

# KEI Industries - Accumulate

## Robust performance continues

KEI continues to positively surprise as the company registered 20% yoy topline growth even though execution was impacted by GST. Robust growth was achieved on the back of strong execution in its EPC division and robust export and retail sales. In domestic market, the company continued its thrust to expand its network across country and has managed to increase its dealer base 25% yoy to 1,274 active dealers. Also, expansion of presence in global market has led to 33% yoy increase in export sales to Rs.1.4bn. KEI saw a volume growth of 15% yoy in Q2 FY18. OPM contracted 49bps yoy to 10.2% due to lower contribution from EHV segment. Order book stood at Rs.23.5bn, of which EPC division book of Rs.14.3bn, substation Rs.1.9bn, EHV Rs.940mn and LT/HT Rs.5.5bn. Management has maintained its annual guidance of 15% yoy volume growth and 20% yoy revenue growth in FY18. We marginally upgrade our estimates based on strong order book, increased focus on execution, coupled with robust penetration in domestic as well as export markets. The company would continue to witness re-rating on the back of strong performance over the last one year and robust pipeline in power T&D sector. We introduce FY20 in our estimates and maintain our accumulate rating with a target price of Rs.355.

### Lower GST rate to augur well

All the product segments performed robust except for LT cable which grew merely by 7% yoy (capacity constraint coupled with some pre-buying in Q1 FY18). EPC segment registered 45.3% yoy growth even though this segment saw delay in billing worth Rs.1bn, as some of the orders were under amendment by utilities on account of GST. EHV segment performance was below par due to GST and lower offtake from utilities. GST rates now have come down from 28% to 18% on cables, which is very positive. Overall utilization levels was at 82% in Q2 FY18 against 77% in Q2 FY17.

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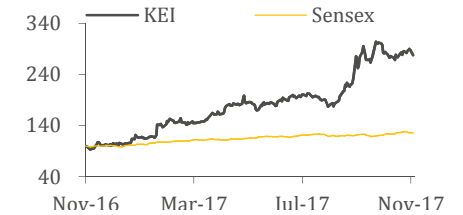
**CMP (Rs) 332**      **12-mts Target (Rs) 355**      **Upside 6.9%**

**Stock data** (As on November 14, 2017)

**Sector: Capital Goods**

Sensex:	32,942
52 Week h/l (Rs):	372 / 108
Market cap (Rs mn) :	25,992
Enterprise value (Rs mn):	32,155
6m Avg t/o (Rs mn):	148.8
FV (Rs):	2
Div yield (%):	0.2
Bloomberg code:	KEII IN
BSE code:	517569
NSE code:	KEI

### Stock performance



### Shareholding pattern (%)

Promoter	46.3
FII+DII	19.4
Others	34.4

**Figure 1: Result table**

Y/e 31 Mar (Rs m)	Q2 FY18	Q2 FY17	% yoy	Q1 FY18	% qoq
<b>Net sales</b>	<b>7,488</b>	<b>6,243</b>	<b>20.0</b>	<b>7,909</b>	<b>(5.3)</b>
Material costs	(5,242)	(4,336)	20.9	(5,500)	(4.7)
Personnel costs	(345)	(260)	32.9	(345)	0.1
Other overheads	(1,139)	(981)	16.1	(1,296)	(12.1)
<b>Operating profit</b>	<b>763</b>	<b>666</b>	<b>14.5</b>	<b>768</b>	<b>(0.7)</b>
<b>OPM (%)</b>	<b>10.2</b>	<b>10.7</b>	<b>-49 bps</b>	<b>9.7</b>	<b>47 bps</b>
Depreciation	(81)	(69)	16.7	(80)	1.1
Interest	(274)	(325)	(15.8)	(299)	(8.6)
Other income	10	19.15	(46.3)	16	(34.0)
<b>PBT</b>	<b>418</b>	<b>291</b>	<b>43.8</b>	<b>404</b>	<b>3.5</b>
Tax	(133)	(77)	73.8	(130)	2.9
<b>Reported PAT</b>	<b>285</b>	<b>214</b>	<b>33.1</b>	<b>275</b>	<b>3.8</b>

Source: Company, IIFL Research

## Conference call highlights

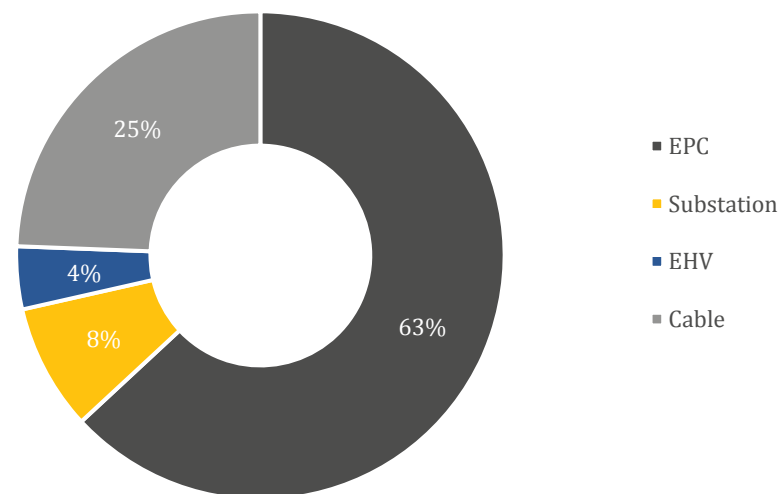
- Cable business grew 7.4% yoy to Rs.7.9bn. The segment was impacted by lower sales in LT cables, which got affected by GST and preponing of purchases in Q1. The impact is temporary as the GST rates are revised to 18%. EBIT margins for the cables division expanded 136bps yoy to 12.9%. Currently, the company has increased its focus on retail sales led by higher rural penetration.
- EPC business saw healthy growth of 15.3% yoy to Rs.1.7bn driven by strong orderbook. Management expects this division to post revenue of Rs.10-11bn in FY18. EBIT margin expanded 386bps yoy to 18.3%.
- Stainless steel wire segment saw 11.5% revenue growth with margins improving by 254bps yoy to 8.6%.
- Export sales increased 33% yoy to Rs.1.4bn. The company has been looking out for opportunities and have expanded significantly in the international markets. The management believes that such expansion will accrue well for the company in next 1-2 years' time.
- Company has started manufacturing 400kv cable post technological tie-up with Bruggs Kabel and have currently sent the wires to an external laboratory for testing.
- Debt have increased owing to GST as few debtors have deferred payments. It is expected to be back to normal by Q3 FY18 post receipt of payments.
- Rating agencies have kept KEI rating unchanged in the current quarter. Management expects it to get revised to a notch up by end of FY18 or starting of FY19.
- The company is currently expanding LT cable capacity at Bhiwadi with a capex of Rs.500mn, of which Rs.200mn is spent. It is expected to be operational by March'2018.

**Figure 2: Product-wise revenue**

Y/e 31 Mar (Rs m)	Q2 FY18	Q2 FY17	% yoy	Q1 FY18	% qoq
LT Power/Rubber cable	3,150	2,930	7.5	3,120	1.0
HT Power Cable	1,160	1,030	12.6	1,070	8.4
EHV Cable	190	160	18.8	590	(67.8)
HW, WW & Flexible wire	1,310	1,030	27.2	1,050	24.8
<b>Total cable &amp; Wires</b>	<b>5,810</b>	<b>5,150</b>	<b>12.8</b>	<b>5,830</b>	<b>(0.3)</b>
SS Wire	302	250	20.7	266	13.5
EPC	1,380	950	45.3	1,690	(18.3)
<b>Total revenue</b>	<b>7,492</b>	<b>6,350</b>	<b>18.0</b>	<b>7,786</b>	<b>(3.8)</b>
Exports	1,370	1,030	33.0	1,090	25.7

Source: Company, IIFL Research

**Figure 3: Order book mix**



Source: Company, IIFL Research

Figure 4: Segment-wise results

Y/e 31 Mar (Rs m)	Q2 FY18	Q2 FY17	% yoy	Q1 FY18	% qoq
<b>Revenues</b>					
Cables	5,967	5,555	7.4	6,170	(3.3)
Stainless Steel wire	302	271	11.5	291	3.8
Turnkey Projects	1,671	1,450	15.3	2,952	(43.4)
<b>Net Sales</b>	<b>7,940</b>	<b>7,276</b>	<b>9.1</b>	<b>9,412</b>	<b>(15.6)</b>
<b>EBIT</b>					
Cables	770	642	20.1	689	11.9
Stainless Steel wire	26	17	57.9	1	1,788.4
Turnkey Projects	306	210	46.0	314	(2.3)
<b>EBIT Margins (%)</b>			<b>bps yoy</b>		<b>bps qoq</b>
Cables	12.9	11.6	136 bps	11.2	175 bps
Stainless Steel wire	8.6	6.1	254 bps	0.5	816 bps
Turnkey Projects	18.3	14.5	386 bps	10.6	771 bps

Source: Company, IIFL Research

Figure 5: Cost analysis

As a % of net sales	Q2 FY18	Q2 FY17	bps yoy	Q1 FY18	bps qoq
Material costs	70.0	69.5	55	69.5	45
Personnel Costs	4.6	4.2	45	4.4	25
Other overheads	15.2	15.7	(51)	16.4	(118)
<b>Total costs</b>	<b>89.8</b>	<b>89.3</b>	<b>49</b>	<b>90.3</b>	<b>(47)</b>

Source: Company, IIFL Research

Figure 6: Financial summary

Y/e 31 Mar (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	23,510	26,706	32,244	38,200	42,213
yoy growth (%)	15.8	13.6	20.7	18.5	10.5
OPM (%)	10.3	10.3	10.6	10.8	10.8
Reported PAT	625	983	1,313	1,789	2,105
yoy growth (%)	82.8	57.2	33.5	36.3	17.7
EPS (Rs)	8.1	12.6	16.9	23.0	27.1
P/E (x)	41.0	26.3	19.7	14.4	12.3
Price/Book (x)	7.0	5.5	4.3	3.4	2.7
EV/EBITDA (x)	12.3	11.7	9.3	7.8	6.8
Debt/Equity (x)	1.2	1.4	1.1	0.8	0.6
RoE (%)	18.6	23.4	24.6	26.4	24.6
RoCE (%)	27.5	25.5	26.2	28.7	28.5

Source: Company, IIFL Research