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

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

Source: Company, ICICidirect.com Research
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

<table>
<thead>
<tr>
<th>Product</th>
<th>Units</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>EHV Cables</td>
<td>Kms</td>
<td>700</td>
<td>900</td>
</tr>
<tr>
<td>HT Cables</td>
<td>Kms</td>
<td>5700</td>
<td>7500</td>
</tr>
<tr>
<td>LT Cables</td>
<td>Kms</td>
<td>76700</td>
<td>84000</td>
</tr>
<tr>
<td>Rubber Cables</td>
<td>Kms</td>
<td></td>
<td>3600</td>
</tr>
<tr>
<td>Winding, Flexible &amp; House wires</td>
<td>Kms</td>
<td>3.75</td>
<td>677000</td>
</tr>
<tr>
<td>Stainless steel wire</td>
<td>MT</td>
<td>4800</td>
<td>6000</td>
</tr>
</tbody>
</table>

Source: Company, ICICIdirect.com Research
Exhibit 3: Segment wise sales mix

- Export: 14%
- Dealer Sale: 30%
- Institutions: 56%

Source: Company, ICICI Direct.com Research

Exhibit 4: Product wise sales mix

- EPC: 4%
- SS wire: 16%
- HW, WW & Flexible wire: 14%
- LT power/rubber cable: 46%

Source: Company, ICICI Direct.com Research

Exhibit 5: Sales break-up

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

Product wise sales break-up

| 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, ICICI Direct.com Research

Exhibit 6: Gross and EBITDA margin trend

Source: Company, ICICI Direct.com Research

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

Source: Company, ICICI Direct.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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