

February 27, 2018

## KEI Industries (KEIIND)

₹ 385

### Capacity addition to drive future growth...

We recently met the management of KEI Industries (KIL) to understand the business model and outlook, going forward. KIL is one of the largest industrial cable manufacturers in India with institutional, dealer and export sales contribution of 55%, 31% and 14%, respectively, in FY17. Being largely in the B2B category, the product profile includes extra high voltage (EHV) cable, high and medium (HV/MV) voltage cables, low tension (LT) cables, speciality cables, winding/flexible and house wires and stainless steel wires, etc. Major clientele includes private & public discoms and companies from capital goods, refinery, energy, industrials, etc. KIL has gradually increased its focus on higher margin businesses with dealer based and export sales. The company has been actively adding dealers across India for its LT and house wire products. In the last four years, KIL's advertisement & selling expenses have doubled while its dealer count has increased three-fold to ~1200. Further, KIL plans to increase its retail sales contribution by 10 percentage points to 40% by FY19E. Besides, KIL exports (contributes ~14% in topline) high end cables to ~45 countries with a large major presence in Middle East & South Africa. The company reported revenue, earnings CAGR of ~9%, 32% in FY12-17, respectively, led by expansion in EBITDA margin by ~160 bps to 10.3% in FY17. A strong operating performance led to an improvement in D/E to 1.5x in FY17 (Vs 2.2x during FY12) and return ratios (RoCE and RoE of ~21%).

#### Focus on increasing presence in higher margin products

KIL has started manufacturing 400 KV EHV cables with the technical collaboration of Switzerland based Brugg Kabel AG. At present, ~50% of total domestic requirements of EHV cable have been served through imports from Mexico, Thailand and South Korea. Moving up the value chain would not only help the company strengthen its presence in the institutional product categories. It will also help the company improve its overall EBITDA margin.

#### Improvement in working capital through change in sales mix

KIL has been focusing on increasing the sales contribution from dealer based sales (largely LT and house wiring cables) to 40% by FY19 from 30% in FY17. The dealer based segment is relatively less working capital intensive and command EBITDA margin of ~11%. We believe a change in sales mix (rising contribution of retail products) would benefit the company in the long run in terms of higher profitability and an efficient working capital management. Further, low capital requirement (till FY20E) would also aid in better return ratio, going forward.

#### Exhibit 1: Financial Performance

	FY12	FY13	FY14	FY15	FY16	FY17
Net Sales (₹ crore)	1722.3	1658.4	1618.9	2031.0	2325.6	2669.1
EBITDA margin (%)	8.7	10.3	9.5	9.5	10.4	10.3
EBIT (₹ crore)	132.2	152.4	133.4	173.3	222.3	256.7
EBIT margin(%)	7.7	9.2	8.2	8.5	9.6	9.6
PBT (₹ crore)	36.0	43.1	21.8	52.9	95.3	133.8
PAT (₹ crore)	24.3	26.3	11.6	34.2	62.2	98.6
D/E (x)	2.2	1.9	1.9	1.5	1.4	1.5
RoCE (%)	18.5	20.8	17.0	22.8	25.6	21.5
RoE (%)	10.7	10.3	4.2	11.8	17.0	20.8

Source: Company, ICICIdirect.com Research

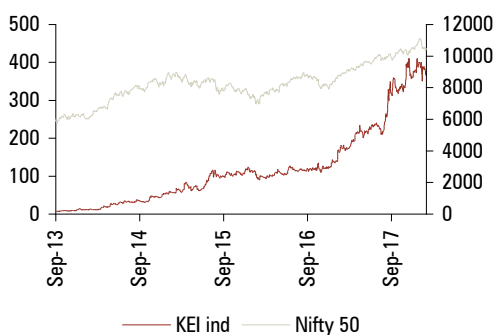
Rating matrix	
Rating	: Unrated
Target	: NA
Target Period	: NA
Potential Upside	: NA

Key Financials				
(₹ Crore)	FY14	FY15	FY16	FY17
Net Sales	1,618.9	2,031.0	2,325.6	2,669.1
EBITDA	153.0	192.9	242.3	274.3
Net Profit	11.5	35.9	62.2	98.6
EPS (₹)	1.6	4.6	8.1	12.7

Valuation Summary				
	FY14	FY15	FY16	FY17
P/E	247.1	82.9	47.8	30.4
EV / EBITDA	22.9	17.9	14.4	13.4
P/BV	11.0	9.9	8.2	6.3
RoNW (%)	4.2	11.8	17.0	20.8
RoCE (%)	17.0	22.8	25.6	21.5

Stock Data	
Particular	Amount
Market Capitalization (₹ crore)	2995.3
Total Debt (FY17) (₹ crore)	713.1
Cash (FY17) (₹ crore)	37.0
EV (₹ crore)	3671.4
52 week H/L (₹)	424 / 167
Equity capital (₹ crore)	15.6
Face value	2

#### Price movement



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### Other management meet highlights

- The company's manufacturing plants are at Bhiwadi (Rajasthan), Chopanki (Rajasthan) and Silvassa (Maharashtra). During 9MFY18, capacity utilisation was 87% in the cable division, house/flexible wiring 61% and stainless steel wire division ~90%
- The company's wide product range includes EHV up to and including 400 KV, high & medium voltage cables, low tension cables, control and instrumentation cables, speciality cables, rubber cables, winding/flexible/house wires, submersible cables, OVC/poly wrapped winding wires, stainless steel wires and engineering, procurement and construction (EPC)
- KIL entered into a technical collaboration Brugg Kabel, AG Switzerland in 2010 to manufacture EHV from 66 KV to 220 KV. During FY17, the company moved up the value chain by starting manufacturing of 400 KV EHV cable, which commands EBITDA margin of ~15% (vs. other B2B category EBITDA margin of ~9%). The company has set a target to triple the revenue from EHV cable within a span of two years
- All products have been further categorised into institutional sales (~55%), dealer based sales (~30%) and EPC based sales (~14%)
- Entered the EPC business during FY12 in collaboration with Woosun Electric Co, Korea for power projects and Cobra Engineer Spain for substation execution. The revenue has grown at a CAGR of 39% by FY17. The scope of work includes power transmission projects of 66 KV to 400 KV substations on a turnkey basis, EPC of EHV and HV cables systems, electrical balance of plant system for power plant and electrical industrial projects
- The current order book at ₹ 2347 crore includes cable ₹ 730 crore, EPC ₹ 1428 crore and substation ₹ 189 crore
- Under the export segment, the company's order book is at ₹ 173 crore. KIL has a presence in over 45 countries across the globe with a focus on the oil & gas and utilities segment. Over the years, the company has strengthened its prequalification parameters and achieved approval for large projects with local companies in the Middle East and South Africa. Recently, KIL opened new offices in Singapore, Nigeria and Kazakhstan
- The company is aiming at a volume CAGR of ~15-16% for the next two years, with further expansion in EBITDA margin by ~100 bps from FY17 level. The company's advertisement and promotional expenses are expected to remain in the range of ~₹ 14-15 crore annually

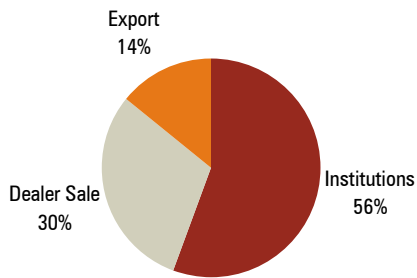
#### Exhibit 2: Install capacity

Product	Units	FY16	FY17
EHV Cables	Kms	700	900
HT Cables	Kms	5700	7500
LT Cables	Kms	76700	84000
Rubber Cables	Kms		3600
Winding, Flexible & House wires	Kms	3.75	677000
Stainless steel wire	MT	4800	6000

Source: Company, ICICIdirect.com Research

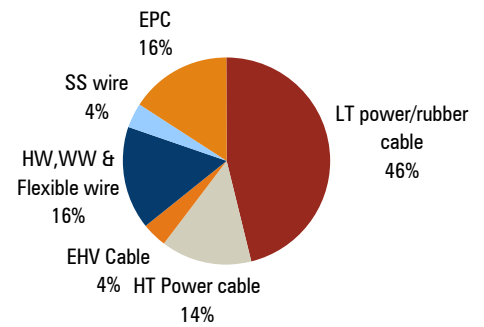
## Financials

**Exhibit 3: Segment wise sales mix**



Source: Company, ICICIdirect.com Research

**Exhibit 4: Product wise sales mix**



Source: Company, ICICIdirect.com Research

**Exhibit 5: Sales break-up**

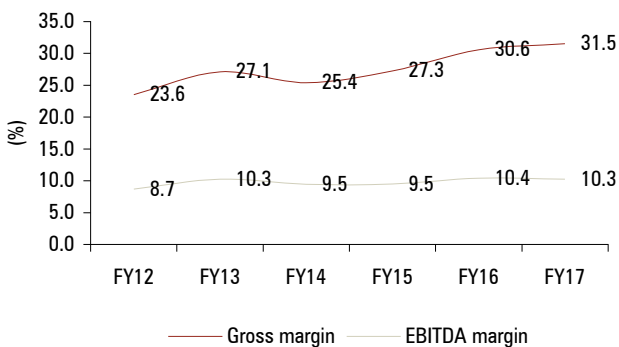
Segment wise sales breakup	FY12	FY13	FY14	FY15	FY16	FY17	CAGR FY12-17
Institution (domestic)	1211.2	1091.5	889.5	1248.3	1413.8	1480.7	4.1
Dealers	386.1	469.7	531.9	635.2	720.8	813.0	16.1
Exports	125.0	97.2	197.5	147.4	191.0	375.3	24.6
Total Net sales	1722.3	1658.4	1618.9	2031.0	2325.6	2669.1	9.2

**Product wise sales break-up**

Product wise sales break-up	FY12	FY13	FY14	FY15	FY16	FY17	CAGR FY12-17
LT power/rubber cable	971.8	907.6	904.8	987.6	963.5	1229.3	4.8
HT Power cable	242.1	258.3	251.6	330.0	435.1	380.3	9.5
EHV Cable	143.1	39.4	23.8	58.6	133.4	103.3	-6.3
HW, WW & Flexible wire	189.2	239.0	276.4	333.4	377.4	431.6	17.9
SS wire	95.2	77.1	93.8	104.8	93.1	103.9	1.8
EPC	80.8	136.9	68.7	216.7	323.1	420.7	39.1
Grand total	1722.3	1658.4	1618.9	2031.0	2325.6	2669.1	9.2

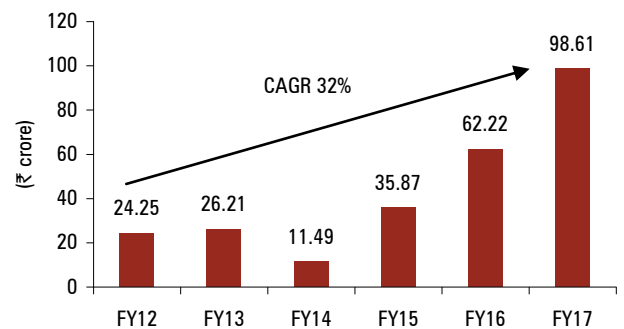
Source: Company, ICICIdirect.com Research

**Exhibit 6: Gross and EBITDA margin trend**



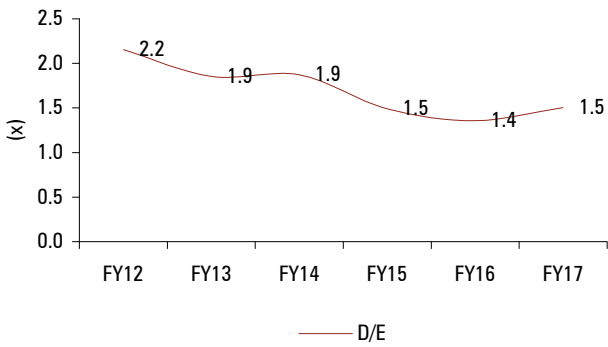
Source: Company, ICICIdirect.com Research

**Exhibit 7: Strong PAT CAGR of 32% in FY12-17**



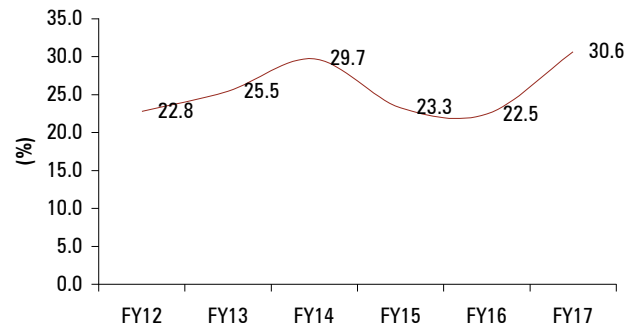
Source: Company, ICICIdirect.com Research

**Exhibit 8: Debt/equity trend**



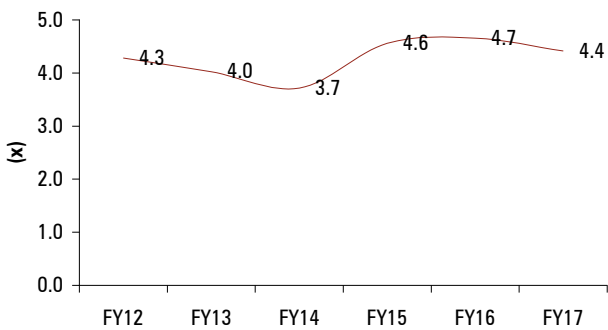
Source: Company, ICICIdirect.com Research

**Exhibit 9: Working capital as percentage of sales trend**



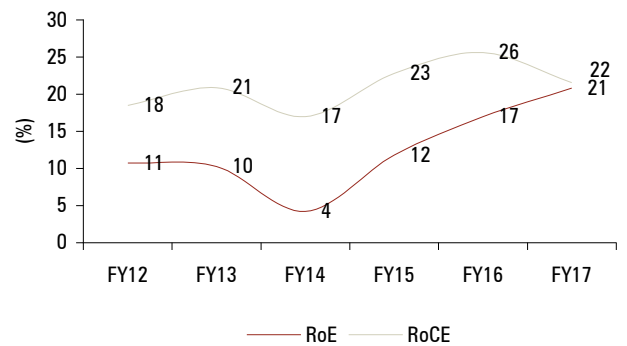
Source: Company, ICICIdirect.com Research

**Exhibit 10: Gross asset turnover**



Source: Company, ICICIdirect.com, Research

**Exhibit 11: Return ratios**



Source: Company, ICICIdirect.com, Research

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