

KEI Industries

Performance Highlights

Quarterly Data

(₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq
Revenue	716	559	28.1	624	14.7
EBITDA	78	61	27.9	67	16.9
Margin (%)	10.9	10.9	(1bp)	10.7	21bp
Adj. PAT	27	15	82.9	23	18.7

Source: Company, Angel Research

For 3QFY2017, KEI Industries (KEI) posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~28% yoy (above our estimate), however, the company reported flat operating margins. On the bottom-line front, KEI reported growth of ~83% yoy to ₹27cr on the back of strong top-line growth and lower taxes.

Top-line driven by strong growth in Turnkey Projects: The company's top-line grew by ~28% yoy to ₹716cr (above our estimate) on the back of strong growth in Turnkey Projects (up ~40% to ₹247cr) as well as exports. However, we saw flatish growth in other segments like Cables (up 2% yoy to ~₹181cr) and Stainless Steel Wire (no yoy growth recorded at ~₹24cr).

Strong revenue growth and lower taxes boost overall profitability: On the operating front, the company's margin remained flat at 10.9%. The company reported ~83% yoy rise in its net profit to ₹27cr on the back of strong revenue growth and lower taxes.

Outlook and Valuation: We expect KEI to report net revenue CAGR of ~14% to ~₹3,455cr over FY2016-19E mainly due to (a) higher order book execution in EPC segment; (b) growth in EHV business; (c) higher B2C sales; and (d) higher exports. On the bottom-line front, we expect a CAGR of ~26% to ₹123cr over the same period on the back strong revenue and lower interest costs. At the CMP of ₹168, the stock trades at 10.5x its FY2019E EPS of ₹15.9. **Thus, we maintain our Buy rating with the Target Price of ₹207.**

Key financials

Y/E March (₹ cr)	FY2016	FY2017E	FY2018E	FY2019E
Net sales	2,326	2,682	3,058	3,455
% chg	14.5	15.3	14.0	13.0
Net profit	62	91	99	123
% chg	91.0	46.6	8.5	24.3
EBITDA margin (%)	10.4	10.4	10.0	10.0
EPS (₹)	8.1	11.8	12.8	15.9
P/E (x)	20.9	14.2	13.1	10.5
P/BV (x)	3.5	2.9	2.4	2.0
RoE (%)	17.0	20.2	18.2	18.7
RoCE (%)	25.1	25.0	24.9	25.6
EV/Sales (x)	0.8	0.7	0.6	0.5
EV/EBITDA (x)	7.4	6.5	6.0	5.3

Source: Company, Angel Research, Note: CMP as of February 6, 2017

BUY

CMP	₹167
Target Price	₹207

Investment Period	12 Months
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Stock Info

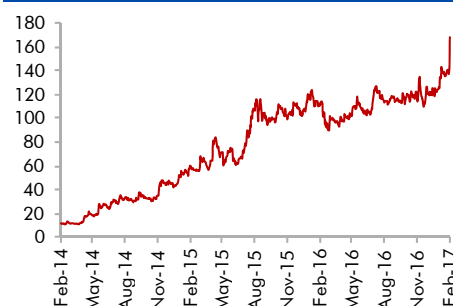
Sector	Cable
Market Cap (₹ cr)	1,300
Net Debt (₹ cr)	492
Beta	1.2
52 Week High / Low	171/86
Avg. Daily Volume	1,33,233
Face Value (₹)	2
BSE Sensex	28,241
Nifty	8,741
Reuters Code	KEIN.BO
Bloomberg Code	KEII.IN

Shareholding Pattern (%)

Promoters	49.0
MF / Banks / Indian Fls	18.6
FII / NRIs / OCBs	5.8
Indian Public / Others	26.6

Abs.(%)	3m	1yr	3yr
Sensex	3.0	16.6	39.7
KEI	42.8	42.8	1304.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq	9MFY17	9MFY16	% chg
Net Sales	716	559	28.1	624	14.7	1,891	1,689	12.0
Consumption of RM	483	369	30.9	434	11.5	1,289	1,171	10.0
(% of Sales)	67.5	66.0		69.4		68.1	69.3	
Staff Costs	29	22	29.1	26	9.5	80	60	33.0
(% of Sales)	4.0	4.0		4.2		4.2	3.6	
Other Expenses	126	107	18.2	98	28.9	322	283	13.7
(% of Sales)	17.6	19.1		15.7		17.0	16.8	
Total Expenditure	638	498	28.1	558	14.4	1,691	1,514	11.6
Operating Profit	78	61	27.9	67	16.9	201	175	14.9
OPM	10.9	10.9		10.7		10.6	10.3	
Interest	34.1	32	4.9	31.8	7.3	93	96	(3.5)
Depreciation	7.0	6	10.0	6.5	7.8	20	19	9.5
Other Income	0	1		2		3	3	
PBT (excl. Ext Items)	37	23	58.9	30	22.7	91	63	44.7
Ext (Income)/Expense								
PBT (incl. Ext Items)	37	23	58.9	30	22.7	91	63	44.7
(% of Sales)	5.2	4.2		4.8		4.8	3.7	
Provision for Taxation	10	8		7		24	21	14.3
(% of PBT)	26.7	36.4		24.2		26	33	
Reported PAT	27	15	82.9	23	18.7	67	42	59.9
PATM	3.8	2.7		3.7		3.5	2.5	
Reported PAT	27	15	82.9	22.90	18.7	67	42	59.9
Equity shares (cr)	7.7	7.7		8		7.7	7.7	
FDEPS (₹)	3.5	1.9	82.9	2.9	19.5	8.7	5.4	59.9

Source: Company, Angel Research

Key investment arguments

Healthy order book indicates strong revenue visibility

KEI's current order book stands at ₹3,233cr (of which cables account for about ₹613cr of orders; ₹236cr orders are from EHV segment; exports are around ₹110cr and the remaining orders are from EPC segment). Its order book grew by ~28% in the last 3 years on the back of order inflows from State Electricity Boards, Power Grid, etc. This gives KEI a revenue visibility for the next 12-16 months.

Strong distribution network and higher ad spends to boost B2C business

KEI's consistent effort to increase its retail business from 30% of revenue in FY2016 to 40-45% of revenue in the next 2-3 years on the back of strengthening distribution network (currently 926, which is expect to increase to 1,500 by FY2019) and higher ad spends (increased from ₹2cr in FY2013 to ₹7cr in FY2016 and expected to increase further).

Exports to continue its growth momentum

KEI's exports (8% of revenue in FY2016) is expected to reach a level of 14-15% in next two years on the back of higher order execution from current order book of ~₹180cr and participation in various international tenders worth ₹500cr. We expect a strong ~26% growth CAGR over FY2016-19 in exports.

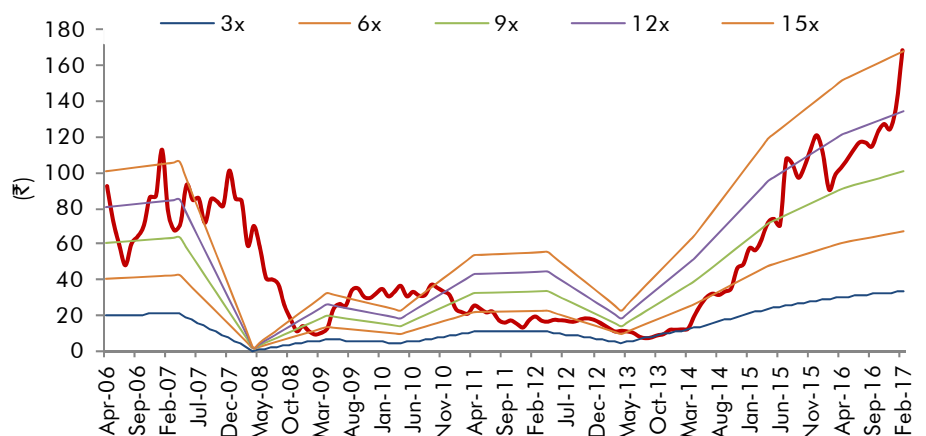
Interest cost as % of net sales to decline by 150bp over FY2016-19

We expect the company's interest cost to decline due to (1) full repayment of its ₹211cr term loan in next 2-3 years, and (2) marginally lower interest cost expected due to the improvement in credit rating. While the company may see some rise in its working capital requirement due to higher sales in EPC segment, the debt repayment and low interest rate should offset the same. Due to this, we expect interest cost to decline as % of sales, which will further result in better profitability.

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~14% to ~₹3,455cr over FY2016-19E mainly due to (a) higher order book execution in EPC segment; (b) growth in EHV business; (c) higher B2C sales; and (d) higher exports. On the bottom-line front, we expect a CAGR of ~26% to ₹123cr over the same period on the back strong revenue and lower interest costs. At the CMP of ₹167, the stock trades at 10.5x its FY2019E EPS of ₹15.9. **Thus, we maintain our Buy rating with the Target Price of ₹207.**

Exhibit 2: One year forward PE Chart



Source: Company, Angel Research

Downside risks to our estimates

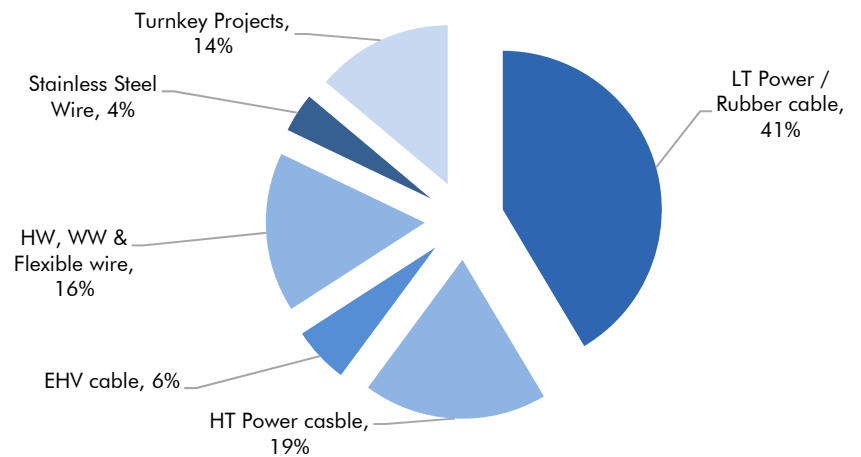
- KEI's EPC segment contributes ~14% in the total revenue. This segment primarily depends upon government spending and any delay in investment by the government may lead to reduction in order book and would impact its revenue.
- Any unfavorable change in the prices of commodities, forex and interest rates, and delay in project execution can hurt its profitability.

Company Background

KEI Industries Limited (KEI) is a cable manufacturing company, engaged in manufacture and supply of power and other industrial cables. The Company is also engaged in Engineering, Procurement and Construction (EPC) business. It operates through Cables and Turnkey Projects segments and has its manufacturing facilities at Bhiwadi & Chopanki in Rajasthan and Silvassa in Dadra and Nagar Haveli.

The cables segment comprises of a whole range of cables such as Extra High Voltage (EHV), High tension (HT) and low tension (LT) power cables, control and instrumentation cables, winding wires, flexible wires, and house and stainless steel wires. Their products are supplied to various sectors like oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate sectors.

Exhibit 3: Historical revenue mix



Source: Company, Angel Research

Profit & Loss Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Total operating income	2,031	2,326	2,682	3,058	3,455
% chg	25.5	14.5	15.3	14.0	13.0
Total Expenditure	1,838	2,083	2,403	2,752	3,110
Raw Material	1,477	1,615	1,872	2,146	2,439
Personnel	62	83	102	122	145
Others Expenses	299	386	429	483	525
EBITDA	193	242	279	306	346
% chg	26.0	25.6	15.1	9.6	13.0
(% of Net Sales)	9.5	10.4	10.4	10.0	10.0
Depreciation & Amortisation	25	25	29	30	32
EBIT	168	217	250	275	314
% chg	27.4	28.9	15.3	10.1	14.0
(% of Net Sales)	8.3	9.3	9.3	9.0	9.1
Interest & other Charges	120	127	128	133	136
Other Income	5	5	5	6	6
(% of PBT)	9.4	5.6	3.6	3.7	3.0
Share in profit of Associates	-	-	-	-	-
Recurring PBT	53	95	127	148	184
% chg	142.3	80.3	32.9	16.6	24.3
Tax	19	33	35	49	61
(% of PBT)	35.2	34.8	28.0	33.0	33.0
PAT (reported)	34	62	91	99	123
Extraordinary Items	2	-	-	-	-
ADJ. PAT	33	62	91	99	123
% chg	180.7	91.0	46.6	8.5	24.3
(% of Net Sales)	1.6	2.7	3.4	3.2	3.6
Basic EPS (₹)	4.2	8.1	11.8	12.8	15.9
Fully Diluted EPS (₹)	4.2	8.1	11.8	12.8	15.9
% chg	180.7	91.0	46.6	8.5	24.3

Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
SOURCES OF FUNDS					
Equity Share Capital	15	15	15	15	15
Reserves & Surplus	288	351	437	529	642
Shareholders Funds	304	367	452	544	658
Minority Interest	-	-	-	-	-
Total Loans	453	498	547	563	568
Deferred Tax Liability	39	40	40	40	40
Total Liabilities	796	905	1,040	1,148	1,266
APPLICATION OF FUNDS					
Gross Block	445	500	544	559	589
Less: Acc. Depreciation	147	172	200	231	262
Net Block	298	328	344	328	327
Capital Work-in-Progress	4	29	-	-	-
Investments	3	3	3	3	3
Current Assets	1,036	1,127	1,318	1,552	1,778
Inventories	440	422	500	578	663
Sundry Debtors	480	567	661	771	880
Cash	5	6	17	19	28
Loans & Advances	106	109	113	153	173
Other Assets	5	22	27	31	35
Current liabilities	562	586	629	739	846
Net Current Assets	474	541	689	813	932
Deferred Tax Asset	16	4	4	4	4
Mis. Exp. not written off	-	-	-	-	-
Total Assets	796	905	1,040	1,148	1,266

Cashflow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Profit before tax	53	95	127	148	184
Depreciation	25	25	29	30	32
Change in Working Capital	5	(51)	(137)	(122)	(111)
Interest / Dividend (Net)	120	127	128	133	136
Direct taxes paid	(9)	(20)	(35)	(49)	(61)
Others	5	8	0	0	0
Cash Flow from Operations	198	185	111	141	179
(Inc.)/ Dec. in Fixed Assets	(17)	(98)	(44)	(15)	(30)
(Inc.)/ Dec. in Investments	0	0	29	0	0
Cash Flow from Investing	(17)	(98)	(15)	(15)	(30)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	44	92	49	16	5
Dividend Paid (Incl. Tax)	(2)	(3)	(5)	(7)	(10)
Interest / Dividend (Net)	(224)	(175)	(128)	(133)	(136)
Cash Flow from Financing	(181)	(87)	(85)	(124)	(141)
Inc./(Dec.) in Cash	0	1	11	2	9
Opening Cash balances	5	5	6	17	19
Closing Cash balances	5	6	17	19	28

Key ratios

Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	39.9	20.9	14.2	13.1	10.5
P/CEPS	22.1	14.8	10.8	10.0	8.4
P/BV	4.3	3.5	2.9	2.4	2.0
Dividend yield (%)	0.2	0.3	0.4	0.5	0.8
EV/Sales	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	9.0	7.4	6.5	6.0	5.3
EV / Total Assets	2.2	2.0	1.8	1.6	1.4
Per Share Data (₹)					
EPS (Basic)	4.2	8.1	11.8	12.8	15.9
EPS (fully diluted)	4.2	8.1	11.8	12.8	15.9
Cash EPS	7.6	11.3	15.5	16.7	20.0
DPS	0.4	0.5	0.7	0.9	1.3
Book Value	39.3	47.5	58.6	70.5	85.1
Returns (%)					
ROCE	22.2	25.1	25.0	24.9	25.6
Angel ROIC (Pre-tax)	22.5	25.4	25.6	25.4	26.3
ROE	10.7	17.0	20.2	18.2	18.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.6	4.7	4.9	5.5	5.9
Inventory / Sales (days)	79	66	68	69	70
Receivables (days)	86	89	90	92	93
Payables (days)	40	41	41	41	41
WC cycle (ex-cash) (days)	126	115	117	120	122

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KEI Industries

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)