KEI Industries

Performance Update

Y/E March (` cr)	2QFY20	2QFY19	% yoy	1QFY20	% qoq
Net sales	**1,230**	**997**	**23**	**1,081**	**14**
EBITDA	122	100	22	114	7
EBITDA margin (%)	*9.9*	*10.1*	*(12bp)*	*10.5*	*(60bp)*
Adjusted PAT	**76**	**41**	**84**	**46**	**66**

Source: Company, Angel Research

For 2QFY2020, KEI Industries (KEI) posted good set of results, which are largely in-line with our expectations on both top-line as well as bottom-line fronts. Revenue grew by ~23% yoy, while the company reported a slight marginal contraction on operating level. On the bottom-line front, KEI reported growth of ~84% yoy to `76cr on the back of strong top-line growth and lower taxes.

Strong growth in Cable and Turnkey Projects segment boosted the overall profit: The company's top-line grew by ~23% yoy to `1,230cr on the back of strong growth in Cables and Turnkey Projects segments. Cables segment grew by ~23% yoy during the quarter, whereas Turnkey Projects reported a growth of ~97% yoy. However, Stainless Steel Wire de-grew only ~7% yoy. Currently, the company has order book of `4,370cr (out of which EPC is around `2,033cr, EHV is `628cr, cables is `1,188cr and balance from export)

Profitability driven by strong revenue growth and lower taxes: On the operating front, the company's margins contracted 12bps yoy at 9.9% on the back of lower retail sales mix. KEI reported ~84% yoy rise in its net profit to `76cr on the back of strong top-line growth and lower taxes.

Outlook and Valuation: We expect KEI to report net revenue CAGR of ~18% to ~`5,872cr over FY2019-21E mainly due to (a) higher order book execution in EPC segment; (b) growth in EHV business and (d) higher exports. On the bottom-line front, we expect CAGR of ~29% to`300cr over the same period on the back of strong volume growth. **Thus, we maintain our Hold recommendation on stock.**

Key Financials

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Net sales	**3,466**	**4,227**	**5,062**	**5,872**
% chg	*31.8*	*22.0*	*19.8*	*16.0*
Adj. Net profit	**145**	**182**	**249**	**300**
% chg	*54.6*	*25.6*	*36.9*	*20.6*
EBITDA margin (%)	9.8	10.5	10.3	10.3
EPS (`)	**18.7**	**23.5**	**32.2**	**38.9**
P/E (x)	29.3	23.4	17.1	14.1
P/BV (x)	7.0	5.5	4.2	3.3
RoE (%)	23.8	23.5	24.8	23.4
RoCE (%)	22.6	33.1	31.6	31.2
EV/Sales (x)	1.4	1.1	0.9	0.8
EV/EBITDA (x)	14.5	10.2	8.6	7.3

Source: Company, Angel

Hold

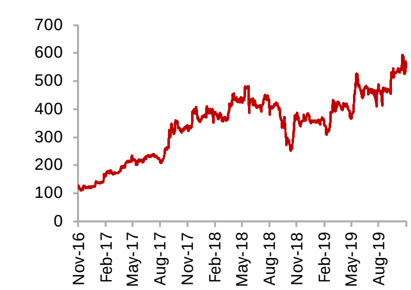
CMP	`550
Target Price	661
Investment Period	12 months

Stock Info	
Sector	Cable
Market Cap (` cr)	4,319
Net Debt (` cr)	263
Beta	0.6
52 Week High / Low	614/306
Avg. Daily Volume	11,120
Face Value (`)	10
BSE Sensex	40,250
Nifty	11,880
Reuters Code	KEIN.BO
Bloomberg Code	KEII.IN

Shareholding Pattern (%)	
Promoters	45.6
MF / Banks / Indian FIs	19.4
FII / NRIs / OCBs	13.3
Indian Public / Others	21.7

Abs. (%)	3m	1yr	3yr
Sensex	9.2	15.9	50.4
KEI	12.7	12.7	330.0

Price Chart



Source: Company, Angel Research

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2QFY2020 Performance

Y/E March (` cr)	2QFY20	2QFY19	% yoy	1QFY20	% qoq	1HFY20	1HFY19	% chg
Net Sales	**1,230**	**997**	***23.4***	**1,081.36**	***13.8***	**2,312**	**1,881**	***22.9***
Consumption of RM	886.3	719	*23.3*	747.3	*18.6*	1,671	1,348	*24.0*
(% of Sales)	*72.0*	*72.1*		*69.1*		*72.3*	*71.7*	
Staff Costs	57	42	*34.0*	52	*9.9*	108.2	82.8	*30.7*
(% of Sales)	*4.6*	*4.2*		*4.8*		*4.7*	*4.4*	
Other Expenses	165	135	*21.9*	169	*(2.1)*	296.1	263.5	*12.3*
(% of Sales)	*13.4*	*13.6*		*15.6*		*12.8*	*14.0*	
Total Expenditure	**1,108**	**897**	***23.6***	**967**	***14.5***	**2,075**	**1,694**	***22.5***
Operating Profit	**122**	**100**	***22.0***	**114**	***7.2***	**236**	**186**	***26.6***
OPM	*9.9*	*10.1*		*10.5*		*10.2*	*9.9*	
Interest	35.5	30.5	*16.6*	33.0	*7.8*	68.5	59.1	*15.8*
Depreciation	13.7	8.4	*62.0*	15.2	*(9.8)*	28.8	16.8	*71.7*
Other Income	4	1		5		9.5	2.4	
PBT (excl. Ext Items)	**77**	**63**	***23.6***	**71**	*8.8*	**148**	**113**	*31.3*
Ext (Income)/Expense								
PBT (incl. Ext Items)	**77**	**63**	***23.6***	**71**	***8.8***	**148**	**113**	***31.3***
(% of Sales)	*6.3*	*6.3*		*6.6*		*6.4*	*6.0*	
Provision for Taxation	1	21		25		*26.3*	*39.4*	
(% of PBT)	*1.4*	*33.8*		*35.5*		*17.7*	*34.9*	
Reported PAT	**76**	**41**	***84.1***	**46**	***66.2***	**122**	**74**	***65.9***
PATM	*6.2*	*4.2*		*4.2*		*5.3*	*3.9*	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	**76**	**41**	***84.1***	**45.82**	***66.2***	**122**	**74**	***65.9***

Source: Company, Angel Research

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~18% to ~`5,872cr over FY2019-21E 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 CAGR of ~29% to`300cr over the same period on the back of strong volume growth. **Thus, we maintain our Hold recommendation on stock.**

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 & interest rates, and delay in project execution can hurt the company's 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)	FY2018	FY2019	FY2020E	FY2021E
Total operating income	**3,466**	**4,227**	**5,062**	**5,872**
% chg	*31.8*	*22.0*	*19.8*	*16.0*
Total Expenditure	**3,126**	**3,785**	**4,541**	**5,267**
Raw Material	2,411	2,935	3,574	4,146
Personnel	147	173	213	247
Others Expenses	568	677	754	875
EBITDA	**339**	**442**	**521**	**605**
% chg	*26.2*	*30.3*	*17.9*	*16.0*
(% of Net Sales)	*9.8*	*10.5*	*10.3*	*10.3*
Depreciation& Amortisation	32	34	59	62
EBIT	**307**	**408**	**462**	**543**
% chg	*27.7*	*33.0*	*13.3*	*17.5*
(% of Net Sales)	*8.9*	*9.7*	*9.1*	*9.3*
Interest & other Charges	112	136	141	150
Other Income	9	7	11	8
(% of PBT)	*4.5*	*2.6*	*3.3*	*2.0*
Share in profit of Associates	-	-	-	
Recurring PBT	**204**	**279**	**333**	**401**
% chg	*62.2*	*36.6*	*19.2*	*20.6*
Tax	60	97	84	101
(% of PBT)	*29.2*	*34.9*	*25.2*	*25.2*
PAT (reported)	**145**	**182**	**249**	**300**
Extraordinary Items	-	-	-	-
ADJ. PAT	**145**	**182**	**249**	**300**
% chg	*54.6*	*25.6*	*36.9*	*20.6*
(% of Net Sales)	*4.2*	*4.3*	*4.9*	*5.1*
Basic EPS (Rs)	**18.7**	**23.5**	**32.2**	**38.9**
Fully Diluted EPS (`)	**18.7**	**23.5**	**32.2**	**38.9**
% chg	*54.6*	*25.6*	*36.9*	*20.6*

Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	16
Reserves& Surplus	593	760	989	1,265
Shareholders' Funds	**608**	**775**	**1,005**	**1,281**
Minority Interest	-	-	-	-
Total Loans	750	458	458	458
Deferred Tax Liability	46	46	46	46
Total Liabilities	**1,404**	**1,280**	**1,509**	**1,785**
APPLICATION OF FUNDS				
Gross Block	624	654	684	714
Less: Acc. Depreciation	231	265	324	386
Net Block	**393**	**389**	**360**	**329**
Capital Work-in-Progress	3	3	3	3
Investments	3	3	4	4
Current Assets	1,830	2,182	2,569	3,024
Inventories	665	695	832	965
Sundry Debtors	883	1,089	1,290	1,496
Cash	76	195	204	280
Loans & Advances	173	199	238	276
Other Assets	34	4	5	6
Current liabilities	829	1,301	1,430	1,577
Net Current Assets	**1,001**	**881**	**1,139**	**1,447**
Deferred Tax Asset	**3**	**3**	**3**	**4**
Mis. Exp. not written off	-	-	-	-
Total Assets	**1,404**	**1,280**	**1,509**	**1,785**

Consolidated Cash Flow Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	204	279	333	401
Depreciation	32	34	59	62
Change in Working Capital	(145)	240	(249)	(232)
Interest / Dividend (Net)	112	136	141	150
Direct taxes paid	(60)	(97)	(84)	(101)
Others	0	0	0	0
Cash Flow from Operations	**144**	**592**	**200**	**280**
(Inc.)/ Dec. in Fixed Assets	(20)	(30)	(30)	(30)
(Inc.)/ Dec. in Investments	0	0	0	0
Cash Flow from Investing	**(20)**	**(30)**	**(30)**	**(30)**
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	37	(292)	0	0
Dividend Paid (Incl. Tax)	(10)	(15)	(20)	(24)
Interest / Dividend (Net)	(112)	(136)	(141)	(150)
Cash Flow from Financing	**(85)**	**(442)**	**(161)**	**(174)**
Inc./(Dec.) in Cash	39	120	9	76
Opening Cash balances	**37**	**76**	**195**	**204**
Closing Cash balances	**76**	**195**	**204**	**280**

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	29.3	23.4	17.1	14.1
P/CEPS	24.0	19.7	13.8	11.7
P/BV	7.0	5.5	4.2	3.3
Dividend yield (%)	0.2	0.3	0.5	0.6
EV/Sales	1.4	1.1	0.9	0.8
EV/EBITDA	14.5	10.2	8.6	7.3
EV / Total Assets	3.5	3.5	3.0	2.5
Per Share Data (`)				
EPS (Basic)	18.7	23.5	32.2	38.9
EPS (fully diluted)	18.7	23.5	32.2	38.9
Cash EPS	22.9	27.9	39.9	46.8
DPS	1.3	1.9	2.6	3.1
Book Value	78.7	100.4	130.0	165.8
Returns (%)				
ROCE	22.6	33.1	31.6	31.2
Angel ROIC (Pre-tax)	24.0	39.4	36.9	37.3
ROE	23.8	23.5	24.8	23.4
Turnover ratios (x)				
Asset Turnover (Gross Block)	5.6	6.5	7.4	8.2
Inventory / Sales (days)	70	60	60	60
Receivables (days)	93	94	93	93
Payables (days)	40	64	55	50
Working capital cycle (ex-cash) (days)	123	90	98	103

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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 (Based on Expected Returns: over 12 months investment period)	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
		Reduce (-5% to -15%)	*Sell (< -15%)*
		Hold (Fresh purchase not recommended)	