

KEI Industries

Performance Update

Y/E March (₹ cr)	1QFY19	1QFY18	% yoy	4QFY18	% qoq
Net sales	884	824	7	1,030	(14)
EBITDA	86	77	12	101	(15)
EBITDA margin (%)	9.7	9.3	42bp	9.8	(1bp)
Adjusted PAT	32	27	17	50	(35)

Source: Company, Angel Research

For 1QFY2019, KEI Industries (KEI) posted mixed set of results. Top-line was lower compared to our estimates, however, the company was able to maintain the bottom-line growth. Revenues grew by ~7% yoy (below our estimate) but company reported improvement on operating margin front. On the bottom-line front, KEI reported growth of ~17% yoy to ₹32cr on the back of operating margin improvement and lower interest cost.

Lower EPC order execution and export impacted the overall sales growth: The company's top-line grew lower by ~7% yoy to ₹884cr mainly due to lower export sales (~₹79cr in 1QFY2019 vs. ~₹110cr in 1QFY2018) in cable segment and EPS business also impacted sales. Cable segment grew by ~13% yoy during the quarter, whereas Turnkey Projects reported de-growth of ~23% yoy. Currently, the company has order book of ₹2,599cr (out of which EPC is around ₹1,290cr and balance from cables, substation & EHV). Further, the company has L1 order worth ~₹1,592cr.

Profitability driven by operating margin improvement and lower interest: On the operating front, the company's margin has improved 42bps yoy at 9.7%. However, KEI reported ~17% yoy rise in its net profit to ₹32cr on the back of better operating performance and lower interest cost.

Outlook and Valuation: We expect KEI to report net revenue CAGR of ~16% to ~₹4,646cr 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 ~19% to ₹207cr over the same period on the back of strong revenue and lower interest costs. At the CMP of ₹433, the stock trades at 15x its FY2020E EPS of ₹26.8, **thus, we maintain our Buy rating on KEI Industry with the Target Price of ₹508.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	2,628	3,466	4,049	4,646
% chg	13.0	31.8	16.8	14.7
Adj. Net profit	94	145	174	207
% chg	50.6	54.6	19.9	19.1
EBITDA margin (%)	10.2	9.8	10.0	10.0
EPS (₹)	12.1	18.7	22.5	26.8
P/E (x)	33.2	21.4	17.9	15.0
P/BV (x)	6.6	5.1	4.0	3.2
RoE (%)	19.8	23.8	22.6	21.6
RoCE (%)	20.3	22.6	24.4	24.9
EV/Sales (x)	1.4	1.1	0.9	0.8
EV/EBITDA (x)	14.1	11.1	9.2	7.9

Source: Company, Angel Research Note

BUY

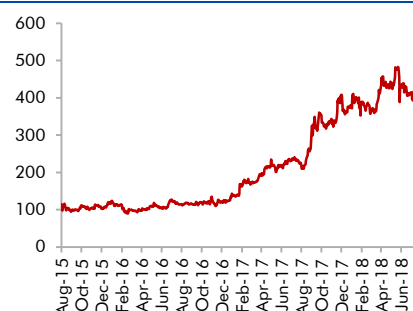
CMP	₹403
Target Price	₹508
Investment Period	12 months

Stock Info	
Sector	Cable
Market Cap (Rs cr)	3,082
Net Debt	750
Beta	0.6
52 Week High / Low	495/307
Avg. Daily Volume	16,814
Face Value (Rs)	2
BSE Sensex	38,024
Nifty	11,471
Reuters Code	KEIN.BO
Bloomberg Code	KEI.IN

Shareholding Pattern (%)	
Promoters	46.3
MF / Banks / Indian FIs	11.9
FII / NRIs / OCBs	9.9
Indian Public / Others	31.9

Abs. (%)	3m	1yr	3yr
Sensex	7.4	20.1	34.8
KEI	(7.3)	85.8	293.4

Historical share price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-40003600 Ext: 6831

amarjeet.maurya@angelbroking.com

Exhibit 1: 4QFY2018 Performance

Y/E March (₹ cr)	1QFY19	1QFY18	% yoy	4QFY18	% qoq	FY2018	FY2017	% chg
Net Sales	884	824	7.3	1,030	(14.2)	3,466	2,628	31.8
Consumption of RM	578.4	550	5.2	715.7	(19.2)	2,411	1,828	31.9
(% of Sales)	65.4	66.8		69.5		69.6	69.5	
Staff Costs	41	34	17.6	41	(0.8)	147	112	31.4
(% of Sales)	4.6	4.2		4.0		4.2	4.3	
Other Expenses	179	162	10.2	173	3.5	568	420	35.2
(% of Sales)	20.2	19.7		16.8		16.4	16.0	
Total Expenditure	798	747	6.8	929	(14.2)	3,126	2,360	32.5
Operating Profit	86	77	12.2	101	(14.8)	339	269	26.2
OPM	9.7	9.3		9.8		9.8	10.2	
Interest	28.7	29.9	(4.3)	28.8	(0.6)	112	124	(10.1)
Depreciation	8.4	8.0	4.6	8.0	4.6	32	28	13.5
Other Income	1	2		(1)		9	10	
PBT (excl. Ext Items)	50	40	24.3	64	(21.0)	204	126	62.2
Ext (Income)/Expense								
PBT (incl. Ext Items)	50	40	24.3	64	(21.0)	204	126	62.2
(% of Sales)	5.7	4.9		6.2		5.9	4.8	
Provision for Taxation	18	13		14		60	32	
(% of PBT)	36.0	32.1		22.1		29.2	25.7	
Reported PAT	32	27	17.1	50	(35.1)	145	94	54.6
PATM	3.6	3.3		4.8		4.2	3.6	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	32	27	17.1	50	(35.1)	145	94	54.6

Source: Company, Angel Research

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~16% to ~₹4,646cr 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 ~19% to ₹207cr over the same period on the back of strong revenue and lower interest costs. At the CMP of ₹433, the stock trades at 15x its FY2020E EPS of ₹26.8, **thus, we maintain our Buy rating on KEI Industry with the Target Price of ₹508.**

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	4,049	4,646
% chg	13.0	31.8	16.8	14.7
Total Expenditure	2,360	3,126	3,644	4,181
Raw Material	1,828	2,411	2,859	3,280
Personnel	112	147	170	195
Others Expenses	420	568	615	706
EBITDA	269	339	405	465
% chg	11.0	26.2	19.4	14.7
(% of Net Sales)	10.2	9.8	10.0	10.0
Depreciation & Amortisation	28	32	35	40
EBIT	240	307	370	425
% chg	10.8	27.7	20.4	15.0
(% of Net Sales)	9.1	8.9	9.1	9.1
Interest & other Charges	124	112	121	127
Other Income	10	9	10	10
(% of PBT)	8.0	4.5	3.9	3.2
Share in profit of Associates	-	-	-	-
Recurring PBT	126	204	259	309
% chg	32.2	62.2	26.7	19.1
Tax	32	60	86	102
(% of PBT)	25.7	29.2	33.0	33.0
PAT (reported)	94	145	174	207
Extraordinary Items	-	-	-	-
ADJ. PAT	94	145	174	207
% chg	50.6	54.6	19.9	19.1
(% of Net Sales)	3.6	4.2	4.3	4.4
Basic EPS (Rs)	12.1	18.7	22.5	26.8
Fully Diluted EPS (₹)	12.1	18.7	22.5	26.8
% chg	50.6	54.6	19.9	19.1

Balance Sheet

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	16
Reserves & Surplus	458	593	752	942
Shareholders' Funds	473	608	768	958
Minority Interest	-	-	-	-
Total Loans	713	750	750	750
Deferred Tax Liability	46	46	46	46
Total Liabilities	1,233	1,404	1,564	1,755
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	2,158	2,514
Inventories	499	665	777	891
Sundry Debtors	739	883	1,032	1,184
Cash	37	76	107	160
Loans & Advances	119	173	202	232
Other Assets	5	34	40	46
Current liabilities	582	829	992	1,149
Net Current Assets	818	1,001	1,166	1,365
Deferred Tax Asset	3	3	3	3
Mis. Exp. not written off	-	-	-	-
Total Assets	1,233	1,404	1,564	1,755

Consolidated Cash Flow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	134	204	259	309
Depreciation	34	32	35	40
Change in Working Capital	(259)	(145)	(134)	(145)
Interest / Dividend (Net)	123	112	121	127
Direct taxes paid	(30)	(60)	(86)	(102)
Others	3	0	0	0
Cash Flow from Operations	4	144	196	227
(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)	(121)	(127)
Cash Flow from Financing	89	(85)	(135)	(143)
Inc./(Dec.) in Cash	31	39	31	53
Opening Cash balances	6	37	76	107
Closing Cash balances	37	76	107	160

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	33.2	21.4	17.9	15.0
P/CEPS	25.4	17.5	14.9	12.6
P/BV	6.6	5.1	4.0	3.2
Dividend yield (%)	0.2	0.3	0.4	0.5
EV/Sales	1.4	1.1	0.9	0.8
EV/EBITDA	14.1	11.1	9.2	7.9
EV / Total Assets	3.1	2.7	2.4	2.1
Per Share Data (₹)				
EPS (Basic)	12.1	18.7	22.5	26.8
EPS (fully diluted)	12.1	18.7	22.5	26.8
Cash EPS	15.8	22.9	27.0	31.9
DPS	0.7	1.3	1.8	2.1
Book Value	61.3	78.7	99.4	124.0
Returns (%)				
ROCE	20.3	22.6	24.4	24.9
Angel ROIC (Pre-tax)	21.0	24.0	26.3	27.5
ROE	19.8	23.8	22.6	21.6
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.3	5.6	6.2	6.8
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

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

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%)