

KEI Industries

Performance Update

Y/E March (₹ cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq
Net sales	1,081	884	22	1,259	(14)
EBITDA	114	86	32	138	(17)
EBITDA margin (%)	10.5	9.7	79bp	10.9	(39bp)
Adjusted PAT	46	32	42	60	(24)

Source: Company, Angel Research

For 1QFY2020, 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 ~42% yoy to ₹46cr on the back of strong top-line growth.

Strong growth in Cable and Turnkey Projects segment boosted the overall profit:

The company's top-line grew by ~22% yoy to ₹1,081cr on the back of strong growth in Cables and Turnkey Projects segments. Cables segment grew by ~22% yoy during the quarter, whereas Turnkey Projects reported a growth of ~36% yoy. However, Stainless Steel Wire grew only ~6% yoy. Currently, the company has order book of ₹4,414cr (out of which EPC is around ₹2,210cr, EHV is ₹532cr, cables is ₹1,029cr and balance from export)

Profitability driven by strong volume and operating margin improvement: On the operating front, the company's margins improved 79bps yoy at 10.5% on the back of other expenses. KEI reported ~42% yoy rise in its net profit to ₹46cr.

Outlook and Valuation: We expect KEI to report net revenue CAGR of ~15% to ~₹5,632cr 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 ~22% to ₹269cr 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 ₹556.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net sales	3,466	4,227	4,897	5,632
% chg	31.8	22.0	15.9	15.0
Adj. Net profit	145	182	223	269
% chg	54.6	25.6	22.6	20.7
EBITDA margin (%)	9.8	10.5	10.5	10.5
EPS (₹)	18.7	23.5	28.9	34.8
P/E (x)	24.7	19.7	16.1	13.3
P/BV (x)	5.9	4.6	3.7	2.9
RoE (%)	23.8	23.5	22.7	21.9
RoCE (%)	22.6	33.1	32.3	32.0
EV/Sales (x)	1.2	0.9	0.8	0.7
EV/EBITDA (x)	12.5	8.7	7.5	6.4

Source: Company, Angel Research Note

BUY

CMP	₹464
Target Price	₹556
Investment Period	12 months

Stock Info

Sector	Cable
Market Cap (₹ cr)	3,655
Net Debt (₹ cr)	263
Beta	0.6
52 Week High / Low	532/248
Avg. Daily Volume	39,700
Face Value (₹)	100
BSE Sensex	36,691
Nifty	10,855
Reuters Code	KEIN.BC
Bloomberg Code	KEII.IN

Shareholding Pattern (%)

Promoters	45.9
MF / Banks / Indian FIs	15.5
FII / NRIs / OCBs	10.0
Indian Public / Others	28.6

Abs. (%)	3m	1yr	3yr
Sensex	(4.2)	(1.9)	31.2
KEI	13.1	(0.8)	233.6

Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2020 Performance

Y/E March (cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq	FY2020	FY2019	% chg
Net Sales	1,081	884	22.3	1,259	(14.1)	4,227	3,459	22.2
Consumption of RM	747.3	578	29.2	907.5	(17.7)	2,935	2,411	21.7
(% of Sales)	69.1	65.4		72.1		69.4	69.7	
Staff Costs	52	41	27.1	47	8.9	173.4	147.2	17.8
(% of Sales)	4.8	4.6		3.8		4.1	4.3	
Other Expenses	169	179	(5.7)	166	1.3	676.7	562.2	20.4
(% of Sales)	15.6	20.2		13.2		16.0	16.3	
Total Expenditure	967	798	21.3	1,121	(13.7)	3,785	3,120	21.3
Operating Profit	114	86	32.3	138	(17.2)	442	338	30.7
OPM	10.5	9.7		10.9		10.5	9.8	
Interest	33.0	28.7	15.0	42.3	(22.1)	136.2	111.3	22.3
Depreciation	15.2	8.4	81.6	8.6	75.5	34.0	32.2	5.3
Other Income	5	1		4		7.2	9.3	
PBT (excl. Ext Items)	71	50	41.3	90	(21.4)	279	204	36.8
Ext (Income)/Expense								
PBT (incl. Ext Items)	71	50	41.3	90	(21.4)	279	204	36.8
(% of Sales)	6.6	5.7		7.2		6.6	5.9	
Provision for Taxation	25	18		30		97.4	59.6	
(% of PBT)	35.5	36.0		33.6		34.9	29.2	
Reported PAT	46	32	42.4	60	(23.5)	182	145	25.8
PATM	4.2	3.6		4.8		4.3	4.2	
Minority Interest After NP								
Extra-ordinary Items								
Reported PAT	46	32	42.4	59.9	(23.5)	182	145	25.8

Source: Company, Angel Research

Outlook and Valuation

We expect KEI to report net revenue CAGR of ~15% to ~`5,632cr 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 ~22% to `269cr 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 `556.**

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	4,897	5,632
% chg	31.8	22.0	15.9	15.0
Total Expenditure	3,126	3,785	4,383	5,041
Raw Material	2,411	2,935	3,458	3,976
Personnel	147	173	206	237
Others Expenses	568	677	720	828
EBITDA	339	442	514	591
% chg	26.2	30.3	16.3	15.0
(% of Net Sales)	9.8	10.5	10.5	10.5
Depreciation & Amortisation	32	34	50	52
EBIT	307	408	464	539
% chg	27.7	33.0	13.7	16.1
(% of Net Sales)	8.9	9.7	9.5	9.6
Interest & other Charges	112	136	138	145
Other Income	9	7	7	7
(% of PBT)	4.5	2.6	2.2	1.8
Share in profit of Associates	-	-	-	-
Recurring PBT	204	279	333	402
% chg	62.2	36.6	19.1	20.7
Tax	60	97	110	133
(% of PBT)	29.2	34.9	33.0	33.0
PAT (reported)	145	182	223	269
Extraordinary Items	-	-	-	-
ADJ. PAT	145	182	223	269
% chg	54.6	25.6	22.6	20.7
(% of Net Sales)	4.2	4.3	4.6	4.8
Basic EPS (Rs)	18.7	23.5	28.9	34.8
Fully Diluted EPS (`)	18.7	23.5	28.9	34.8
% chg	54.6	25.6	22.6	20.7

Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	16
Reserves & Surplus	593	760	965	1,213
Shareholders' Funds	608	775	981	1,228
Minority Interest	-	-	-	-
Total Loans	750	458	458	458
Deferred Tax Liability	46	46	46	46
Total Liabilities	1,404	1,280	1,486	1,735
APPLICATION OF FUNDS				
Gross Block	624	654	684	714
Less: Acc. Depreciation	231	265	315	368
Net Block	393	389	369	347
Capital Work-in-Progress	3	3	3	3
Investments	3	3	4	4
Current Assets	1,830	2,182	2,492	2,891
Inventories	665	695	805	926
Sundry Debtors	883	1,089	1,248	1,435
Cash	76	195	204	260
Loans & Advances	173	199	230	265
Other Assets	34	4	5	6
Current Liabilities	829	1,301	1,385	1,515
Net Current Assets	1,001	881	1,106	1,376
Deferred Tax Asset	3	3	3	4
Mis. Exp. not written off	-	-	-	-
Total Assets	1,404	1,280	1,486	1,735

Consolidated Cash Flow Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	204	279	333	402
Depreciation	32	34	50	52
Change in Working Capital	(145)	240	(217)	(214)
Interest / Dividend (Net)	112	136	138	145
Direct taxes paid	(60)	(97)	(110)	(133)
Others	0	0	0	0
Cash Flow from Operations	144	592	195	252
(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)	(18)	(22)
Interest / Dividend (Net)	(112)	(136)	(138)	(145)
Cash Flow from Financing	(85)	(442)	(156)	(166)
Inc./(Dec.) in Cash	39	120	8	56
Opening Cash balances	37	76	195	204
Closing Cash balances	76	195	204	260

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	24.7	19.7	16.1	13.3
P/CEPS	20.2	16.6	13.1	11.1
P/BV	5.9	4.6	3.7	2.9
Dividend yield (%)	0.3	0.4	0.5	0.6
EV/Sales	1.2	0.9	0.8	0.7
EV/EBITDA	12.5	8.7	7.5	6.4
EV / Total Assets	3.0	3.0	2.6	2.2
Per Share Data (₹)				
EPS (Basic)	18.7	23.5	28.9	34.8
EPS (fully diluted)	18.7	23.5	28.9	34.8
Cash EPS	22.9	27.9	35.4	41.6
DPS	1.3	1.9	2.3	2.8
Book Value	78.7	100.4	126.9	159.0
Returns (%)				
ROCE	22.6	33.1	32.3	32.0
Angel ROIC (Pre-tax)	24.0	39.4	37.7	37.9
ROE	23.8	23.5	22.7	21.9
Turnover ratios (x)				
Asset Turnover (Gross Block)	5.6	6.5	7.2	7.9
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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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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