HV and LT cables, which account for product pull through of 30%, leading to superior margin. Also, technological collaboration with Switzerland-based Brugg Kabel AG has helped the company gain faster entry in the EHV cable market with designs and process back up—services sought by end users.

Key Risks

Cyclical nature of business - KEI's products are used primarily by power utilities, infrastructure, real estate and industrial segments. Any slowdown in these sectors can significantly impact demand for KEI's products.

High competition - A majority of KEI's products are highly competitive in nature and face strong threat from other players.

Raw material price fluctuation - Excessive volatility in prices of key raw materials—copper and aluminium—can severely impact profitability. Although KEI tries to recover rise in raw material prices either through hike in selling price of products or via hedging, there is no assurance that it can do so successfully or at all in the future.

Currency fluctuation - With exports being a key contributor to the company's revenue, excessive volatility in currency rates can significantly impact profitability. KEI also imports raw material and extreme currency fluctuations can adversely affect costs of the same, in turn denting profitability.

Financial Statements

Key assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macros				
GDP(Y-o-Y%)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Key financial assumptions				
Capacity utilisations (%)				
A) Cables	75.0	77.0	82.0	85.5
B) Stainless steel wires	90.0	84.0	87.0	89.7
C) Winding Housing & Flexible Wires	79.0	50.0	58.0	64.5
Realisation (INR)				
A) Cables (INR mn/km)	33.3	25.1	27.6	31.0
B) Stainless steel wires (INR '000/kg)	23.7	20.6	22.9	25.7
C) Winding Hsg & Flex. Wires (INR mn/km)	1.3	1.3	1.3	1.5
Order Intake for Turnkey Projects (INR bn)	6.5	17.0	15.0	14.0
Depreciation as a % of FA	5.4	5.1	5.1	5.2
Tax rate (%)	34.8	26.3	32.5	33.5

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	22,929	26,312	31,352	37,536
Materials costs	16,743	18,855	22,588	27,037
Employee costs	828	1,109	1,257	1,464
Other mfg expenses	2,935	3,604	4,170	4,992
Total operating expenses	20,506	23,569	28,015	33,493
EBITDA	2,423	2,743	3,337	4,043
Depreciation	253	280	343	371
EBIT	2,170	2,463	2,993	3,672
Add: Other income	53.48	104.06	40.79	71.81
Less: Interest Expense	1,270	1,229	1,389	1,542
Profit Before Tax	953	1,338	1,645	2,201
Less: Provision for Tax	331	351	535	737
Reported Profit	622	986	1,110	1,464
Adjusted Profit	622	986	1,110	1,464
Shares o/s (mn)	77	77	77	77
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	8.1	12.8	14.4	18.9
Adjusted Cash EPS	11.3	16.4	18.8	23.7
Dividend per share (DPS)	0.5	0.6	0.7	0.9
Dividend Payout Ratio(%)	6.2	4.7	5.0	5.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	89.4	89.6	89.4	89.2
EBITDA margins	10.6	10.4	10.6	10.8
Net Profit margins	2.7	3.7	3.5	3.9

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	13.6	14.8	19.2	19.7
EBITDA	34.7	13.2	21.6	21.2
Adjusted Profit	96.6	58.6	12.6	31.8

Consumer Durables

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	154	156	156	156	
Shareholders' funds	3,666	4,735	5,778	7,155	
Short term borrowings	2,490	4,898	5,048	5,198	
Long term borrowings	1,881	1,641	1,641	1,641	
Total Borrowings	4,371	6,540	6,690	6,840	
Long Term Liabilities	40	51	51	51	
Sources of funds	8,440	11,752	12,946	14,472	
Gross Block	4,995	6,082	6,732	7,132	
Net Block	3,279	4,086	4,392	4,421	
Capital work in progress	293	-	-	-	
Non current investments	31	31	31	31	
Cash and Equivalents	59	369	480	598	
Inventories	4,225	4,990	5,728	6,871	
Sundry Debtors	5,674	7,392	8,675	10,387	
Loans & Advances	865	945	992	1,042	
Other Current Assets	744	297	297	297	
Current Assets (ex cash)	11,508	13,624	15,693	18,596	
Sundry creditors	6,319	6,305	7,598	9,122	
Provisions	411	53	53	53	
Total Current Liab	6,730	6,358	7,650	9,175	
Net Curr Assets-ex cash	4,777	7,266	8,042	9,421	
Net Deferred tax	362	427	427	427	
Uses of funds	8,440	11,752	12,946	14,472	
BVPS (INR)	47.4	61.3	74.8	92.6	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	622	986	1,110	1,464	
Add: Depreciation	253	280	343	371	
Interest (Net of Tax)	828	906	938	1,026	
Others	656	453	411	445	
Less: Changes in WC	509	2,588	777	1,379	
Operating cash flow	1,850	38	2,025	1,927	
Less: Capex	977	624	650	400	
Free Cash Flow	873	(585)	1,375	1,527	

Cash flow metrics					
Year to March	FY16	FY17	FY18E	FY19E	
Operating cash flow	1,850	38	2,025	1,927	
Investing cash flow	(975)	(617)	(609)	(328)	
Financing cash flow	(866)	890	(1,306)	(1,480)	
Net cash Flow	9	311	111	118	
Capex	(977)	(624)	(650)	(400)	
Dividend paid	-	56	67	89	

Profitability and efficiency ratios					
Year to March	FY16	FY17	FY18E	FY19E	
ROAE (%)	18.6	23.5	21.1	22.6	
ROACE (%)	28.1	24.5	24.3	26.8	
Inventory Days	94	89	87	85	
Debtors Days	83	91	94	93	
Payable Days	137	122	112	113	
Cash Conversion Cycle	40	58	68	65	
Current Ratio	1.7	2.1	2.1	2.0	
Gross Debt/EBITDA	1.8	2.4	2.0	1.7	
Gross Debt/Equity	1.2	1.4	1.2	1.0	
Adjusted Debt/Equity	1.2	1.4	1.2	1.0	

Operating ratios					
Year to March	FY16	FY17	FY18E	FY19E	
Total Asset Turnover	3.0	2.6	2.5	2.7	
Fixed Asset Turnover	7.3	7.1	7.4	8.5	
Equity Turnover	6.3	5.6	5.4	5.2	

Valuation parameters					
Year to March	FY16	FY17	FY18E	FY19E	
Adj. Diluted EPS (INR)	8.1	12.8	14.4	18.9	
Y-o-Y growth (%)	96.7	58.6	12.6	31.8	
Adjusted Cash EPS (INR)	11.3	16.4	18.8	23.7	
Diluted P/E (x)	32.3	20.4	17.8	13.7	
P/B (x)	5.5	4.2	3.5	2.8	
EV / Sales (x)	1.0	1.0	0.8	0.7	
EV / EBITDA (x)	10.1	9.6	7.9	6.5	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
KEI Industries	316	18.1	13.7	3.5	2.8	21.1	22.6
Finolex Cables	1,267	23.6	19.4	3.7	3.2	17.0	17.9
Havells India	4,740	40.8	32.6	8.2	7.2	21.3	23.5
Median	-	23.6	19.4	3.7	3.2	21.1	22.6
AVERAGE	-	27.5	21.9	5.1	4.4	19.8	21.4

Source: Edelweiss research

Additional Data

Directors Data

Mr. Anil Gupta	Chairman & Managing Director	Mr. Rajeev Gupta	Executive Director (Finance) & CFO
Mr. K.G. Somani	Non-Executive & Independent Director	Mr. Pawan Bholusaria	Non-Executive & Independent Director
Mr. Vijay Bhushan	Non-Executive & Independent Director	Mr. Vikram Bhartia	Non-Executive & Independent Director
Mrs. Archana Gupta	Non-Executive Director	Mr. Akshit Diviaj Gupta	Mr. Akshit Diviaj Gupta

Auditors - M/s. Pawan Shubham & Co. Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Gupta anil rai	23.56	Projection fin & mgm	10.15
Templeton asset mgmt	6.62	Subhlaxmi motels & i	4.47
Soubhgaya agency lt	4.02	Hsbc global inv maur	3.4
Mirae asset global i	2.83	Hsbc	2.37
L&t investment manag	2.09	Kei cables pvt ltd	2.02

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
17 Feb 2017	Anil Gupta	Sell	1900000	172.34
16 Dec 2016	Hsbc Global Investment Fundsasia Ex Japan Equity Smallercompanies	Buy	3451330	120.35
16 Dec 2016	Cophall Mauritius Investment Ltd	Sell	3451330	120.35

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
02 Mar 2017	PAWAN KUMAR AGGARWAL	Sell	80000.00
02 Mar 2017	LALIT SHARMA	Sell	30000.00
20 Feb 2017	ANIL GUPTA	Sell	1900000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bajaj Electricals	HOLD	SP	M	Crompton Greaves Consumer Electrical	BUY	SO	L
Finolex Cables	BUY	SO	L	Havells India	BUY	SO	L
KEI Industries	BUY	SO	L	Symphony	BUY	SO	L
V Guard Industries	HOLD	SP	L	Voltas	BUY	SO	L
Whirlpool of India	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Consumer Durables

Bajaj Electricals, Crompton Greaves Consumer Electrical, Finolex Cables, Havells India, KEI Industries, Symphony, V Guard Industries, Voltas, Whirlpool of India

Recent Research

Date	Company	Title	Price (INR)	Recos
10-Aug-17	Symphony	Temporary setback dents Q1; prospects sanguine; <i>Result Update</i>	1,205	Buy
09-Aug-17	Finolex Cables	Sustaining niche in commoditised space; <i>Result Update</i>	490	Buy
08-Aug-17	Whirlpool India	Good performance in inclement environment; <i>Result Update</i>	1,180	Buy

Distribution of Ratings / Market Cap

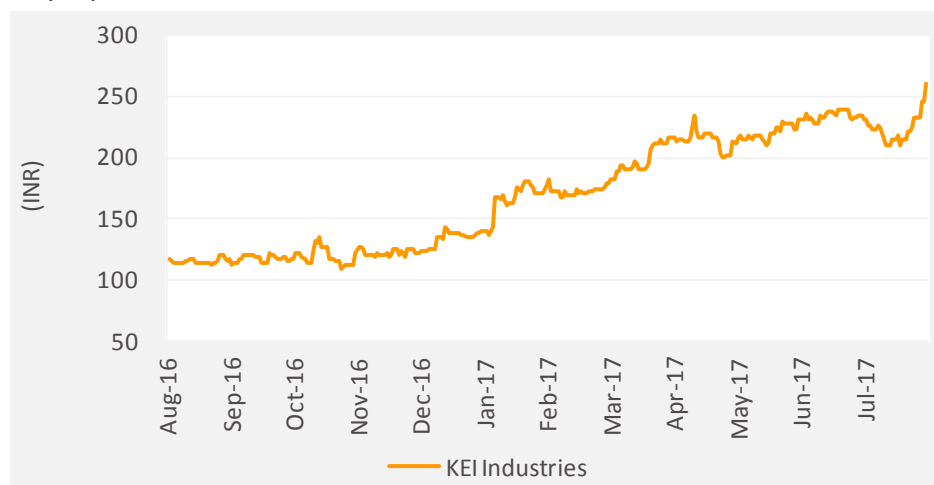
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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