

KEI Industries

Performance Update

Y/E March (₹ cr)	2QFY19	2QFY18	% yoy	1QFY19	% qoq
Net sales	997	749	33	884	13
EBITDA	101	76	32	86	17
EBITDA margin (%)	10.1	10.2	(7bp)	9.7	40bp
Adjusted PAT	41	29	45	32	29

Source: Company, Angel Research

For 2QFY2019, KEI Industries (KEI) posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenue grew by ~33% yoy (above our estimate), however, the company reported a marginal dip in operating margins. On the bottom-line front, KEI reported growth of ~45% yoy to `41cr on the back of strong top-line growth.

Strong growth in Cable and Stainless Steel Wire segment boosted the overall profit: The company's top-line grew by ~33% yoy to `997cr on the back of strong growth in Cables and Stainless Steel Wire segment. Cables segment grew by ~36% yoy during the quarter, whereas Stainless Steel Wire reported a growth of ~21% yoy. However, Turnkey Projects remained flat on yoy basis. Currently, the company has order book of `3,401cr (out of which EPC is around `1,556cr and balance from cables, substation & EHV)

Profitability driven by operating margin improvement and lower interest: On the operating front, the company's margins contracted 7bps yoy at 10.1% on the back of higher raw material cost. However, KEI reported ~45% yoy rise in its net profit to `41cr owing to strong volume growth.

Outlook and Valuation: We expect KEI to report net revenue CAGR of ~17% to ~`4,708cr over FY2018-20E 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 ~22% to `215cr over the same period on the back of strong volume growth. At the CMP of `349, the stock trades at 12.6x its FY2020E EPS of `27.8, thus, we maintain our Buy rating on KEI Industry with the Target Price of `500.

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	2,628	3,466	4,064	4,707
% chg	13.0	31.8	17.3	15.8
Adj. Net profit	94	145	178	215
% chg	50.6	54.6	22.8	20.7
EBITDA margin (%)	10.2	9.8	10.0	10.0
EPS (₹)	12.1	18.7	23.0	27.8
P/E (x)	28.8	18.6	15.2	12.6
P/BV (x)	5.7	4.4	3.5	2.8
RoE (%)	19.8	23.8	23.0	22.1
RoCE (%)	20.3	22.6	24.4	25.1
EV/Sales (x)	1.3	1.0	0.8	0.7
EV/EBITDA (x)	12.5	9.9	8.2	7.0

Source: Company, Angel Research Note

BUY

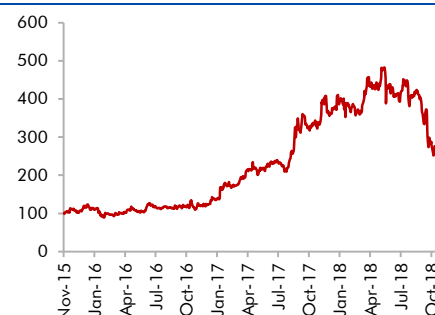
CMP	₹349
Target Price	₹500
Investment Period	12 months

Stock Info	
Sector	Cable
Market Cap (Rs cr)	2,838
Net Debt	671
Beta	0.6
52 Week High / Low	495/248
Avg. Daily Volume	32,550
Face Value (Rs)	2
BSE Sensex	34,893
Nifty	10,532
Reuters Code	KEIN.BO
Bloomberg Code	KEII.IN

Shareholding Pattern (%)	
Promoters	45.9
MF / Banks / Indian FIIs	11.4
FII / NRIs / OCBs	0.0
Indian Public / Others	42.7

Abs. (%)	3m	1yr	3yr
Sensex	(8.2)	2.5	29.6
KEI	(20.0)	6.1	293.4

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2019 Performance

Y/E March (' cr)	2QFY19	2QFY18	% yoy	1QFY19	% qoq	1HFY19	1HFY18	% chg
Net Sales	997	749	33.1	884	12.8	1,881	1,540	22.1
Consumption of RM	680.5	524	29.8	578.4	17.7	1,259	1,074	17.2
(% of Sales)	68.3	70.0		65.4		66.9	69.8	
Staff Costs	42	35	22.5	41	4.3	82.8	69.0	20.0
(% of Sales)	4.2	4.6		4.6		4.4	4.5	
Other Expenses	173	114	52.1	179	(3.2)	352.1	243.5	44.6
(% of Sales)	17.4	15.2		20.2		18.7	15.8	
Total Expenditure	896	673	33.2	798	12.3	1,694	1,387	22.1
Operating Profit	101	76	32.2	86	17.1	187	153	22.2
OPM	10.1	10.2		9.7		9.9	9.9	
Interest	30.5	27.4	11.3	28.7	6.4	59.1	57.3	3.2
Depreciation	8.5	8.1	4.7	8.4	1.2	16.8	16.1	4.7
Other Income	1	1		1		2.4	2.6	
PBT (excl. Ext Items)	63	42	50.9	50	25.6	113	82	37.8
Ext (Income)/Expense								
PBT (incl. Ext Items)	63	42	50.9	50	25.6	113	82	37.8
(% of Sales)	6.3	5.6		5.7		6.0	5.3	
Provision for Taxation	22	13		18		39.9	26.3	
(% of PBT)	34.5	31.9		36.0				
Reported PAT	41	29	45.2	32	28.6	74	56	31.4
PATM	4.2	3.8		3.6		3.9	3.6	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	41	29	45.2	32.18	28.6	73.5	56.0	31.4

Source: Company, Angel Research

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~17% to ~`4,708cr over FY2018-20E 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 ~22% to `215cr over the same period on the back of strong volume growth. At the CMP of `349, the stock trades at 12.6x its FY2020E EPS of `27.8, **thus, we maintain our Buy rating on KEI Industry with the Target Price of `500.**

Downside risks to our estimates

- KEI's EPC segment contributes ~14% to 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 manufacturing 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. The company's products are supplied to various sectors like oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate sectors.

Profit & Loss Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	2,628	3,466	4,064	4,707
% chg	13.0	31.8	17.3	15.8
Total Expenditure	2,360	3,126	3,657	4,236
Raw Material	1,828	2,411	2,869	3,323
Personnel	112	147	171	198
Others Expenses	420	568	618	715
EBITDA	269	339	406	471
% chg	11.0	26.2	19.8	15.8
(% of Net Sales)	10.2	9.8	10.0	10.0
Depreciation & Amortisation	28	32	35	40
EBIT	240	307	371	431
% chg	10.8	27.7	20.9	16.1
(% of Net Sales)	9.1	8.9	9.1	9.2
Interest & other Charges	124	112	116	121
Other Income	10	9	10	10
(% of PBT)	8.0	4.5	3.8	3.1
Share in profit of Associates	-	-	-	-
Recurring PBT	126	204	265	320
% chg	32.2	62.2	29.8	20.7
Tax	32	60	88	106
(% of PBT)	25.7	29.2	33.0	33.0
PAT (reported)	94	145	178	215
Extraordinary Items	-	-	-	-
ADJ. PAT	94	145	178	215
% chg	50.6	54.6	22.8	20.7
(% of Net Sales)	3.6	4.2	4.4	4.6
Basic EPS (Rs)	12.1	18.7	23.0	27.8
Fully Diluted EPS (₹)	12.1	18.7	23.0	27.8
% chg	50.6	54.6	22.8	20.7

Balance Sheet

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	16
Reserves & Surplus	458	593	756	954
Shareholders' Funds	473	608	772	969
Minority Interest	-	-	-	-
Total Loans	713	750	750	750
Deferred Tax Liability	46	46	46	46
Total Liabilities	1,233	1,404	1,568	1,766
APPLICATION OF FUNDS				
Gross Block	604	624	654	685
Less: Acc. Depreciation	199	231	266	306
Net Block	405	393	388	380
Capital Work-in-Progress	3	3	3	3
Investments	3	3	3	4
Current Assets	1,399	1,830	2,166	2,540
Inventories	499	665	779	903
Sundry Debtors	739	883	1,035	1,199
Cash	37	76	107	156
Loans & Advances	119	173	203	235
Other Assets	5	34	41	47
Current liabilities	582	829	996	1,164
Net Current Assets	818	1,001	1,170	1,376
Deferred Tax Asset	3	3	3	3
Mis. Exp. not written off	-	-	-	-
Total Assets	1,233	1,404	1,568	1,766

Consolidated Cash Flow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	134	204	265	320
Depreciation	34	32	35	40
Change in Working Capital	(259)	(145)	(137)	(157)
Interest / Dividend (Net)	123	112	116	121
Direct taxes paid	(30)	(60)	(88)	(106)
Others	3	0	0	0
Cash Flow from Operations	4	144	192	218
(Inc.)/ Dec. in Fixed Assets	1	(20)	(30)	(31)
(Inc.)/ Dec. in Investments	(62)	0	0	0
Cash Flow from Investing	(62)	(20)	(30)	(31)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	251	37	0	0
Dividend Paid (Incl. Tax)	(4)	(10)	(14)	(17)
Interest / Dividend (Net)	(158)	(112)	(116)	(121)
Cash Flow from Financing	89	(85)	(130)	(138)
Inc./(Dec.) in Cash	31	39	32	49
Opening Cash balances	6	37	76	107
Closing Cash balances	37	76	107	156

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	28.8	18.6	15.2	12.6
P/CEPS	22.1	15.2	12.7	10.6
P/BV	5.7	4.4	3.5	2.8
Dividend yield (%)	0.2	0.4	0.5	0.6
EV/Sales	1.3	1.0	0.8	0.7
EV/EBITDA	12.5	9.9	8.2	7.0
EV / Total Assets	2.7	2.4	2.1	1.9
Per Share Data (₹)				
EPS (Basic)	12.1	18.7	23.0	27.8
EPS (fully diluted)	12.1	18.7	23.0	27.8
Cash EPS	15.8	22.9	27.6	32.9
DPS	0.7	1.3	1.8	2.2
Book Value	61.3	78.7	99.9	125.5
Returns (%)				
ROCE	20.3	22.6	24.4	25.1
Angel ROIC (Pre-tax)	21.0	24.0	26.3	27.7
ROE	19.8	23.8	23.0	22.1
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.3	5.6	6.2	6.9
Inventory / Sales (days)	69	70	70	70
Receivables (days)	103	93	93	93
Payables (days)	42	40	41	42
Working capital cycle (ex-cash) (days)	130	123	122	121

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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

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)