

## KEI Industries

### Performance Update

| Y/E March (₹ cr)    | 3QFY18     | 3QFY17     | % yoy     | 2QFY18     | % qoq     |
|---------------------|------------|------------|-----------|------------|-----------|
| <b>Net sales</b>    | <b>889</b> | <b>715</b> | <b>24</b> | <b>749</b> | <b>19</b> |
| EBITDA              | 84         | 77         | 10        | 76         | 11        |
| EBITDA margin (%)   | 9.5        | 10.7       | (126bp)   | 10.2       | (7bp)     |
| <b>Adjusted PAT</b> | <b>39</b>  | <b>26</b>  | <b>51</b> | <b>29</b>  | <b>37</b> |

Source: Company, Angel Research

For 3QFY2018, KEI Industries (KEI) posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~24% yoy (above our estimate), however, the company reported lower operating margins. On the bottom-line front, KEI reported growth of ~51% yoy to ₹39cr on the back of strong top-line growth and lower interest cost.

**Top-line driven by strong volume growth:** The company's top-line grew by ~24% yoy to ₹889cr on the back of strong growth in volume (grew by ~19% yoy) and price hike. Currently the company has order book of ₹2,331cr (out which EPC is around ₹1,290cr and balance from cables, substation & EHV)

**Strong revenue growth and lower interest cost boost overall profitability:** On the operating front, the company's margin remained lower on yoy at 9.5%. The company reported ~51% yoy rise in its net profit to ₹39cr on the back of strong revenue growth and lower interest cost.

**Outlook and Valuation:** We expect KEI to report net revenue CAGR of ~18% to ~₹3,660cr over FY2017-19E 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 ~26% to ₹156cr over the same period on the back strong revenue and lower interest costs. At the CMP of ₹400, the stock trades at 19.8x its FY2019E EPS of ₹20.3. **Thus, we maintain our Buy rating with the Target Price of ₹486.**

### Key Financials

| Y/E March (₹ cr)       | FY2016       | FY2017       | FY2018E      | FY2019E      |
|------------------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>       | <b>2,326</b> | <b>2,633</b> | <b>3,144</b> | <b>3,660</b> |
| % chg                  | 14.5         | 13.2         | 19.4         | 16.4         |
| <b>Adj. Net profit</b> | <b>62</b>    | <b>98</b>    | <b>124</b>   | <b>156</b>   |
| % chg                  | 91.0         | 58.0         | 26.3         | 26.0         |
| EBITDA margin (%)      | 10.4         | 10.4         | 9.9          | 10.0         |
| <b>EPS (₹)</b>         | <b>8.1</b>   | <b>12.7</b>  | <b>16.1</b>  | <b>20.3</b>  |
| P/E (x)                | 49.7         | 31.4         | 24.9         | 19.8         |
| P/BV (x)               | 8.4          | 6.7          | 5.4          | 4.3          |
| RoE (%)                | 17.0         | 21.4         | 21.6         | 21.8         |
| RoCE (%)               | 25.1         | 24.5         | 24.4         | 25.4         |
| EV/Sales (x)           | 1.5          | 1.4          | 1.2          | 1.0          |
| EV/EBITDA (x)          | 14.8         | 13.1         | 11.6         | 9.9          |

Source: Company, Angel Research Note: CMP as of January 25, 2018

## BUY

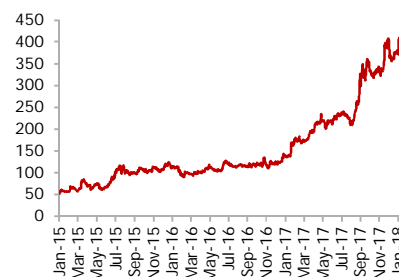
|                    |          |
|--------------------|----------|
| CMP                | ₹400     |
| Target Price       | ₹486     |
| Investment Period  | 12 month |
| Stock Info         |          |
| Sector             | Cable    |
| Market Cap (Rs cr) | 3,136    |
| Net Debt           | 510      |
| Beta               | 0.6      |
| 52 Week High / Low | 423/134  |
| Avg. Daily Volume  | 16,814   |
| Face Value (Rs)    | 10       |
| BSE Sensex         | 36,050   |
| Nifty              | 11,070   |
| Reuters Code       | KEIN.BO  |
| Bloomberg Code     | KEI.IN   |

### Shareholding Pattern (%)

|                         |      |
|-------------------------|------|
| Promoters               | 46.3 |
| MF / Banks / Indian FIs | 12.4 |
| FII / NRIs / OCBs       | 6.4  |
| Indian Public / Others  | 34.9 |

| Abs. (%) | 3m   | 1yr   | 3yr   |
|----------|------|-------|-------|
| Sensex   | 10.9 | 32.1  | 22.3  |
| KEI      | 25.4 | 190.0 | 647.0 |

### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 3QFY2018 Performance**

| Y/E March ( ` cr)            | 3QFY18     | 3QFY17     | % yoy       | 2QFY18     | % qoq       | 9MFY18       | 9MFY17       | % yoy       |
|------------------------------|------------|------------|-------------|------------|-------------|--------------|--------------|-------------|
| <b>Net Sales</b>             | <b>889</b> | <b>715</b> | <b>24.3</b> | <b>749</b> | <b>18.7</b> | <b>2,428</b> | <b>1,889</b> | <b>28.5</b> |
| Consumption of RM            | 621        | 483        | 28.6        | 524        | 18.5        | 1,695        | 1,289        | 31.6        |
| (% of Sales)                 | 69.9       | 67.6       |             | 70.0       |             | 69.8         | 68.2         |             |
| Staff Costs                  | 37         | 29         | 28.6        | 35         | 7.0         | 106          | 80           | 32.5        |
| (% of Sales)                 | 4.2        | 4.0        |             | 4.6        |             | 4.4          | 4.2          |             |
| Other Expenses               | 146        | 126        | 15.8        | 114        | 28.3        | 390          | 325          | 20.0        |
| (% of Sales)                 | 16.5       | 17.7       |             | 15.2       |             | 16.0         | 17.2         |             |
| <b>Total Expenditure</b>     | <b>804</b> | <b>638</b> | <b>26.0</b> | <b>673</b> | <b>19.6</b> | <b>2,191</b> | <b>1,693</b> | <b>29.4</b> |
| <b>Operating Profit</b>      | <b>84</b>  | <b>77</b>  | <b>9.7</b>  | <b>76</b>  | <b>10.6</b> | <b>237</b>   | <b>196</b>   | <b>21.0</b> |
| OPM                          | 9.5        | 10.7       |             | 10.2       |             | 9.8          | 10.4         |             |
| Interest                     | 25.1       | 34.0       | (26.0)      | 27.4       | (8.1)       | 82           | 94           | (12.5)      |
| Depreciation                 | 8.2        | 7.1        | 15.3        | 8.1        | 1.8         | 24           | 21           | 17.4        |
| Other Income                 | 7          | 0          |             | 1          |             | 10           | 3            |             |
| <b>PBT (excl. Ext Items)</b> | <b>58</b>  | <b>36</b>  | <b>61.5</b> | <b>42</b>  | <b>39.3</b> | <b>141</b>   | <b>84</b>    | <b>66.5</b> |
| Ext (Income)/Expense         |            |            |             |            |             |              |              |             |
| <b>PBT (incl. Ext Items)</b> | <b>58</b>  | <b>36</b>  | <b>61.5</b> | <b>42</b>  | <b>39.3</b> | <b>141</b>   | <b>84</b>    | <b>66.5</b> |
| (% of Sales)                 | 6.6        | 5.0        |             | 5.6        |             | 5.8          | 4.5          |             |
| Provision for Taxation       | 19         | 10         |             | 13         |             | 46           | 26           |             |
| (% of PBT)                   | 33.0       | 28.2       |             | 31.9       |             | 32.4         | 30.7         |             |
| <b>Reported PAT</b>          | <b>39</b>  | <b>26</b>  | <b>50.7</b> | <b>29</b>  | <b>36.9</b> | <b>95</b>    | <b>59</b>    | <b>62.3</b> |
| PATM                         | 4.4        | 3.6        |             | 3.8        |             | 3.9          | 3.1          |             |

Source: Company, Angel Research

## Outlook and Valuation

We expect KEI to report net revenue CAGR of ~18% to ~`3,660cr over FY2017-19E 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 ~26% to `156cr over the same period on the back strong revenue and lower interest costs. At the CMP of `400, the stock trades at 19.8x its FY2019E EPS of `20.3. **Thus, we maintain our Buy rating with the Target Price of `486.**

### Downside risks to our estimates include

- KEI's EPC segment contributes ~14% in 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 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 to various sectors like oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate sectors.

**Profit & Loss Statement**

| Y/E March ( ` cr)              | FY2015       | FY2016       | FY2017       | FY2018E      | FY2019E      |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total operating income</b>  | <b>2,031</b> | <b>2,326</b> | <b>2,633</b> | <b>3,144</b> | <b>3,660</b> |
| % chg                          | 25.5         | 14.5         | 13.2         | 19.4         | 16.4         |
| <b>Total Expenditure</b>       | <b>1,838</b> | <b>2,083</b> | <b>2,359</b> | <b>2,832</b> | <b>3,294</b> |
| Raw Material                   | 1,477        | 1,615        | 1,829        | 2,207        | 2,584        |
| Personnel                      | 62           | 83           | 111          | 126          | 154          |
| Others Expenses                | 299          | 386          | 419          | 500          | 556          |
| <b>EBITDA</b>                  | <b>193</b>   | <b>242</b>   | <b>274</b>   | <b>311</b>   | <b>366</b>   |
| % chg                          | 26.0         | 25.6         | 13.1         | 13.6         | 17.6         |
| (% of Net Sales)               | 9.5          | 10.4         | 10.4         | 9.9          | 10.0         |
| Depreciation & Amortisation    | 25           | 25           | 28           | 30           | 32           |
| <b>EBIT</b>                    | <b>168</b>   | <b>217</b>   | <b>246</b>   | <b>281</b>   | <b>334</b>   |
| % chg                          | 27.4         | 28.9         | 13.4         | 14.2         | 18.9         |
| (% of Net Sales)               | 8.3          | 9.3          | 9.3          | 8.9          | 9.1          |
| Interest & other Charges       | 120          | 127          | 123          | 107          | 111          |
| Other Income                   | 5            | 5            | 10           | 11           | 11           |
| (% of PBT)                     | 9.4          | 5.6          | 7.8          | 5.9          | 4.7          |
| Share in profit of Associates  | -            | -            | -            | -            | -            |
| <b>Recurring PBT</b>           | <b>53</b>    | <b>95</b>    | <b>134</b>   | <b>185</b>   | <b>234</b>   |
| % chg                          | 142.3        | 80.3         | 40.1         | 38.7         | 26.0         |
| Tax                            | 19           | 33           | 35           | 61           | 77           |
| (% of PBT)                     | 35.2         | 34.8         | 26.4         | 33.0         | 33.0         |
| <b>PAT (reported)</b>          | <b>34</b>    | <b>62</b>    | <b>98</b>    | <b>124</b>   | <b>156</b>   |
| Extraordinary Items            | 2            | -            | -            | -            | -            |
| <b>ADJ. PAT</b>                | <b>33</b>    | <b>62</b>    | <b>98</b>    | <b>124</b>   | <b>156</b>   |
| % chg                          | 180.7        | 91.0         | 58.0         | 26.3         | 26.0         |
| (% of Net Sales)               | 1.6          | 2.7          | 3.7          | 3.9          | 4.3          |
| <b>Basic EPS ( ` )</b>         | <b>4.2</b>   | <b>8.1</b>   | <b>12.7</b>  | <b>16.1</b>  | <b>20.3</b>  |
| <b>Fully Diluted EPS ( ` )</b> | <b>4.2</b>   | <b>8.1</b>   | <b>12.7</b>  | <b>16.1</b>  | <b>20.3</b>  |
| % chg                          | 180.7        | 91.0         | 58.0         | 26.3         | 26.0         |

### Balance Sheet

| Y/E March ( ` cr)           | FY2015     | FY2016     | FY2017       | FY2018E      | FY2019E      |
|-----------------------------|------------|------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>     |            |            |              |              |              |
| Equity Share Capital        | 15         | 15         | 15           | 15           | 15           |
| Reserves & Surplus          | 288        | 351        | 444          | 559          | 703          |
| <b>Shareholders Funds</b>   | <b>304</b> | <b>367</b> | <b>459</b>   | <b>574</b>   | <b>718</b>   |
| Minority Interest           | -          | -          | -            | -            | -            |
| Total Loans                 | 453        | 498        | 547          | 575          | 597          |
| Deferred Tax Liability      | 39         | 40         | 40           | 40           | 40           |
| <b>Total Liabilities</b>    | <b>796</b> | <b>905</b> | <b>1,046</b> | <b>1,190</b> | <b>1,355</b> |
| <b>APPLICATION OF FUNDS</b> |            |            |              |              |              |
| Gross Block                 | 445        | 500        | 544          | 559          | 589          |
| Less: Acc. Depreciation     | 147        | 172        | 200          | 230          | 262          |
| Net Block                   | <b>298</b> | <b>328</b> | <b>344</b>   | <b>329</b>   | <b>327</b>   |
| Capital Work-in-Progress    | 4          | 29         | -            | -            | -            |
| Investments                 | 3          | 3          | 3            | 3            | 3            |
| Current Assets              | 1,036      | 1,127      | 1,313        | 1,616        | 1,920        |
| Inventories                 | 440        | 422        | 490          | 594          | 702          |
| Sundry Debtors              | 480        | 567        | 649          | 792          | 932          |
| Cash                        | 5          | 6          | 37           | 41           | 66           |
| Loans & Advances            | 106        | 109        | 111          | 157          | 183          |
| Other Assets                | 5          | 22         | 26           | 31           | 37           |
| Current liabilities         | 562        | 586        | 618          | 762          | 898          |
| <b>Net Current Assets</b>   | <b>474</b> | <b>541</b> | <b>695</b>   | <b>854</b>   | <b>1,021</b> |
| <b>Deferred Tax Asset</b>   | <b>16</b>  | <b>4</b>   | <b>4</b>     | <b>4</b>     | <b>4</b>     |
| Mis. Exp. not written off   | -          | -          | -            | -            | -            |
| <b>Total Assets</b>         | <b>796</b> | <b>905</b> | <b>1,046</b> | <b>1,190</b> | <b>1,355</b> |

**Consolidated Cashflow Statement**

| Y/E March (‘ cr)                 | FY2015       | FY2016      | FY2017      | FY2018E     | FY2019E      |
|----------------------------------|--------------|-------------|-------------|-------------|--------------|
| Profit before tax                | 53           | 95          | 134         | 185         | 234          |
| Depreciation                     | 25           | 25          | 28          | 30          | 32           |
| Change in Working Capital        | 5            | (51)        | (123)       | (155)       | (143)        |
| Interest / Dividend (Net)        | 120          | 127         | 123         | 107         | 111          |
| Direct taxes paid                | (9)          | (20)        | (35)        | (61)        | (77)         |
| Others                           | 5            | 8           | 0           | 0           | 0            |
| <b>Cash Flow from Operations</b> | <b>198</b>   | <b>185</b>  | <b>126</b>  | <b>106</b>  | <b>157</b>   |
| (Inc.)/ Dec. in Fixed Assets     | (17)         | (98)        | (44)        | (15)        | (30)         |
| (Inc.)/ Dec. in Investments      | 0            | 0           | 29          | 0           | 0            |
| <b>Cash Flow from Investing</b>  | <b>(17)</b>  | <b>(98)</b> | <b>(15)</b> | <b>(15)</b> | <b>(30)</b>  |
| Issue of Equity                  | 0            | 0           | 0           | 0           | 0            |
| Inc./(Dec.) in loans             | 44           | 92          | 49          | 28          | 21           |
| Dividend Paid (Incl. Tax)        | (2)          | (3)         | (6)         | (9)         | (13)         |
| Interest / Dividend (Net)        | (224)        | (175)       | (123)       | (107)       | (111)        |
| <b>Cash Flow from Financing</b>  | <b>(181)</b> | <b>(87)</b> | <b>(80)</b> | <b>(87)</b> | <b>(103)</b> |
| Inc./(Dec.) in Cash              | 0            | 1           | 31          | 4           | 25           |
| <b>Opening Cash balances</b>     | <b>5</b>     | <b>5</b>    | <b>6</b>    | <b>37</b>   | <b>41</b>    |
| <b>Closing Cash balances</b>     | <b>5</b>     | <b>6</b>    | <b>37</b>   | <b>41</b>   | <b>66</b>    |

**Key Ratios**

| Y/E March                    | FY2015 | FY2016 | FY2017 | FY2018E | FY2019E |
|------------------------------|--------|--------|--------|---------|---------|
| <b>Valuation Ratio (x)</b>   |        |        |        |         |         |
| P/E (on FDEPS)               | 94.9   | 49.7   | 31.4   | 24.9    | 19.8    |
| P/CEPS                       | 52.5   | 35.3   | 24.5   | 20.0    | 16.4    |
| P/BV                         | 10.2   | 8.4    | 6.7    | 5.4     | 4.3     |
| Dividend yield (%)           | 0.1    | 0.1    | 0.2    | 0.3     | 0.4     |
| EV/Sales                     | 1.7    | 1.5    | 1.4    | 1.2     | 1.0     |
| EV/EBITDA                    | 18.3   | 14.8   | 13.1   | 11.6    | 9.9     |
| EV / Total Assets            | 4.4    | 4.0    | 3.4    | 3.0     | 2.7     |
| <b>Per Share Data (₹)</b>    |        |        |        |         |         |
| EPS (Basic)                  | 4.2    | 8.1    | 12.7   | 16.1    | 20.3    |
| EPS (fully diluted)          | 4.2    | 8.1    | 12.7   | 16.1    | 20.3    |
| Cash EPS                     | 7.6    | 11.3   | 16.4   | 20.0    | 24.4    |
| DPS                          | 0.4    | 0.5    | 0.8    | 1.1     | 1.6     |
| Book Value                   | 39.3   | 47.5   | 59.4   | 74.4    | 93.0    |
| <b>Returns (%)</b>           |        |        |        |         |         |
| ROCE                         | 22.2   | 25.1   | 24.5   | 24.4    | 25.4    |
| Angel ROIC (Pre-tax)         | 22.5   | 25.4   | 25.5   | 25.4    | 26.8    |
| ROE                          | 10.7   | 17.0   | 21.4   | 21.6    | 21.8    |
| <b>Turnover ratios (x)</b>   |        |        |        |         |         |
| Asset Turnover (Gross Block) | 4.6    | 4.7    | 4.8    | 5.6     | 6.2     |
| 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. Analyst ownership of the stock                                  | No             |
| 2. Angel and its Group companies ownership of the stock            | No             |
| 3. Angel and its Group companies' Directors ownership of the stock | No             |
| 4. Broking relationship with company covered                       | No             |

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

|                           |                                     |   |                    |
|---------------------------|-------------------------------------|---|--------------------|
| <b>Ratings (Returns):</b> | Buy (> 15%)<br>Reduce (-5% to -15%) | Accumulate (5% to 15%)<br>Sell (< -15%) | Neutral (-5 to 5%) |
|---------------------------|-------------------------------------|---|--------------------|