

28 February 2018

Initiating Coverage (BUY)

KEI INDUSTRIES LTD

CMP

INR 378

Target Price

INR 436

Stock Details

Industry	Other Electrical Equip./Prod.
Bloomberg Code	KEI:IN
BSE Code	517569
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	29,933.5
52wk. Low/High (Adjusted) (Rs.)	166.55/423.45

Shareholding Pattern Dec '17

Promoter (%)	46.26
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	53.74
No. of Share Outstanding (mn)	78.36

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	12.60	29.72	28.00	26.00
EV/EBITDA (x)	3.90	10.85	9.84	9.39
P/BV (x)	2.14	6.26	5.40	4.92

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	23,256	26,691	29,894	33,481
EBITDA	2,476	2,847	3,308	3,716
Net Profit	622	986	1,101	1,315
EPS (Rs.)*	08.1	12.7	14.1	16.8

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	10.6	10.6	11.0	11.1
EBIT Margin (%)	9.5	9.6	10.0	10.2
Net Pro. Margin (%)	2.7	3.7	3.7	3.9
Debt/Equity (x)	0.51	0.35	0.29	0.24
RoNW (%)	18.6	23.5	21.1	20.8
RoCE (%)	11.9	15.4	15.0	15.6

One Year Price / Volume



We recommend 'BUY' on KEI INDUSTRIES LTD for a target of INR 436 - valuing the company at P/E 26x of FY19E Earning.

INVESTMENT RATIONALE:

- Focus on increasing presence in higher margin products.
- Improvement in working capital through change in sales mix.
- EHV cables and EPC to drive institutional segment growth.
- Robust revenue/EBITDA/PAT growth with improving return ratios.
- Expanding capacity to address growth in EHV cables.
- Building competencies in EPC division (Forward Integration).
- Exports to report decent growth due to strong geographical presence.
- Working capital cycle to improve along with positive FCF in future.
- Well-entrenched distribution network: Covering all major metros, Tier I & Tier II cities to connect with clients pan-India.
- Adhering to the most stringent quality standards laid down by various institutions.

VALUATIONS AND VIEW:

KEI is likely to be a major beneficiary of key government initiatives in power, infrastructure and real estate sector. It is well-poised to garner opportunities from the power utilities, core infrastructure and construction projects across the country. Its prudent foray into the EHV cable and EPC Services for Power Sector Projects has further expanded the opportunity horizon. **We value the business at 26x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 436 per share.**

RISK & CONCERNS:

- **Changing Government Policies:** EHV and EPC segment of the business are directly affected by Government policies, thus affecting important divisions of the Company. These segments do well under a steady policy regime and vice-a-versa.
- **Cyclical Risk:** The Company's primarily operations cater to the needs of cyclical businesses and thus Company's revenues are subject to volatility in interest rate and capex cycles.
- **Competition Risk:** The Company offers the products which are highly competitive and thus faces threat from other players in the market.
- **Raw Material Price Fluctuation Risk:** The Company is exposed to volatility in its crucial raw material like copper and aluminium, which can adversely impact the profitability of the Company.
- **Currency Fluctuations Risk:** Imported raw material which the Company uses, are exposed to exchange rate fluctuations and can adversely affect the cost thereby impacting margins adversely.

COMPANY BACKGROUND:

Established in 1968, KEI is engaged in manufacturing and marketing of Power Cables. It has a significant presence in domestic and international markets. It services retail and institutional segments and caters to both private and public sector clients. It has built its manufacturing facilities at Bhiwadi and Chopanki (both in Rajasthan) and Silvassa (Dadra and Nagar Haveli). Its prudent foray into the EHV cable and EPC Services for Power Sector Projects has further expanded the opportunity horizon.

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. KEI has a diversified business model with a significant presence in domestic and international markets. It services retail and institutional segments and caters to both private and public sector clients. It is well-poised to garner opportunities from the power utilities, core infrastructure and construction projects across the country. Its prudent foray into the EHV cable and EPC Services for Power Sector Projects has further expanded the opportunity horizon.

INDUSTRY OVERVIEW:

Global electricity consumption is expected to increase at a CAGR of about 4.3 per cent over the next decade. This is being driven by rapid economic and population growth, primarily in developing countries. Globally, around 1,760 GW of new capacity is planned or proposed to be added over the ten-year period of 2016–25. About 1,351,920 km of lines at the 100 kV and above voltage levels are estimated to be added across the globe by 2025. Of this, about 8 per cent is expected to be based on DC technology. Underground and undersea cables will account for 1.4 per cent and 0.8 per cent, respectively. Most of the lines (30 per cent) shall be at 220–287kV, while 6.7 per cent shall be constituted by UHV lines.

During 2016–25, Asia will account for close to three-fourths of the total new line length addition, with plans to add over 970,537 km of transmission lines. Around 5,752 GVA of transformer capacity will be added globally between 2016 and 2025. The Indian power sector has an investment potential of ` 15 trillion (US\$ 225 billion) in the next 4–5 years, thereby providing immense opportunities in power generation, distribution, transmission - equipment. The government's immediate goal is to generate two trillion units (kilowatt hours) of energy by 2019. This means doubling from the current level of electricity generation to provide 24x7 power for residential, industrial, commercial and agriculture customers. The Government is taking a number of steps and initiatives in order to achieve the set targets which will unfold a bright future for sector.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Havells India	513	52.4	32,073.2	0.68	194.4	28.85	1,965.8	30.53	8.53
Finolex Cables	166	20.3	10,760.1	0.43	74.9	9.40	656.8	5.59	5.24
Honeywell Auto	16,367	67.9	14,468.6	0.06	62.3	(2.75)	721.5	7.09	10.55
V-Guard Inds.	234	67.4	9,936.9	0.30	35.8	41.34	523.5	18.67	13.38
Apar Inds.	785	20.8	3,003.1	1.27	39.5	(8.89)	1,498.9	30.57	2.63
Websol Energy	91	2.9	242.2	-	(2.3)	(155.50)	32.7	(57.99)	5.66
KEI Inds.	378.0	28.0	2,962.0	0.16	39.0	50.69	888.7	24.28	6.26

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	7,659.37	7,950.03	8,235.36	7,538.05	8,886.60	16.02%	17.89%
Other Income	3.31	72.86	15.59	10.29	73.16		
Total Income	7,662.68	8,022.89	8,250.95	7,548.34	8,959.76	16.93%	18.70%
Expenditure	-6,880.49	-7,517.82	-7,766.84	-7,049.33	-8,295.04		
As a % of Sales	89.83%	94.56%	94.31%	93.52%	93.34%		
Interest	-340.94	-303.61	-299.49	-273.8	-251.49	-26.24%	-8.15%
PBDT	441.25	505.07	484.11	499.01	664.72		
As a % of Sales	5.76%	6.35%	5.88%	6.62%	7.48%		
Depreciation	-70.32	-76.6	-79.81	-80.65	-82.08		
PBT	370.93	428.47	404.3	418.36	582.64	57.08%	39.27%
As a % of Sales	4.84%	5.39%	4.91%	5.55%	6.56%		
Tax	-99.16	-112.23	-129.57	-133.34	-192.39	94.02%	44.29%
Net Profit	271.77	316.24	274.73	285.02	390.25	43.60%	36.92%
As a % of Sales	3.55%	3.98%	3.34%	3.78%	4.39%		
Equity	155.59	155.59	155.59	156.72	156.72	0.73%	0.00%
EPS (Rs)	3.49	4.06	3.53	3.66	4.98	42.69%	36.07%
CEPS (Rs)	4.4	5.05	4.56	4.67	6.03		
OPM %	10.21	6.35	5.88	6.62	7.48		
NPM %	3.55	3.98	3.34	3.78	4.39		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	16,189	20,310	23,256	26,691	29,894	33,481	38,503
Other Operating Income	13	24	53	104	61	78	101
Expenditure	14,659	18,381	20,833	23,948	26,646	29,844	34,328
EBITDA	1,543	1,953	2,476	2,847	3,308	3,716	4,277
Depreciation	210	246	253	280	308	309	311
EBIT	1,333	1,707	2,223	2,567	3,000	3,406	3,966
Interest Expenses	1,115	1,204	1,270	1,229	1,503	1,612	1,895
PBT	218	503	953	1,338	1,497	1,795	2,070
Tax	102	186	331	351	396	480	557
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	26	-	-	-	-	-
Net Income Before Adjustment	116	343	622	986	1,101	1,315	1,513
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	116	343	622	986	1,101	1,315	1,513

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	147	154	154	156	156	156	156
Reserves & surplus	2,539	2,884	3,512	4,579	5,553	6,786	8,205
Share Warrants	44	-	-	-	-	-	-
Net worth	2,731	3,039	3,666	4,735	5,708	6,941	8,360
Minority Interest	-	-	-	-	-	-	-
Loan Funds	1,166	1,209	1,881	1,641	1,643	1,641	1,639
Net deferred tax liability	160	235	362	427	427	427	427
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	23	32	40	51	57	63	73
Total Liabilities	4,080	4,516	5,951	6,856	7,836	9,075	10,502
Net block	3,143	3,025	3,573	4,086	3,805	3,523	3,241
Investment, Loan & Adv.	65	80	253	79	84	91	100
Total Current Assets	9,227	10,313	11,044	13,945	15,120	17,953	21,495
Current Liabilities & Provisions	8,355	8,903	8,920	11,256	11,173	12,493	14,336
Net Current Assets	872	1,410	2,124	2,689	3,946	5,460	7,159
Total Assets	4,080	4,516	5,951	6,856	7,836	9,075	10,502

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	38	502	2,073	2,089
Cash Flow from Investments	(617)	(39)	(41)	(45)
Cash Flow from Financing	891	(913)	(1,024)	(1,057)
Net Changes in Cash	312	(451)	1,009	986
Opening Cash	59	371	(80)	929
Closing Cash Balance	371	(80)	929	1,915

Research Analyst Details

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