

Numbers beat estimates, Traction continues. Maintain Buy

KEI Industries (KEI) numbers were ahead of estimates driven by strong sales in retail segment and expected growth in EPC and institutional orders. KEI has been focusing on expanding its dealer network as this sales channel offers higher brad stickiness with better margins and lower working capital requirement. Institutional sale growth has been encouraging and management expect this division to grow in double digits. EHV sales has been another growth engine and is expected to pick up further considering the government push for underground electrification and Metro transport. Brand development and distribution expansion will propel growth in retail segment. Increase in proportion of the retail segment will keep working capital in control. The improving balance sheet is a result of the strong macro demand and getting the product mix right. We rollover valuations to FY21 E earnings. We reiterate Buy rating with a target price of ₹ 443.

All round revenue performance from all segments

KEI domestic institutional division recorded a growth of 12% with a revenue of ₹ 3,900 mn. EHV sales were up by more than 20% and exports were up by more than 40% in Q3FY18. Full institutional segment recorded a growth of 21%. Retail sales were at ₹ 3,560 mn recording a growth of 32%. We believe the same has been achieved due to expansion of dealer network and brand perception. EPC division sales were on the lower side at ₹ 176 mn and is expected to pick up in coming quarters.

Capacity Expansion

KEI has been doing capital expenditure to expand capacity. In Pathredi, 1st phase is already completed and 2nd phase for HT power cable expansion is expected to be completed by March 2019 with a capex of ₹ 300– ₹ 350 mn. This capacity will bring in a revenue of ₹ 2,000 mn. In Silvassa, KEI plans to expand capacity of house wires in 2 phases with a capex of ₹ 750mn. This expansion is expected to be completed by end of FY20.

Thrust on distribution expansion and Brand building

KEI is reaping fruits of its thrust on retail segment with strong growth and higher margin profile. KEI currently has more than 1,400 dealers and is expected to grow this by at least 10% every year. Sales from this segment is expected to grow in excess of 25%. With more than 50% of the sales through channel financing, KEI's working capital remains in control. Brand thrust is going on through various channels like IPL and electronic media. Electrician meets are undergoing at a fast pace as they are a key influencer in the buying decision by consumer.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	10,875	8,887	22.4	9,968	9.1
Total Expense	9,698	8,044	20.6	8,960	8.2
EBITDA	1,177	843	39.6	1,008	16.7
Depreciation	85	82	3.7	84	0.8
EBIT	1,092	761	43.5	924	18.2
Other Income	11	73	(84.4)	12	(7.4)
Interest	347	251	38.0	305	13.9
EBT	756	583	43.5	631	19.7
Tax	272	192	41.4	218	25.0
RPAT	484	390	24.0	414	17.0
APAT	484	390	24.0	414	17.0
			(bps)		(bps)
Gross Margin (%)	29.3	30.1	(75)	31.7	(239)
EBITDA Margin (%)	10.8	9.5	133	10.1	71
NPM (%)	4.4	4.4	6	4.2	30
Tax Rate (%)	36.0	33.0	296	34.5	151
EBIT Margin (%)	10.0	8.6	148	9.3	77

CMP	₹ 370
Target / Upside	₹ 443 / 20%
BSE Sensex	36,617
NSE Nifty	10,934

Scrip Details

Equity / FV	₹ 157mn / ₹ 2
Market Cap	₹ 29bn
	US\$ 405mn
52-week High/Low	₹ 496/₹ 248
Avg. Volume (no)	1,51,556
NSE Symbol	KEI
Bloomberg Code	KEII IN

Shareholding Pattern Dec'18(%)

Promoters	45.9
MF/Banks/FIs	13.8
FIIIs	11.7
Public / Others	28.5

Valuation (x)

	FY19E	FY20E	FY21E
P/E	16.5	12.9	10.0
EV/EBITDA	8.8	7.2	6.0
ROE (%)	25.6	25.6	25.8
RoACE (%)	24.8	27.2	28.7

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	40,631	47,373	54,420
EBITDA	4,130	5,080	6,044
PAT	1,759	2,245	2,888
EPS (₹)	22.4	28.6	36.9

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Exhibit 1: Segment Revenue (₹ mn)

Segment Revenues (₹ Mn)	Q3FY19	Q3FY18	% chg	Q2FY19	% chg	9MFY19	9MFY18	% chg
a) Cables	8,782	7,004	25.4	8,088	8.6	23,848	19,141	24.6
b) Stainless Steel Wire	335	281	19.3	363	(7.6)	1,009	874	15.5
c) Turnkey Projects	2,586	2,445	5.8	1,628	58.9	6,468	7,068	(8.5)
Total	11,704	9,730	20.3	10,079	16.1	31,325	27,082	15.7
Less: Inter segment elimination	120	(3)	(4,504.8)	(78)	(254.1)	51	148	(65.6)
Less: Inter segment Revenue	708	846	(16.3)	189	274.4	1,592	2,274	(30.0)
Net sales/Income from operations	10,875	8,887	22.4	9,968	9.1	29,682	24,660	20.4

Segment Results (PBIT)

a) Cables	1,036	775	33.7	839	23.5	2,602	2,234	16.5
b) Stainless Steel Wire	13	20	(32.5)	36	(63.2)	81	47	71.7
c) Turnkey Projects	501	265	89.1	225	122.2	984	885	11.2
Total	1,550	1,059	46.3	1,100	40.9	3,666	3,166	15.8
Less: Inter segment Results	120	-3	(4,521.0)	-78	(254.1)	51	262	(80.5)
Less: Interest	347	251	38.0	305	13.9	939	825	13.8
Unallocable exp. net of unallocable income	327	228	43.4	242	34.9	789	674	17.0
Total PBT	756	583	29.7	631	19.7	1,888	1,405	34.3

Segment Assets

a) Cables	17,928	13,636	31.5	17,365	3.2	17,928	13,636	31.5
b) Stainless Steel Wire	874	563	55.2	715	22.3	674	563	19.7
c) Turnkey Projects	5,227	4,795	9.0	4,982	4.9	5,227	4,795	9.0
d) Unallocated Segment	583	590	(1.3)	768	(24.1)	583	590	(1.3)
Total	24,612	19,585	25.7	23,830	3.3	24,412	19,585	24.7

Segment Liabilities

a) Cables	8,498	5,053	68.2	9,110	(6.7)	8,498	5,053	68.2
b) Stainless Steel Wire	344	275	25.0	425	(19.2)	344	275	25.1
c) Turnkey Projects	1,167	1,095	6.6	1,523	(23.4)	1,167	1,095	6.6
d) Unallocated Segment	4,713	5,630	(16.3)	3,511	34.2	4,713	5,630	(16.3)
Total	14,721	12,053	22.1	14,570	1.0	14,721	12,052	22.1

Capital Employed

a) Cables	9,430	8,583	9.9	8,255	14.2	9,430	8,583	9.9
b) Stainless Steel Wire	331	288	14.7	289	14.4	331	289	14.6
c) Turnkey Projects	4,060	3,700	9.7	3,459	17.4	4,060	3,700	9.7
d) Unallocated Segment	(4,130)	(5,040)	(18.1)	(2,744)	50.5	(4,130)	(5,040)	(18.1)
Total	9,691	7,532	28.7	9,260	4.7	9,691	7,532	28.7

Segment Margins (%)

a) Cables	11.8	11.1	-	10.4	-	10.9	11.7	-
b) Stainless Steel Wire	3.9	7.0	-	9.9	-	8.0	5.4	-
c) Turnkey Projects	19.4	10.8	-	13.8	-	15.2	12.5	-

PBT Margin (%)

7.0	6.6	-	6.3	-	6.4	5.7	-
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Segment wise % of Total revenue

a) Cables	75.0	72.0	-	80.2	-	76.1	70.7	-
b) Stainless Steel Wire	2.9	2.9	-	3.6	-	3.2	3.2	-
c) Turnkey Projects	22.1	25.1	-	16.2	-	20.6	26.1	-

Segment wise % of Total Segmental Profit

a) Cables	66.8	73.1	-	76.3	-	71.0	70.6	-
b) Stainless Steel Wire	0.9	1.8	-	3.3	-	2.2	1.5	-
c) Turnkey Projects	32.3	25.0	-	20.5	-	26.8	28.0	-

Source: DART, Company

Key highlights

- Net sales increased by 22.4% on a YoY basis to ₹ 10,875 mn and by 9.1% on a sequential basis.
- Raw material cost increased by 23.7% on a YoY basis and by 12.9% on a sequential basis to ₹ 7,684 mn.
- Operating profit increased by 39.6% on a YoY basis to ₹ 1,177 mn. On a sequential basis, there was a growth of 16.7%.
- There was an interest outgo of ₹ 347 mn against an interest outgo of ₹ 305 mn in Q2Y19.
- Depreciation increased by 3.7% on a YoY basis to ₹ 85 mn. It was flat on a sequential basis.
- Net profit growth was at 24% to ₹ 484 mn on a YoY basis. It was a growth of 17% on a sequential basis.

Concall KTA's

- During Q3FY19, Institutional sale (Domestic) is ₹ 3,900 Mn against ₹ 3,500 Mn in Q3FY18, out of which EHV Sale was ₹ 490 Mn in Q3FY19 against ₹ 380 Mn in Q3FY18. Institutional sale (Export) is ₹ 1,650 Mn against ₹ 1,090 Mn in Q3FY18. So, total Institutional sales is ₹ 5,550 Mn in Q3FY19 as compared to ₹ 4,590 Mn in Q3FY18. Total Institutional Sale growth in Q3FY19 was approx. 21%. During 9MFY19, Institutional sales of Cables has grown by approx. 16% from ₹ 12,820 Mn to ₹ 14,910 Mn.
- Dealer Sales has grown by approx. 50% from ₹ 6,630 Mn in 9MFY18 to ₹ 9,940 Mn 9MFY19. During Q3FY19 Sales through Dealer/ Distribution market was ₹ 3,560 Mn against ₹ 2,700 Mn in Q3FY18. Hence, growth in Sales through Dealer / Distribution market was approx. 32%.
- The total active working dealer of KEI is approx.1,400. On full year basis KEI is expecting more than 30% growth as compared to last year from dealer/ distribution. 50% of dealer sales is through channel financing.
- Debt status as on Dec 2018, is ₹ 7,550 Mn. Net of cash is ₹ 7,280 Mn. Cash is ₹ 265 Mn.
- Running at 88% of capacity utilisation.
- During Q3FY19 revenue from EPC division was ₹ 176 Mn (apart from cable sale) against ₹ 160 Mn in Q3FY18. In 9MFY19, EPC sales was ₹ 4,830 Mn against ₹ 4,670 Mn in 9MFY18. In FY19-20 EPC growth of 15-20% is expected.
- KEI is expected to achieve growth in FY19 of approx. 20%. 9MFY19 volume growth was 19%. Q3FY19 volume growth is 15-16%. Volume growth of copper cable sale was more than aluminium cable sale.
- Advertising spend for the year will be ₹ 150Mn to ₹ 160 Mn.
- Financial charges of KEI for Q3FY19 was ₹ 347.2 Mn as compared to ₹ 251.5 Mn in Q3FY18. Financial charges for the company in 9MFY19 was ₹ 938.6 Mn as compared to ₹ 824.8 Mn in Q3FY18 (reduced to 3.16% from 3.41% of Net Sales). Financial charges have gone up due to bank charges and bank guarantee of ₹ 60 mn given for the West Bengal order received of ₹ 9,000 Mn.

Expansion Plans

- Pathredi: 1st Phase of LT Power Cable has already been completed / commissioned and in 2nd Phase, HT Power Cable expansion will be completed by February-March 2019 with cost of ₹ 300-350 Mn which will enhance capacity of HT Power Cable by ₹ 2,000 Mn.
- Silvassa: Company has bought Land & Building with investment of ₹ 160 Mn for expansion of House Wires capacity. In 1st Phase, Company will spend approx. ₹ 450 Mn (FY 2018-19 & 2019-20) for revenue potential of ₹ 3,000 Mn and in 2nd Phase Company will spend approx. ₹ 300 Mn (during FY 2019-20) which will add further revenue potential of ₹ 3,000 Mn for House Wires.
- The Dangote Export order of ₹ 4,570 Mn of LT power and control cable will start from April 2019 and will be supplied through 1 year. Entire payment is through letter of credit. 10% advance is already received.
- Pending order as on date is approx. ₹ 38,660 Mn plus L1 ₹ 1,750 Mn of EPC and EHV as per below details KEI is L1 is order of ₹ 6,500 Mn of EPC and EHV which are to be awarded by March.

Exhibit 2: Pending Order

Particulars	In Hand Orders	L1 Orders	Total
EPC	15,080	1,280	16,360
EHV (Cable ₹ 4,300 Mn approx)	6,140	470	6,610
Cable	9,960		9,960
Export (incl. Dangote ₹ 4,570 Mn)	7,480		7,480
Total	38,660	1,750	40,410

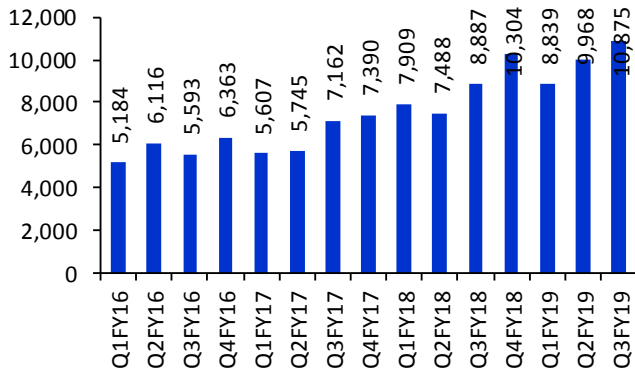
Source: Company, DART

Exhibit 3: Product Sales (₹ Mn)

Mn	Q3FY19	Q3FY18
LT	3,960	3,960
HT	2,160	1,150
EHV	490	380
House Wire	2,080	1,410
Stainless Steel	330	290
EPC w/o cable	1,760	1,600
Other Misc	90	100
Total	10,870	8,890

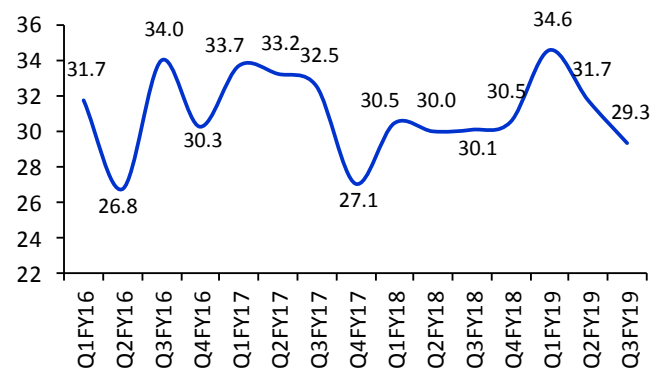
Source: Company, DART

Exhibit 4: Revenue (₹ Mn)



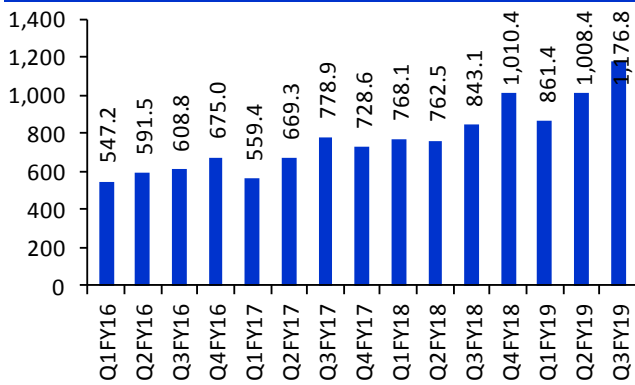
Source: Company, DART

Exhibit 5: Gross Margin %



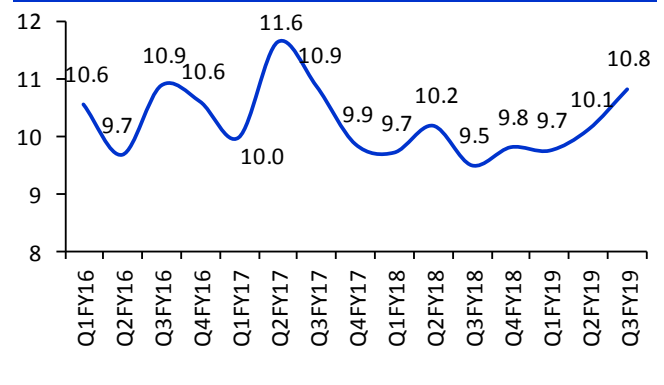
Source: Company, DART

Exhibit 6: Operating Profit



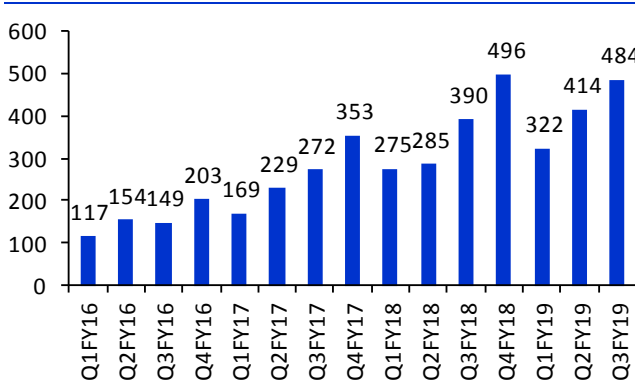
Source: Company, DART

Exhibit 7: OPM %



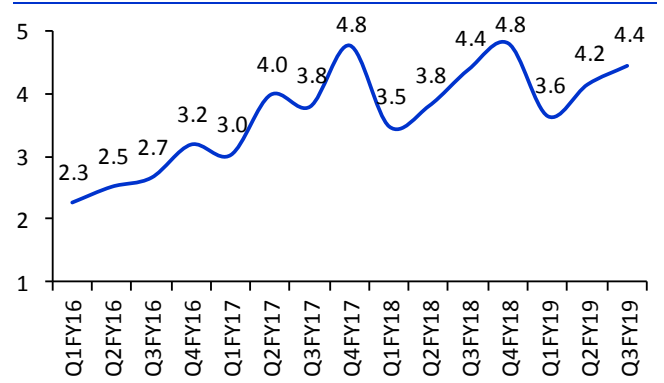
Source: Company, DART

Exhibit 8: Net Profit



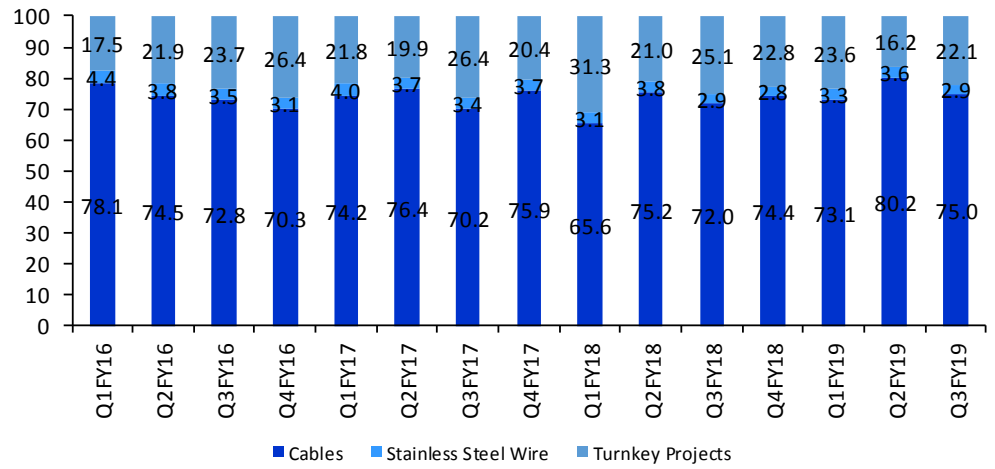
Source: Company, DART

Exhibit 9: NPM %



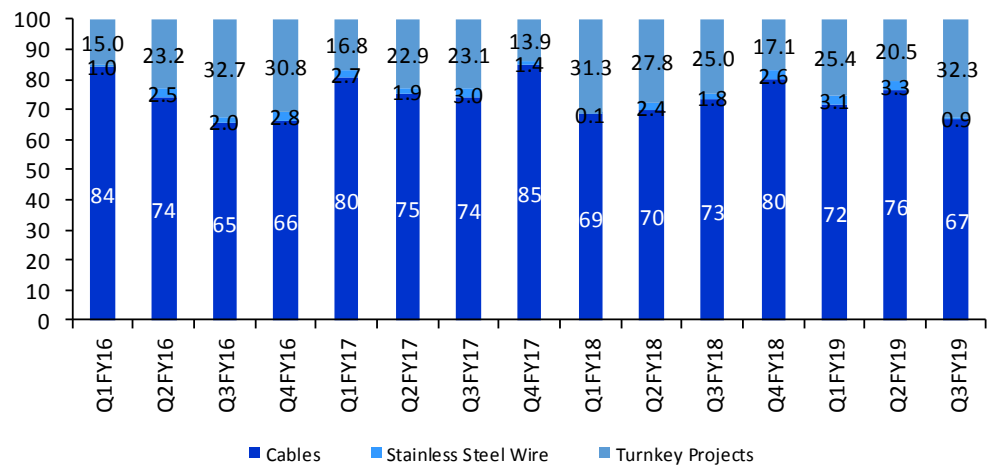
Source: Company, DART

Exhibit 10: Segment wise % of Total Revenue



Source: Company, DART

Exhibit 11: Segment wise % of Total Segmental Profit



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	34,588	40,631	47,373	54,420
Total Expense	31,204	36,501	42,293	48,377
COGS	24,111	28,035	32,688	37,550
Employees Cost	2,553	1,762	2,026	2,228
Other expenses	4,540	6,704	7,580	8,598
EBIDTA	3,384	4,130	5,080	6,044
Depreciation	322	277	317	277
EBIT	3,062	3,853	4,763	5,766
Interest	1,113	1,248	1,385	1,399
Other Income	93	60	75	76
Exc. / E.O. items	0	0	0	0
EBT	2,042	2,665	3,453	4,443
Tax	596	906	1,209	1,555
RPAT	1,446	1,759	2,245	2,888
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,446	1,759	2,245	2,888

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	157	157	157	157
Minority Interest	0	0	0	0
Reserves & Surplus	5,889	7,538	9,654	12,396
Net Worth	6,045	7,694	9,811	12,553
Total Debt	8,421	8,494	8,645	8,796
Net Deferred Tax Liability	432	454	476	500
Total Capital Employed	14,898	16,642	18,932	21,849

Applications of Funds

Net Block	4,070	4,728	5,212	5,534
CWIP	230	55	63	139
Investments	28	30	31	33
Current Assets, Loans & Advances	17,838	20,222	23,344	27,255
Inventories	5,556	7,570	9,345	10,735
Receivables	10,206	10,019	11,421	13,121
Cash and Bank Balances	763	1,198	1,007	1,681
Loans and Advances	173	182	191	201
Other Current Assets	1,140	1,254	1,379	1,517
Less: Current Liabilities & Provisions	7,268	8,394	9,718	11,111
Payables	6,272	7,297	8,508	9,773
Other Current Liabilities	996	1,097	1,210	1,338
Net Current Assets	10,571	11,829	13,626	16,143
Total Assets	14,898	16,642	18,932	21,849

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	30.3	31.0	31.0	31.0
EBIDTA Margin	9.8	10.2	10.7	11.1
EBIT Margin	8.9	9.5	10.1	10.6
Tax rate	29.2	34.0	35.0	35.0
Net Profit Margin	4.2	4.3	4.7	5.3
(B) As Percentage of Net Sales (%)				
COGS	69.7	69.0	69.0	69.0
Employee	7.4	4.3	4.3	4.1
Other	13.1	16.5	16.0	15.8
(C) Measure of Financial Status				
Gross Debt / Equity	1.4	1.1	0.9	0.7
Interest Coverage	2.8	3.1	3.4	4.1
Inventory days	59	68	72	72
Debtors days	108	90	88	88
Average Cost of Debt	13.5	14.8	16.2	16.0
Payable days	66	66	66	66
Working Capital days	112	106	105	108
FA T/O	8.5	8.6	9.1	9.8
(D) Measures of Investment				
AEPS (₹)	18.4	22.4	28.6	36.9
CEPS (₹)	22.6	26.0	32.7	40.4
DPS (₹)	1.0	1.2	1.4	1.6
Dividend Payout (%)	5.4	5.3	4.9	4.3
BVPS (₹)	77.1	98.2	125.2	160.2
RoANW (%)	27.1	25.6	25.6	25.8
RoACE (%)	22.5	24.8	27.2	28.7
RoAIC (%)	22.8	26.1	28.6	30.3
(E) Valuation Ratios				
CMP (₹)	370	370	370	370
P/E	20.0	16.5	12.9	10.0
Mcap (₹ Mn)	28,981	28,981	28,981	28,981
MCap/ Sales	0.8	0.7	0.6	0.5
EV	36,639	36,278	36,620	36,097
EV/Sales	1.1	0.9	0.8	0.7
EV/EBITDA	10.8	8.8	7.2	6.0
P/BV	4.8	3.8	3.0	2.3
Dividend Yield (%)	0.3	0.3	0.4	0.4
(F) Growth Rate (%)				
Revenue	24.7	17.5	16.6	14.9
EBITDA	25.8	22.0	23.0	19.0
EBIT	27.2	25.9	23.6	21.0
PBT	61.7	30.5	29.6	28.7
APAT	54.1	21.7	27.6	28.6
EPS	54.1	21.7	27.6	28.6
Cash Flow				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	1,894	2,483	1,982	2,745
CFI	(763)	(689)	(809)	(677)
CFF	(684)	(773)	(1,363)	(1,395)
FCFF	1,246	1,795	1,174	2,070
Opening Cash	(269)	178	1,198	1,007
Closing Cash	178	1,198	1,007	1,681

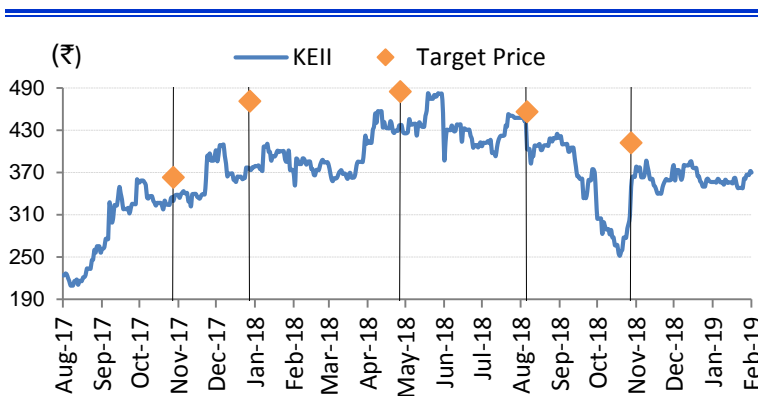
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-17	Accumulate	363	330
Jan-18	Accumulate	471	374
May-18	Accumulate	485	437
Aug-18	Accumulate	456	403
Nov-18	BUY	412	350

*Price as on recommendation date

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