

KEI Industries

Wiring for growth

KEI Industries (KEI) is a cable manufacturing company and also engaged in Engineering, Procurement and Construction (EPC) business. It offers high and low tension cables, control and instrumentation cables, house wires, stainless steel wires, and high-technology specialty cables. Its manufacturing facilities are located at Bhiwadi, Chopanki & Silvassa. Through export KEI is present in over 45 countries across the globe.

Healthy order book indicates strong revenue visibility: KEI's current order book stands at ₹3,233cr (₹2,154cr from EPC segment, ₹667cr from Cable segment, ₹200cr from EHV segment, ₹49cr from Substation and the balance from EPC L1 business). 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.

Strengthening distribution network and higher ad Spend to increase B2C business: KEI's consistent effort to increase its retail business from 30% of revenue in FY16 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 1500 by FY19) and higher ad spend (increased from ₹2cr in FY13 to ₹7cr in FY16 and expected to spend).

Exports to continue its growth momentum: KEI's exports (8% of revenue in FY16) 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 FY16-19: 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 arising due to the improvement in credit rating. While 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 ~13% to ~₹3,335cr over FY2016-19E mainly due to (a) higher order book execution in EPC segment (b) growth in EHV business and (c) higher B2C sales and (d) higher exports. On the bottom-line front, we expect a CAGR of ~24% to ₹118cr over the same period on the back strong revenue and lower interest cost. **At the CMP of ₹124, the stock trades at 8.1x its FY2019E EPS of ₹15.3. We initiate coverage on the stock with a Buy recommendation and target price of ₹153 based on 10x FY2019E EPS, indicating an upside of ~23% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2016	FY2017E	FY2018E	FY2019E
Net sales	2,326	2,574	2,921	3,335
% chg	14.5	10.7	13.5	14.2
Net profit	62	78	91	118
% chg	91.0	25.4	17.1	29.0
EBITDA margin (%)	10.4	10.4	10.0	10.0
EPS (₹)	8.1	10.1	11.8	15.3
P/E (x)	15.4	12.3	10.5	8.1
P/BV (x)	2.6	2.2	1.8	1.5
RoE (%)	17.0	17.7	17.4	18.6
RoCE (%)	25.1	24.2	24.5	25.5
EV/Sales (x)	0.6	0.6	0.5	0.4
EV/EBITDA (x)	6.0	5.6	5.1	4.5

Source: Company, Angel Research, Note: CMP as of December 29, 2016

BUY

CMP	₹124
Target Price	₹153

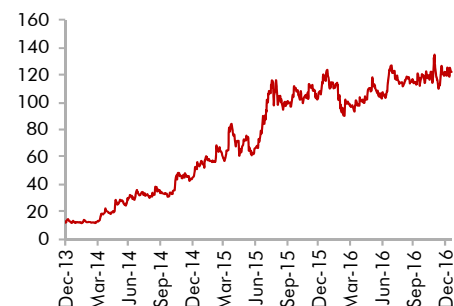
Investment Period	12 Months
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Stock Info	
Sector	Cable
Market Cap (₹ cr)	969
Net Debt (₹ cr)	492
Beta	1.2
52 Week High / Low	140/86
Avg. Daily Volume	113,885
Face Value (₹)	2
BSE Sensex	26,366
Nifty	8,104
Reuters Code	KEIN.BO
Bloomberg Code	KEII.IN

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	(7.4)	0.7	24.0
KEI	4.1	4.1	958.4

3-year price chart



Source: Company, Angel Research

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Key investment arguments

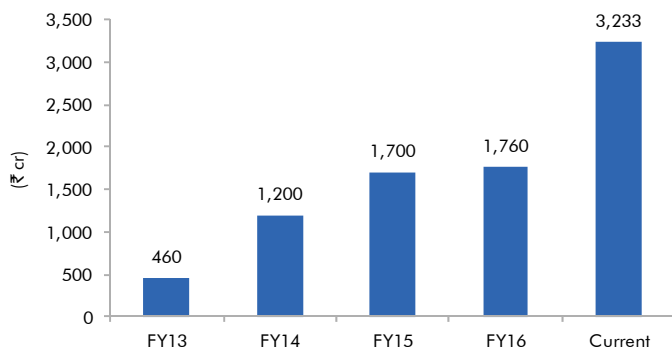
Top-line expected to grow by ~13% CAGR over FY16-19E

We expect the company to report a healthy revenue growth of ~13% over FY16-19E on the back (1) strong order book leading to higher execution in EPC segment (2) Huge opportunity in EHV segment (3) higher growth in exports.

Healthy order book indicates strong revenue visibility

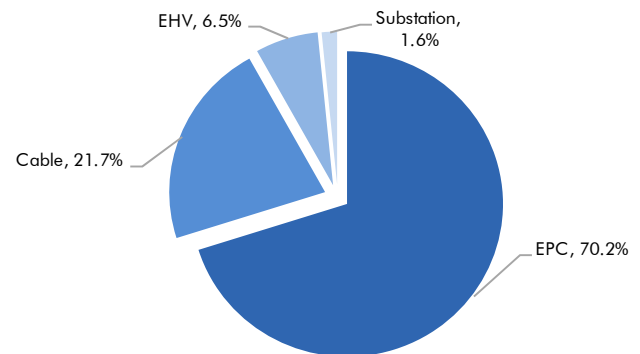
KEI's current order book stands at ₹3,233cr (₹2,154cr from EPC segment, ₹667cr from Cable segment, ₹200cr from EHV segment, ₹49cr from Substation and the balance from EPC L1 business). Its order book grew by ~28% in the last 3 years on the back of order inflows from State Electricity Boards, Power grid, etc. This gives a revenue visibility for the next 12-16 months.

Exhibit 1: Oder book increased 1.8x from last year



Source: Company, Angel Research

Exhibit 2: Break-up of current order book



Source: Company, Angel Research

Higher growth in EPC to boost the strong revenue growth

In the EPC segment, the main services offered by the company in the EPC segment include execution of (1) Power transmission projects of 66kV to 400kV substations on turnkey basis (2) EPC of EHV & HV cables systems (3) Electrical balance of plant system for power plant (4) Electrical industrial projects etc.

KEI's track record in key project execution is as below

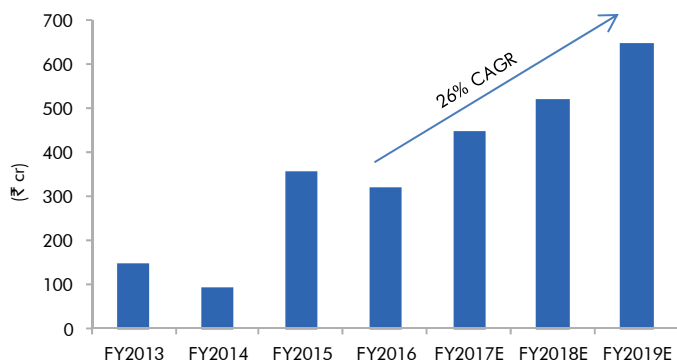
- EPC of HV Cabling system for JVVNL, Jaipur
- MES for 100kV Transform and Electrical System of Air Force station, Gurgaon
- Projects for power transmission utilities including projects for MSETCL, KSEB, TNEB, RVPNL
- Projects for Reliance Infrastructure (400kV switchyard for 2x600 mw Thermal Power Project at Hissar)
- Industrial sector for AERENR, Ludhiana
- Private utilities like Reliance, Tata Etc

Going forward, we expect that the company would report ~26% CAGR in EPC revenue on back of higher order book execution. Currently the company's order

book stands at ~₹2,154cr which includes order inflow from the distribution companies from UP.

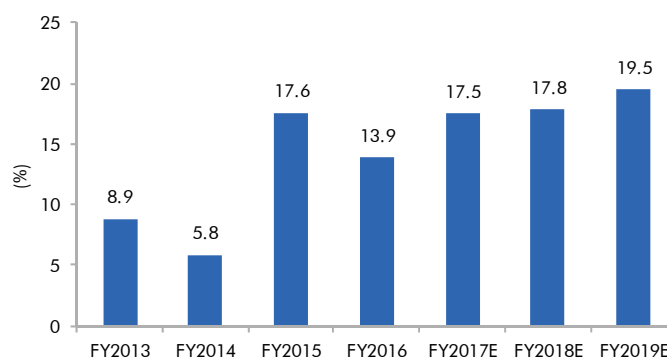
The company has backward integration in terms of in-house cable manufacturing; this provides KEI with an edge over its competitors as 25-30% of the total EPC order cost goes in cables. KEI's backward integration insulates its EBITDA margin (10-11%) and we believe that this will sustain going forward.

Exhibit 3: Strong growth expected in EPC segment



Source: Company, Angel Research

Exhibit 4: Revenue share of EPC business

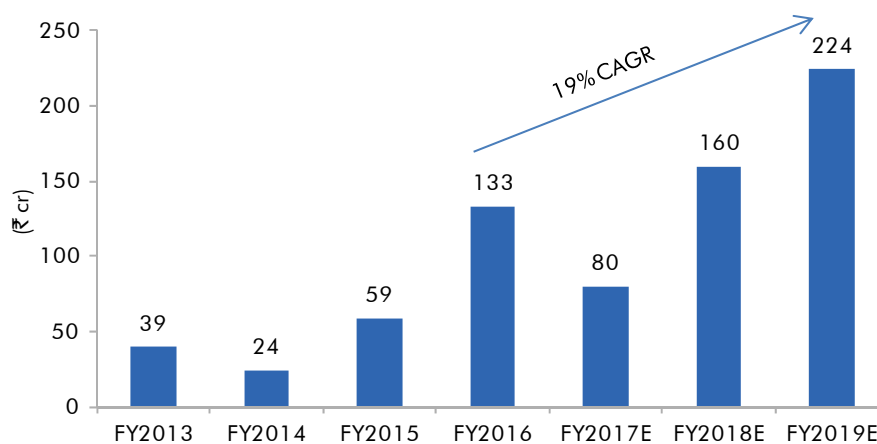


Source: Company, Angel Research

Capacity expansion of EHV (Extra High Voltage) cable segment to boost growth

KEI currently has an EHV cable manufacturing capacity of 700km ranging from 66kV upto 220kV for which it has a technical collaboration with Brugg Kabel AG, Switzerland. To further increase its capacity in higher range, it has completed ₹85cr capex, this includes manufacturing of EHV cables (upto 400KV) for 500km capacity. The new capacity is expected to be operational by December-2016 and has a potential to generate revenue of ₹250cr per annum. The company's current order book stands at ₹200cr. We expect EHV segment to report a CAGR of ~19% over FY2016-FY2019E to ₹224cr.

Exhibit 5: Capacity expansion to fuel EHV segment growth



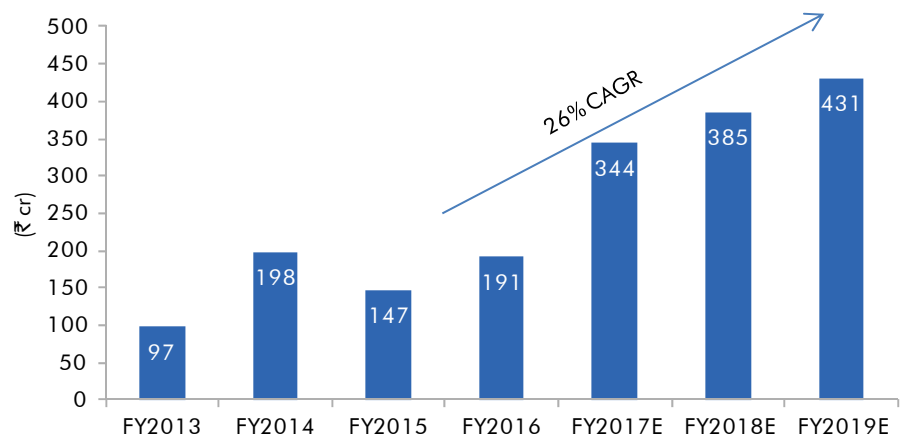
Source: Company, Angel Research

Higher export growth to drive overall revenue

KEI exports its wide range of cables i.e. EHV (66kV to 220kV), MV (11kV to 66kV) and LV (<11kV) to over 45 countries and operates in the export markets of UAE, Singapore, Nigeria and Kazakhstan. It also has branch offices in Australia and South Korea.

We are expecting the company to report a strong export CAGR of ~26% over FY2016-19 on the back of order execution (current order book ~₹150-180cr). Further the company has participated in an international tender worth ₹500cr, which is expected to add in order book. During 1HFY2017, the company has already reported ~79% growth in revenue to ₹187cr.

Exhibit 6: Exports to report 26% CAGR

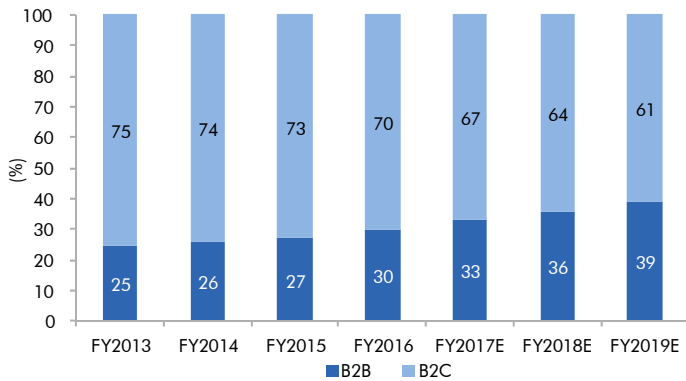


Source: Company, Angel Research

Increased focus on Retail business

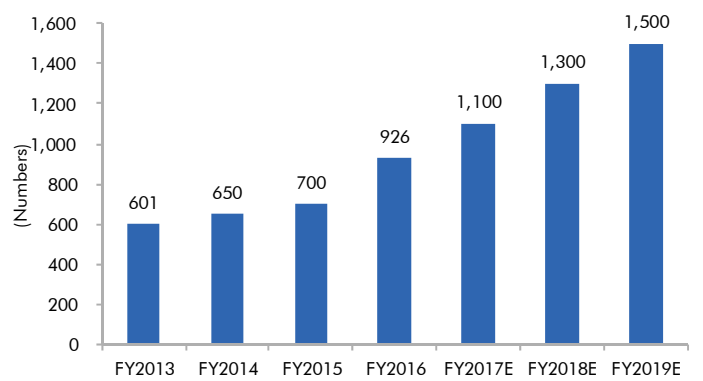
KEI has kept strong focus on growing its B2C revenue which can be clearly seen in its improved business mix. In FY13 B2C represented ~25% of its total sales which increased to ~30% in FY16. This is mainly on back of strong distribution network and higher ad spends. Management continues to target higher B2C sales and expects it to reach to 40-45% level in the next 2-3 years.

Exhibit 7: B2C vs B2B revenue mix



Source: Company, Angel Research

Exhibit 8: Enhancing dealer network



Source: Company, Angel Research

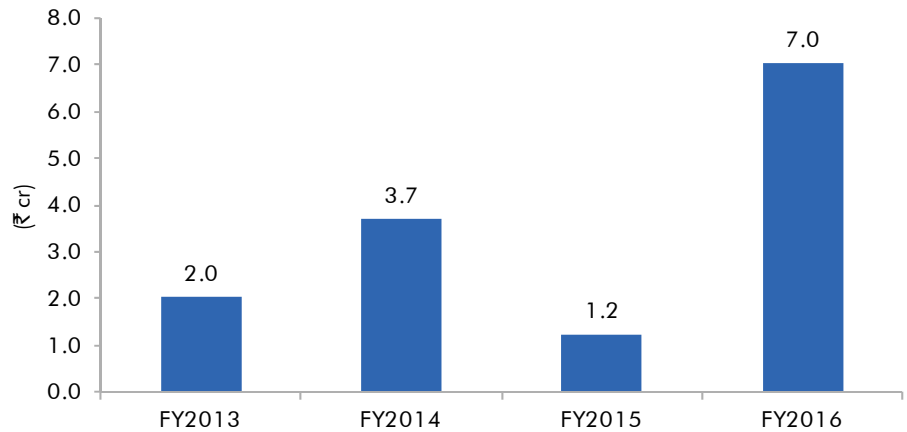
Strengthening Distribution Network to boost retail growth

KEI is aggressively adding dealers and distributors across the country, especially in tier 1 and tier 2 cities. It has increased its distribution channels from 601 in FY2013 to 926 in FY2016 and is further planning to add 150-200 dealers every year going forward. Owing to this, company has seen strong traction in its B2C revenue.

Higher ad spends to increase brand visibility

In order to increase B2C business, the company has increased their ad spends in last four years which increased from ₹2cr in FY13 to ₹7cr in FY16. Further, the company has also taken other initiatives such as sponsoring IPL team - Kings XI Punjab, association with regional exhibitions held by reputable bodies, participation in international award events in the Middle East, South East Asia and Europe, etc.

Exhibit 9: Significant increase in ad spend

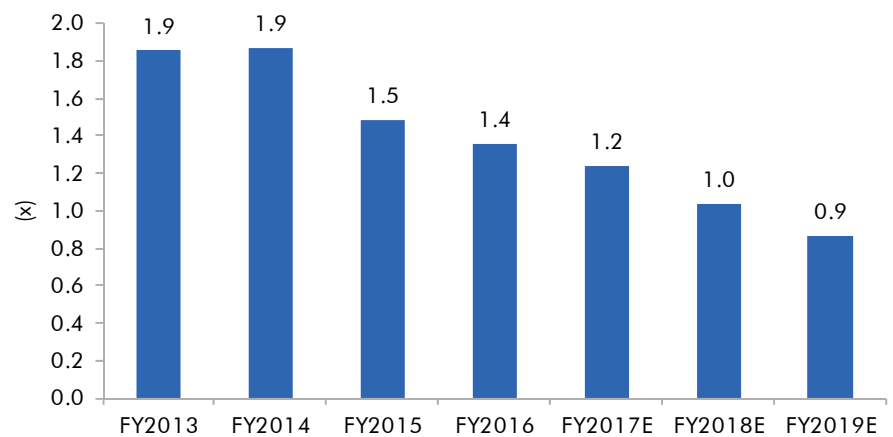


Source: Company, Angel Research

Interest cost as a % of sale to decline 150bp over FY16-19

In 1HFY17, the company had total debt of ₹617cr of which ₹211cr was in form of term loan. Management has indicated that it will fully repay the term loan in next three years; we however have assumed ₹90cr repayment of term loan in our forecast. This however would be offset by the incremental working capital loan due to the growth in its EPC. The company however has seen improvement in its credit rating which means company would be able to raise working capital loan at competitive rate. The effect in our opinion would be drop in its interest cost as % to net sales as rise in working capital loan would be offset by lower interest rate and repayment of term loan. This would lead to improving profitability.

Exhibit 10: Debt/Equity ratio falling

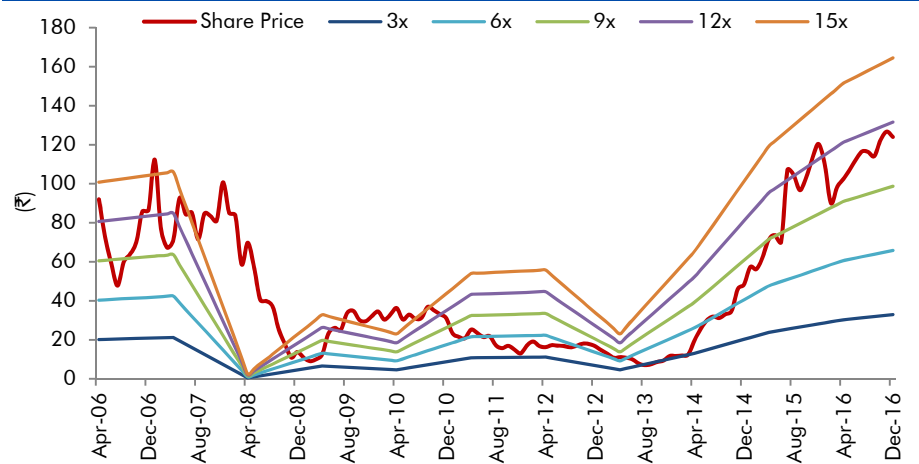


Source: Company, Angel Research

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~13% to ~₹3,335cr over FY2016-19E mainly due to (a) higher order book execution in EPC segment (b) growth in EHV business and (c) higher B2C sales and (d) higher exports. On the bottom-line front, we expect a CAGR of ~24% to ₹118cr over the same period on the back strong revenue and lower interest cost. **At the CMP of ₹124, the stock trades at 8.1x its FY2019E EPS of ₹15.3. We initiate coverage on the stock with a Buy recommendation and target price of ₹153 based on 10x FY2019E EPS, indicating an upside of ~23% from the current levels.**

Exhibit 11: One year forward PE Chart



Source: Company, Angel Research

Downside risks to our estimates

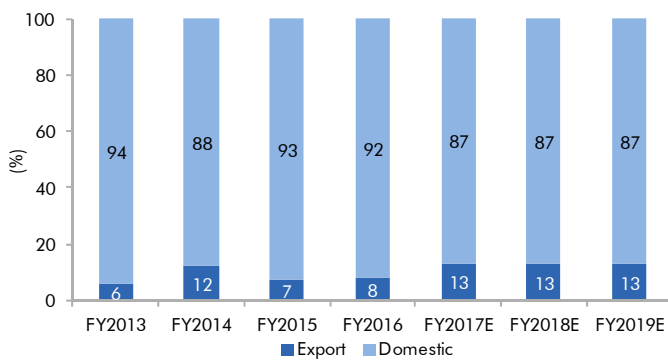
- KEI's EPC segment contributes ~14% in the total revenue. This segment primarily depends upon government spending and any delay in investment by government may lead to reduction in order book and would impact its revenue.
- Any unfavourable change in the prices of commodities, forex and interest rates,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

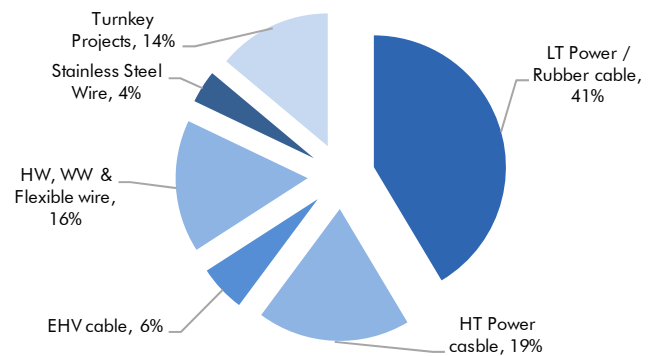
The cables segment comprises of a whole range of cables such as Extra High Voltage (EHV), High tension (HT) and low tension (LT) power cables, control and instrumentation cables, winding wires, flexible wires, and house and stainless steel wires. Their products are supplied in various sectors like oil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

Exhibit 12: Revenue-break (Domestic vs Export)



Source: Company, Angel Research

Exhibit 13: Revenue –break up for FY2016



Source: Company, Angel Research

Profit & Loss Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Total operating income	2,031	2,326	2,574	2,921	3,335
% chg	25.5	14.5	10.7	13.5	14.2
Total Expenditure	1,838	2,083	2,306	2,629	3,001
Raw Material	1,477	1,615	1,796	2,051	2,354
Personnel	62	83	98	117	140
Others Expenses	299	386	412	462	507
EBITDA	193	242	268	292	333
% chg	26.0	25.6	10.5	9.1	14.2
(% of Net Sales)	9.5	10.4	10.4	10.0	10.0
Depreciation & Amortisation	25	25	29	30	32
EBIT	168	217	239	262	302
% chg	27.4	28.9	10.1	9.6	15.3
(% of Net Sales)	8.3	9.3	9.3	9.0	9.1
Interest & other Charges	120	127	128	131	132
Other Income	5	5	6	6	6
(% of PBT)	9.4	5.6	4.7	4.0	3.1
Share in profit of Associates	-	-	-	-	-
Recurring PBT	53	95	116	136	176
% chg	142.3	80.3	22.1	17.1	29.0
Tax	19	33	38	45	58
(% of PBT)	35.2	34.8	33.0	33.0	33.0
PAT (reported)	34	62	78	91	118
Extraordinary Items	2	-	-	-	-
ADJ. PAT	33	62	78	91	118
% chg	180.7	91.0	25.4	17.1	29.0
(% of Net Sales)	1.6	2.7	3.0	3.1	3.5
Basic EPS (₹)	4.2	8.1	10.1	11.8	15.3
Fully Diluted EPS (₹)	4.2	8.1	10.1	11.8	15.3
% chg	180.7	91.0	25.4	17.1	29.0

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	424	509	618
Shareholders Funds	304	367	440	525	633
Minority Interest	-	-	-	-	-
Total Loans	453	498	547	545	552
Deferred Tax Liability	39	40	40	40	40
Total Liabilities	796	905	1,027	1,110	1,225
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	1,280	1,481	1,708
Inventories	440	422	479	552	640
Sundry Debtors	480	567	635	736	850
Cash	5	6	12	17	19
Loans & Advances	106	109	129	146	167
Other Assets	5	22	26	29	33
Current liabilities	562	586	604	706	817
Net Current Assets	474	541	677	774	891
Deferred Tax Asset	16	4	4	4	4
Mis. Exp. not written off	-	-	-	-	-
Total Assets	796	905	1,027	1,110	1,225

Cash flow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Profit before tax	53	95	116	136	176
Depreciation	25	25	29	30	32
Change in Working Capital	5	(51)	(130)	(93)	(115)
Interest / Dividend (Net)	120	127	128	131	132
Direct taxes paid	(9)	(20)	(38)	(45)	(58)
Others	5	8	0	0	0
Cash Flow from Operations	198	185	105	160	166
(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	(2)	7
Dividend Paid (Incl. Tax)	(2)	(3)	(5)	(6)	(9)
Interest / Dividend (Net)	(224)	(175)	(128)	(131)	(132)
Cash Flow from Financing	(181)	(87)	(84)	(140)	(134)
Inc./(Dec.) in Cash	0	1	6	5	2
Opening Cash balances	5	5	6	12	17
Closing Cash balances	5	6	12	17	19

Key ratios

Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	29.4	15.4	12.3	10.5	8.1
P/CEPS	16.3	10.9	9.0	7.9	6.4
P/BV	3.2	2.6	2.2	1.8	1.5
Dividend yield (%)	0.3	0.4	0.5	0.7	1.0
EV/Sales	0.7	0.6	0.6	0.5	0.4
EV/EBITDA	7.3	6.0	5.6	5.1	4.5
EV / Total Assets	1.8	1.6	1.5	1.3	1.2
Per Share Data (₹)					
EPS (Basic)	4.2	8.1	10.1	11.8	15.3
EPS (fully diluted)	4.2	8.1	10.1	11.8	15.3
Cash EPS	7.6	11.3	13.8	15.7	19.3
DPS	0.4	0.5	0.6	0.8	1.2
Book Value	39.3	47.5	56.9	67.9	82.0
Returns (%)					
ROCE	22.2	25.1	24.2	24.5	25.5
Angel ROIC (Pre-tax)	22.5	25.4	24.6	24.9	26.0
ROE	10.7	17.0	17.7	17.4	18.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.6	4.7	4.7	5.2	5.7
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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Disclosure of Interest Statement

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)