

## KEI Industries Ltd.

BSE: 517569 | Sector: Cables

8<sup>th</sup> August 2017

vScore : 60 | Gain% : **84%**

Buy Date: 08-Aug-2017 | Buy Price : Rs.225.00

Exit Date: 05-Jun-2018 | Exit Price : Rs.414.00

### BUSINESS BACKGROUND

KEI Industries limited, established in 1968 as a Partnership Company and a player in the power cable segment and one among the largest cable manufacturing companies in India. The Company has three segments: cable, stainless steel and turnkey projects. Cables segment consists of extra high voltage (EHV), low tension (LT), high tension (HT) power cables, control and instrumentation cables, winding wires and flexible and house wires (WW HW). Stainless steel wire (SSW) segment consists of stainless steel wire. The Company's product offerings include thermacouple extension / compensating, rubber cables, elastomeric cables, single/ multicore flexible wires, submersible cables, braided cables, and zero halogen cables for sectors, such as power, oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate..The company also in the business activities of Cables, Turnkey Projects, Stainless Steel Wire.

### INVESTMENT HIGHLIGHTS

**Q4FY17 results:** In Q4FY17, revenue of the company has registered growth of 16% YoY to Rs 784 cr. The company registered EBITDA of Rs 74 cr in Q4FY17 vs Rs 67 cr in Q4FY16. EBITDA margin stood at 9.26% in Q4FY17 as against 9.91% in Q4FY16. PAT of the company registred growth of 55.91% YoY to Rs 32 cr. PAT margin stood at 3.98% in Q4FY17 vs 2.98% Q4FY16. (All figures are on standalone basis)

#### Segment Highlights:

The company generates revenue 46% revenue from LT power/rubber segment, 16% revenue from HW/WW and EPC projects, 14% from HT cables, 3.78% of revenue from EHV and remaining 3.9% of revue from SSW. In FY17, highest growth has shown by LT power/rubber (20%), EPC (21.24%) as compare to FY16.

### KEY DATA

FACE VALUE	Rs	2
DIVID YIELD %		0.24%
52 WK HI/LOW		263/106
NSE CODE		KEI
MARKET CAP		Rs. 1790 Cr

### SHAREHOLDING PATTERN

PROMOTERS	-	46.59%
BANKS, MFs & DIIIs	-	18.78%
FIIIs	-	4.18%
Others	-	30.45%

### KEY FUNDAMENTALS

Year Ending	FY17A	FY18E	FY19E
Rev Gr%	14	15.5	16
Net Profit Gr%	56	60	19
ROE%	23	29	26
ROCE %	27	29	28
EPS (Rs)	13	20	24
P/E (x)	17	11	9

**Anti Dumping on TDI, fuels the growth of the company:****Robust order book gives strong revenue visibility :**

KEI's current order book stands at Rs 2783 Cr (of which EPC Rs. 1817 Cr, EPC Substation Rs. 177 Cr, Cable Rs. 789 Cr in which Export Rs. 128 Cr ). Its order book grew by ~28% in the last 3 years on the back of order inflows from State Electricity Boards, Power Grid, etc. On account of this, KEI gets a revenue visibility for the next 12-16 months.

**Strengthening distribution network and higher ad spend helps to drive retail business :**

KEI's consistent effort to increase its retail business from 30% of revenue in FY16 to 40-45% of revenue in the next 2-3 years on the back of strengthening distribution network (currently 1147, which is expect to increase to 1,500 by FY19) and higher ad spend (increased from Rs 2 Cr in FY13 to ~Rs 7-9 Cr in FY17 and expected to increase further).

**Rising export aids growth momentum :**

KEI's exports to 45 countries (increased to 14% in FY17 from 8% of revenue in FY16) is expected to expand further in next two years on the back of higher order execution from current order book of Rs 128 Cr and participation in various international tenders worth Rs.500 Cr. We expect a strong ~24% growth CAGR over FY17-19 in exports.

**Decline in Interest cost as % of net sales aids the profitability:**

We expect the company's interest cost to decline due to (1) full repayment of its Rs.211 Cr term loan in next 2-3 years, and (2) marginally lower interest cost expected due to the improvement in credit rating. While the company may see some rise in its working capital requirement due to higher sales in EPC segment, the debt repayment and low interest rate should offset the same. Due to this, we expect interest cost to decline as % of sales, which will further result in better profitability.

**Industry tailwind:**

In power and infrastructure sector demand for cables (including EHV, MV and LV) estimated to be USD 3 billion used for transmission and distribution purposes. Also, demand for urban housing is expected to grow from Rs 116 billion in FY09 to Rs 757 billion in FY20. On account of this, demand for wires is also expected to grow at CAGR of 13% over next five-six years. The company is positioned well in positive industry scenario.

## Business Outlook and Valuation :

At the moment at current price of **216** the stock is trading at (TTM) P/E of 17.5x. Going ahead we expect revenue growth of 15.5% for FY18 and 16% FY19. Hence our expectations for revenue for FY18 and FY19 are INR 3039 Cr and INR 3525 Cr respectively.

We expect company to maintain EBITDA margin around 9-10% for next two years. Going ahead we expect PAT margins of 4-5% for next two years. Our PAT expectations for FY18 and FY19 are INR 156 Cr, INR 185 Cr respectively. Our EPS expectations for FY18 and FY19 are INR 20.35 and INR 24.25 Cr respectively.

We believe KEI Industries Ltd. at PE of 17.5x with ROCE around 26-28% with superior margins is attractively valued. For FY18 EPS expectations of 20.35 we expect target price of 411/**share** with a stop loss at 188.

## FINANCIALS:

For the Year Ended March (INR)	FY16A	FY17A	FY18E	FY19E
<b>Net Sales (Cr)</b>	2313	2631	3039	3525
<b>EBIDTA (Cr)</b>	245	273	337	374
<b>EBIDTA %</b>	9.73	9.62	10.3	9.85
<b>Profit Before Tax (Cr)</b>	95	132	190	226
<b>Interest (Cr)</b>	127	123	127	122
<b>Depreciation (Cr)</b>	25	28	33	38
<b>Tax (Cr)</b>	33	35	34	41
<b>Profit After Tax (Cr)</b>	62	97	156	185
<b>PAT%</b>	2.5	3.43	4.76	4.89
<b>Diluted EPS (INR)</b>	8.05	12.72	20.35	24.25
<b>Shareholder's Funds (Cr)</b>	367	473	615	812
<b>Borrowings (Cr)</b>	446	573	545	500
<b>Gross Block (Cr)</b>	357	409	462	522

## Key Risks and Concerns:

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- KEI's EPC segment contributes ~16% 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.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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**Source:** Niveza Research Desk