

Numbers beat estimates, traction continues. Maintain Buy

The KEI Industries (KEI) results were more than our estimates, driven by strong sales in the retail segment and growth in EPC and institutional orders. KEI is focusing on expanding its dealer network, as this sales channel offers higher brand stickiness as well as better margins and lower working capital requirement. The institutional sale growth was a positive and management expect this division to grow in double digits. The EHV sales was another growth engine and is expected to rise further, considering the government push for underground electrification and metro transport. Brand development and distribution expansion will propel growth in the retail segment. We also believe the increase in proportion of the retail segment will control the need for working capital. The improvement in the balance sheet is a result of the strong macro demand and the optimal product mix. We reiterate a Buy rating, with a target price of ₹ 505. (14x FY21E).

All round revenue performance from all segments

KEI's domestic institutional division reported a revenue growth of 14% to ₹ 6,250 mn in Q4FY18. The EHV sales were up by more than 81% and EPC's up by more than 32%. Exports grew 36%. The institutional segment rose 18%. Retail sales were 4,060 mn, a growth of 29%. We believe this occurred due to expansion of dealer network and brand perception.

Capacity expansion

KEI has completed the 2nd phase of the HT power cable expansion at Pathredi. Bottlenecking of Pathredi plant will also take place, which will increase production capacity in next 3-4 years. In Silvassa, KEI plans to expand capacity of house wires in two phases, with a capex of ₹ 900-1,000mn. This expansion is expected to be completed by the end of FY20.

Thrust on distribution expansion and brand building

KEI is reaping the fruits of its thrust on the retail segment, with a strong growth and higher margin profile. KEI currently has more than 1,450 dealers and is expected to grow this by at least 10% every year. The sales from this segment is expected to grow by about 25%. Given more than 50% of the sales through channel financing, KEI's working capital remains in control. The channel financing is expected to grow to 70-80% in the next 2-3 years. Brand thrust is continuing through various channels, such as IPL and electronic media. The electrician meets are being continued at a fast pace, as they are a key influencer in the buying decision of consumers.

Q4FY19 result (₹ mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	12,588	10,304	22.2	10,875	15.8
Total expense	11,212	9,294	20.6	9,698	15.6
EBITDA	1,376	1,010	36.1	1,177	16.9
Depreciation	86	80	8.3	85	1.4
EBIT	1,289	931	38.5	1,092	18.1
Other income	37	(6)	(709.4)	11	223.7
Interest	423	288	46.7	347	21.8
EBT	903	636	38.5	756	19.5
Tax	304	141	115.9	272	11.7
RPAT	599	496	20.9	484	23.8
APAT	599	496	20.9	484	23.8
			(bps)		(bps)
Gross margin (%)	27.9	30.5	(263)	29.3	(144)
EBITDA margin (%)	10.9	9.8	112	10.8	11
NPM (%)	4.8	4.8	(5)	4.4	31
Tax rate (%)	33.6	22.1	1152	36.0	(234)
EBIT margin (%)	10.2	9.0	121	10.0	20

CMP	₹ 417
Target / Upside	₹ 505 / 21%
BSE Sensex	38,988
NSE Nifty	11,709

Script Details

Equity / FV	₹ 158mn / ₹ 2
Market Cap	₹ 33bn
	US\$ 468mn
52-week High/Low	₹ 496/₹ 248
Avg. Volume (no)	1,55,230
NSE Symbol	KEI
Bloomberg Code	KEI IN

Shareholding Pattern Mar'19(%)

Promoters	45.9
MF/Banks/FIs	19.1
FIIIs	11.7
Public / Others	23.3

Valuation (x)

	FY19A	FY20E	FY21E
P/E	18.0	14.8	11.5
EV/EBITDA	8.0	7.4	6.1
ROE (%)	26.3	25.0	25.3
RoACE (%)	30.0	30.4	28.6

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	42,270	47,373	54,420
EBITDA	4,422	5,080	6,044
PAT	1,819	2,210	2,843
EPS (₹)	23.2	28.2	36.3

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Exhibit 1: Segment revenue (₹ mn)

Segment revenues (₹ Mn)	Q4FY19	Q4FY18	% chg	Q3FY19	% chg	FY19	FY18	% chg
a) Cables	9,748	8,125	20.0	8,782	11.0	33,596	27,265	23.2
b) Stainless steel wire	371	309	20.1	335	10.7	1,380	1,183	16.7
c) Turnkey projects	3,865	2,494	55.0	2,586	49.4	10,333	9,561	8.1
Total	13,984	10,927	28.0	11,704	19.5	45,309	38,009	19.2
Less: Inter segment elimination	(36)	(122)		120		15	26	
Less: Inter segment revenue	1,433	745	92.3	708	102.2	3,025	3,019	0.2
Net sales/Income from operations	12,588	10,304	22.2	10,875	15.8	42,270	34,964	20.9
Segment results (PBIT)								
a) Cables	1,079	722	49.6	1,036	4.2	3,681	2,956	24.5
b) Stainless steel wire	10	24	(56.6)	13	(22.3)	91	71	28.8
c) Turnkey projects	438	153	185.8	501	(12.5)	1,422	1,038	37.0
Total	1,528	899	70.0	1,550	(1.4)	5,194	4,065	27.8
Less: Inter segment results	(36)	(236)		120		15	26	
Less: interest	423	288	46.7	347	21.8	1,362	1,113	22.3
Unallocable exp. net of unallocable income	238	210	13.6	327	(27.1)	1,025	884	16.0
Total PBT	903	636	41.9	756	19.5	2,793	2,042	36.8
Segment Assets								
a) Cables	17,462	14,737	18.5	17,928	(2.6)	17,462	14,737	18.5
b) Stainless steel wire	615	625	(1.6)	674	(8.8)	615	625	(1.6)
c) Turnkey projects	7,252	5,727	26.6	5,227	38.7	7,252	5,727	26.6
d) Unallocated segment	2,315	1,077	114.9	583	297.1	2,315	1,077	114.9
Total	27,643	22,166	24.7	24,412	13.2	27,643	22,166	24.7
Segment liabilities								
a) Cables	12,198	7,359	65.8	8,498	43.5	12,198	7,359	65.8
b) Stainless steel wire	281	380	(26.1)	344	(18.2)	281	380	(26.1)
c) Turnkey projects	1,768	1,411	25.4	1,167	51.6	1,768	1,411	25.4
d) Unallocated segment	3,477	4,592	(24.3)	4,713	(26.2)	3,477	4,592	(24.3)
Total	17,725	13,741	29.0	14,721	20.4	17,725	13,741	29.0
Capital employed								
a) Cables	5,264	7,378	(28.7)	9,430	(44.2)	5,264	7,378	(28.7)
b) Stainless steel wire	334	244	36.6	331	1.0	334	244	36.6
c) Turnkey projects	5,483	4,317	27.0	4,060	35.0	5,483	4,317	27.0
d) Unallocated segment	(1,163)	(3,515)	(66.9)	(4,130)	(71.8)	(1,163)	(3,515)	(66.9)
Total	9,918	8,425	17.7	9,691	2.3	9,918	8,425	17.7
Segment margins (%)								
a) Cables	11.1	8.9	-	11.8	-	11.0	10.8	-
b) Stainless steel wire	2.8	7.6	-	3.9	-	6.6	6.0	-
c) Turnkey projects	11.3	6.2	-	19.4	-	13.8	10.9	-
PBT margin (%)	7.2	6.2	-	7.0	-	6.6	5.8	-
Segment wise % of total revenue								
a) Cables	69.7	74.4	-	75.0	-	74.1	71.7	-
b) Stainless steel wire	2.7	2.8	-	2.9	-	3.0	3.1	-
c) Turnkey projects	27.6	22.8	-	22.1	-	22.8	25.2	-
Segment wise % of total segmental profit								
a) Cables	70.6	80.3	-	66.8	-	70.9	72.7	-
b) Stainless steel wire	0.7	2.6	-	0.9	-	1.8	1.7	-
c) Turnkey projects	28.7	17.1	-	32.3	-	27.4	25.5	-

Source: DART, Company

Key Highlights:

- The net sales increased by 22.2% YoY to ₹ 12,588 mn and 15.8% sequentially.
- The raw material cost increased by 26.8% YoY and by 18.1% sequentially to ₹ 9,075 mn.
- The operating profit increased by 36.1% YoY to ₹ 1,376 mn. On a sequential basis, there was a growth of 16.9%.
- There was an interest outgo of ₹ 423 mn, against an interest outgo of ₹ 347 mn in Q3Y19.
- The depreciation increased by 8.3% on a YoY basis to ₹ 86 mn. It was flat on a sequential basis.
- The net profit grew 20.9% to ₹ 599 mn on a YoY basis. It was a growth of 23.8% on a sequential basis.

Concall KTA's:

Q4FY19 highlights:

- The institutional cable sales (domestic) was ₹ 4,920 mn, as against ₹ 4,320 mn (YoY), whereas institutional sales (export) was ₹ 1,330 mn as against ₹ 980 mn (YoY). The total institutional sales was ₹ 6,250 mn, as compared to ₹ 5,300 mn (YoY). The growth in institutional sales in Q4 was 18%.
- The EHV sales were ₹ 940 mn, against ₹ 520 mn last year (YoY), a growth of 81%.
- The EPC sales (other than cable) was ₹ 2,470 mn, as against ₹ 1,870 mn, a growth of 32%.

FY19 highlights:

- The volume growth in the cable division was 18%.
- The institutional sales of cables grew 17%, from ₹ 18,220 mn to ₹ 21,390 mn.
- The EPC sales (other than cable) was ₹ 7,300 mn, as against ₹ 6,540 mn, a growth of 12%.
- The gross debt at FY19 end was ₹ ₹ 5,996.2 mn (Buyer credit was 0).
- A higher inventory was reported as the Pathredi plant has started operations and EHV is running at 100% capacity utilisation.
- The working capital has gone down from 2.89 months to 0.5 bps. It has now reached 2.25 months, since sales increasing from dealers and distributor network.

Distribution network:

- The sales through dealer/distributor network in Q4FY19 was ₹ 4,060 mn in Q4, against ₹ 3,150 mn, which was a growth of 29%.
- The sales through dealer/distribution grew 43%, from ₹ 9,780 mn in FY18 to ₹ 14,000 mn in FY19.
- The sales through dealer/distribution channel contributes 33% of the total sales, as against 28% in FY18. Out of this, 5% of the sales goes through dealer indirectly.
- The total active working dealer as on 31st March 2019 was approx. 1,450.

- About 50% of retail sales is through channel financing. It will grow to 70-80% in next 2-3 years.

Expansion:

- The expansion of the second phase of Pathredi is over and has started operations from March 2019. Debottlenecking in the new plant will take place at a capex of ₹ 100-120 mn. This will improve production capacity by ₹ 1,000 mn in next 3-4 years.
- KEI is also setting up a new plant in Silvassa at Chinchpada. Land for the same was acquired in October 2018. The construction has started and will increase production of housewires. The first phase will be ready by July 2019 and second phase will be ready by Feb-March 2020. The capex requirement of ₹ 900mn-1,000mn, which will be totally capped in FY20. ₹ 410 mn has already been spent in FY19. The balance will be spent in FY20.

Capex:

- The capex incurred capex was ₹ 1,250 mn- ₹ 1,300 mn in FY19 (₹ 400 mn was capex of new Silvassa plant).
- The capex for FY20 will be ₹ 850 mn. (₹ 600mn for new Silvassa plant, ₹ 120-130 mn for bottlenecking of Pathredi plant and ₹ 80-100 mn is maintenance capex).

Guidance:

- KEI is expected to grow in FY20 by 17-18 % as a whole.
- EPC will grow at 10%.
- EHV Cable has capacity to go upto ₹ 3,500-4,000 mn in FY20.
- Demand drivers will be government initiatives for O&G sector, metro projects, and power sector.

Financial Charges:

- During FY19, finance cost has increased, due to ₹ 170 mn rise in bank guarantee charges.
- Finance cost for FY19 is ₹ 1,360 mn. Finance cost for FY20 will be in range of ₹ 1,300 mn.

Exhibit 2: Financial charges (₹ mn)

Particulars	Q4FY19	Q4FY18
Working capital	560	540
LC	230	190
Bank charges on LC	93.5	73.8
Bank charges on bank guarantee	248	81
Others	66	73

Source: Company, DART

Pending order as on date is ₹ 47,070 Mn plus L1 is ₹ 1,130 Mn for EHV.

Exhibit 3: Pending order

Particulars	In Hand Orders	L1 Orders
EPC	23,950	
EHV	6,840	1,130
Cable	9,960	
Export	7,450	

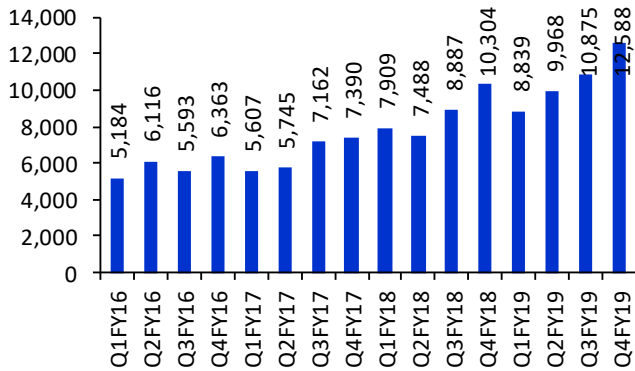
Source: Company, DART

Exhibit 4: Product sales (₹ mn)

Mn	Q4FY19	FY19
LT	4,710	16,340
HT	1,950	7,120
EHV	940	1,890
House wire	2,220	8,190
Stainless steel	370	1,370
EPC w/o cable	2,470	6,300
Other misc	112	650

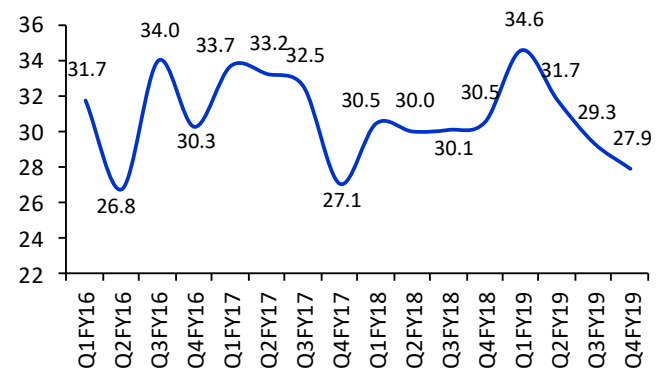
Source: Company, DART

Exhibit 5: Revenue (₹ Mn)



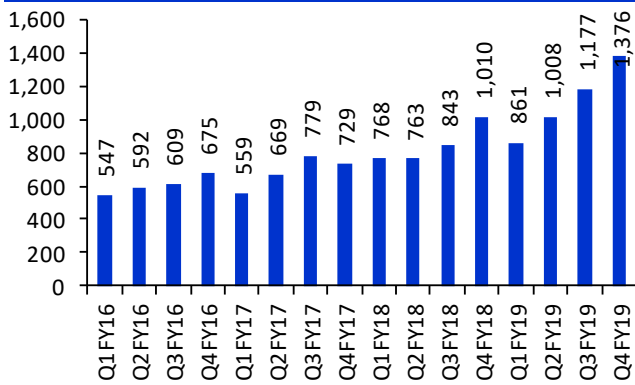
Source: Company, DART

Exhibit 6: Gross margin %



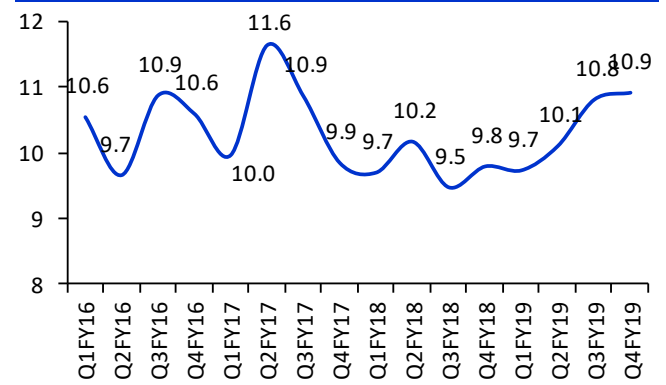
Source: Company, DART

Exhibit 7: Operating profit (₹ mn)



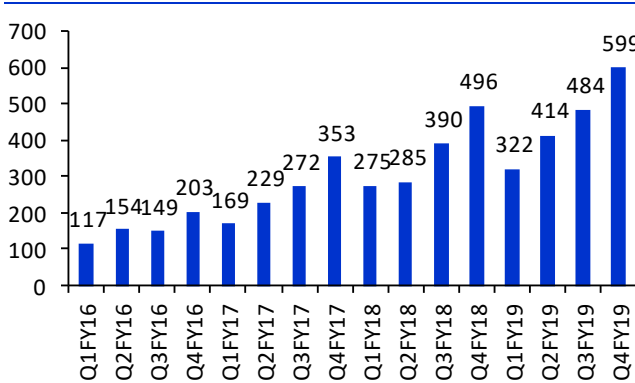
Source: Company, DART

Exhibit 8: OPM %



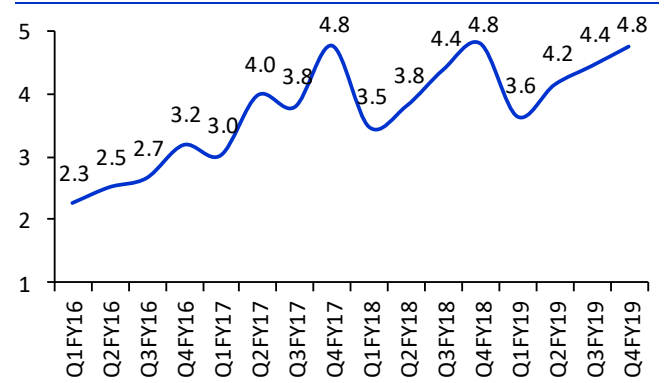
Source: Company, DART

Exhibit 9: Net profit (₹ mn)



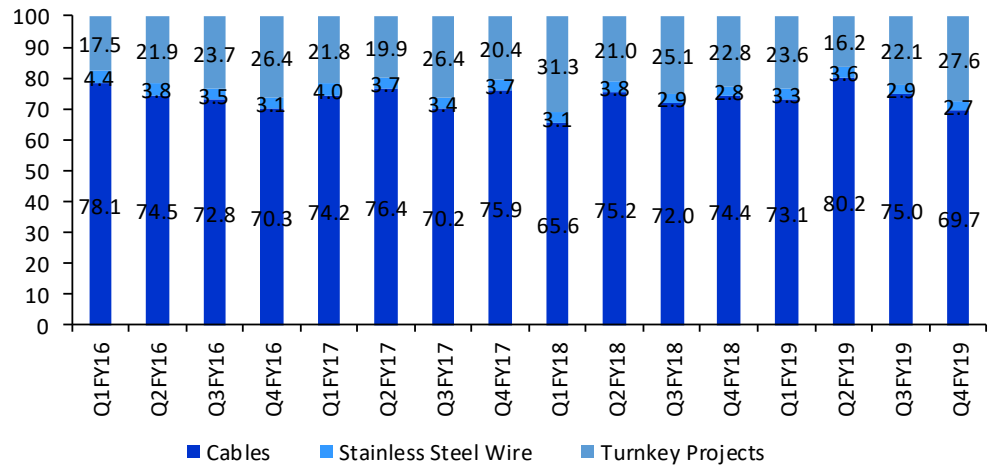
Source: Company, DART

Exhibit 10: NPM %



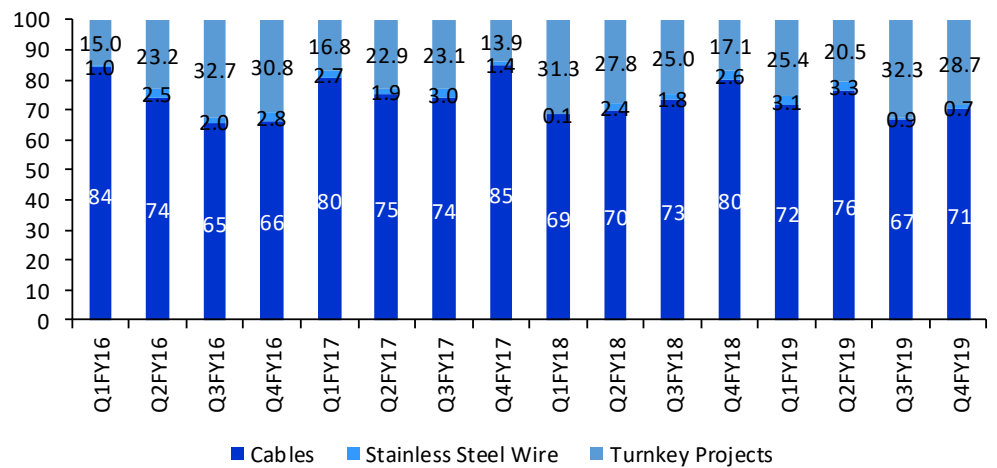
Source: Company, DART

Exhibit 11: Segment wise % of total revenue



Source: Company, DART

Exhibit 12: Segment wise % of total segmental profit



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	34,588	42,270	47,373	54,420
Total expense	31,204	37,847	42,293	48,377
COGS	24,111	29,347	32,688	37,550
Employees cost	2,553	2,855	2,026	2,228
Other expenses	4,540	5,646	7,580	8,598
EBIDTA	3,384	4,422	5,080	6,044
Depreciation	322	339	317	277
EBIT	3,062	4,083	4,763	5,766
Interest	1,113	1,362	1,385	1,399
Other income	93	72	75	76
Exc. / E.O. items	0	0	0	0
EBT	2,042	2,793	3,453	4,443
Tax	596	974	1,243	1,600
RPAT	1,446	1,819	2,210	2,843
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,446	1,819	2,210	2,843

Balance sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of funds				
Equity capital	157	158	158	158
Minority interest	0	0	0	0
Reserves & surplus	5,889	7,631	9,712	12,409
Net worth	6,045	7,789	9,870	12,566
Total debt	8,421	4,583	8,645	8,796
Net deferred tax liability	432	442	464	487
Total capital employed	14,898	12,813	18,979	21,850

Applications of funds

Net block	4,070	4,887	5,212	5,534
CWIP	230	316	63	139
Investments	28	16	16	17
Current assets, loans & advances	17,838	22,425	27,219	31,390
Inventories	5,556	6,896	9,345	10,735
Receivables	10,206	10,946	11,421	13,121
Cash and bank balances	763	1,953	3,624	4,489
Loans and advances	173	1,254	1,316	1,382
Other current assets	1,140	1,375	1,513	1,664
Less: current liabilities & provisions	7,268	14,830	13,531	15,231
Payables	6,272	10,203	8,508	9,773
Other current liabilities	996	4,627	5,024	5,457
Net current assets	10,571	7,595	13,688	16,160
Total assets	14,898	12,813	18,979	21,850

E – Estimates

Important ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross profit margin	30.3	30.6	31.0	31.0
EBIDTA margin	9.8	10.5	10.7	11.1
EBIT margin	8.9	9.7	10.1	10.6
Tax rate	29.2	34.9	36.0	36.0
Net profit margin	4.2	4.3	4.7	5.2
(B) As percentage of net sales (%)				
COGS	69.7	69.4	69.0	69.0
Employee	7.4	6.8	4.3	4.1
Other	13.1	13.4	16.0	15.8
(C) Measure of financial status				
Gross debt / equity	1.4	0.6	0.9	0.7
Interest coverage	2.8	3.0	3.4	4.1
Inventory days	59	60	72	72
Debtors days	108	95	88	88
Average cost of debt	13.5	20.9	20.9	16.0
Payable days	66	88	66	66
Working capital days	112	66	105	108
FA T/O	8.5	8.7	9.1	9.8
(D) Measures of investment				
AEPS (₹)	18.4	23.2	28.2	36.3
CEPS (₹)	22.6	27.5	32.2	39.8
DPS (₹)	39.1	52.1	60.8	73.6
Dividend Payout (%)	211.8	224.5	215.5	202.8
BVPS (₹)	77.1	99.4	126.0	160.4
RoANW (%)	27.1	26.3	25.0	25.3
RoACE (%)	22.5	30.0	30.4	28.6
RoAIC (%)	22.8	32.7	36.3	35.2
(E) Valuation ratios				
CMP (₹)	417	417	417	417
P/E	22.6	18.0	14.8	11.5
Mcap (₹ Mn)	32,649	32,649	32,649	32,649
MCap/ Sales	0.9	0.8	0.7	0.6
EV	40,307	35,278	37,671	36,957
EV/Sales	1.2	0.8	0.8	0.7
EV/EBITDA	11.9	8.0	7.4	6.1
P/BV	5.4	4.2	3.3	2.6
Dividend Yield (%)	9.4	12.5	14.6	17.7
(F) Growth rate (%)				
Revenue	24.7	22.2	12.1	14.9
EBITDA	25.8	30.7	14.9	19.0
EBIT	27.2	33.3	16.7	21.0
PBT	61.7	36.8	23.6	28.7
APAT	54.1	25.8	21.5	28.6
EPS	54.1	25.8	21.5	28.6
Cash flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	1,894	8,647	(624)	2,937
CFI	(763)	(1,230)	(254)	(677)
CFF	(684)	(5,642)	2,548	(1,396)
FCFF	1,246	7,405	(877)	2,262
Opening cash	(269)	178	1,953	3,624
Closing cash	178	1,953	3,624	4,489

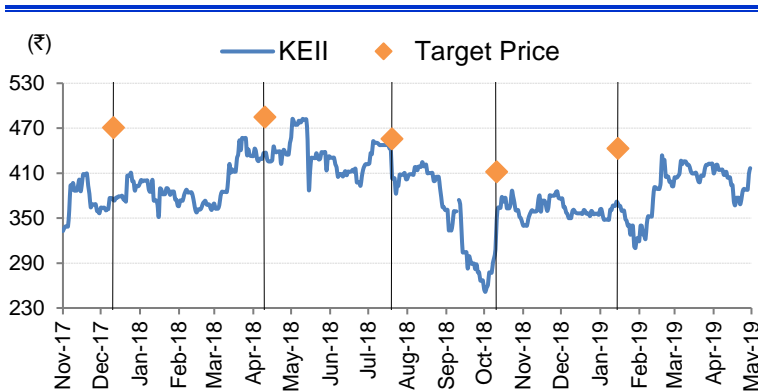
E – Estimates

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 (₹)
Jan-18	Accumulate	471	374
May-18	Accumulate	485	437
Aug-18	Accumulate	456	403
Nov-18	BUY	412	350
Feb-19	BUY	443	370

*Price as on recommendation date

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