KEI Industries Ltd (KEII IN)

Wired for exponential growth

INDIA | ELECTRICALS | Initiating Coverage

9 February 2016

Read this report to understand how KEI is on the cusp of a rerating based on:

- B2C/B2B business share touching almost 50% each of revenue (vs. 25%/75% currently) due to expansion in retail distribution channel.
- Forward integration through EPC (engineering procurement construction) projects – this segment should see 33% CAGR over FY15-18.
- Profits doubling in two years (revenue/EBITDA/profit CAGR of 16%/21%/53% over FY15-18).
- Margins improving continuously – rising to 10.8% in FY18 from 9.6% in FY15.
- Improvement in business mix to ease working capital requirements – to 55 days from 58.
- Rs 4bn free cash flow over FY16-18, which will help pay off debt in 3-4 years.
- RoE/ROCE improving to 23%/31% in FY18 from 11%/22% in FY15.

We initiate coverage with a Buy recommendation and a target price of Rs 143 – average of FY17-18 EV/EBITDA (5x).

Strong products basket: From house wires to extra high voltage cables

KEI is a leader in the domestic cable and wires sector. It has 400 products covering a diversified product-mix. Its portfolio spans house wire cables to extra-high-voltage cables (EHV) up to 220kV.

Improving client mix: B2B and B2C should constitute 50% each of its sales in 3-4 years

Its diverse range of products is designed to address the complete cabling needs of private- and public-sector customers across various sectors such as power, infra, oil refineries, railways, automobiles, and real estate. Its products are used in the domestic and overseas markets. Currently B2C constitutes 25% of KEI's sales and B2B 75%. With an increase in its distribution network, this ratio should become almost equal (we see B2C at 45-50% and B2B at 55-50% in the next 3-4 years). This shift will help improve margins and lower working capital needs.

Forward integration through project business (EPC)

KEI executes power-transmission projects (66-400kV sub-stations) on a turnkey basis where it offers end-to-end services – product delivery, installation, and commissioning. This order-book-driven business leverages on its huge advantage – backward integration through in-house manufacturing of EHV, HV, and LT (low-tension) cables. Its EPC segment has an order backlog of Rs 8.6bn (December 2015). With strong demand, we expect it to receive more orders in this space (we see this division's CAGR at 33% over FY15-18).

Improving margins supporting balance sheet

The company is ramping up its high-margin businesses (EHV, EPC, and retail). All these divisions enjoy 12-15% margins. Therefore, we see KEI's margins improving by 125bps over FY15-18 to touch 10.8% in FY18. This, along with a fall in working capital will help generate FCF of Rs 1.1/1.3/1.6bn in FY16/17/18. It has a total debt of Rs 5.3bn (Rs 2bn term, Rs 3bn working capital). With healthy revenue growth, improvement in margin, and strong FCF, it expects to pay off its debt in 3-4 years. Given rising profitability, we expect ROEs of 16%/20%/23% in FY16/17/18.

Outlook and valuation

At its CMP, the company trades at a FY17/18 PE of 10x/7x and EV/EBITDA of 4.7x/3.8x. We expect revenue CAGR of 16% over FY15-18. Cables revenue should see a CAGR of 14% CAGR and EPC 33%. Improvement in RoCE, RoE, and FCF of Rs 1.3/1.6bn in FY17/18 should lead to a rerating. We value the stock at an average of FY17-18 EV/EBITDA (of 5x) to derive our target of Rs 143.

BUY

CMP Rs 114

TARGET RS 143 (+26%)

COMPANY DATA

O/S SHARES (MN) :	77
MARKET CAP (RSBN) :	9
MARKET CAP (USDBN) :	0.1
52 - WK HI/LO (RS) :	127 / 45
LIQUIDITY 3M (USDMN) :	1.1
PAR VALUE (RS) :	2

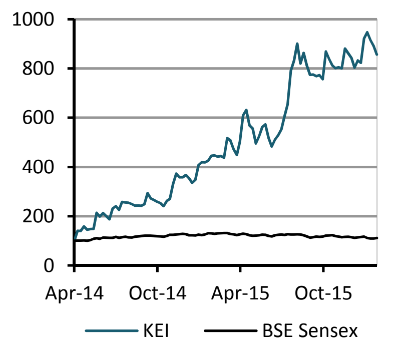
SHARE HOLDING PATTERN, %

	Sep 15
PROMOTERS :	49.4
FII / NRI :	3.0
FI / MF :	10.9
NON PRO :	7.7
PUBLIC & OTHERS :	30.7

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-6.2	10.4	98.6
REL TO BSE	-3.6	18.0	114.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16E	FY17E	FY18E
Net Sales	24,036	27,954	31,757
EBIDTA	2,389	2,880	3,432
Net Profit	549	848	1,238
EPS, Rs	7.1	11.0	16.0
PER, x	16.0	10.4	7.1
EV/EBIDTA, x	5.6	4.7	3.8
P/BV, x	2.5	2.1	1.6
ROE, %	15.6	19.8	22.9
Debt/Equity,(%)	135.3	111.4	82.9

Source: PhillipCapital India Research Est.

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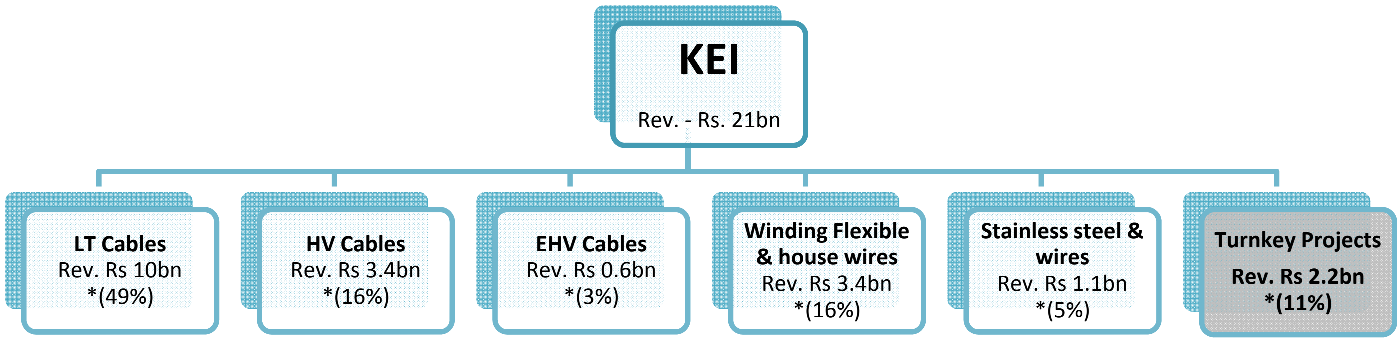
Strong products basket: House wires to EHV cables

KEI is one of the leading players in the domestic cable and wire sector – its diversified product range (of 400 SKUs) covers a wide variety of cables and wires catering to the needs of the industrial and household segments. Its portfolio spans house wire cables to extra-high-voltage cables (EHV) (up to 220kV, with the underlying expectation that it will be able to manufacture up to 400KV) and includes high and medium-voltage cables (MV/HV), LT cables, control and instrumentation cables, specialty and rubber cables, stainless steel wires and winding, and flexible and housing wires. KEI is the third-largest producer of EHV cables, in technical collaboration with Switzerland-based Brugg Kabel AG .

KEI – product portfolio (FY15 revenue break up)



Source: Company, PhillipCapital India Research

Note: *As % of sales

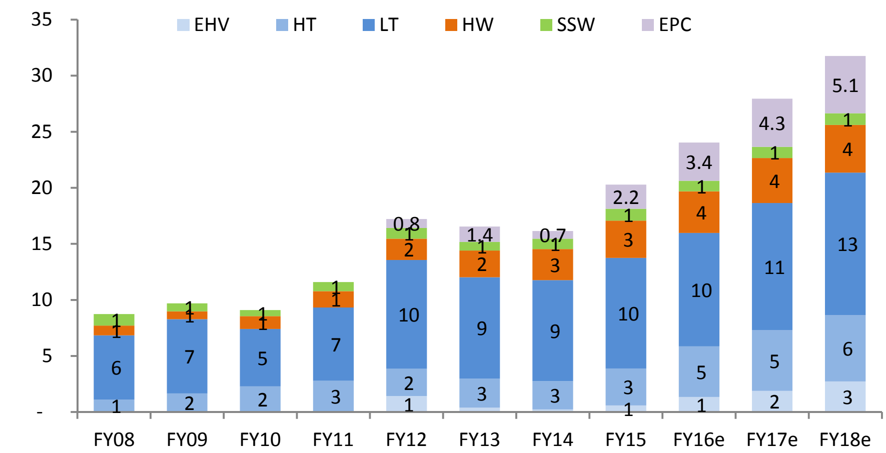
Cables and wires is its primary business (~88% revenue contribution in FY15) while turnkey contributed ~11%. Even though the former category is highly commoditised and extremely price sensitive (intense competition from the unorganised sector), KEI persists with it in order to offer its customers a well-rounded product profile (believes this strategy gets the company more orders from customers across the board).

Segments	Voltage*	Application
House wiring	up to 440V	Indoor - Housing Wire
LT	1.1 to 3.3kV	Indoor & Outdoor-Housing Wire and Industrial Use
HV	11 to 66kV	Industrial & grid Connectivity
EHV	66kV and above	T&D

Source: Industry

Note: * Industry define Voltages, 1000 Volte = 1 KV

Revenue break up across segments (Rs bn)



Source: Company, PhillipCapital India Research

In FY10-15, wires and cables revenue CAGR was 15% due to its expanding distribution network, increasing share in retail, and strong growth in exports. We expect this segment's revenue CAGR at 14% in FY15-18.

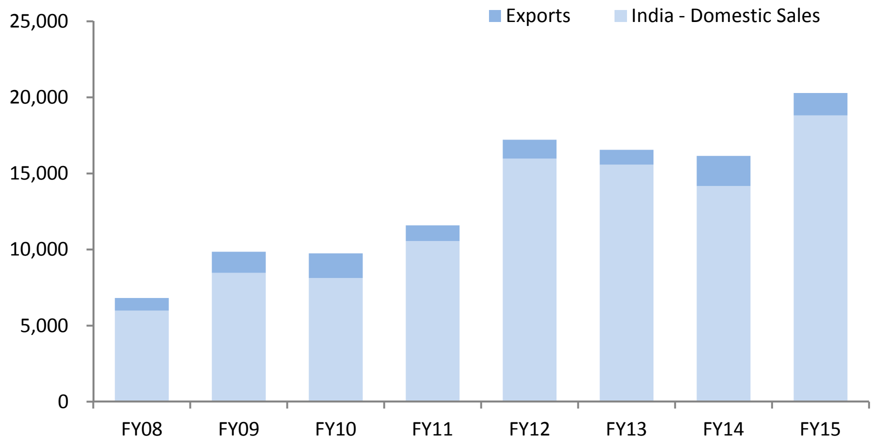
EHV enjoys high margins of 12-15% while its remaining products have a margin range of 9-12%. KEI operates at below 75% capacity – we see this increasing to full utilisation with a rise in demand.

Improving client mix; B2B/B2C to constitute 50% each

Infrastructure, power, and T&D sectors to raise demand for cables over 5-6 years

Industry expects demand for cables to rise significantly as sectors such as infrastructure, power, and T&D see an investment of more than US$ 1.5tn in next 5-6 years. This major capex will generate a cable demand of ~US$ 12bn. Based on this, we expect KEI to be a big beneficiary, as the company has products across the value chain and services all the major sectors (both public and private).

KEI: Total export sales and India sales (Rs mn)



Source: Company, PhillipCapital India Research

KEI clients are spread across sectors

Power	Industrial	Refineries	Energy	Fertilizer	Steel
ABB	Hindalco	BPCL	ONGC	IFFCO	ESSAR
NTPC	Indian Railways	HPCL	Suzlon	tata Chemicals	Jindal Stainless
PGCIL	Tata	CPCL	Reliance Energy	RCF	SAIL
Tata Power	Punj Lloyd	Indian Oil	GAIL	JAI KISAAN	Tata Steel
ESSAR		ESSAR	BSES ltd.		MUKAND Ltd.
Jindal Power			BHEL		
Indian Railways					

Source: Company

Retail (domestic) division to bring in the next leg of growth

KEI has achieved exceptionally higher growth vs. the overall sector's growth because of its focused efforts on brand building and strengthening of its distribution and dealership network. It is currently present in both Institutional and retail segments of cables. Within its revenues, B2B contributes ~75% and B2C ~25% share.

KEI is focused on increasing its distribution network for its retail (B2C) division, which comprises of household wires, and LT/HT cables – this division has already seen considerable growth in recent years and contributed ~25% to its total FY15 revenues. With strong brand equity and wide distribution network (+870 dealers as of 3QFY16 and plans to add ~100 by FY16 end), KEI is aggressively working towards increasing its retail share (B2C) to ~50% of its revenue in the next 3-4 years.

Currently, it has very strong presence in north India, followed by west, south, and east. With the dealer expansion, it is planning to strengthen its operations in the eastern and southern parts of India. Its distribution network covers most India metros and tier-1 and tier-2 cities. It is building its visibility through aggressive brand promotion and advertisement campaigns (plans to spend ~Rs 70mn in advertising in FY16). These aggressive promotion activities will help the company to increase its presence in the domestic retail market.

KEI's increasing share in the retail market will help improve its margins, and lower working capital days. KEI has also indicated vendor-financing, which will also help reduce working capital needs and will enable it to sweat its distribution channel more effectively.

EHV cables and EPC will drive institutional (domestic) growth

Its institutional cables division provides EHV, HV, and some LT cables to all major industries and the government sector. This division will see a huge surge in demand as a consequence of growth in infrastructure and power (T&D) sector. In FY15, this segment contributed 11% of KEI's sales. With an introduction of EHV cables (up to 400KV) in KEI's portfolio, we expect this segment's CAGR of 33% over FY15-18, contributing 16% of KEI's sales in FY18.

EHV to add new hope

Technological collaboration with Switzerland-based Brugg Kabel AG has enabled KEI to become the third company in India to manufacture EHV cables. Its EHV production used to range from 66kV to 220kV; with recent capex, it is able to manufacture up to 400KV. The collaboration supports KEI by providing designs, process backup, and services.

The EHV India industry is worth Rs 25bn of which Indian players only supply Rs 8bn while the remaining Rs 17bn is imported. There is a huge supply scope, and with the strong demand for EHV cables, we expect a big opportunity for KEI in this segment.

In FY15, EHV cables contributed only about 3% to its revenue. As of 3QFY16, KEI had an EHV order book of Rs 2bn. KEI is in the process of spending (capex) Rs 650mn over FY15-16 (expected to commission in September 2016) to double its EHV capacity to ~1,200km. With a strong order book and additional capacity, we expect EHV revenue CAGR of 67% over FY15-18 with strong margin of 12-15%.

Exports to rise at a rapid pace, low working capital requirements

In FY15, exports contributed to 7% of its revenues (Rs 1.5bn). We expect these to see a CAGR of 32% over FY16-18 based on competitive prices, customised solutions, and the strong visibility.

KEI is present in 45 countries with a focus on oil & gas and utilities. It offers a wide range of cables in the export market: EHV – 66-220kV, MV – 11-66kV, and LV < 11kV. It offers competitive pricing, customised solutions, and speciality cables. It has opened offices in Singapore, Nigeria, and Kazakhstan, apart from existing offices in Dubai/Abu Dhabi. It has a presence in Korea and Australia too through its agent network. In fact, it sells all its cables through overseas offices and its agent network.

Its participation in various international exhibitions, help KEI establish new linkages and showcase its products. We expect its export market to grow rapidly, as it has already bid for more than Rs 5bn worth of tenders. In exports, KEI's margins are 9-10% with lower working capital requirement. Increasing share of exports will improve profitability and help lower working capital needs (because most of the projects in exports are small gestation period).

Overseas Presence

Marketing Office	Dubai
Marketing Office	Singapore
Marketing Representative	Kazakhstan
Marketing Representative	Nigeria
Local Representative	Korea

Source: Company

Overseas Major Clients

Country Name	Client Name
Abu Dhabi	Areva
Cyprus	Cyprus Telecom
Dubai	NPCC
Jebel Ali	Mc Dermott
Kenya	ARM
Malaysia	BHEL
Mauritius	CEB
Nigeria	Nigeria Cement
Sharjah	Alstom
Sri Lanka	Larsen & Toubro
Uganda	TCIL-TORO

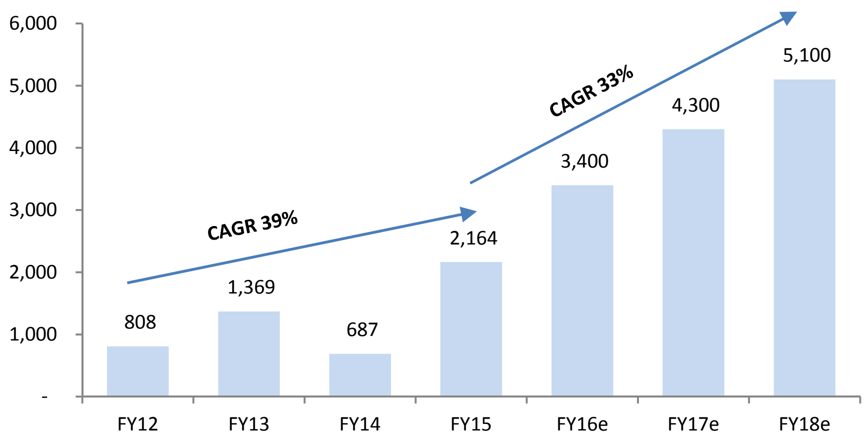
Source: Company

Forward integration through project business (EPC)

EPC sector has vast growth opportunities for KEI and this division enjoys higher margins of 12-15%. KEI's main services offered in EPC are – execution of power transmission projects (of 66kV to 400kV sub-stations) on a turnkey basis, EPC of EHV and HV cable systems, electrical balance-of-plant for power plants, and electrical industrial projects.

In EPC, KEI has the advantage of manufacturing (in house) EHV, HV and LT cables (usually ~30% of the total EPC project value), leading to superior margins. Through this segment, KEI serves various sectors such as power, infra, SEZ, MRT/airport, and steel, with an average working capital of 90-100 days.

KEI: EPC revenue trend (Rs mn)



Source: Company, PhillipCapital India Research

In EPC (until 3QFY16), KEI has a total order book of Rs 8.6 bn. KEI is L1 in more than Rs 2bn worth of orders. Considering large-scale spending expected in these sectors, we expect KEI to receive ~Rs 4-7bn of new orders in the next two years. EPC has already registered a CAGR of 39% over FY12-15 and with strong order booking; we expect 33% CAGR over FY15-18, which will translate to revenues of Rs 3.4/4.3/5.1bn (for the EPC division) in FY16/17/18.

EPC: Major projects under execution

Date	Order details	Client Name	Value of contract (Rs mn)
Sep-15	LAYING TERMINATION OF 220 KV U/G CABLE	PGCIL	571
Dec-15	Supply and service contracts under INTEGRATED POWER DEVELOPMENT SCHEME (IPDS)	PGCIL	3,844

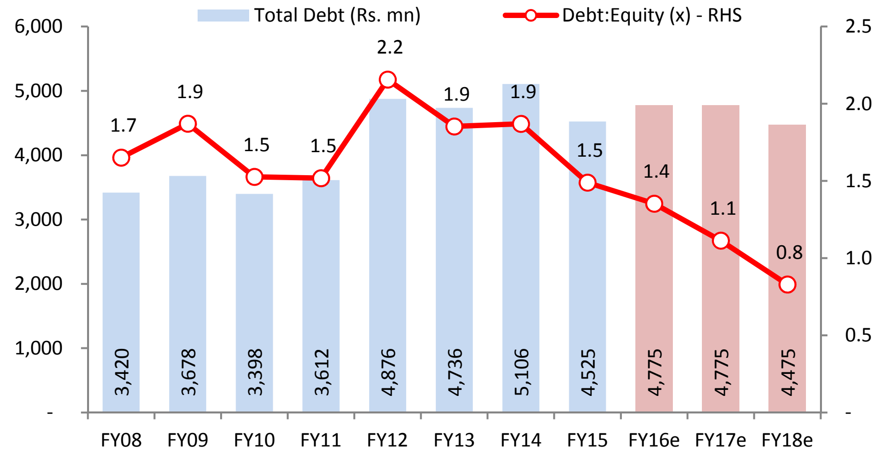
Source: Company, PhillipCapital India Research Estimates

Improving margins to supporting balance sheet

Utilisation improvement: In FY15, it operated at 75% utilisation; by undergoing a capex of Rs 1.2bn, it will be able to expand its overall capacity by ~25%. We expect the company to complete this capex by September 2016 and to operate at full utilisation by FY18, which will result in higher asset sweating and lower fixed costs as % of sales.

Focus on higher margin businesses: With its strong products profile, KEI has increased its turnover and lowered its margin risk. The company's focus on higher-margin divisions (EPC, EHV, retail – which have margins of ~12-15% vs. its FY15 margin of 9.6%) is rising. In 3QFY16, EPC/EHV contribute around 17%/4% to topline. With an increase in these segments' shares, we expect KEI's operating margin to 9.9%/10.3%/10.8% in FY16/17/18, which will result in an EBITDA CAGR of 21% over FY15-18.

Debt-to-equity to fall to 0.8x in FY18 from 1.5x in FY15



Source: Company, PhillipCapital India Research Estimates

Improved FCF generation: KEI currently has a debt of Rs 5.3bn (Rs 2bn term, Rs 3bn WC). With strong revenue growth, improvement in margin, and an FCF of Rs 1bn in FY16, it will pay off its debt (term loans) in the next 3-4 years. With increasing share from retail and exports, we expect working capital to fall to 55 days from 58 days in FY15. With not much capex underway, asset sweating (sales/net block) should rise to 8.6x in FY18 increase from 6.8x in FY15.

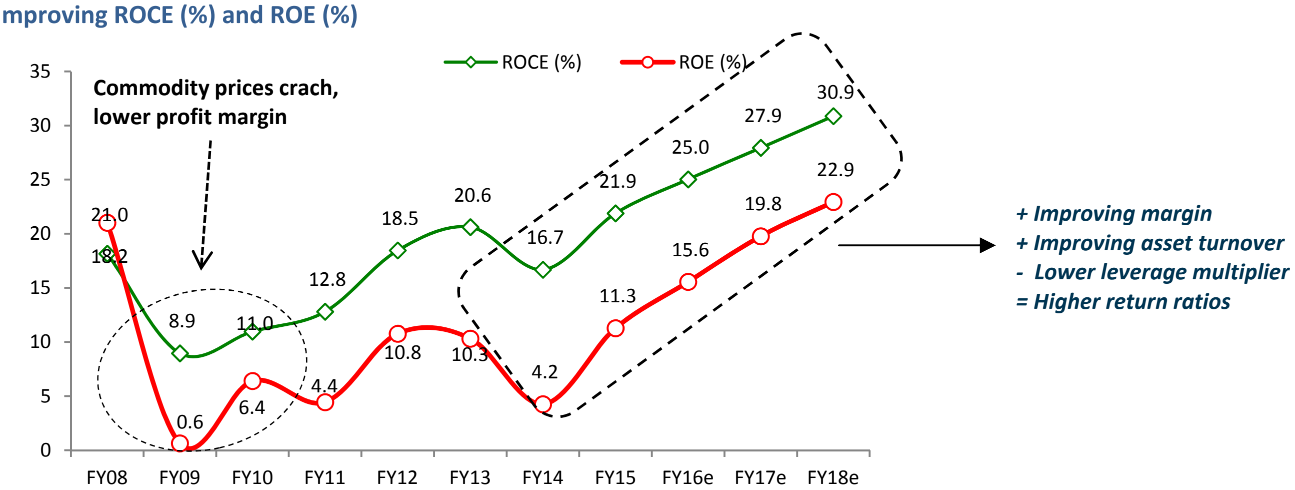
Improvement on all the parameters will lead to higher FCF and higher return ratios

ROE and ROCE should improve based on (1) better asset sweating, (2) improvement in margins, (3) higher free cash generation leading to reduction in debt and (4) better working capital days. We expect ROE at 16%/20 %/23% in FY16/17/18 and RoCE at 25%/28%/31%.

DuPont analysis reveal rerating triggers

- Over FY09-15 KEI's ROEs were subdued mainly due to lower total asset-turnover (2x on an average) and lower margin (1.1% net profit margin on an average), resulting in lower ROEs (average 7%). In FY15, KEI moved towards higher total asset-turnover of 2.8x due to better business and product mix and improvement in margin profile. This process will continue with total asset-turnover above 2.8x and net profit margin of more than 2%.
- In improving margin and utilisation environment, a capex of ~Rs 1.2bn and improving distribution could lead to much better RoE, which would enable it to command richer valuations.
- These opportunities exist in the form of expansion of the dealer network in retail and new orders in turnkey projects.
- While ramp up in production and sales would be gradual over 10-12 months, we believe there are significant opportunities to increase channel and asset sweating.

Improving ROCE (%) and ROE (%)



Source: Company, PhillipCapital India Research Estimates

KEI - DuPont analysis

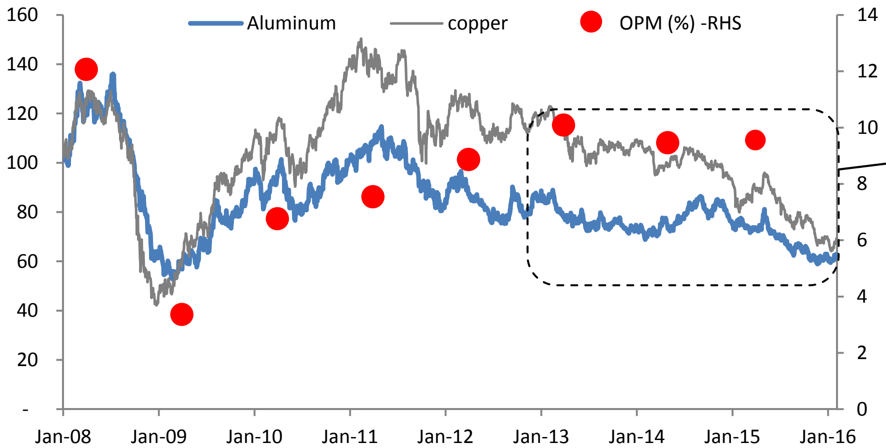
	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Net Profit Margin (%)	5.0%	0.1%	1.6%	0.9%	1.4%	1.6%	0.7%	1.7%	2.3%	3.0%	3.9%
Asset Turnover (x)	1.6	1.7	1.6	1.9	2.4	2.3	2.0	2.6	2.8	3.0	3.1
Leverage Multiplier (x)	2.5	2.8	2.5	2.5	3.2	2.9	2.9	2.6	2.4	2.2	1.9
RoE (%)	19.5%	0.6%	6.3%	4.4%	10.8%	10.3%	4.2%	11.2%	15.5%	19.7%	22.9%

Source: Company, PhillipCapital India Research Estimates

Financials

From FY06 to FY15, KEI's revenue CAGR was 24%. With raw material costs constituting 74% of sales, it seems to have managed its costs well – its EBITDA CAGR was 18% over the same period with average margin of 9%. However, in FY09 its margin slipped to a low ~3% because of volatile raw-material prices. With the company's strong focus on EHV, EPC, and retail, we expect it to be able to manage its margins ahead.

Operating margin is going to move in the range of 9-11%



Business Mix will help KEI, to operate in the margin range of 9% to 11%

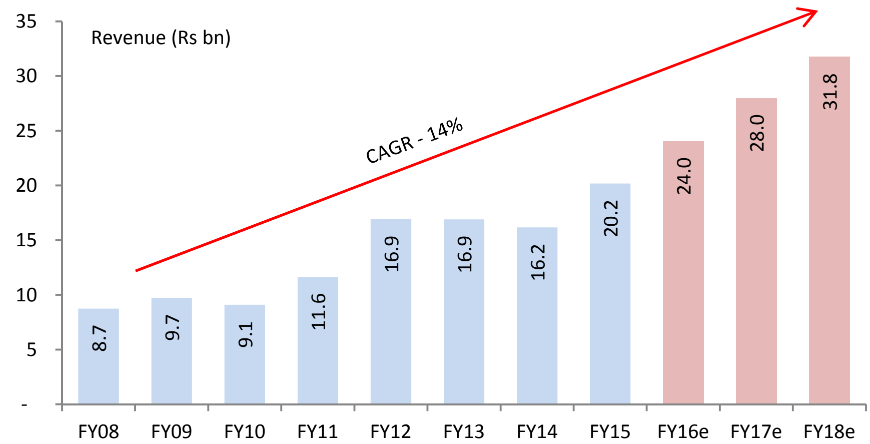
Source: Company, Bloomberg, PhillipCapital India Research Estimates

Note: Aluminium and copper prices are rebased to 100

We expect KEI's revenue CAGR at 16% over FY15-18. Revenue growth would primarily come from turnkey projects (33% CAGR), EHV (67% CAGR), and total cables business (14% CAGR).

In cables, we expect 15%/15%/13% revenue growth in FY16/17/18, mainly from strong growth in EHV cables (130%/41%/44%), and strong mix of retail and exports.

KEI: Revenue trend



We expect KEI, to report revenue CAGR of 16% over FY15 to FY18e

Source: Company, PhillipCapital India Research Estimates

In turnkey projects, we expect revenue CAGR of 33% over FY15-18 primary on strong order book. In 3QFY16, it had an order book of Rs 8.6bn – we see order inflow of Rs 6-8bn in the next two years with FY18 order book at Rs 10.6bn.

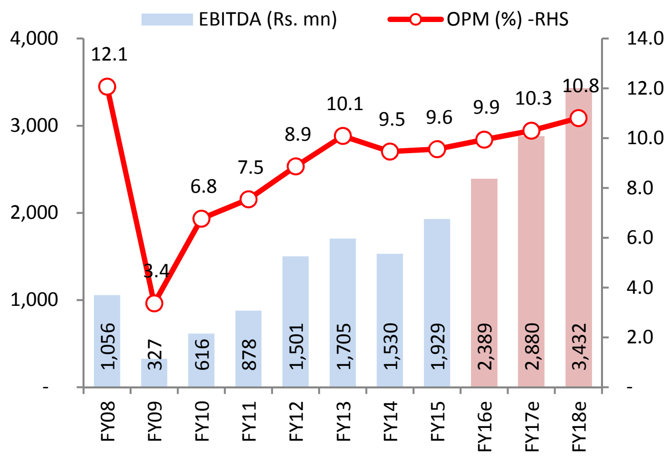
An increase in scale coupled with strong revenue mix and tight controls on costs has led to healthy operating margins. We expect margins at 9.9% with EBITDA of Rs 2.4bn

(+24%) in FY16. Strong margins and lowering interest will lead to a healthy net profit of Rs 549mn (+60%).

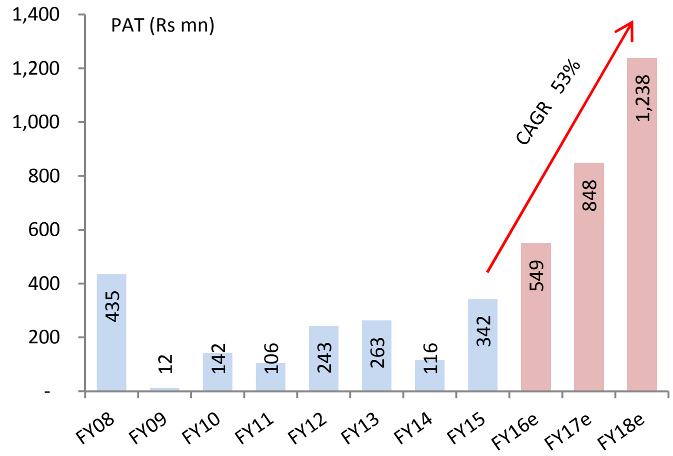
In FY17, we expect KEI's revenues at Rs 27.9bn and EBITDA of Rs 2.9bn with operating margins of 10.3%. We expect profit growth of 54% to Rs 848mn.

In FY18, we see revenues at Rs 34bn and EBITDA at Rs 3.4bn with operating margin of 10.8%. We expect profit growth of 45% to Rs 1.2bn.

Improvement in OPM of 125bps over FY15-18



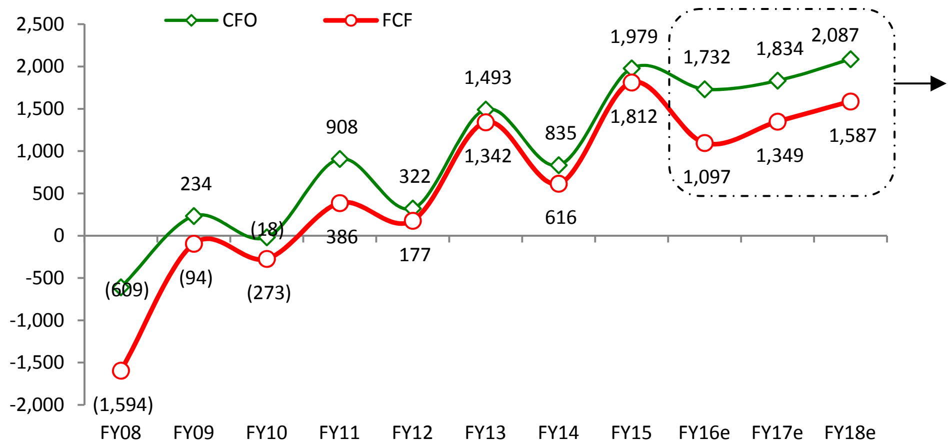
PAT CAGR of 53% over FY15-18



Source: Company, PhillipCapital India Research Estimates

KEI currently has a debt of Rs 5.3bn. With minimal capex on the cards and improvement in its working capital cycle, its balance sheet should improve. Net working capital is ~20% of sales and it should be able to meet additional working capital requirements through internal accruals. We expect free cash flow of ~Rs 1.0/1.3/1.6bn in FY16/17/18, leading to better RoCE and ROEs.

Cash from operation and free cash flow trend



Improvement in margin and reducing working capital requirement will result in healthy cash flows

Source: Company, PhillipCapital India Research Estimates

Outlook and valuation

KEI has successfully entered the turnkey projects business (with backward integration of EHV and cables) and is firmly focused on leveraging its distribution network through a judicious mix of geographical and product expansion. Despite the economic slump and commodity price correction, the company has maintained strong revenue growth. Introduction of 400kv EHV cables and increasing share from retail will enable KEI to bolster float generation in the business.

KEI moving in high margin and low working capital requirement business

KEI: Moving into high margin businesses

Segments	Margin profile	FY15 revenue (Rs mn)	Share (as % of Sales) FY15	Sales Volume Performance	Revenue CAGR FY15-FY18e**	Working Capital Days Required ***
Cables Business*	9%-10%	17,989	87%	↔	11%	Medium
EHV Business	12%-15%	590	3%	↑	67%	High
EPC Business	12%-15%	2,180	11%	↑	33%	High
Retail Market	12%-15%	*5,478*	*27%*	↑	31%	Zero
Exports Market	9%-10%	*1,474*	*10%*	↑	32%	Lower

Source: Company, Phillip Capital India Research Estimates

Note: *Cables Include - LT, HV, House Wire and Stainless Stee & wires

** PhillipCapital Estimates; ***Lower = ~30 days , Mediam = ~ 50 days, High = ~ 100 days

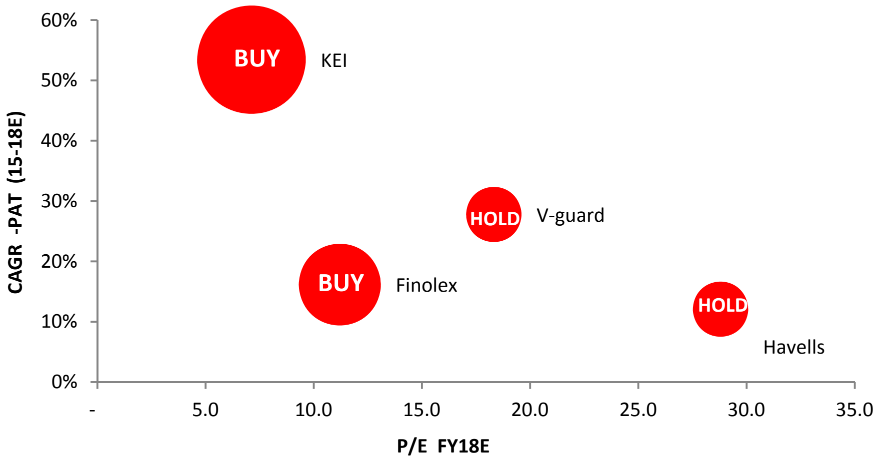
KEI has many listed competitors who operate in similar segments. These players operate at an average margin of 11-12%, average ROE of ~22% and trade at an average PE of ~~16x on FY18 (PhillipCapital) estimates; KEI operates at 9-11% margin, ROE of 23%, and very low PE of 10x on FY18. We believe that it will hold its average valuation given its superior earnings profile and return ratios.

Segment wise – Major Competitors

Segments	Major Competitors	Mkt Size (Rs bn)
Cables	Polycab, Havells	195.0
House Wire	Finolex, Polycab	52.0
EHV	Universal Cables	25.0
EPC	LT, Bajaj Elect., KEC, Techno Elect. etc.	-

Source: Company, Industry, PhillipCapital India Research Estimates

Peer companies vs. KEI: PAT CAGR over FY15-18 and FY18 PER



Source: PhillipCapital India Research Estimates

With high PAT growth, but lower multiple vs. peers, we expect a rise in KEI's rating (PER)

In the backdrop of its operational strengths and financial soundness, we believe that the valuation gap between KEI and its peers in the wire and cables industry will narrow. At CMP, the stock trades at a P/E of 7x and EV/EBIDTA of 3.8x discounting its FY18 earnings. We value the stock at an average of FY17-18 EV/EBITDA (of 5x) to derive our target of Rs 143, representing 26% upside. We initiate coverage with a BUY recommendation.

Key risk

Raw material prices: Any sharp increase or decrease in raw material – copper and aluminium – prices would directly impact KEI's margin, as raw materials are 74% of sales.

Our estimates vs. consensus

		PC (Rs mn)	Consensus (Rs mn)	Deviation
Revenue	FY16	24,036	24,229	-1%
	FY17	27,954	28,688	-3%
	FY18	31,757	33,355	-5%
EBITDA	FY16	2,389	2,531	-6%
	FY17	2,880	3,115	-8%
	FY18	3,432	3,750	-8%
OPM (%)	FY16	9.9	10.4	-51bps
	FY17	10.3	10.9	-56bps
	FY18	10.8	11.2	-44bps
PAT	FY16	549	652	-16%
	FY17	848	977	-13%
	FY18	1,238	1,279	-3%

Source: Company, Bloomberg, PhillipCapital India Research Estimates

Peer companies - key financials

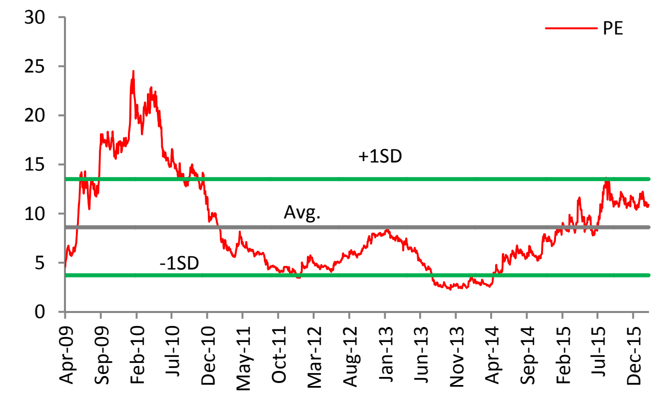
Key Financials	Havells	Finolex	KEI	V-guard
CMP (Rs)	**304**	**227**	**114**	**895**
Revenue (Rs mn)				
FY15	52,387	24,491	20,178	17,459
FY16e	52,986	24,842	24,036	19,436
FY17e	62,975	29,486	27,954	23,087
FY17e	73,199	30,519	31,757	27,757
OPM (%)				
FY15	13.3	10.6	9.6	7.6
FY16e	13.4	12.2	9.9	7.9
FY17e	13.4	12.9	10.3	8.3
FY17e	13.1	13.6	10.8	8.8
PAT (Rs mn)				
FY15	4,649	1,987	342	707
FY16e	6,447	1,960	549	902
FY17e	6,023	2,543	848	1,142
FY17e	6,549	3,114	1,238	1,476
Net Debt (Rs mn)				
FY15	(4,389)	(871)	4,478	683
FY16e	(14,329)	(2,011)	4,699	202
FY17e	(16,923)	(3,953)	4,698	(278)
FY17e	(20,128)	(6,342)	4,419	(913)
FCF (Rs mn)				
FY15	4,330	1,525	1,812	711
FY16e	5,965	1,207	1,097	731
FY17e	5,071	2,137	1,349	744
FY17e	5,840	2,596	1,587	861

Peer companies - key ratios and valuations

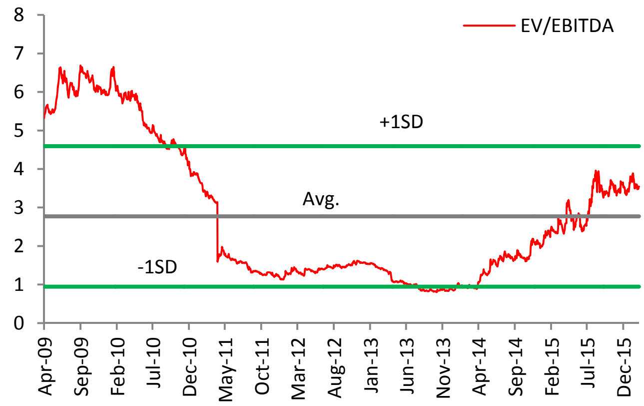
Ratios and Valuation	Havells	Finolex	KEI	V-guard	Average
M.Cap (Rs bn)	**188.6**	**34.2**	**8.8**	**26.2**	
ROCE (%)					
FY15	27.5	19.5	21.9	27.6	24.1
FY16e	25.0	19.2	25.0	29.9	24.8
FY17e	30.4	21.5	27.9	32.4	28.1
FY17e	30.3	22.9	30.9	34.4	29.6
ROE (%)					
FY15	20.6	16.8	11.3	20.3	17.3
FY16e	25.7	14.6	15.6	21.8	19.4
FY17e	21.8	16.7	19.8	22.9	20.3
FY17e	21.7	17.8	22.9	24.1	21.6
Debt/ Equity (X)					
FY15	0.0	0.0	1.5	0.2	0.4
FY16e	0.0	0.0	1.4	0.1	0.4
FY17e	0.0	0.0	1.1	0.1	0.3
FY17e	0.0	0.0	0.8	0.1	0.2
PE (x)					
FY15	40.6	17.6	25.7	38.2	30.5
FY16e	29.2	17.8	16.0	30.0	23.3
FY17e	31.3	13.7	10.4	23.7	19.8
FY17e	28.8	11.2	7.1	18.3	16.4
EV/EBITDA (x)					
FY15	7.9	2.8	2.9	7.2	5.2
FY16e	7.1	2.5	2.5	6.0	4.5
FY17e	6.6	2.1	2.1	4.9	3.9
FY17e	6.0	1.9	1.6	4.0	3.4

Source: Company, PhillipCapital India Research Estimates

P/E Band



EV/EBITDA band

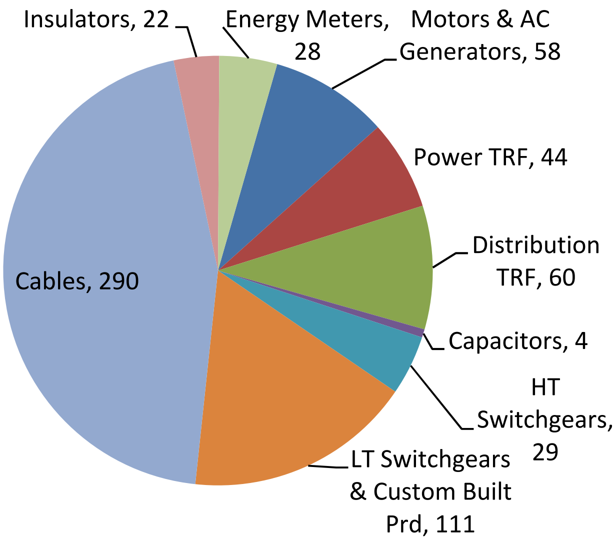


Source: Company, Bloomberg, PhillipCapital India Research Estimates

Indian electrical industry outlook

With a size of Rs 644bn, the Indian electrical industry is a lead indicator of industrial capex as well as individual household capex. It has direct links to frontline sectors of the Indian economy – such as banking, power, roads, and logistics – which have enabled it to clock a CAGR of 3% over the last five years, despite sluggish economic conditions. Over the past several years, the industry has been transforming; some noteworthy trends include fall in market share of unorganized players, consumer preference for premiumisation, and reducing working capital intensity of organised players.

Indian electrical industry in FY15 (Rs bn)



Source: IEEMA

We believe that the drivers for the electrical industry remain in place and are gradually building up momentum, thereby making the sector a worthwhile investment opportunity. For full report [Click here]

Demand assessment for 2008-2017: Power and control cables

Cable (KM)	Conservative	Relative	Planned
LT Control Cables	1,046,905	1,174,350	1,322,007
LT Power Cables (1-Ph)	1,424,867	1,665,085	1,834,581
LT Power Cables (3-Ph)	371,301	404,986	489,120
6.6/3.3 KV Power Cables	241,243	254,581	269,146
11KV	107,305	127,617	148,900
33KV	20,820	23,894	27,060
66&132 KV and above	2,716	3,138	3,598

Source: Company, PhillipCapital India Research Estimates

Company Overview

KEI was established in 1968 as a partnership firm. KEI's products can address the complete cabling needs of private and public sector customers across power, oil refineries, railways, automobiles, cement, steel, fertilizers, textiles, and real estate. It is one of the top-three EHV cable manufacturing companies in India and among the largest cable manufacturing ones. Its manufacturing plants are located at Bhiwadi, Chopanki and Silvasa.

It has three reporting segments:

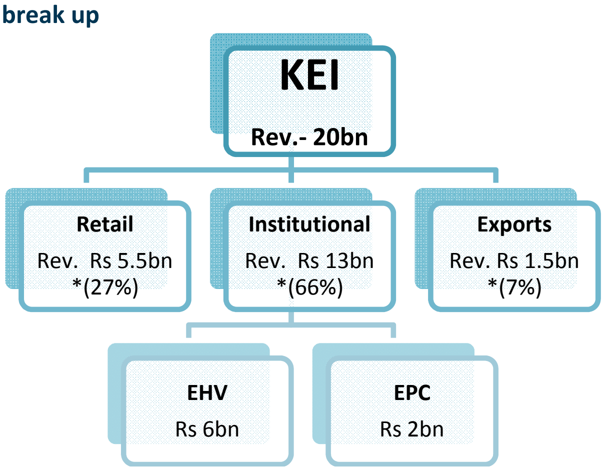
- Cables
- Stainless steel wires
- Turnkey projects

Cables: This segment consists of extra high voltage (EHV), low tension (LT) and high tension (HT) power cables, control and instrumentation cables, winding wires and flexible and house wires.

Stainless steel wires: This segment offers rubber cables, elastomeric cables, single/ multicore flexible wires, submersible cables, braided cables, and zero halogen cables for sectors, such as power, oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate.

Turnkey projects: In this segment, it provides integrated turnkey solutions. Services include providing integrated design, engineering, material procurement, field services, construction, and project management services.

KEI – revenue break up



Source: Company, PhillipCapital India Research

Note: *As % of sales

Plant wise capacity tables

Capacity - Plant wise	Bhiwadi	Silvassa	Chopanki	TOTAL
EHV (Kms)	-	-	600	600
HT Power Cable (Kms)	3,000	-	2,000	5,000
LT Power Cable (Kms)	9,000	6,000	7,000	22,000
Control Cable (Kms)	16,000	12,000	3,000	31,000
Instrumentation Cable (Kms)	10,000	1,000	-	11,000
Rubber Cable (Kms)	3,000	-	-	3,000
Total Cable (Kms)	**41,000**	**19,000**	**12,600**	**72,600**
House Wire/ Winding wire (Kms)	40,000	2,40,000	-	2,80,000
Stainless Steel Wire (MT)	4,800	-	-	4,800

Source: Company, PhillipCapital India Research Estimates

Key management

Name	Designation	Education
Mr. Anil Gupta	Chairman & Managing Director	M.Com from Delhi University
K.G Somani	Non-Executive & Independent Director	Chartered Accountant
Mr. Pawan Bholusaria	Non-Executive & Independent Director	Chartered Accountant
Mr. Vijay Bhushan	Non-Executive & Independent Director	Chartered Accountant
Mr. Vikram Bhartia	Non-Executive & Independent Director	B.Tech (Hons) from IIT Kharagpur
Mrs. Archana Gupta	Non-Executive Director	BA (Hons) from Mumbai University
Mr. Rajeev Gupta	Executive Director (Finance) & CFO	B.Com (Hons.) and Chartered Accountant.

Source: Company, PhillipCapital India Research

KEI: Capital history

Equity as on	No of Shares Subs	Equity Capital (Subs) - Rs mn	No of shares added	Face value (Rs)	Reason
15-May-14	7,72,37,438	154.5	35,00,000	2.0	Conversion of Warrants
11-Jul-13	7,37,37,438	147.5	35,00,000	2.0	Conversion of Warrants
10-Aug-12	7,02,37,438	140.5	33,00,000	2.0	Allotment of Equity To Others
25-Feb-11	6,69,37,438	133.9	30,00,000	2.0	Conversion of Warrants
30-Mar-10	6,39,37,438	127.9	30,00,000	2.0	Conversion of Warrants
22-Sep-08	6,09,37,438	121.9	1,29,100	2.0	ESOP
31-Jan-08	6,08,08,338	121.6	6,06,358	2.0	FCCB
18-Jan-08	6,02,01,980	120.4	11,02,469	2.0	FCCB
11-Jun-07	5,90,99,511	118.2	1,29,796	2.0	FCCB
10-Jan-07	5,89,69,715	117.9	85,00,000	2.0	Conversion of Warrants
21-Dec-06	5,04,69,715	100.9	4,03,75,772	2.0	Stock Split
16-Sep-05	1,00,93,943	100.9	21,73,900	10.0	GDR
01-Oct-01	79,20,043	79.2	30,76,000	10.0	Allotment of Equity To Others
31-Mar-97	48,44,043	48.4	48,44,043	10.0	As per Annual Report

Source: Company, PhillipCapital India Research

Financial

Income Statement

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Net sales	**21,578**	**25,705**	**29,895**	**33,975**
Growth, %	23%	19%	16%	14%
(-) Excise Duty	1,400	1,670	1,941	2,218
Total income	**20,178**	**24,036**	**27,954**	**31,757**
Operating expenses	15,156	17,867	20,625	23,210
Employee expenses	621	750	885	1,018
Other Operating expenses	2,473	3,028	3,564	4,097
EBITDA (Core)	**1,929**	**2,389**	**2,880**	**3,432**
Growth, %	26.0%	23.9%	20.5%	19.2%
Margin, %	9.6%	9.9%	10.3%	10.8%
Depreciation	246	282	312	343
EBIT	**1,683**	**2,107**	**2,568**	**3,089**
Growth, %	27%	25%	22%	20%
Margin, %	8%	9%	9%	10%
Interest paid	1,204	1,289	1,289	1,208
Other Non-Operating Income	24	30	30	30
Pre-tax profit	**503**	**848**	**1,309**	**1,911**
Tax provided	186	299	461	673
Profit after tax	**316**	**549**	**848**	**1,238**
(-) Depreciation	26	0	0	0
Net Profit	**343**	**549**	**848**	**1,238**
Growth, %	195%	60%	54%	46%
Margin, %	2%	2%	3%	4%
Net Profit (adjusted)	**316**	**549**	**848**	**1,238**

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Cash & bank	47	77	77	56
Debtors	4,798	5,427	6,311	7,172
Inventory	4,403	5,231	6,060	6,845
Loans & advances	714	714	714	714
Other current assets	399	299	199	199
Total current assets	10,361	11,747	13,361	14,986
Investments	31	31	31	31
Gross fixed assets	4,451	5,095	5,595	6,095
Less: Depreciation	1,470	1,753	2,065	2,408
Add: Capital WIP	44	35	20	20
Net fixed assets	3,025	3,377	3,551	3,708
Total assets	**13,417**	**15,156**	**16,943**	**18,725**
Current liabilities	5,497	6,494	7,522	8,498
Provisions	122	122	122	122
Total current liabilities	5,618	6,616	7,644	8,620
Total Debt	4,525	4,775	4,775	4,475
Deferred Tax Liability	235	235	235	235
Total liabilities	10,379	11,626	12,655	13,330
Paid-up capital	154	154	154	154
Reserves & surplus	2,884	3,375	4,134	5,241
Shareholders' equity	3,039	3,530	4,288	5,395
Total equity & liabilities	**13,417**	**15,156**	**16,943**	**18,725**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Pre-tax profit	529	848	1,309	1,911
Depreciation	246	282	312	343
Chg in working capital	47	-359	-585	-672
Total tax paid	-92	-299	-461	-673
Other operating activities	1,250	1,259	1,259	1,178
Cash flow from operating activities	**1,979**	**1,732**	**1,834**	**2,087**
Capital expenditure	-167	-635	-485	-500
Chg in investments	0	0	0	0
Other investing activities	0	30	30	30
Cash flow from investing activities	**-166**	**-605**	**-455**	**-470**
Free cash flow	1,813	1,127	1,379	1,617
Equity raised/(repaid)	5	0	0	0
Debt raised/(repaid)	113	250	0	-300
Dividend (incl. tax)	-18	-58	-89	-130
Other financing activities	-1,911	-1,289	-1,289	-1,208
Cash flow from financing activities	**-1,811**	**-1,097**	**-1,378**	**-1,639**
Net chg in cash	1	30	1	-21

Valuation Ratios

	FY15	FY16e	FY17e	FY18e
Per Share data				
EPS (INR)	4.4	7.1	11.0	16.0
Growth, %	266%	60%	54%	46%
Book NAV/ FD share (INR)	39.3	45.7	55.5	69.9
FDEPS (INR)	4.4	7.1	11.0	16.0
CEPS (INR)	7.6	10.8	15.0	20.5
CFOPS (INR)	25.6	22.4	23.7	27.0
DPS (INR)	0.4	0.6	1.0	1.4
Return ratios				
Return on assets (%)	4.4	6.4	9.1	12.2
Return on equity (%)	11.3	15.6	19.8	22.9
Return on capital employed (%)	21.9	25.0	27.9	30.9
Turnover ratios				
Sales/Total assets (x)	2.6	2.8	3.0	3.1
Sales/Net FA (x)	6.8	7.2	7.9	8.6
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Fixed capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	80.1	76.0	76.0	76.0
Inventory days	86.9	87.0	87.0	87.0
Payable days	108.4	108.0	108.0	108.0
Working capital days	58.5	55.0	55.0	55.0
Liquidity ratios				
Current ratio (x)	1.8	1.8	1.7	1.7
Quick ratio (x)	1.1	1.0	1.0	0.9
Interest cover (x)	1.5	1.6	1.9	2.3
Dividend cover (x)	11.1	11.1	11.1	11.1
Total debt/Equity (%)	148.9	135.3	111.4	82.9
Net debt/Equity (%)	147.4	133.1	109.6	81.9
Valuation				
PER (x)	25.7	16.0	10.4	7.1
PEG (x) - y-o-y growth	0.1	0.3	0.2	0.2
Price/Book (x)	2.9	2.5	2.1	1.6
Yield (%)	0.4	0.6	0.9	1.3
EV/Net sales (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	6.9	5.6	4.7	3.8

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	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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