

KEI Industries

Performance Update

Y/E March (₹ cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq
Net sales	1,087	889	22	997	9
EBITDA	118	84	40	101	17
EBITDA margin (%)	10.8	9.5	133bp	10.1	70bp
Adjusted PAT	48	39	24	41	17

Source: Company, Angel Research

For 3QFY2019, 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 ~22% yoy, while the company reported a marginal improvement on operating margins front. On the bottom-line front, KEI reported growth of ~24% yoy to ₹48cr 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 ~22% yoy to ₹1,087cr on the back of strong growth in Cables and Stainless Steel Wire segments. Cables segment grew by ~25% yoy during the quarter, whereas Stainless Steel Wire reported a growth of ~19% yoy. However, Turnkey Projects grew only ~6% yoy. Currently, the company has order book of ₹3,866cr (out of which EPC is around ₹1,508cr and balance from cables, substation & EHV)

Profitability driven by strong volume and operating margin improvement: On the operating front, the company's margins improved 133bps yoy at 10.8% on the back of lower employee cost and other expenses. KEI reported ~24% yoy rise in its net profit to ₹48cr.

Outlook and Valuation: We expect KEI to report net revenue CAGR of ~19% to ~₹4,878cr 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 CAGR of ~27% to ₹233cr over the same period on the back of strong volume growth. **Thus, we maintain our Buy rating on KEI Industry with a Target Price of ₹486.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	2,628	3,466	4,106	4,878
% chg	13.0	31.8	18.5	18.8
Adj. Net profit	94	145	178	233
% chg	50.6	54.6	23.1	31.0
EBITDA margin (%)	10.2	9.8	10.3	10.5
EPS (₹)	12.1	18.7	23.1	30.2
P/E (x)	28.5	18.5	15.0	11.5
P/BV (x)	5.6	4.4	3.5	2.7
RoE (%)	19.8	23.8	23.1	23.7
RoCE (%)	20.3	22.6	25.5	27.2
EV/Sales (x)	1.3	1.0	0.8	0.7
EV/EBITDA (x)	12.4	9.9	7.9	6.4

Source: Company, Angel Research Note

BUY

CMP	₹349
Target Price	₹486
Investment Period	12 months

Stock Info

Sector	Cable
Market Cap (₹ cr)	2,756
Net Debt (₹ cr)	671
Beta	0.6
52 Week High / Low	495/249
Avg. Daily Volume	39,700
Face Value (₹)	10
BSE Sensex	36,212
Nifty	10,859
Reuters Code	KEIN.BO
Bloomberg Code	KEI.IN

Shareholding Pattern (%)

Promoters	45.9
MF / Banks / Indian Fls	16.5
FII / NRIs / OCBs	10.0
Indian Public / Others	27.5

Abs. (%)	3m	1yr	3yr
Sensex	3.9	6.2	50.5
KEI	10.0	(9.5)	233.6

Price Chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2019 Performance

Y/E March (' cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq	9MFY19	9MFY18	% chg
Net Sales	1,087	889	22.4	997	9.1	2,968	2,428	22.2
Consumption of RM	768.4	621	23.7	680.5	12.9	2,027	1,695	19.6
(% of Sales)	70.7	69.9		68.3		68.3	69.8	
Staff Costs	43	37	17.1	42	2.3	126.1	105.9	19.0
(% of Sales)	4.0	4.2		4.2		4.2	4.4	
Other Expenses	158	146	8.2	173	(8.7)	510.3	389.7	30.9
(% of Sales)	14.5	16.5		17.4		17.2	16.0	
Total Expenditure	970	804	20.6	896	8.2	2,664	2,191	21.6
Operating Profit	118	84	39.6	101	16.7	305	237	28.3
OPM	10.8	9.5		10.1		10.3	9.8	
Interest	34.7	25.2	38.1	30.5	13.9	93.9	82.5	13.8
Depreciation	8.5	8.2	3.7	8.5	0.7	25.3	24.3	4.4
Other Income	1	7		1		3.5	9.9	
PBT (excl. Ext Items)	76	58	29.7	63	19.7	189	141	34.5
Ext (Income)/Expense								
PBT (incl. Ext Items)	76	58	29.7	63	19.7	189	141	34.5
(% of Sales)	7.0	6.6		6.3		6.4	5.8	
Provision for Taxation	27	19		22		67.1	45.5	
(% of PBT)	36.0	33.0		34.5		35.5	32.4	
Reported PAT	48	39	24.0	41	17.0	122	95	28.3
PATM	4.4	4.4		4.2		4.1	3.9	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	48	39	24.0	41	17.0	121.9	95.0	28.3

Source: Company, Angel Research

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~19% to ~₹4,878cr 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 CAGR of ~27% to ₹233cr over the same period on the back of strong volume growth. **Thus, we maintain our Buy rating on KEI Industry with a Target Price of ₹486.**

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)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	2,628	3,466	4,106	4,878
% chg	13.0	31.8	18.5	18.8
Total Expenditure	2,360	3,126	3,683	4,366
Raw Material	1,828	2,411	2,899	3,444
Personnel	112	147	172	205
Others Expenses	420	568	612	717
EBITDA	269	339	423	512
% chg	11.0	26.2	24.7	21.1
(% of Net Sales)	10.2	9.8	10.3	10.5
Depreciation & Amortisation	28	32	35	40
EBIT	240	307	388	473
% chg	10.8	27.7	26.3	21.9
(% of Net Sales)	9.1	8.9	9.4	9.7
Interest & other Charges	124	112	128	130
Other Income	10	9	6	6
(% of PBT)	8.0	4.5	2.3	1.7
Share in profit of Associates	-	-	-	-
Recurring PBT	126	204	266	348
% chg	32.2	62.2	30.1	31.0
Tax	32	60	88	115
(% of PBT)	25.7	29.2	33.0	33.0
PAT (reported)	94	145	178	233
Extraordinary Items	-	-	-	-
ADJ. PAT	94	145	178	233
% chg	50.6	54.6	23.1	31.0
(% of Net Sales)	3.6	4.2	4.3	4.8
Basic EPS (Rs)	12.1	18.7	23.1	30.2
Fully Diluted EPS (₹)	12.1	18.7	23.1	30.2
% chg	50.6	54.6	23.1	31.0

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	971
Shareholders' Funds	473	608	772	987
Minority Interest	-	-	-	-
Total Loans	713	750	750	750
Deferred Tax Liability	46	46	46	46
Total Liabilities	1,233	1,404	1,568	1,784
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	2,176	2,601
Inventories	499	665	787	936
Sundry Debtors	739	883	1,046	1,243
Cash	37	76	96	130
Loans & Advances	119	173	205	244
Other Assets	5	34	41	49
Current liabilities	582	829	1,006	1,208
Net Current Assets	818	1,001	1,170	1,394
Deferred Tax Asset	3	3	3	3
Mis. Exp. not written off	-	-	-	-
Total Assets	1,233	1,404	1,568	1,784

Consolidated Cash Flow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	134	204	266	348
Depreciation	34	32	35	40
Change in Working Capital	(259)	(145)	(149)	(189)
Interest / Dividend (Net)	123	112	128	130
Direct taxes paid	(30)	(60)	(88)	(115)
Others	3	0	0	0
Cash Flow from Operations	4	144	193	214
(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)	(19)
Interest / Dividend (Net)	(158)	(112)	(128)	(130)
Cash Flow from Financing	89	(85)	(142)	(149)
Inc./(Dec.) in Cash	31	39	21	34
Opening Cash balances	6	37	76	96
Closing Cash balances	37	76	96	130

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	28.5	18.5	15.0	11.5
P/CEPS	21.9	15.1	12.5	9.8
P/BV	5.6	4.4	3.5	2.7
Dividend yield (%)	0.2	0.4	0.5	0.7
EV/Sales	1.3	1.0	0.8	0.7
EV/EBITDA	12.4	9.9	7.9	6.4
EV / Total Assets	2.7	2.4	2.1	1.8
Per Share Data (₹)				
EPS (Basic)	12.1	18.7	23.1	30.2
EPS (fully diluted)	12.1	18.7	23.1	30.2
Cash EPS	15.8	22.9	27.6	35.3
DPS	0.7	1.3	1.8	2.4
Book Value	61.3	78.7	99.9	127.7
Returns (%)				
ROCE	20.3	22.6	25.5	27.2
Angel ROIC (Pre-tax)	21.0	24.0	27.3	29.5
ROE	19.8	23.8	23.1	23.7
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.3	5.6	6.3	7.1
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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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%)
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