

KEI Industries

BUY

CMP Rs293

Target Rs381

Upside 30.1%

HIGHLIGHTS

- ✓ KEI managed to report steady numbers led by strong growth in its exports, EHV and B2B business. Even with 10 days of lost sales (Rs1.25bn), revenues remained flat on a yoy basis.
- ✓ Sales through dealer network was weak during the quarter at -20.7% yoy as substantial sales happen in the second half of March
- ✓ EPC revenues (Ex cables) also declined 25% yoy due to tight liquidity conditions and lost execution in second half of March.
- ✓ Margins were under pressure (-134bps yoy) due to lower contribution of sales through dealers (high margin business) and loss of sales during lockdown.
- ✓ Interest expense declined 34.6% yoy and 16.1% yoy due to repayment of debt from QIP proceeds.
- ✓ Order inflow during the quarter was weak resulting into a decline of 27.4% qoq to Rs32.6bn.
- ✓ KEI is currently operating at 50% utilization levels. It is witnessing good demand for housing wires from non-metro areas and from export market.
- ✓ Receivables have normalized over the last two months as the company has managed to collect Rs4.7bn

Our View

- ✓ We believe the company would be less impacted compared to its peer's due to its product portfolio and high revenue share of non-metro regions
- ✓ We cut FY21E/22E estimates by 41.7%/32.9% factoring in the delay in capex plans and slower recovery in housing wires.
- ✓ Maintain our Buy rating on the stock with a revised TP of Rs381 (12x FY22E P/E)

Valuation

- ✓ Valuations at 9.1x FY22E P/E are quite attractive

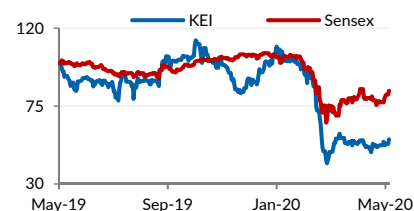
Risk to our call

- ✓ Slower recovery in export and domestic cable market

Stock data (as on June 01, 2020)

Sensex:	33,304
52 Week h/l (Rs)	615 / 208
Market cap (Rs/USD mn)	26229 / 347
Outstanding Shares	90
6m Avg t/o (Rs mn):	96
Div yield (%):	0.5
Bloomberg code:	KEI IN
NSE code:	KEI

Stock performance



	1M	3M	1Y
Absolute return	0.9%	-39.9%	-43.8%

Shareholding pattern (As of Mar'20 end)

Promoter	40.5%
FII+DII	40.0%
Others	19.5%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	23.7	31.8
EPS (Old)	40.6	47.4
% change	(41.7)	(32.9)

Exhibit 1: Result table

(Rs mn)	Q4 FY20	Q4 FY19	% yoy	Q3 FY20	% qoq
Net sales	12,585	12,588	(0.0)	13,142	(4.2)
Operating profit	1,206	1,376	(12.3)	1,393	(13.4)
OPM (%)	9.6	10.9	-134 bps	10.6	-101 bps
Depreciation	(137)	(86)	58.9	(141)	(2.8)
Interest	(277)	(423)	(34.6)	(330)	(16.1)
Other income	24	37	(35.6)	46	(48.4)
PBT	816	903	(9.6)	968	(15.7)
Tax	(207)	(304)	(31.7)	(245)	(15.3)
Effective tax rate (%)	25.4	33.6	-	25.3	-
Adjusted PAT	608	599	1.5	723	(15.8)

Source: Company, YES Sec - Research

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CON-CALL HIGHLIGHTS

- ✓ Growth was lower by 11-12% due to zero sales (Rs1.25bn of lost sales) in last 10 days of March'2020 on account of lockdown.
- ✓ Substantial sales through dealers happen in the second half of March and that led to a miss in revenues during the quarter.
- ✓ Volume growth in Cable Division in FY20 was ~18% yoy and 9% yoy in Q4.
- ✓ EHV cable saw 130% yoy growth in FY20. Management expects this segment to grow substantial over next 2-3 years.
- ✓ The company has recently bagged first big order of 400kv of Rs1.5bn from Tamilnadu Transmission Corporation Limited. The company is now amongst the 5-6 manufacturers globally having 400kv cable capability. In India, Universal Cables has similar capability.
- ✓ It expects orders from metro projects, fertilizers and refineries (HPCL, BPCL, IOCL), railways, wind and solar. Wind and solar might see some delays in execution. Also, the company is executing a project for Nuclear Power projects.
- ✓ Of the EHV EPC order of Rs7.5bn, 70% is cabling portion. Most of these projects are executable in 18-20months.
- ✓ Pre-Covid utilization levels – Silvassa was 100% and new Chinchwada plant was just 10%. Chinchwada plant can produce Rs800-900mn of cables per month.
- ✓ Active working dealers at the end of Q4 stood at 1,650, company is increasing strength by 8-10% every year.
- ✓ Acceptances as on March'2020: Rs7.7bn.

Exports

- ✓ Exports in FY20 was Rs9bn vs Rs5.3bn in FY19, of which Dangote is Rs3.4bn and the remaining to Rs1.1bn which will be supplied in Q1 FY21.
- ✓ The company expects similar export sales in FY21.
- ✓ Key exports market for the company are Australia, Middle East and through EPC contractors to Africa and LatAm.

Current situation

- ✓ April saw sales in last 4 days and May saw substantial export and institutional sales. While, due to lockdown dealers/distributors saw sales in the last 15 days of May.
- ✓ The company received payment worth Rs1.9bn during April'20 of which Rs1,020mn was recovered from turnkey projects and cash flow from cables was Rs698mn. In May'20, the cash inflow of Rs2.7bn.
- ✓ Many payments were delayed from the dealers/distributors end as their receipts were delayed from institutional side.
- ✓ The company is reviewing credit exposure of the dealers and restricting their credit limit for some time. Few dealers have opted for extension of their moratorium as they did not receive payments from their counterpart.
- ✓ The company expect working capital cycle to improve in FY21.

- ✓ All the EPC sites have started and have completed 3-4 projects recently. The company is not facing any labour issues due to strong relationship with the contractors as KEI have always cleared all their bills on timely basis.

Near term outlook

- ✓ Management expects cable segment to do better than wires. Wires sales will be impacted on account of real estate weakness, however, tier 2 and 3 towns wires sales from dealers have seen offtake in May.
- ✓ The company has delayed its capex plans due to the current uncertain times. The company would revive the situation in H2 on its capex plans.
- ✓ Current cable capacities can add 15% more revenues to FY20 levels. In the housing wire segment, the company has doubled its capacity in FY20. Further via debottlenecking with minimal capex the company can expand its capacity by 5%.
- ✓ Due to change in sales mix more towards cables segment in FY21, margin could be impacted by 50bps.
- ✓ A&P- The company will not do any spends in H1 FY21 and post that will review the situation and take the decision.
- ✓ Gross debt would be Rs2.5-3bn in FY21, if the company do not incur any major capex.

Exhibit 2: Cost analysis

As a % of net sales	Q4 FY20	Q4 FY19	bps yoy	Q3 FY20	bps qoq
Material costs	72.6	73.1	(51)	72.6	(6)
Personnel Costs	4.8	3.8	102	4.5	28
Other overheads	13.1	12.2	84	12.3	80
Total costs	90.4	89.1	134	89.4	101

Source: Company, YES Sec - Research

Exhibit 3: Product-wise performance

(Rs mn)	Q4 FY20	Q4 FY19	% yoy	Q3 FY20	% qoq	FY20	FY19	% yoy
LT Power/Rubber cable	5,920	4,710	25.7	5,330	11.1	20,410	16,340	24.9
HT Power Cable	1,340	1,950	(31.3)	2,120	(36.8)	6,730	7,120	(5.5)
EHV Cable	1,270	940	35.1	1,350	(5.9)	4,350	1,890	130.2
HW / WW	1,900	2,220	(14.4)	2,230	(14.8)	8,520	8,190	4.0
Total cable & Wires	10,430	9,820	6.2	11,030	(5.4)	40,010	33,540	19.3
SS Wire	400	370	8.1	330	21.2	1,370	1,370	0.0
EPC	1,860	2,470	(24.7)	1,820	2.2	7,640	7,300	4.7
Total revenue	12,690	12,660	0.2	13,180	(3.7)	49,020	42,210	16.1
Exports	2,260	1,170	93.2	2,720	(16.9)	7270	5890	23.4

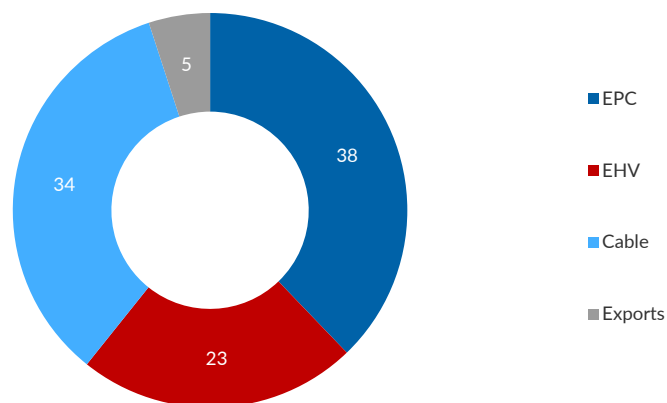
Source: Company, YES Sec - Research

Exhibit 4: Segmental performance

(Rs mn)	Q4 FY20	Q4 FY19	% yoy	Q3 FY20	% qoq	FY20	FY19	% yoy
Revenues								
Cables	10,332	9,748	6.0	10,995	(6.0)	39,859	33,636	18.5
Stainless Steel wire	393	371	5.8	326	20.7	1,375	1,370	0.4
Turnkey Projects	3,701	3,865	(4.2)	3,985	(7.1)	13,967	10,333	35.2
Net Sales	14,426	13,984	3.2	15,305	(5.7)	55,201	45,339	21.8
EBIT								
Cables	1,149	1,079	6.5	1,321	(13.0)	4,414	3,664	20.4
Stainless Steel wire	42	10	313.0	14	209.7	88	91	(3.7)
Turnkey Projects	409	438	(6.7)	467	(12.5)	1,637	1,422	15.1
Total EBIT	1,600	1,528	4.7	1,802	(11.2)	6,138	5,178	18.6
EBIT Margins (%)			bps yoy		bps qoq		bps yoy	
Cables	11.1	11.1	5	12.0	(89)	11.1	10.9	18
Stainless Steel wire	10.8	2.8	801	4.2	658	6.4	6.6	(27)
Turnkey Projects	11.0	11.3	(30)	11.7	(68)	11.7	13.8	(204)
Blended	11.1	10.9	17	11.8	(68)	11.1	11.4	(30)

Source: Company, YES Sec - Research

Exhibit 5: Orderbook stood at Rs32.6bn as on 02 June' 2020



Source: Company, YES Sec - Research

Exhibit 6: Financial Summary (Consolidated)

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	35,122	42,310	48,878	43,901	50,336
yoy growth (%)	31.5	20.5	15.5	(10.2)	14.7
Operating profit	3,860	4,406	4,971	4,269	5,162
OPM (%)	11.0	10.4	10.2	9.7	10.3
Reported PAT	1,919	1,808	2,563	2,118	2,844
yoy growth (%)	95.2	(5.8)	41.8	(17.4)	34.3
EPS (Rs)	24.5	22.9	28.6	23.7	31.8
P/E (x)	11.8	12.7	10.1	12.3	9.1
Price/Book (x)	3.8	2.9	1.7	1.5	1.3
EV/EBITDA (x)	7.9	6.1	5.5	5.9	4.8
Net Debt/Equity (x)	1.3	0.5	0.1	(0.0)	(0.1)
RoE (%)	35.6	26.1	22.4	13.2	15.5
RoCE (%)	27.6	29.3	28.1	20.1	22.9

Source: Company, YES Sec - Research

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