

KEI Industries Ltd (KEII IN)

Wired for exponential growth; strong execution

INDIA | MIDCAP - ELECTRICALS | Quarterly Update

30 August 2017

Top takeaways from Q1FY18

- Revenue was up 44% yoy to Rs 7.9bn (PC: Rs 6.2bn), majorly driven by retail, EPC, and EHV.
- Strong execution in project business (EPC) resulted in 101% yoy growth (ex-cables).
- Higher copper prices led to a 190bps decline in gross margin. Tight control on other overheads helped EBITDA margin (9.7%, up 17bps yoy; PC: 9.4%).
- Lower interest cost and tax rate led to higher-than-expected PAT of Rs 275mn vs. Rs 110mn in 1QFY17.

Conference call takeaways

- ✓ Strong 18% yoy volume growth in cables (~70% of revenue) in 1QFY18.
- ✓ Strengthened retail business by adding 99 dealers. Total dealers were 1,246 (up 23%), resulting in 31% revenue growth in B/C. More focus on tier 2 and tier 3 cities (will add about 150 dealers yearly) – this will help it to increase its B2C revenue share. We expect this segment's CAGR at 20-25% over the next 2-3 years.
- ✓ For increasing its brand visibility, it will spend Rs 130mn in FY18.
- ✓ Full operations of its EHV facility resulted in a revenue of Rs 590mn vs. Rs 170mn yoy. Strong order back book of Rs 1bn.
- ✓ EPC (ex wires & cables): Higher execution resulted in revenue of Rs 1.7bn vs. Rs 840mn yoy. The segment has an order book of Rs 18bn (~65% from UP). KEI expects a revenue of Rs 6.30bn in FY18.
- ✓ Strong growth in 1Q exports (Rs 1.1bn vs. Rs 850mn yoy). Order book at Rs 1.2bn. Will continue to focus on exports – sees 15% growth in FY18, adding new geographies and countries.
- ✓ Capacity expansion in LT cables (Rs 500mn); expects it to be operational by April 2018. Sees additional revenue of Rs 3bn from this expansion.
- ✓ Better utilisation of funds resulted in lower interest cost of Rs 299mn in 1QFY18 (3.8% of sales vs. 5.0% in 1QFY17).
- ✓ With improving product mix, the management expects revenue growth of 20% in FY18 (15%/5% volume/value growth) with operating margins of 10.5-11.0%.
- ⇔ Total debt as of June 2017 was Rs 5.6bn (Rs 1.6bn term, Rs 4bn WC). With annual repayment of ~Rs 600mn, KEI expects to pay off its term loan in 2-3 years. However, with an increase in WC requirement for EPC, total debt will remain at Rs 3.5-4.0bn.

Outlook and valuation: At CMP, it trades at an FY19 PE of 12x and EV/EBITDA of 6.4x. Considering strong product mix and healthy order book, we have raised our 18/19 estimates. We expect PAT CAGR of 32% over FY18-19, improvement in RoCE and RoE, and FCF of Rs 1.7/2.2bn in FY18/19. We revise our target to Rs 300 (Rs 244 earlier) rolling forward to FY19 (target EV/EBITDA multiple of 7.5x). Maintain Buy.

BUY (Maintain)

CMP RS 260

TARGET RS 300 (15%)

COMPANY DATA

O/S SHARES (MN) :	78
MARKET CAP (RSBN) :	19
MARKET CAP (USDBN) :	0.3
52 - WK HI/LO (RS) :	249 / 99
LIQUIDITY 3M (USDMN) :	2
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 17	Mar 17	Dec 16
PROMOTERS :	46.6	46.6	49.0
FII / NRI :	4.0	4.3	5.3
FI / MF :	18.6	18.7	17.7
NON PRO :	10.9	9.5	6.6
PUBLIC & OTHERS :	19.8	20.9	21.4

Key Financials

Rs mn	FY17	FY18E	FY19E
Net Sales	26,312	30,901	35,270
EBIDTA	2,743	3,343	3,970
Net Profit	986	1,276	1,716
EPS, Rs	12.7	16.4	22.1
PER, x	20.5	15.8	11.8
EV/EBIDTA, x	9.8	7.9	6.4
P/BV, x	4.3	3.4	2.7
ROE, %	20.8	21.6	22.8

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY18E	FY19E	FY18E	FY19E
Revenue	30,901	35,270	2.6	0.9
EBITDA	3,343	3,970	3.2	0.9
PAT	1,276	1,716	5.1	2.6

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(Rs mn)	Q1FY18	Q1FY17	yoy Q4FY17	qoq growth %	vs. expectations %	Comments
Revenue	7,909	5,499	43.8	7,398	6.9	29.5 Strong volume growth and execution
EBITDA	768	525	46.4	1,047	-26.6	34.1
EBITDA margin (%)	9.71	9.54	17bps	14.15	-444bps	33bps Higher copper prices and cost control
Interest	299	278	7.9	304	-1.4	Lower interest cost and better utilisation of funds.
Depreciation	80	66	20.5	77	4.2	
Other income	16	9	70.0	73	-78.6	
PBT	404	190	112.6	739	-45.3	
Tax	130	80	61.6	112	15.5	
Tax rate (%)	32.04	42.18	-1013bps	15.18	1686bps	
PAT	275	110	149.9	627	-56.2	57.2
EPS (Rs)	3.6	1.4	149.9	8.1	-56.2	57.2

Segment-wise results

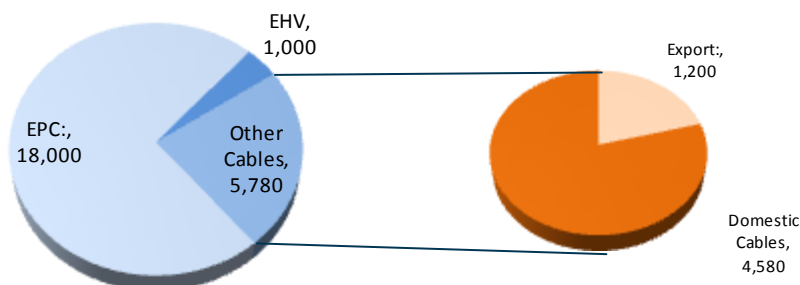
Net Revenues	Q1FY18	Q1FY17	% yoy	Q4FY17	% QoQ
Cables	6,184	4,796	28.9	6,611	(6.5)
Stainless Steel Wire	290	262	10.7	314	(7.7)
EPC	2,952	1,346	119.2	1,759	67.8
(-) Inter Segment Revenue	1,177	423	178.2	674	74.8
Sub-total	8,248	5,981	37.9	8,010	3.0
Segment PBIT					
Cables	689	533	29.2	751	(8.3)
Stainless Steel Wire	1	19	(92.7)	13	(89.6)
EPC	314	109	188.0	131	139.7
PBIT	1,004	661	51.9	895	12.1
(-)Interest	299	278	7.9	304	(1.4)
(-)Net un allocable Exp	221	211	4.8	208	6.1
(-) Inter segment results	79	(20)	(502.6)	(45)	(276.7)
PBT	404	192	110.2	428	(5.6)
PBIT Margin(%)					
Cables	11.1	11.1	-	11.4	-
Stainless Steel Wire	0.5	7.2	-	4.2	-
EPC	10.6	8.1	-	7.4	-

Source: Company, PhillipCapital India Research

KEI revenue break-up

Revenue Segments	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Cabel:	5,264	4,499	5,115	5,598	6,240	5,929
YoY Growth	-1%	4%	3%	23%	19%	32%
LT	2,753	2,540	2,905	3,300	3,605	3,160
YoY Growth	-8%	15%	22%	44%	31%	24%
MV & HV	1,074	810	1,030	976	984	1,096
YoY Growth	-7%	-2%	-17%	-20%	-8%	35%
EHV	409	170	155	322	363	598
YoY Growth	68%	-47%	-62%	60%	-11%	252%
Housing Wire	1,028	980	1,025	1,000	1,287	1,075
YoY Growth	14%	2%	10%	17%	25%	10%
SS	219	240	245	265	290	266
YoY Growth	-11%	-2%	-1%	22%	33%	11%
EPC	879	840	945	1,414	1,045	1,714
YoY Growth	11%	34%	4%	72%	19%	104%
Total	6,362	5,579	6,305	7,277	7,575	7,909
YoY Growth	0%	8%	3%	30%	19%	42%

Source: Company, PhillipCapital India Research

KEI: Total order book of Rs 24.8bn


Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Net sales	24,980	28,352	33,192	37,885
Growth, %	15%	13%	17%	14%
(-) Excise Duty	1,724	2,040	2,291	2,615
Total income	23,256	26,312	30,901	35,270
Operating expenses	16,501	18,276	21,684	24,522
Employee expenses	828	1,109	1,115	1,293
Other Operating expenses	3,504	4,184	4,760	5,485
EBITDA (Core)	2,423	2,743	3,343	3,970
Growth, %	25.6%	13.2%	21.9%	18.8%
Margin, %	10.4%	10.4%	10.8%	11.3%
Depreciation	253	280	308	323
EBIT	2,170	2,463	3,035	3,646
Growth, %	29%	14%	23%	20%
Margin, %	9%	9%	10%	10%
Interest paid	1,270	1,229	1,234	1,189
Other Non-Operating Income	53	104	104	104
Pre-tax profit	953	1,338	1,905	2,561
Tax provided	331	351	629	845
Profit after tax	622	986	1,276	1,716
(-) Depreciation	0	0	0	0
Net Profit	622	986	1,276	1,716
Growth, %	81%	59%	29%	34%
Margin, %	3%	4%	4%	5%
Net Profit (adjusted)	622	986	1,276	1,716

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Cash & bank	59	370	459	731
Debtors	5,674	7,392	8,286	9,036
Inventory	4,225	4,989	5,681	6,191
Loans & advances	788	945	945	945
Other current assets	521	297	297	297
Total current assets	11,266	13,993	15,667	17,200
Investments	31	31	31	31
Gross fixed assets	4,995	6,062	6,662	7,412
Less: Depreciation	1,716	1,996	2,412	2,735
Add: Capital WIP	293	20	20	20
Net fixed assets	3,573	4,085	4,270	4,697
Total assets	14,870	18,109	19,968	21,927
Current liabilities	5,709	5,690	6,729	7,817
Provisions	151	103	103	103
Total current liabilities	5,860	5,793	6,833	7,920
Total Debt	4,982	7,155	6,789	6,068
Deferred Tax Liability	362	427	427	427
Total liabilities	11,204	13,375	14,049	14,416
Paid-up capital	155	156	156	156
Reserves & surplus	3,512	4,579	5,763	7,356
Shareholders' equity	3,666	4,734	5,919	7,511
Total equity & liabilities	14,870	18,110	19,968	21,927

Source: Company, PhillipCapital India Research Estimates

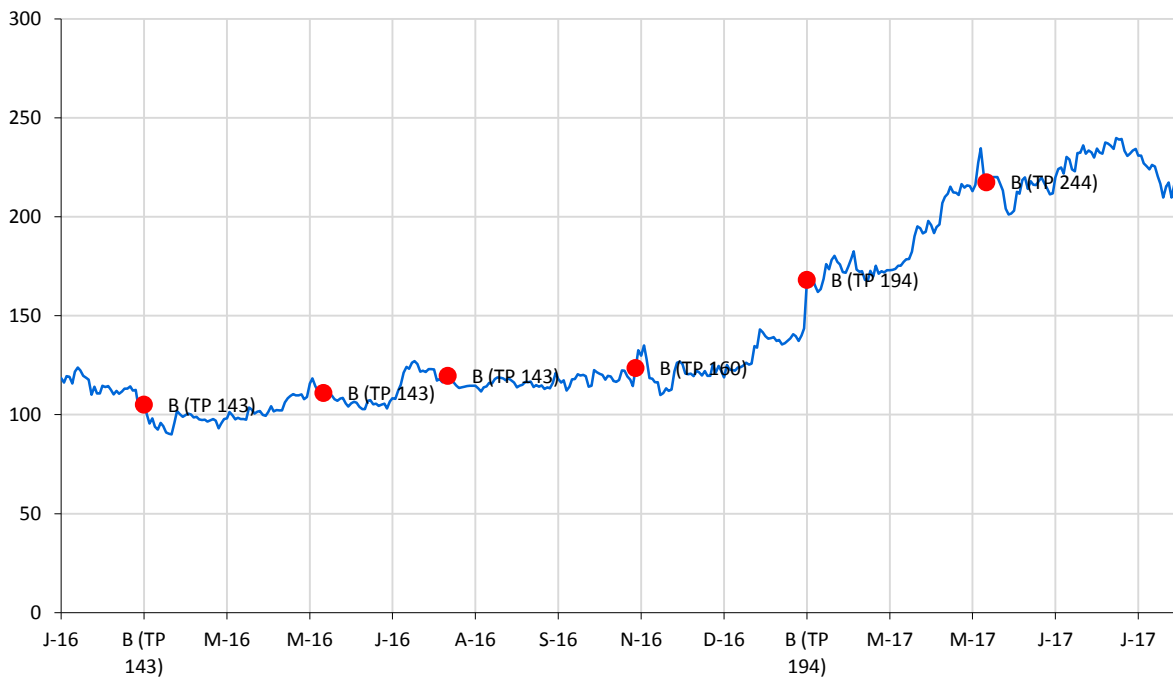
Cash Flow

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Pre-tax profit	953	1,338	1,905	2,561
Depreciation	253	280	308	323
Chg in working capital	-508	-2,280	-437	-173
Total tax paid	-196	-351	-629	-845
Other operating activities	1,350	1,125	1,130	1,085
Cash flow from operating activities	1,853	112	2,277	2,951
Capital expenditure	-975	-793	-600	-750
Chg in investments	0	0	0	0
Other investing activities	0	104	104	104
Cash flow from investing activities	-975	-689	-496	-646
Free cash flow	878	-577	1,781	2,305
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	462	2,173	-366	-721
Dividend (incl. tax)	-37	-56	-92	-124
Other financing activities	-1,291	-1,229	-1,234	-1,189
Cash flow from financing activities	-866	888	-1,692	-2,034
Net chg in cash	12	311	89	272

Valuation Ratios

	FY16	FY17e	FY18e	FY19e
Per Share data				
EPS (INR)	8.1	12.7	16.4	22.1
Growth, %	81%	57%	29%	34%
Book NAV/ FD share (INR)	47.5	60.9	76.1	96.6
FDEPS (INR)	8.0	12.7	16.4	22.1
CEPS (INR)	11.3	16.3	20.4	26.2
CFOPS (INR)	23.8	1.4	29.3	37.9
DPS (INR)	0.5	0.6	1.0	1.3
Return ratios				
Return on assets (%)	6.9	8.0	9.7	12.3
Return on equity (%)	17.0	20.8	21.6	22.8
Return on capital employed (%)	24.7	20.8	23.9	26.8
Turnover ratios				
Sales/Total assets (x)	2.6	2.1	2.4	2.5
Sales/Net FA (x)	7.1	6.5	7.3	7.5
Working capital/Sales (x)	0.2	0.3	0.3	0.2
Fixed capital/Sales (x)	0.2	0.2	0.1	0.1
Receivable days	81.8	93.9	89.9	85.9
Inventory days	73.0	76.2	74.2	71.2
Payable days	98.6	86.9	87.9	89.9
Working capital days	56.1	83.2	76.2	67.2
Liquidity ratios				
Current ratio (x)	1.9	2.4	2.3	2.2
Quick ratio (x)	1.2	1.6	1.5	1.4
Interest cover (x)	1.7	2.0	2.3	2.7
Dividend cover (x)	16.1	21.1	16.7	16.7
Total debt/Equity (%)	135.9	151.1	114.7	80.8
Net debt/Equity (%)	134.3	143.3	106.9	71.1
Valuation				
PER (x)	32.5	20.5	15.8	11.8
PEG (x) - y-o-y growth	0.4	0.4	0.5	0.3
Price/Book (x)	5.5	4.3	3.4	2.7
Yield (%)	0.2	0.2	0.4	0.5
EV/Net sales (x)	1.1	1.0	0.9	0.7
EV/EBITDA (x)	10.3	9.8	7.9	6.4
EV/EBIT (x)	11.2	10.5	8.5	6.8

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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