

## KEI Industries

### Performance Update

| Y/E March (₹ cr)    | 4QFY18       | 4QFY17     | % yoy     | 3QFY18     | % qoq     |
|---------------------|--------------|------------|-----------|------------|-----------|
| <b>Net sales</b>    | <b>1,030</b> | <b>739</b> | <b>39</b> | <b>889</b> | <b>16</b> |
| EBITDA              | 101          | 73         | 39        | 84         | 20        |
| EBITDA margin (%)   | 9.8          | 9.9        | (0.05bps) | 9.5        | 0.3       |
| <b>Adjusted PAT</b> | <b>50</b>    | <b>35</b>  | <b>40</b> | <b>39</b>  | <b>27</b> |

Source: Company, Angel Research

For 4QFY2018, KEI Industries (KEI) posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~39% yoy (above our estimate), however, the company reported flat operating margins. On the bottom-line front, KEI reported growth of ~40% yoy to ₹50cr 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 ~39% yoy to ₹1,030cr on the back of strong growth in cable prime segment i.e. Cables and Turnkey Projects. Cable segment grew by ~24.3% yoy during the quarter, whereas Turnkey Projects reported a growth of ~42% yoy. Currently, the company has order book of ₹2,570cr (out of which EPC is around ₹1,425cr and balance from cables, substation & EHV)

**Profitability driven by strong revenue growth and lower interest:** On the operating front, the company's margin remained flat on yoy basis at 9.8%. However, KEI reported ~40% yoy rise in its net profit to ₹50cr on the back of strong revenue growth and lower interest cost.

**Outlook and Valuation:** We expect KEI to report net revenue CAGR of ~16% to ~₹4,646cr over FY2018-19E 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 ~19% to ₹207cr over the same period on the back strong revenue and lower interest costs. At the CMP of ₹433, the stock trades at 16.2x its FY2020E EPS of ₹26.8. **Thus, we maintain our Buy rating with the Target Price of ₹508.**

#### Key Financials

| Y/E March (₹ cr)       | FY2017       | FY2018       | FY2019E      | FY2020E      |
|------------------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>       | <b>2,628</b> | <b>3,466</b> | <b>4,049</b> | <b>4,646</b> |
| % chg                  | 13.0         | 31.8         | 16.8         | 14.7         |
| <b>Adj. Net profit</b> | <b>94</b>    | <b>145</b>   | <b>174</b>   | <b>207</b>   |
| % chg                  | 50.6         | 54.6         | 19.9         | 19.1         |
| EBITDA margin (%)      | 10.2         | 9.8          | 10.0         | 10.0         |
| <b>EPS (₹)</b>         | <b>12.1</b>  | <b>18.7</b>  | <b>22.5</b>  | <b>26.8</b>  |
| P/E (x)                | 35.7         | 23.1         | 19.3         | 16.2         |
| P/BV (x)               | 7.1          | 5.5          | 4.4          | 3.5          |
| RoE (%)                | 19.8         | 23.8         | 22.6         | 21.6         |
| RoCE (%)               | 20.3         | 22.6         | 24.4         | 24.9         |
| EV/Sales (x)           | 1.5          | 1.2          | 1.0          | 0.8          |
| EV/EBITDA (x)          | 14.9         | 11.8         | 9.8          | 8.5          |

Source: Company, Angel Research Note

## BUY

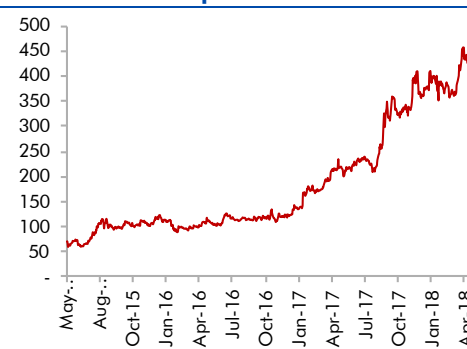
|                   |           |
|-------------------|-----------|
| CMP               | ₹433      |
| Target Price      | ₹508      |
| Investment Period | 12 months |

| Stock Info         |         |
|--------------------|---------|
| Sector             | Cable   |
| Market Cap (Rs cr) | 3,393   |
| Net Debt           | 750     |
| Beta               | 0.6     |
| 52 Week High / Low | 471/198 |
| Avg. Daily Volume  | 16,814  |
| Face Value (Rs)    | 2       |
| BSE Sensex         | 33,812  |
| Nifty              | 10,442  |
| Reuters Code       | KEIN.BO |
| Bloomberg Code     | KEII.IN |

| Shareholding Pattern (%) |      |
|--------------------------|------|
| Promoters                | 46.3 |
| MF / Banks / Indian Fls  | 12.4 |
| FII / NRIs / OCBs        | 6.4  |
| Indian Public / Others   | 34.9 |

| Abs. (%) | 3m   | 1yr   | 3yr   |
|----------|------|-------|-------|
| Sensex   | 7.4  | 27.1  | 22.9  |
| KEI      | 16.3 | 100.5 | 553.8 |

#### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 4QFY2018 Performance**

| Y/E March (₹ cr)             | 4QFY18       | 4QFY17     | % yoy       | 3QFY18       | % qoq       | FY2018       | FY2017       | % chg       |
|------------------------------|--------------|------------|-------------|--------------|-------------|--------------|--------------|-------------|
| <b>Net Sales</b>             | <b>1,030</b> | <b>739</b> | <b>39.4</b> | <b>889</b>   | <b>16.0</b> | <b>3,466</b> | <b>2,628</b> | <b>31.8</b> |
| Consumption of RM            | 715.7        | 539        | 32.8        | 621          | 15.2        | 2,411        | 1,828        | 31.9        |
| (% of Sales)                 | 69.5         | 72.9       |             | 69.9         |             | 69.6         | 69.5         |             |
| Staff Costs                  | 41           | 32         | 28.7        | 37           | 10.7        | 147          | 112          | 31.4        |
| (% of Sales)                 | 4.0          | 4.3        |             | 4.2          |             | 4.2          | 4.3          |             |
| Other Expenses               | 173          | 95         | 81.1        | 146          | 18.2        | 568          | 420          | 35.2        |
| (% of Sales)                 | 16.8         | 12.9       |             | 16.5         |             | 16.4         | 16.0         |             |
| <b>Total Expenditure</b>     | <b>929</b>   | <b>666</b> | <b>39.5</b> | <b>804</b>   | <b>15.5</b> | <b>3,126</b> | <b>2,360</b> | <b>32.5</b> |
| <b>Operating Profit</b>      | <b>101</b>   | <b>73</b>  | <b>38.7</b> | <b>84</b>    | <b>19.9</b> | <b>339</b>   | <b>269</b>   | <b>26.2</b> |
| OPM                          | 9.8          | 9.9        |             | 9.5          |             | 9.8          | 10.2         |             |
| Interest                     | 28.8         | 30.2       | (4.4)       | 25.1         | 14.6        | 112          | 124          | (10.1)      |
| Depreciation                 | 8.0          | 7.8        | 3.0         | 8.2          | (2.8)       | 32           | 28           | 13.5        |
| Other Income                 | (1)          | 7          |             | 7            |             | 9            | 10           |             |
| <b>PBT (excl. Ext Items)</b> | <b>64</b>    | <b>42</b>  | <b>52.1</b> | <b>58</b>    | <b>9.2</b>  | <b>204</b>   | <b>126</b>   | <b>62.2</b> |
| Ext (Income)/Expense         |              |            |             |              |             |              |              |             |
| <b>PBT (incl. Ext Items)</b> | <b>64</b>    | <b>42</b>  | <b>52.1</b> | <b>58</b>    | <b>9.2</b>  | <b>204</b>   | <b>126</b>   | <b>62.2</b> |
| (% of Sales)                 | 6.2          | 5.7        |             | 6.6          |             | 5.9          | 4.8          |             |
| Provision for Taxation       | 14           | 7          |             | 19           |             | 60           | 32           |             |
| (% of PBT)                   | 22.1         | 15.6       |             | 33.0         |             | 29.2         | 25.7         |             |
| <b>Reported PAT</b>          | <b>50</b>    | <b>35</b>  | <b>40.4</b> | <b>39</b>    | <b>27.0</b> | <b>145</b>   | <b>94</b>    | <b>54.6</b> |
| PATM                         | 4.8          | 4.8        |             | 4.4          |             | 4.2          | 3.6          |             |
| Minority Interest After NP   |              |            |             |              |             |              |              |             |
| Extra-ordinary Items         |              |            |             |              |             |              |              |             |
| <b>Reported PAT</b>          | <b>50</b>    | <b>35</b>  | <b>40.4</b> | <b>39.02</b> | <b>27.0</b> | <b>144.8</b> | <b>93.6</b>  | <b>54.6</b> |

Source: Company, Angel Research

## Outlook and Valuation

We expect KEI to report net revenue CAGR of ~16% to ~₹4,646cr over FY2018-19E 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 ~19% to ₹207cr over the same period on the back strong revenue and lower interest costs. At the CMP of ₹433, the stock trades at 16.2x its FY2020E EPS of ₹26.8. **Thus, we maintain our Buy rating with the Target Price of ₹508.**

## Downside risks to our estimates

- 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)               | FY2017       | FY2018       | FY2019E      | FY2020E      |
|-------------------------------|--------------|--------------|--------------|--------------|
| <b>Total operating income</b> | <b>2,628</b> | <b>3,466</b> | <b>4,049</b> | <b>4,646</b> |
| % chg                         | 13.0         | 31.8         | 16.8         | 14.7         |
| <b>Total Expenditure</b>      | <b>2,360</b> | <b>3,126</b> | <b>3,644</b> | <b>4,181</b> |
| Raw Material                  | 1,828        | 2,411        | 2,859        | 3,280        |
| Personnel                     | 112          | 147          | 170          | 195          |
| Others Expenses               | 420          | 568          | 615          | 706          |
| <b>EBITDA</b>                 | <b>269</b>   | <b>339</b>   | <b>405</b>   | <b>465</b>   |
| % 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           |
| <b>EBIT</b>                   | <b>240</b>   | <b>307</b>   | <b>370</b>   | <b>425</b>   |
| % 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 | -            | -            | -            | -            |
| <b>Recurring PBT</b>          | <b>126</b>   | <b>204</b>   | <b>259</b>   | <b>309</b>   |
| % chg                         | 32.2         | 62.2         | 26.7         | 19.1         |
| Tax                           | 32           | 60           | 86           | 102          |
| (% of PBT)                    | 25.7         | 29.2         | 33.0         | 33.0         |
| <b>PAT (reported)</b>         | <b>94</b>    | <b>145</b>   | <b>174</b>   | <b>207</b>   |
| Extraordinary Items           | -            | -            | -            | -            |
| <b>ADJ. PAT</b>               | <b>94</b>    | <b>145</b>   | <b>174</b>   | <b>207</b>   |
| % chg                         | 50.6         | 54.6         | 19.9         | 19.1         |
| (% of Net Sales)              | 3.6          | 4.2          | 4.3          | 4.4          |
| <b>Basic EPS (Rs)</b>         | <b>12.1</b>  | <b>18.7</b>  | <b>22.5</b>  | <b>26.8</b>  |
| <b>Fully Diluted EPS (₹)</b>  | <b>12.1</b>  | <b>18.7</b>  | <b>22.5</b>  | <b>26.8</b>  |
| % chg                         | 50.6         | 54.6         | 19.9         | 19.1         |

**Balance Sheet**

| Y/E March (₹cr)             | FY2017       | FY2018       | FY2019E      | FY2020E      |
|-----------------------------|--------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>     |              |              |              |              |
| Equity Share Capital        | 16           | 16           | 16           | 16           |
| Reserves & Surplus          | 458          | 593          | 752          | 942          |
| <b>Shareholders Funds</b>   | <b>473</b>   | <b>608</b>   | <b>768</b>   | <b>958</b>   |
| Minority Interest           | -            | -            | -            | -            |
| Total Loans                 | 713          | 750          | 750          | 750          |
| Deferred Tax Liability      | 46           | 46           | 46           | 46           |
| <b>Total Liabilities</b>    | <b>1,233</b> | <b>1,404</b> | <b>1,564</b> | <b>1,755</b> |
| <b>APPLICATION OF FUNDS</b> |              |              |              |              |
| Gross Block                 | 604          | 624          | 654          | 685          |
| Less: Acc. Depreciation     | 199          | 231          | 266          | 306          |
| Net Block                   | <b>405</b>   | <b>393</b>   | <b>388</b>   | <b>380</b>   |
| 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        |
| <b>Net Current Assets</b>   | <b>818</b>   | <b>1,001</b> | <b>1,166</b> | <b>1,365</b> |
| <b>Deferred Tax Asset</b>   | <b>3</b>     | <b>3</b>     | <b>3</b>     | <b>3</b>     |
| Mis. Exp. not written off   | -            | -            | -            | -            |
| <b>Total Assets</b>         | <b>1,233</b> | <b>1,404</b> | <b>1,564</b> | <b>1,755</b> |

**Consolidated Cashflow 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            |
| <b>Cash Flow from Operations</b> | <b>4</b>    | <b>144</b>  | <b>196</b>   | <b>227</b>   |
| (Inc.)/ Dec. in Fixed Assets     | 1           | (20)        | (30)         | (31)         |
| (Inc.)/ Dec. in Investments      | (62)        | 0           | 0            | 0            |
| <b>Cash Flow from Investing</b>  | <b>(62)</b> | <b>(20)</b> | <b>(30)</b>  | <b>(31)</b>  |
| 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)        |
| <b>Cash Flow from Financing</b>  | <b>89</b>   | <b>(85)</b> | <b>(135)</b> | <b>(143)</b> |
| Inc./ (Dec.) in Cash             | 31          | 39          | 31           | 53           |
| <b>Opening Cash balances</b>     | <b>6</b>    | <b>37</b>   | <b>76</b>    | <b>107</b>   |
| <b>Closing Cash balances</b>     | <b>37</b>   | <b>76</b>   | <b>107</b>   | <b>160</b>   |

### Key Ratios

| Y/E March                              | FY2017 | FY2018 | FY2019E | FY2020E |
|--|--------|--------|---------|---------|
| <b>Valuation Ratio (x)</b>             |        |        |         |         |
| P/E (on FDEPS)                         | 35.7   | 23.1   | 19.3    | 16.2    |
| P/CEPS                                 | 27.4   | 18.9   | 16.0    | 13.6    |
| P/BV                                   | 7.1    | 5.5    | 4.4     | 3.5     |
| Dividend yield (%)                     | 0.2    | 0.3    | 0.4     | 0.5     |
| EV/Sales                               | 1.5    | 1.2    | 1.0     | 0.8     |
| EV/EBITDA                              | 14.9   | 11.8   | 9.8     | 8.5     |
| EV / Total Assets                      | 3.3    | 2.9    | 2.5     | 2.2     |
| <b>Per Share Data (₹)</b>              |        |        |         |         |
| 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   |
| <b>Returns (%)</b>                     |        |        |         |         |
| 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    |
| <b>Turnover ratios (x)</b>             |        |        |         |         |
| 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     |

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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%) |
|---------------------------|-------------------------------------|---|--------------------|