

# KEI Industries - BUY

## Positive trend continues

KEI continues to report robust growth in its topline with 24.1% yoy. The growth was largely led by ~19% yoy volume growth. This was achieved on the back of healthy execution in its EPC division and strong retail sales. In the domestic market, the company continued its thrust to expand its network across country and has managed to increase its dealer base by 11% yoy to 1,208 active dealers. However, this quarter KEI's export sales suffered due to delayed dispatches on account of clearances. For the second consecutive quarter, OPM contracted 139bps yoy to 9.5%. This was due to lower absorption of increased cost of new EHV facility. Management slightly raised its annual guidance from 15% yoy to 18-20% yoy volume growth in FY18. We have marginally increased our estimates for FY19 and FY20 factoring in strong volume growth on the back of strong order book, increased focus on execution, coupled with robust penetration in domestic as well as export markets. However, this was somewhat offset by reduction in our margin estimates. We believe the company would continue to witness some re-rating on the back of strong earnings growth, healthy return ratios and strong demand from power sector. We upgrade our rating to Buy with a revised target price of Rs.470.

### Apart from LT cable capacity, no other capex in the near future

KEI is currently setting up LT cable facility near its Chopanki plant for a capex of Rs.500mn. This plant is expected to be operational by May' 2018 and has a capacity to add Rs.3bn annually to the topline. Apart from this, company has no major capex planned. Currently, Bhiwadi Cable and Stainless steel plant is running at a utilization level of 92% and 90% respectively, while Chopanki is running at 35%. Silvassa cables and wires facilities are running at 89% and 61% respectively. New EHV capacity which got commissioned in Q3 FY18, saw lower utilization levels. This led to lower absorption of overheads thereby impacting margins. With scaling up of operations, management expects margins to be at a better level in the coming quarters.

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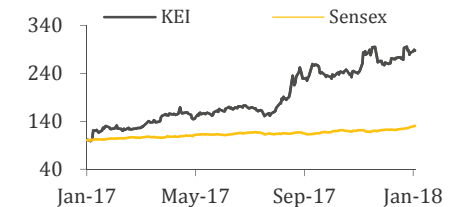
**CMP (Rs) 400**      **12-mts Target (Rs) 470**      **Upside 17.5%**

**Stock data** (As on January 25, 2018)

**Sector: Capital Goods**

Sensex:	36,050
52 Week h/l (Rs):	423 / 134
Market cap (Rs mn) :	31,364
Enterprise value (Rs mn):	37,280
6m Avg t/o (Rs mn):	211.1
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)	Q3 FY18	Q3 FY17	% yoy	Q2 FY18	% qoq
<b>Net sales</b>	<b>8,887</b>	<b>7,162</b>	<b>24.1</b>	<b>7,488</b>	<b>18.7</b>
Material costs	(6,478)	(4,832)	34.0	(5,411)	19.7
Personnel costs	(369)	(287)	28.5	(345)	7.0
Other overheads	(1,197)	(1,263)	(5.3)	(970)	23.4
<b>Operating profit</b>	<b>843</b>	<b>779</b>	<b>8.2</b>	<b>763</b>	<b>10.6</b>
<b>OPM (%)</b>	<b>9.5</b>	<b>10.9</b>	<b>-139 bps</b>	<b>10.2</b>	<b>-70 bps</b>
Depreciation	(82)	(70)	16.7	(81)	1.8
Interest	(251)	(341)	(26.2)	(274)	(8.1)
Other income	73	3.31	2,110.3	10	611.0
<b>PBT</b>	<b>583</b>	<b>371</b>	<b>57.1</b>	<b>418</b>	<b>39.3</b>
Tax	(192)	(99)	94.0	(133)	44.3
<b>Reported PAT</b>	<b>390</b>	<b>272</b>	<b>43.6</b>	<b>285</b>	<b>36.9</b>

Source: Company, IIFL Research

## Conference call highlights

- Sales grew 24.1% yoy in Q3, led by volume growth of ~19% yoy. The company had taken some price hikes to pass on the increase in raw material costs. Management expects cable segment to grow by 18-20% yoy in volume terms in FY19.
- EHV segment has witnessed 18% yoy growth to Rs.380mn in Q3. The new capacity of with capability of upto 440kv commissioned in Q3, management expects to clock Rs.3.5bn revenue from this segment in FY19 from ~Rs.1.2bn in 9m FY18. Outlook for this division is positive with company being L1 in orders worth Rs.2bn (could materialize in Q4 FY18 itself) and strong bid pipeline with various state TRANSCOS. It already has orders worth Rs.1.65bn in its order book.
- Export sales saw a decline of 6.8% yoy to Rs.1.1bn in Q3. This was largely due to few consignments witnessing delayed dispatches on account of clearances. Management expects 10-15% growth in export sales in FY18.
- Retail sales saw a strong growth of 71% yoy to Rs.3.1bn in Q3. Increased sales from retail network has improved company's working capital cycle. Management targets to have 40% of the revenue from retail segment by FY20.
- Total active dealer count grew 11% yoy to 1,208 and the management expects to take this count to 1,400 dealers. Company's focus would be on increasing the sales from existing dealers and also expand into untapped market. Currently, KEI's retail share is 8-9% in Rs.400bn retail cable market.
- As on date, order book stands strong at Rs.23.3bn, of which EPC division book of Rs.12.9bn, substation Rs.1.9bn, EHV Rs.1.7bn and cable Rs.5.2bn. KEI is currently L1 in IPDS orders in J&K and Gujarat and have bided for orders in West Bengal and Bihar. Recently, company has turned L1 in Nepal Electricity Authority order worth Rs.2bn (financed by World Bank).

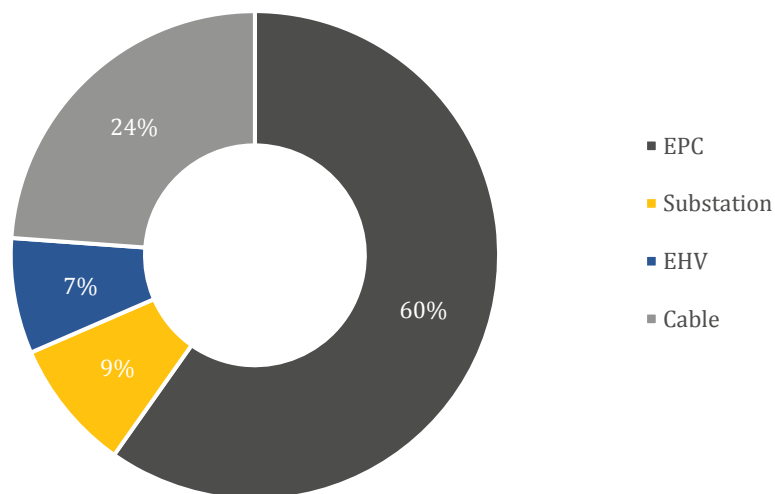
- Gross debt as on December' 2017 stood at Rs.6.9bn, of which long term debt is Rs.1,970mn, working capital loan is Rs.2,430mn and rest is unsecured loans, buyer's credit and bill discounted.
- Financial charges for 9m FY18 was lower at Rs.825mn (i.e. 3.4% of net sales) against Rs.943mn (i.e. 5% of net sales) in 9m FY17. Interest charges would remain at current level for the upcoming quarters.
- In Q3 FY18, KEI had forex gain of Rs.60mn charged in other income.

**Figure 2: Product-wise revenue**

Y/e 31 Mar (Rs m)	Q3 FY18	Q3 FY17	% yoy	Q2 FY18	% qoq
LT Power/Rubber cable	4,070	3,300	23.3	3,150	29.2
HT Power Cable	1,150	975	17.9	1,160	(0.9)
EHV Cable	380	322	18.0	190	100.0
HW, WW & Flexible wire	1,410	1,000	41.0	1,310	7.6
<b>Total cable &amp; Wires</b>	<b>7,010</b>	<b>5,597</b>	<b>25.2</b>	<b>5,810</b>	<b>20.7</b>
SS Wire	280	265	5.7	302	(7.2)
EPC	1,600	1,414	13.2	1,380	15.9
<b>Total revenue</b>	<b>8,890</b>	<b>7,276</b>	<b>22.2</b>	<b>7,492</b>	<b>18.7</b>
Exports	1,090	1,170	(6.8)	1,370	(20.4)

Source: Company, IIFL Research

**Figure 3: Order book mix as on date**



Source: Company, IIFL Research

**Figure 4: Segment-wise results**

Y/e 31 Mar (Rs m)	Q3 FY18	Q3 FY17	% yoy	Q2 FY18	% qoq
<b>Revenues</b>					
Cables	7,004	5,845	19.8	5,967	17.4
Stainless Steel wire	281	286	(1.8)	302	(6.9)
Turnkey Projects	2,445	2,200	11.2	1,671	46.3
<b>Net Sales</b>	<b>9,730</b>	<b>8,330</b>	<b>16.8</b>	<b>7,940</b>	<b>22.6</b>
<b>EBIT</b>					
Cables	775	696	11.4	770	0.6
Stainless Steel wire	20	29	(31.8)	26	(25.0)
Turnkey Projects	265	218	21.5	306	(13.6)
<b>EBIT Margins (%)</b>					
			<b>bps yoy</b>		<b>bps qoq</b>
Cables	11.1	11.9	-84 bps	12.9	-185 bps
Stainless Steel wire	7.0	10.0	-306 bps	8.6	-168 bps
Turnkey Projects	10.8	9.9	92 bps	18.3	-751 bps

Source: Company, IIFL Research

**Figure 5: Cost analysis**

As a % of net sales	Q3 FY18	Q3 FY17	% yoy	Q2 FY18	% qoq
Material costs	72.9	67.5	542	72.3	63
Personnel Costs	4.2	4.0	14	4.6	(45)
Other overheads	13.5	17.6	(417)	13.0	51
<b>Total costs</b>	<b>90.5</b>	<b>89.1</b>	<b>139</b>	<b>89.8</b>	<b>70</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	33,634	40,195	44,340
yoy growth (%)	15.8	13.6	25.9	19.5	10.3
OPM (%)	10.3	10.3	10.1	10.3	10.5
Reported PAT	625	983	1,460	1,911	2,289
yoy growth (%)	82.8	57.2	48.5	30.9	19.7
EPS (Rs)	8.1	12.6	18.8	24.6	29.4
P/E (x)	49.4	31.7	21.3	16.3	13.6
Price/Book (x)	8.4	6.6	5.1	4.0	3.1
EV/EBITDA (x)	14.5	13.6	11.1	9.0	7.8
Debt/Equity (x)	1.2	1.4	1.1	0.8	0.6
RoE (%)	18.6	23.4	26.9	27.3	25.6
RoCE (%)	27.5	25.5	25.9	28.4	28.5

Source: Company, IIFL Research