

# KEI Industries - Accumulate

## Strong performance continues

KEI showcased another quarter of strong performance on the back of strong execution in its EPC division and robust export and cables sales. In domestic market, the company continued its thrust to expand its network across country and has managed to increase its dealer base by 23% yoy. It has added 99 dealers in Q1 FY18 taking the count to 1,246 active dealers. Also, expansion of presence in global market has led to 28% yoy increase in export sales to Rs.1.1bn. OPM stood at similar level of 9.7%. Such flattish OPM was largely due to higher material cost. Order book stood at Rs.24.8bn, of which EPC division book of Rs.16bn, substation Rs.1.9bn, EHV Rs.1.2bn and LT/HT Rs.5.6bn. Management has conservatively guided for a volume growth of +15% yoy and revenue growth of 20% yoy 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 maintain accumulate rating with a target price of Rs.288.

### Balanced order book, several metro projects and upgradation by state Transcos bodes well

In the past few quarters, KEI has focused on order execution, leading to lower order inflows. However, it has started bidding for orders and the management stated that in next 4-5 months it could see an order inflow of Rs.5-6bn. Orders from Uttar Pradesh (UP) forms 65% of the total order book. KEI has bid orders in the state of WB, MP and Rajasthan, which will largely balance the order book between UP and rest of India, thereby de-risking its higher exposure to UP. Management sees good orders flowing from various metro projects across country. It sees huge prospects coming in from state Transcos which would upgrade their systems to 400kv for meeting the rising demand of power in major cities.

Analyst: Tarang Bhanushali, Rahul Jain



CMP (Rs) 260	12-mts Target (Rs) 288	Upside 10.9%
Stock data (As on August 30, 2017)		Sector: Capital Goods
Sensex:	31,646	<b>Stock performance</b> 
52 Week h/l (Rs):	263 / 99	
Market cap (Rs mn) :	20,188	
Enterprise value (Rs mn):	26,350	
6m Avg t/o (Rs mn):	74	
FV (Rs):	2	
Div yield (%):	0.2	
Bloomberg code:	KEII IN	
BSE code:	517569	
NSE code:	KEI	
<b>Shareholding pattern (%)</b>		
Promoter		46.6
FII+DII		22.6
Others		30.8

Figure 1: Result table

Y/e 31 Mar (Rs m)	Q1 FY18	Q1 FY17	% yoy	Q4 FY17	% qoq
<b>Net sales</b>	<b>7,909</b>	<b>5,499</b>	<b>43.8</b>	<b>7,398</b>	<b>6.9</b>
Material costs	(5,500)	(3,718)	47.9	(5,390)	2.0
Personnel costs	(345)	(253)	36.3	(311)	10.9
Other overheads	(1,296)	(1,003)	29.2	(961)	34.8
<b>Operating profit</b>	<b>768</b>	<b>525</b>	<b>46.4</b>	<b>736</b>	<b>4.4</b>
<b>OPM (%)</b>	<b>9.7</b>	<b>9.5</b>	<b>17 bps</b>	<b>9.9</b>	<b>-24 bps</b>
Depreciation	(80)	(66)	20.5	(77)	4.2
Interest	(299)	(278)	7.9	(304)	(1.4)
Other income	16	9.17	70.0	73	(78.6)
<b>PBT</b>	<b>404</b>	<b>190</b>	<b>112.6</b>	<b>428</b>	<b>(5.6)</b>
Tax	(130)	(80)	61.5	(112)	15.5
<b>Reported PAT</b>	<b>275</b>	<b>110</b>	<b>149.9</b>	<b>316</b>	<b>(13)</b>

Source: Company, IIFL Research

## Conference call highlights

- Cable business grew 28.9% yoy to Rs.6.2bn, driven by increased retail sales on account brand building exercise conducted by the company and expansion in its retail network. EBIT margins were flat at 11.1%.
  - Currently, the company has increased its focus on retail sales led by higher rural penetration and brand building exercise. It is targeting 10-15% increase in its dealer network to 1,500 by next financial year. It would spent ~Rs.-120-130mn on brand building i.e. both BTL and up-scale activities.
- EPC business more than doubled to Rs.2.9bn largely on account of faster execution of orders. Management expects this division to grow by 60% yoy in FY18. EBIT margin expanded 247bps yoy to 10.6%.
- Stainless steel wire segment margins were down on account of price fluctuations.
- Export sales have increased 28% yoy to Rs.1.1bn. 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.
- Substation order of 132kv GIS was completed and charged in March'17. Order of 220kv substation is expected to be completed by October'17, while the recently won substation order from PGCIL of 132kv x 4 will take around 18 months to get completed.
- In GST transition phase, the company did not see any pre-buying and was able to maintain its sales volume in July and August. GST impact was passed onto the customers as the orders are usually excluding taxes. Company did not face any de-stocking impact like peers on account of its lower base. Management expects improvement in sales momentum.

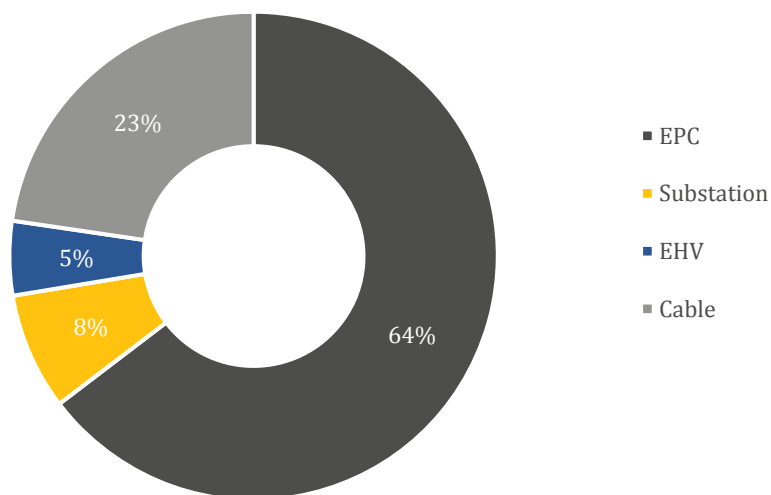
- KEI has carved out small expansion plan with a capex of Rs.500mn. This will lead to increase in its LT power & control cable capacity. This capacity would be located at 0.5km from its Chopanki plant and is expected to be operational by April'18. The company can add an HT cable line in this facility if required. It will incur ~Rs.100mn on maintenance capex in FY18.
- Bhiwadi plant is running at utilization level of 93%, whereas the EHV facility of Chopanki is running at 35% utilization levels. Silvassa is running at ~90% levels.
- Long term debt of Rs.1.6bn is expected to be paid in next 3 years. Working capital requirement to remain at ~Rs.3.5-4bn in the coming years. Retention money stood at Rs.1.4bn as of Q1 FY18.
- Finance cost was lower by 100 bps yoy on account of reduced long term debt and improved rating.

Figure 2: Product-wise revenue

Y/e 31 Mar (Rs m)	Q1 FY18	Q1 FY17	% yoy	Q4 FY17	% qoq
LT Power/Rubber cable	3,120	2,570	21.4	3,520	(11.4)
HT Power Cable	1,070	810	32.1	985	8.6
EHV Cable	590	170	247.1	353	67.1
HW, WW & Flexible wire	1,050	980	7.1	1,270	(17.3)
<b>Total cable &amp; Wires</b>	<b>5,830</b>	<b>4,530</b>	<b>28.7</b>	<b>6,128</b>	<b>(4.9)</b>
SS Wire	266	240	10.8	285	(6.7)
EPC	1,690	840	101.2	1,036	63.1
<b>Total revenue</b>	<b>7,786</b>	<b>5,610</b>	<b>38.8</b>	<b>7,449</b>	<b>4.5</b>
Exports	1,090	850	28.2	7,200	(84.9)

Source: Company, IIFL Research

Figure 3: Order book mix



Source: Company, IIFL Research

Figure 4: Segment-wise results

Y/e 31 Mar (Rs m)	Q1 FY18	Q1 FY17	% yoy	Q4 FY17	% qoq
<b>Revenues</b>					
Cables	6,183.8	4,795.8	28.9	6,611.2	(6.5)
Stainless Steel wire	289.9	261.9	10.7	314.2	(7.7)
Turnkey Projects	2,951.7	1,346.5	119.2	1,758.7	67.8
<b>Net Sales</b>	<b>9,425.4</b>	<b>6,404.1</b>	<b>47.2</b>	<b>8,684.0</b>	<b>8.5</b>
<b>EBIT</b>					
Cables	688.7	533.1	29.2	751.0	(8.3)
Stainless Steel wire	1.4	18.8	(92.8)	13.2	(89.7)
Turnkey Projects	313.7	109.9	185.4	130.9	139.7
<b>EBIT Margins (%)</b>					
			<b>bps yoy</b>		<b>bps qoq</b>
Cables	11.1	11.1	2 bps	11.4	-22 bps
Stainless Steel wire	0.5	7.2	-671 bps	4.2	-374 bps
Turnkey Projects	10.6	8.2	247 bps	7.4	318 bps

Source: Company, IIFL Research

Figure 5: Cost analysis

As a % of net sales	Q1 FY18	Q1 FY17	bps yoy	Q4 FY17	bps qoq
Material costs	69.5	67.6	193	72.9	(331)
Personnel Costs	4.4	4.6	(24)	4.2	16
Other overheads	16.4	18.2	(186)	13.0	339
<b>Total costs</b>	<b>90.3</b>	<b>90.5</b>	<b>(17)</b>	<b>90.1</b>	<b>24</b>

Source: Company, IIFL Research

Figure 6: Financial summary

Y/e 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Revenues	20,309	23,510	26,706	31,637	36,163
yoy growth (%)	25.5	15.8	13.6	18.5	14.3
OPM (%)	9.5	10.3	10.3	10.6	10.6
Reported PAT	342	625	983	1,255	1,599
yoy growth (%)	219.7	82.8	57.2	27.7	27.4
EPS (Rs)	4.1	8.1	12.6	16.1	20.6
P/E (x)	63.4	32.0	20.5	16.1	12.6
Price/Book (x)	6.6	5.5	4.3	3.4	2.7
EV/EBITDA (x)	12.7	10.0	9.6	7.8	6.8
Debt/Equity (x)	1.5	1.2	1.4	1.1	0.8
RoE (%)	11.0	18.6	23.4	23.5	23.8
RoCE (%)	22.6	27.5	25.5	25.5	26.6

Source: Company, IIFL Research