

KEI Industries (KEII) witnessed muted growth for the quarter. Revenues were flat at Rs 12,585m while EBITDA and PBT degrew 12.3%/9.7% YoY to Rs 1,206m/ Rs816m respectively. EBITDA margins declined by 130 bps YoY as sub-contractor costs rose sharply. FY20, revenues/EBITDA/PBT grew 15.6%/ 12.2%/ 17% to Rs 48,843m/Rs 4,960m/ Rs 3267m. Cable volumes grew 18%.

During Q4, Institutional cable revenues were up ~23.4% YoY and 30% for FY20. Sales through dealer network were down 20.7% YoY to Rs 3.2bn due to covid lockdown but total active dealers increased from 1600 in Q3 to 1650 in Q4. For the year as a whole B2C revenues were flat and accounted for 29% of revenues. Exports nearly doubled YoY to Rs 2,260m in Q4 & grew by 76.8% during FY20. Order book stands at ~Rs 32.4bn providing revenue visibility for 3 quarters. KEII finished raising Rs 5bn during Q4 of which Rs 2.9bn was utilized to repay debt.

Going ahead, we expect 15%/30% degrowth in topline/PAT in FY21 (28%/50% cut in our previous estimates) due to macro headwinds, but expect revenues/PAT to grow by 18%/35% in FY22E (22%/31% cut) driven by strong OB visibility in EPC (Rs 12 bn) for next 12-15 months, sustained growth in EHV reflected in landmark order of 400 KV obtained from Tamil Nadu Corporation and geographically well diversified export mix. Housing wire is expected to face challenges on back of slowdown in real estate thereby impacting B2C sales.

**At 10.7x FY22E EPS, although valuations don't appear very cheap, but given that the company has sufficient capacities to generate revenues of Rs 56bn and has a strong execution record, pre qualifications most all leading institutional clients, pan India distribution network, sufficient cash reserves to fund greenfield capex incase demand picks up sooner, stable debt levels at Rs 3bn levels and fairly stable margins(~10%), we feel the company is well poised to capture growth when the cycle turns and hence maintain BUY with a TP of Rs 383 (13.3x weighted target multiple).**

Key financials (Y/e March)	2019	2020	2021E	2022E
Revenues (Rs m)	42,270	48,843	41,516	48,989
Growth (%)	22.2	15.6	(15.0)	18.0
EBITDA (Rs m)	4,422	4,960	3,775	4,770
PAT (Rs m)	1,819	2,551	1,683	2,533
EPS (Rs)	23.2	28.5	18.8	28.3
Growth (%)	25.8	22.8	(34.0)	50.5
CEPS (Rs)	27.5	34.8	25.8	35.5
Net DPS (Rs)	1.2	1.5	1.5	1.5
Profitability & Valuation	2019	2020	2021E	2022E
EBITDA margin (%)	10.5	10.2	9.1	9.7
RoE (%)	26.3	22.3	10.6	14.2
RoCE (%)	31.0	27.7	14.9	17.3
EV / sales (x)	0.7	0.6	0.7	0.6
EV / EBITDA (x)	6.4	5.8	7.4	6.0
PE (x)	13.3	10.8	16.4	10.9
P / BV (x)	3.1	1.8	1.7	1.5
Net dividend yield (%)	0.4	0.5	0.5	0.5

Source: Company Data, PL Research

## Q4FY20 Result Update

Tuesday, June 02, 2020

### Shailee Parekh

shaileeparekh@plindia.com  
+91-22-66322302

### Archit Shah

architshah@plindia.com  
+91-22-66322274

Rating	BUY
Price	Rs 308
Target Price	Rs 383
Implied Upside	24.4%
Sensex	33,826
Nifty	9,979
Bloomberg Code	KEII:IN
Reuters Code	KEIN:NS

(Prices as on June 02, 2020)

### Tracking Data

Market Cap (Rs bn)	27.5
Shares O/s (m)	89.5
3M Avg. Daily Value (Rs m)	134.9

### Major Shareholders

Promoters	40.5%
Institutions.	40.0%
Public & Others	19.5%

### Stock Performance

(%)	1M	6M	12M
Absolute	0.9	(43.1)	(44.3)
Relative	1.2	(24.7)	(26.7)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2021E	18.8	31.6	(40.5)
2022E	28.3	39.8	(28.9)

### Price Chart



### **EHV – yet another feather in the cap**

The company achieved a milestone by bagging a landmark order for supply of 400 KV underground cables to Tamil Nadu Corporation limited for Rs 1.5bn (out of tender for Rs 9bn)

This has made KEI amongst the few international players in the industry to manufacture and supply cables of 400 KV. There are only two companies in India – Universal and KEI that manufactures 400 KV cables. These are used in underground transmission as well as hydro power projects.

### **EPC – steady state business**

Significant improvement was seen in EPC in the month of May and the company closed 3-4 projects. No constrains so far due to labour at any site in the country as contractors are paid in advance by the company. The EPC order book stands at Rs 12bn which gives visibility for next 15 months. Expect further inflow of Rs 800m to sustain Rs 1bn revenues in EPC in FY22E too.

### **Exports – no major fall expected due to well diversified geographical presence**

Company garnered export revenues of Rs 3.4 bn from Dangote in FY20 with pending execution to the tune of Rs 1.1bn to be completed from April – June. Post this project, management doesn't expect significant fall in export revenues due to good presence in Australia, Middle east, LATAM, Africa

### **Dealer Network Sales – to witness challenges on back of slowdown in real estate**

Dealer network sales were flat YoY due to effect of lockdown in last 10 days of March. As a result its contribution to revenues slipped from 33% to 29% in FY20. The target initially was to ramp up this segment to 40-45% of revenues in the next 2 years which will now not happen. Dealer network sales were weak in May as well as most dealers were closed (started operating from May 15 in select parts of country). While the demand from real estate slow at the moment the off take has been strong in tier II and III cities.

Presently, KEI has 1650 dealers spread across the country and expect to grow this network by 10% ever year. In these challenging times, company is reviewing the financial position of dealers continuously and limiting their credit limits. They are not focusing on push based sales.

### Greenfield capacity expansion on hold

New capex has been put on hold for next 4 months (from QIP proceeds) and to be reviewed in October. In cables the company has the capacity to grow revenues by 15% and have doubled capacity of housing wires. Pre covid, the Chinchwada housing wire capacity was operating at at 10% cu and Silvassa at 100% cu. Hence deferment in capex won't impact FY21 & 22 growth.

### Strong Cash Collections

During April recovered cash of Rs 1.94bn of which Rs 1.02bn recovered from turnkey projects from government utilities. In the month of May there was an inflow of Rs 2.7bn. The total inflow is greater than revenues achieved in last two months and hence company is cash surplus despite lockdown.

### Financial Overview & Valuations

Going ahead, we expect 15%/30% degrowth in topline/PAT in FY21 due to macro headwinds, but expect revenues/PAT to grow by 18%/35% in FY22 driven by strong OB visibility in EPC (Rs 12 bn) for next 12-15 months, sustained growth in EHV reflected in landmark order of 400 KV obtained from Tamil Nadu Corporation and geographically well diversified export mix. Housing wire is expected to face challenges on back of slowdown in real estate thereby impacting B2C sales. On the other hand company is witnessing opportunities from wind and solar projects, fertilizer expansions, up gradation of Indian refineries and railways. We have assumed margins to fall by 100 bps in FY21E to 9.1% due to lower fixed cost absorption but improve to 9.7% as volumes grow. Total debt in FY21 to the tune of Rs 2.5-3bn

**At 10.7x FY22E EPS, although valuations don't appear very cheap, but given that the company has sufficient capacities to generate revenues of Rs 56bn and has a strong execution record, pre qualifications most all leading institutional clients, pan India distribution network, sufficient cash reserves to fund greenfield capex incase demand picks up sooner, stable debt levels at Rs 3bn levels and fairly stable margins(~10%), we feel the company is well poised to capture growth when the cycle turns and hence maintain BUY with a TP of Rs 383 (13.3x weighted target multiple).**

Q4FY20 Result Overview (Rs m)								
Y/e March	Q4 '20	Q4 '19	YoY gr.%	Q3 '20	QoQ gr.%	FY'20	FY'19	YoY gr.%
<b>Net Revenue</b>	<b>12,585</b>	<b>12,588</b>	<b>(0.0)</b>	<b>13,142</b>	<b>(4.2)</b>	<b>48,843</b>	<b>42,270</b>	<b>15.6</b>
Raw Material Cost	<b>8,582</b>	<b>9,075</b>	<b>(5.4)</b>	<b>9,218</b>	<b>(6.9)</b>	<b>33,786</b>	<b>29,347</b>	<b>15.1</b>
<i>% of revenue</i>	68.2	72.1		70.1		69.2	69.4	
Employee Cost	602	473	27.1	592	1.6	2276	1734	31.3
<i>% of revenue</i>	4.8	3.8		4.5		4.7	4.1	
Other Expense	1,643	1,538	6.8	1,610	2.0	6,214	5,645	10.1
<i>% of revenue</i>	13.1	12.2		12.3		12.7	13.4	
Sub Contractor expenses	552	126	338.3	329	67.9	1606	1121	43.3
<i>% of revenue</i>	4.4	1.0		2.5		3.3	2.7	
<b>Total Expenditure</b>	<b>11,379</b>	<b>11,212</b>	<b>1.5</b>	<b>11,749</b>	<b>(3.2)</b>	<b>43,882</b>	<b>37,847</b>	<b>15.9</b>
<b>EBITDA</b>	<b>1,206</b>	<b>1,376</b>	<b>(12.3)</b>	<b>1,393</b>	<b>(13.4)</b>	<b>4,960</b>	<b>4,422</b>	<b>12.2</b>
<i>Margin (%)</i>	9.6	10.9		10.6		10.2	10.5	
Depr. & Amortization	137	86	58.9	141	(2.8)	567	339	67.0
<b>EBIT</b>	<b>1,069</b>	<b>1,289</b>	<b>(17.1)</b>	<b>1,252</b>	<b>(14.6)</b>	<b>4,393</b>	<b>4,083</b>	<b>7.6</b>
Net Interest	277	423	(34.6)	330	(16.1)	1291	1362	(5.2)
Other Income	24	37	(35.6)	46	(48.4)	165	72	129.0
<b>Profit before Tax</b>	<b>816</b>	<b>903</b>	<b>(9.7)</b>	<b>968</b>	<b>(15.7)</b>	<b>3,267</b>	<b>2,793</b>	<b>17.0</b>
Total Tax	207	304	(31.7)	245	(15.3)	716	974	(26.5)
<i>Effective tax rate (%)</i>	25.4	33.6		25.3		21.9	34.9	
<b>Profit after Tax</b>	<b>608</b>	<b>599</b>	<b>1.5</b>	<b>723</b>	<b>(15.8)</b>	<b>2,551</b>	<b>1,819</b>	<b>40.3</b>
<i>PAT Margin (%)</i>	4.8	4.8		5.5		5.2	4.3	
<b>EPS</b>	<b>6.8</b>	<b>6.7</b>	<b>1.5</b>	<b>8.1</b>	<b>(15.8)</b>	<b>28.5</b>	<b>20.3</b>	<b>40.3</b>

Source: Company Data, Idea Research

**Income Statement (Rs m)**

Y/e March	2019	2020	2021E	2022E
<b>Net Revenue</b>	<b>42,270</b>	<b>48,843</b>	<b>41,516</b>	<b>48,989</b>
Raw Material Expenses	29,347	33,786	28,812	33,950
Gross Profit	12,923	15,056	12,704	15,040
Employee Cost	1,734	2,276	2,390	2,700
Other Expenses	6,767	7,820	6,539	7,569
<b>EBITDA</b>	<b>4,422</b>	<b>4,960</b>	<b>3,775</b>	<b>4,770</b>
Depr. & Amortization	339	567	626	643
Net Interest	1,362	1,292	1,108	950
Other Income	72	165	209	209
<b>Profit before Tax</b>	<b>2,793</b>	<b>3,267</b>	<b>2,250</b>	<b>3,386</b>
Total Tax	974	716	567	853
<b>Profit after Tax</b>	<b>1,819</b>	<b>2,551</b>	<b>1,683</b>	<b>2,533</b>
Ex-Od items / Min. Int.	-	-	-	-
<b>Adj. PAT</b>	<b>1,819</b>	<b>2,551</b>	<b>1,683</b>	<b>2,533</b>
<b>Avg. Shares O/S (m)</b>	<b>78.4</b>	<b>89.5</b>	<b>89.5</b>	<b>89.5</b>
<b>EPS (Rs.)</b>	<b>23.2</b>	<b>28.5</b>	<b>18.8</b>	<b>28.3</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2019	2020	2021E	2022E
C/F from Operations	6,224	(501)	3,361	1,908
C/F from Investing	(1,158)	(838)	(602)	(1,198)
C/F from Financing	(3,876)	1,528	(2,315)	(1,657)
Inc. / Dec. in Cash	1,190	190	443	(948)
Opening Cash	763	1,953	2,143	2,586
Closing Cash	1,953	2,143	2,586	1,638
FCFF	5,066	(1,339)	2,759	710

**Key Financial Metrics**

Y/e March	2019	2020	2021E	2022E
<b>Growth</b>				
Revenue (%)	22.2	15.6	(15.0)	18.0
EBITDA (%)	30.7	12.2	(23.9)	26.4
PAT (%)	25.8	40.3	(34.0)	50.5
EPS (%)	25.8	22.8	(34.0)	50.5
<b>Profitability</b>				
EBITDA Margin (%)	10.5	10.2	9.1	9.7
PAT Margin (%)	4.3	5.2	4.1	5.2
RoCE (%)	31.0	27.7	14.9	17.3
RoE (%)	26.3	22.3	10.6	14.2
<b>Balance Sheet</b>				
Net Debt : Equity	0.5	0.1	0.0	0.0
Net Wrkng Cap. (days)	31.0	44.3	54.0	56.0
<b>Valuation</b>				
PER (x)	13.3	10.8	16.4	10.9
P / B (x)	3.1	1.8	1.7	1.5
EV / EBITDA (x)	6.4	5.8	7.4	6.0
EV / Sales (x)	0.7	0.6	0.7	0.6
<b>Earnings Quality</b>				
Eff. Tax Rate	34.9	21.9	25.2	25.2
Other Inc / PBT	0.0	0.1	0.1	0.1
Eff. Dep. Rate (%)	5.9	8.8	8.5	8.5

Source: Company Data, PL Research

**Balance Sheet Abstract (Rs m)**

Y/e March	2019	2020	2021E	2022E
<b>Non-Current Assets</b>	<b>5,385</b>	<b>5,829</b>	<b>5,111</b>	<b>6,195</b>
<b>Net fixed assets</b>	<b>4,857</b>	<b>4,960</b>	<b>5,246</b>	<b>4,803</b>
Capital Work In Progress	316	112	-	1,200
Intangible assets	30	29	26	24
Right of Use Asset	-	547	547	547
Non-Current Investments	16	6	20	30
Loans	69	124	133	142
Other financial assets	6	9	10	11
Other Non-Current Assets	92	41	46	50
<b>Current Assets</b>	<b>22,258</b>	<b>26,857</b>	<b>25,024</b>	<b>26,955</b>
Inventories	6,896	8,638	7,381	8,165
Trade receivables	10,946	13,676	12,686	14,425
Cash & Bank Balance	1,953	2,143	2,533	1,531
Loans	46	29	34	39
Other financial Assets	1,040	867	823	947
Income Tax Assets	-	20	-	-
Other Current Assets	1,375	1,484	1,514	1,741
<b>Total Assets</b>	<b>27,643</b>	<b>32,687</b>	<b>30,998</b>	<b>33,654</b>

**Equity**

Equity Share Capital	158	179	179	179
Other Equity	7,631	14,889	16,411	18,783
<b>Total Networth</b>	<b>7,789</b>	<b>15,068</b>	<b>16,590</b>	<b>18,962</b>
<b>Non-Current Liabilities</b>	<b>1,721</b>	<b>1,094</b>	<b>1,004</b>	<b>914</b>
Long Term borrowings	1,193	527	427	327
Provisions	86	111	121	131
Deferred tax liabilities	442	310	310	310
Other Non-Current liab	-	146	146	146
<b>Current Liabilities</b>	<b>18,133</b>	<b>16,525</b>	<b>13,405</b>	<b>13,779</b>
ST Debt	3,865	2,624	1,624	1,124
Trade payables	10,203	11,690	9,604	10,373
Other Financial Liabilities	3,379	722	736	751
Short Term Provisions	135	81	98	117
Other current Liabilities	457	1,390	1,320	1,386
Current Tax Liability(net)	93	19	23	28
<b>Total Equity &amp; Liabilities</b>	<b>27,643</b>	<b>32,687</b>	<b>30,998</b>	<b>33,654</b>

**Quarterly Financials (Rs m)**

Y/e March	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>10,814</b>	<b>12,302</b>	<b>13,142</b>	<b>12,585</b>
<b>EBITDA</b>	<b>1,139</b>	<b>1,222</b>	<b>1,393</b>	<b>1,206</b>
% of revenue	10.5	9.9	10.6	9.6
Depr. & Amortization	152	137	141	137
Net Interest	330	355	330	277
Other Income	52	43	46	24
<b>Profit before Tax</b>	<b>710</b>	<b>773</b>	<b>968</b>	<b>816</b>
Total Tax	252	11	245	207
<b>Profit after Tax</b>	<b>458</b>	<b>762</b>	<b>723</b>	<b>608</b>
<b>Adj. PAT</b>	<b>458</b>	<b>762</b>	<b>723</b>	<b>608</b>

Source: Company Data, PL Research

[DISCLAIMER/DISCLOSURES](#)
[ANALYST CERTIFICATION](#)

We/I, Ms. Shailee Parekh (MMS, B.com) and Mr. Archit Shah (CA) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

[Terms & conditions and other disclosures:](#)

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com)

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL holds certification of registration as Research Analyst bearing SEBI Registration Number INH000000271 under Securities and Exchange Board of India (Research Analysts) Regulations, 2014.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Ms. Shailee Parekh (MMS, B.com) and Charmi Mehta (CA), Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

---

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India  
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209