

KEI Industries

1 September 2017

Reuters: KEI.BO; Bloomberg: KEI IN

Aims To Sustain Healthy Growth Momentum

We had a meeting with the management of KEI Industries (KEI) recently to get the latest business update. The management is aiming at healthy sustainable long-term growth driven by strengthening institutional sales, scaling up of EPC execution and EHV cable business, increasing its presence in retail house wire segment and enhancing exports. We currently do not have any rating on the stock.

Following are the key takeaways from the meeting:

Institutional segment remains strong: KEI is one of the top-three manufacturers of cables in India having a presence across the entire spectrum of cables including EHV, HT, LT, house wires and specialty cables. KEI has a strong presence in the institutional segment driven by demand from key sectors such as power, infrastructure, refinery, railways, automobile, cement, steel, fertiliser, textile and real estate. The institutional segment accounted for 56% of total sales in FY17. Along with a wide product portfolio including specialised cables (to tap niche segments such as shipping, oil & gas and solar), KEI has backward integrated facilities through in-house manufacturing of PVC and XLPE compound which provides it with control over costs. Consequently, KEI improved its institutional segment's margin from 8% in FY16 to 9% in FY17 and hopes to increase it further. The major competitors of KEI include Polycab and Universal Cables. As part of further diversification, KEI has scaled up its EPC execution capability to win turnkey contracts as well as move up the value chain with EHV cables.

Attaining turnkey EPC capabilities: KEI has scaled up its presence in turnkey EPC projects as they consume a significant portion of EHV, HT and LT cables. The key services offered by KEI include turnkey sub-station projects (66KV to 400KV), EPC of EHV and HV cable systems, electrical balance of plant and electrical industrial projects. KEI has collaborated with Woosun Electric of South Korea for power projects and Cobra Engineers of Spain for sub-station execution. The key customers in the EPC segment include large players like Larsen & Toubro, Alstom, ABB, Siemens, and Tata Power etc. The average execution cycle of EPC projects ranges from 4 months to 24 months. KEI registered a turnover of Rs4.2bn from EPC projects in FY17 and aims to increase it by Rs2.5bn-Rs3bn in FY18.

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Net revenues	16,584	16,189	20,310	23,256	26,691
EBITDA	1,705	1,530	1,929	2,423	2,743
PAT	263	116	343	622	986
EPS (Rs)	3.4	1.5	4.4	8.0	12.7
EPS growth (%)	8.3	(56.0)	195.2	81.6	58.6
EBITDA margin (%)	10.3	9.5	9.5	10.4	10.3
P/E (x)	75.3	171.0	57.9	31.9	20.1
P/BV (x)	7.8	7.3	6.5	5.4	4.2
EV/EBITDA (x)	13.8	15.8	12.2	10.0	9.5
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
RoCE (%)	22.9	18.0	23.9	25.8	21.0
RoE (%)	10.3	4.2	11.3	17.0	20.8

Source: Company, Ace Equity, Nirmal Bang Institutional Equities Research

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NOT RATED

Sector: Capital Goods

CMP: Rs255

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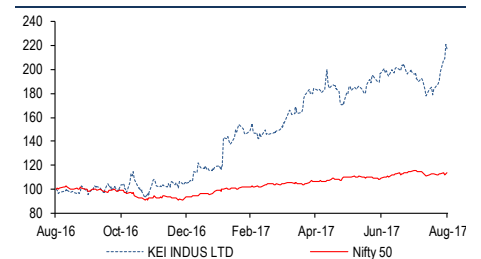
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Key Data

Current Shares O/S (mn)	77.8
Mkt Cap (Rsbn/US\$mn)	19.9/311.5
52 Wk H / L (Rs)	265/99
Daily Vol. (3M NSE Avg.)	351,358

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
KEI Industries	10.5	40.1	125.1
Nifty Index	(1.6)	11.7	12.9

Source: Bloomberg

Moving up the value chain through EHV cables

KEI started a new line of 400KV EHV cables at Chopanki plant in Rajasthan and became the third company in India to manufacture EHV cables. The EHV foray is aided by technological collaboration with Switzerland-based Brugg Kabel, which has the ability to manufacture cables up to 550KV. Considering that a large part of the demand for EHV cables in India is met by imports, KEI aims to scale up this business much faster. Further, it will also be margin-accretive as EHV cables are technologically a much superior product. KEI registered revenues of Rs1bn from EHV cables in FY17 and hopes to double it in FY18. KEI has an order book worth Rs2.3bn of EHV cables as of FY17-end.

Enhancing presence in the retail segment

Over the past 10 years, KEI has been gradually building up its retail B2C business of house wires by creating awareness of its brand and increasing its reach. KEI has earmarked advertisement spending of Rs100mn for brand-building. It has attained distribution network of 1,147 dealers as of end-FY17 inclusive of new addition of 220 dealers in FY17. The retail segment's revenues in FY17 stood at Rs8.1bn (30% of total sales) while the management aims to increase it by Rs1.2bn to Rs1.5bn in FY18. Operating margin in the retail segment is healthy at 11%. Geographically, 35% of sales accrue from the northern region, 25% each from southern and western regions while the balance 15% comes from the eastern region. Receivable cycle for the retail segment is 30 days. Major competitors in the retail segment include Finolex Cables, Havells India and Polycab.

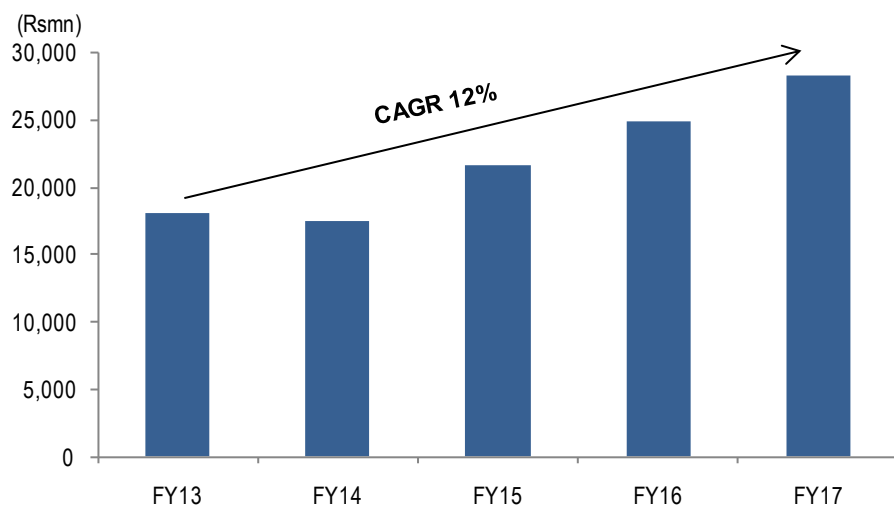
Healthy presence in export

KEI has its presence in 45 countries across the globe with key focus on servicing the oil & gas and utilities sectors. KEI has offices in Dubai and Abu Dhabi already, while it has set up new offices in Singapore, Nigeria and Kazakhstan. It has presence in some other countries like South Korea and Australia through sales agents. Export revenues stood at Rs3.8bn in FY17, forming 14% of total sales, while the export order book stood at Rs1.3bn as of FY17-end. The management intends to scale up exports in a big way. KEI enjoys a healthy margin of 11% in exports.

Capacity utilisation and debt levels

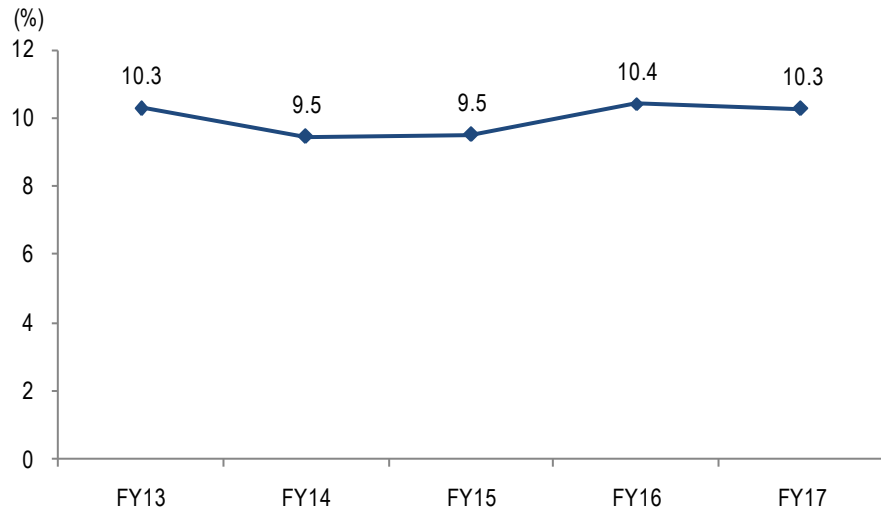
KEI has three manufacturing units at Bhiwadi (Rajasthan), Chopanki (Rajasthan) and Silvassa (Gujarat). The capacity utilisation in FY17 stood at 77% in cables and 50% in house wires. After incurring greenfield capex to set up a new manufacturing plant, the debt level stood at Rs7bn which the management believes has peaked out and will decline gradually. Finance costs in FY17 stood at Rs1.2bn with the cost of borrowing in the range of 9.50% to 10.25%.

Exhibit 1: Gross revenue trend



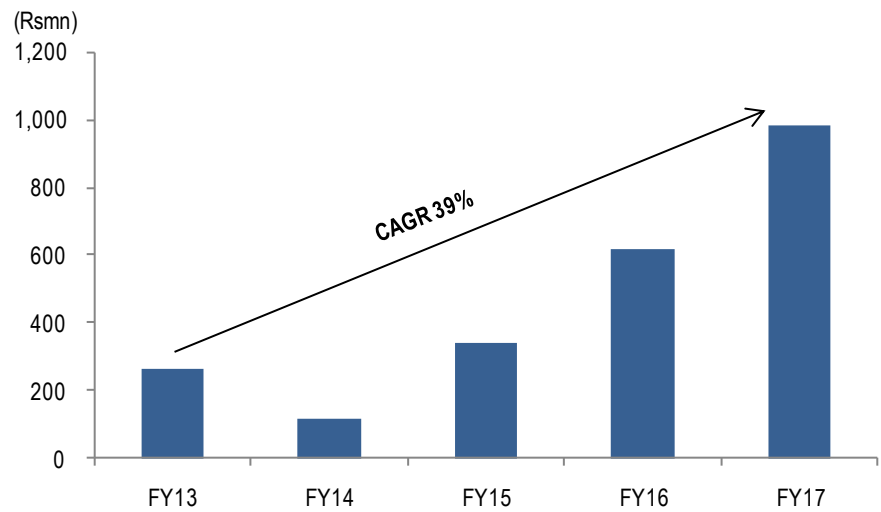
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: EBITDA margin trend



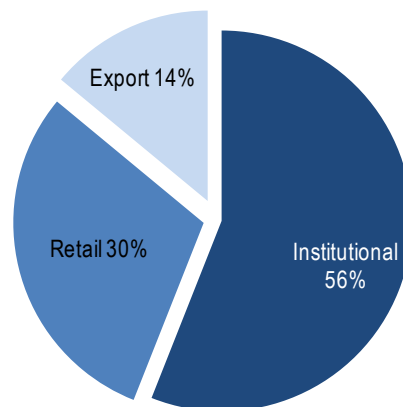
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Net profit trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: FY17 revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 5: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Net sales	16,584	16,189	20,310	23,256	26,691
% growth	(3.7)	(2.4)	25.5	14.5	14.8
Raw material costs	12,087	12,081	14,770	16,147	18,276
Staff costs	461	516	621	828	1,109
Other overheads	2,330	2,062	2,991	3,858	4,562
Total expenditure	14,878	14,659	18,381	20,833	23,948
EBITDA	1,705	1,530	1,929	2,423	2,743
% growth	13.6	(10.2)	26.0	25.6	13.2
EBITDA margin (%)	10.3	9.5	9.5	10.4	10.3
Other income	24	13	24	53	104
Interest costs	1,094	1,115	1,204	1,270	1,229
Depreciation	204	210	246	253	280
Profit before tax	431	218	529	953	1,338
Tax	167	102	186	331	351
Net profit	263	116	343	622	986
PAT margin (%)	1.6	0.7	1.7	2.7	3.7
EPS (Rs)	3.4	1.5	4.4	8.0	12.7
% growth	8.3	(56.0)	195.2	81.6	58.6

Source: Company, Ace Equity, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Share capital	140	147	154	154	156
Reserves	2,415	2,583	2,884	3,512	4,579
Net worth	2,556	2,731	3,039	3,666	4,735
Short-term loans	2,860	3,270	2,549	2,490	4,898
Long-term loans	1,034	1,166	1,209	1,881	1,641
Total loans	3,895	4,435	3,758	4,371	6,540
Liabilities	6,556	7,326	7,032	8,400	11,701
Net block	3,089	3,141	2,981	3,279	4,054
Capital work-in-progress	26	2	44	293	32
Long-term investments	84	65	80	253	79
Inventories	3,582	4,031	4,403	4,225	4,989
Debtors	4,212	4,286	4,798	5,674	7,392
Cash	156	46	47	58	370
Other current assets	623	864	1,064	847	1,194
Total current assets	8,573	9,227	10,313	10,803	13,945
Creditors	3,948	3,872	4,810	4,322	4,805
Other current liabilities & provisions	1,268	1,237	1,575	1,907	1,603
Total current liabilities	5,215	5,109	6,385	6,229	6,408
Net current assets	3,358	4,118	3,927	4,574	7,537
Total assets	6,556	7,326	7,032	8,400	11,701

Source: Company, Ace Equity, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
EBIT	1,501	1,321	1,683	2,170	2,463
(Inc./dec. in working capital)	(9)	(871)	192	(636)	(2,651)
Cash flow from operations	1,492	450	1,875	1,534	(188)
Other income	24	13	24	53	104
Depreciation	204	210	246	253	280
Tax paid (-)	(85)	(47)	(111)	(204)	(287)
Net cash from operations	1,635	625	2,033	1,636	(90)
Capital expenditure (-)	(136)	(238)	(127)	(801)	(793)
Net cash after capex	1,499	387	1,906	835	(883)
Interest paid (-)	(1,094)	(1,115)	(1,204)	(1,270)	(1,229)
Dividends paid (-)	(16)	(16)	(18)	(37)	(46)
Inc./(dec.) in short-term borrowing	(57)	409	(720)	(59)	2,408
Inc./(dec.) in long-term borrowing	(251)	131	43	673	(240)
Inc./(dec.) in total borrowings	(308)	540	(677)	613	2,168
Inc./(dec.) in investments	(16)	19	(15)	(173)	175
Cash from financial activities	(1,428)	(566)	(1,907)	(867)	1,068
Others	42	69	2	43	127
Opening cash balance	44	156	46	47	58
Closing cash balance	156	46	47	58	370
Change in cash balance	113	(111)	1	11	312

Source: Company, Ace Equity, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17
Per share (Rs)					
EPS	3.4	1.5	4.4	8.0	12.7
Book value	32.9	35.1	39.1	47.1	60.9
Valuation (x)					
P/E	75.3	171.0	57.9	31.9	20.1
P/BV	7.8	7.3	6.5	5.4	4.2
EV/EBITDA	13.8	15.8	12.2	10.0	9.5
EV/sales	1.4	1.5	1.2	1.0	1.0
Return ratios (%)					
RoCE	22.9	18.0	23.9	25.8	21.0
RoE	10.3	4.2	11.3	17.0	20.8
RoIC	23.8	18.3	24.4	26.8	21.9
Profitability ratios (%)					
EBITDA margin	10.3	9.5	9.5	10.4	10.3
EBIT margin	9.0	8.2	8.3	9.3	9.2
PAT margin	1.6	0.7	1.7	2.7	3.7
Turnover ratios					
Total asset turnover ratio (x)	2.5	2.2	2.9	2.8	2.3
Debtor days	93	97	86	89	101
Inventory days	108	122	109	95	100
Creditor days	119	117	119	98	96
Solvency ratios (x)					
Debt-equity	1.5	1.6	1.2	1.2	1.4
Interest coverage	1.4	1.2	1.4	1.7	2.0

Source: Company, Ace Equity, Nirmal Bang Institutional Equities Research

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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