Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KEI Industries Limited

Decent Q4, outlook stays positive

Capital Goods	Sharekhan code: KEI	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		⟷	
RQ		⟷	
RV		⟷	

Reco/View	Change
Reco: **Buy**	⟷
CMP: **Rs. 611**	
Price Target: **Rs. 750**	↑

↑ Upgrade ⟷ Maintain ↓ Downgrade

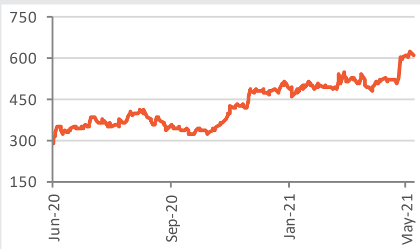
Company details

Market cap:	Rs. 5,487 cr
52-week high/low:	Rs. 645 / 275
NSE volume: (No of shares)	1.1 lakh
BSE code:	517569
NSE code:	KEI
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters	40.3
FII	20.1
DII	22.6
Others	17.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17	29	46	120
Relative to Sensex	11	22	30	59

Sharekhan Research, Bloomberg

Summary

- We retain Buy rating KEI Industries Limited (KEI) with a revised PT of Rs. 750, given its positive outlook going ahead and reasonable valuation.
- Q4FY2021 was a descent quarter. Revenue and margins came on expected lines, PAT was better than estimates on lower interest cost
- Management expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range in revenues and margins in consecutive years
- Working capital cycle is expected to come down due to the lowering of its exposure on EPC with more focus towards expanding its retail franchise and the EHV business.

KEI Industries Limited (KEI) posted decent Q4FY2021 results despite challenges. Revenue and margins remained on expected lines, while PAT was above estimates. Revenue remained flat y-o-y, (in-line with estimates), wherein the cables business improved marginally by 3.3% y-o-y, while the EPC business declined by 29.8% (higher base of last year due to the execution of large Dangote order). Cost-optimisation initiatives along with the pass through of commodity price inflation led to an improvement of 178 bps y-o-y in OPM to 11.0% (in line with estimates). Accordingly, operating profit came at Rs. 141.6 crore (up 17.4% y-o-y). Higher operating leverage along with lower interest cost (-54.7% y-o-y) and tax rate led to 46.7% y-o-y growth in net profit to Rs. 89 crores (above estimates). The company is operating at decent levels (cables: 69%, housing wires: 61%, SS wire: 85%) across its different division which provides sufficient room for growth. The company is witnessing good export opportunities in markets such as Australia and Africa while Middle East remains little slow. However, due to travelling constraints and the absence of large orders (Dangote in the previous year), exports have been slower. Going ahead, export revenue is expected to be at similar levels as of FY2021. To compensate for export shortfall, the company is eyeing domestic markets, where it is seeing orders from metro projects, fertilisers, domestic refineries, railways, and wind and solar projects. The working capital cycle is expected to come down to ~2.5 -2.75 months in FY2022 as management will be lowering down its EPC exposure and a focus towards retail which would further strengthen the balance sheet. KEI does not expect major impact of rise in commodity prices, especially copper, is a pass through for the company has taken price hikes to mitigate commodity inflation and expect to further take 10% in the current quarter to offset the commodity headwinds. The management also highlighted that it is focused on expanding its retail franchise through expanding the dealer and distribution base (currently at 1,650 numbers and expects it to increase by ~20 y-o-y) and expects its retail segment to grow by 35% y-o-y in FY22 and its institutional business by 25% y-o-y. As mentioned earlier too, the company will also cut down its EPC business from earlier levels of Rs. 1,000 crore to ~Rs 450-500 crore and utilise the money to channelise the retail segment's growth. On capacity expansion, the company will be doing capex of Rs. 175 crore in LT, HT, and EHV in FY2022 (delayed due to ongoing lockdowns). Going ahead, the company will be doing Rs. 150 crore-170 crore capex per annum for the next four years. Management expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range for revenues and margins in consecutive years. The company net debt including acceptances too has come down to Rs 407 crore in FY21 from Rs 923 crore in FY20 which further strengthens its balance sheet. We believe KEI's diversified user industries, increased focus on retail, high-margin EHV cables, and export sales along with focused industry approach as well as utilisation-driven capex plans will help propel the company in the current environment. We have fine-tuned our estimates for FY2022E-FY2022E. The stock is currently trading at a P/E of 16x/13x its FY2022E/FY2023E EPS which remains reasonable. Hence, we retain Buy on the stock with a revised (PT) of Rs. 750.

Key positives

- Margins improved 178 bps on cost optimisation initiatives despite commodity headwinds.
- Interest cost reduced by 54.7% y-o-y while net debt including acceptances come down to Rs 407 crore in FY21 from Rs 923 crore in FY20.

Key negatives

- EPC revenue declined by 29.8% y-o-y (higher base of last year due to execution of large Dangote order).

Our Call

Valuation: Retain Buy with a revised PT of Rs. 750: KEI's outlook is expected to be positive with its diversified user industries, increased focus on retail, high-margin EHV cables, and export sales along with focused industry approach as well as utilisation-driven capex plans likely to help in sustaining strong growth trajectory. We expect revenue and PAT to report a CAGR of 18% and 23%, respectively, during FY2021-FY2023E. We have fine-tuned our estimates for FY2022E-FY2023E. The stock is currently trading at a P/E of 16x/13x its FY2022E/FY2023E EPS which remains reasonable. Hence, we retain Buy on the stock with a revised (PT) of Rs. 750.

Key Risks

Fluctuations in raw-material prices could sharply affect margins.

Valuation (Standalone) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	4,884	4,181	4,904	5,832
OPM (%)	9.9	11.0	11.0	11.1
Adjusted PAT	243	273	335	412
% YoY growth	*35.8*	*12.3*	*22.7*	*22.8*
Adjusted EPS (Rs.)	27.2	30.4	37.3	45.9
P/E (x)	22.5	20.1	16.4	13.3
P/B (x)	2.3	2.0	1.7	1.4
EV/EBITDA (x)	8.4	8.8	7.3	5.9
RoNW (%)	16.2	15.4	16.0	16.5
RoCE (%)	24.0	20.2	21.0	21.4

Source: Company; Sharekhan estimates

Decent show: KEI Industries Limited (KEI) posted decent Q4FY2021 results despite challenges. Revenue and margins remained on expected lines, while PAT was above estimates. Revenue remained flat y-o-y, (in-line with estimates), wherein the cables business improved marginally by 3.3% y-o-y. The EPC business declined by 29.8% (higher base of last year due to execution of large Dangote order). Cost-optimisation initiatives along with pass through of commodity price inflation led to 178 bps y-o-y improvement in OPM to 11.0% (in line with estimates). Accordingly, operating profit came at Rs. 141.6 crore (up 17.4% y-o-y). Higher operating leverage along with lower interest cost (-54.7% y-o-y) and tax rate led to 46.7% y-o-y growth in net profit to Rs. 89 crore (above estimates). The company is operating at descent levels (cables: 69%, housing wires: 61%, SS wire: 85%) across its different division which provides sufficient room for growth. The company is witnessing good export opportunities in markets such as Australia and Africa while Middle East remains little slow. However, due to travelling constraints and absence of large orders (Dangote in the previous year), exports have been slower; but going ahead, export revenue is expected to be at similar levels as of FY2021. To compensate for export shortfall, the company is eyeing domestic markets, where it is seeing orders from metro projects, fertilisers, domestic refineries, railways, and wind and solar projects.

Growth prospects remains bright ahead: The management remains optimistic on expanding its retail franchise through expanding the dealer and distribution base (currently at 1,650 numbers and expects it to increase by ~20 y-o-y) and expects its retail segment to grow by 35% y-o-y in FY22 and its institutional business by 25% y-o-y. As mentioned earlier, the company will cut down its EPC business from earlier levels of Rs. 1,000 crore to ~Rs 450-500 crore and utilise the money to channelise the retail segment's growth. On capacity expansion, the company will be doing capex of Rs. 175 crore in LT, HT, and EHV in FY2022 (delayed due to ongoing lockdowns). Going ahead, the company will be doing Rs. 150 crore-170 crore capex per annum for the next four years. The management expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range revenues and margins in consecutive years. The working capital cycle is expected to come down to ~2.5 -2.75 months in FY2022 as management will be lowering down its EPC exposure and focus on retail which would further strengthen the balance sheet. KEI does not expect major impact of rise in commodity prices, especially copper, is pass through for the company has taken price hikes to mitigate commodity inflation and expect to further take 10% in the current quarter to offset the commodity headwinds.

KEI Q4FY2021 Conference call highlights

- **Guidance:** Management expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range for revenues and margins in consecutive years.
- **Outlook:** Barring the COVID related impact in Q1FY22 the outlook remains positive and with expectation of easing of lockdown by June end. The management expects demand to come back in retail wires and EHV with opening of project sites etc.
- **Exports:** Shortfall in exports due to absence of large orders (Dangote in the previous year) to be compensated from domestic markets (metro projects, fertilisers, domestic refineries, railways, solar power projects). Management expects exports be at similar levels as of FY2021. Traction seen across Australia and Africa, however, Middle East remains slow.
- **EPC focus to come down:** As reiterated previously, the company will be focusing more on its retail wires and cables and expects it to reach 40-45% of sales in couple of years and will lower down its EPC contraction from earlier levels of Rs. 1,000 crore to ~Rs. 450-500 crore (slow recovery from the government has been an issue) and utilise the money to channelise the retail segment's growth.
- **Expansion of the retail/ institutional cable business:** The retail business largely comprises housing wires and is expected to grow by ~35% in FY2022 while in Institutional cable (domestic) it expects growth of 25% y-o-y.
- **Revenue mix:** The company's revenue mix for FY2021 in A class city (largely metros) comprise 35-40%, B class cities comprise 37% and C class cities comprise 17-18%.
- **Capacity expansion:** The company will be doing capex of Rs. 175 crore in LT, HT, and EHV in FY2022. Going ahead, the company will be doing Rs. 150 crore-170 crore capex per annum for the next four years.

- **Commodity risk:** Rise in commodity prices especially copper is pass through for the company has taken price hikes to mitigate commodity inflation and expect to further take 10% in the current quarter to offset the commodity headwinds.
- **Working capital:** Working capital is expected to come down to ~2.5-2.75 months in FY2022 as management will be lowering down its EPC exposure and focus towards retail.
- **Interest cost reduction:** The company's current interest outgo has reduced and expects to further come down in the ensuing years.
- **Capacity utilisation in FY2021:** Cables: 69%, housing wires: 61%, SS wire: 85%
- **Order book:** The order book stands at Rs. 2561 crore (EPC= Rs 806 crore, EHV- Rs 506 crore, Cables (Domestic)- Rs 1198 crore and exports- Rs 51 crore).
- **Dealer expansion:** The company's current dealer/distributor network is 1,650 which will be increased at ~20% per annum along with increased area coverage. New teams assigned to retail to expand the distribution channels
- **Net Debt:** The company's net debt stands at Rs 84 (Rs 153 crore in FY20) and Net debt including acceptances stands at Rs 407 crore (Rs 923 crore in FY20).

Results (Standalone) Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Revenue	1,246	1,259	-1.0	1,153	8.1
Operating profit	142	121	17.4	128	10.4
Other Income	2.5	2.4	5.1	5	-53.3
Interest	13	28	-54.7	13	-4.0
Depreciation	15	14	5.7	15	-0.2
PBT	117	82	43.5	106	10.5
Tax	28	21	34.1	26	5.4
Reported PAT	89.3	60.8	46.7	80	12.1
Adj. PAT	89	61	46.7	80	12.1
Adj.EPS	9.93	6.77	46.7	8.9	12.1
Margin			BPS		BPS
OPM (%)	11.4	9.6	178	11.1	24
NPM (%)	7.2	4.8	233	6.9	26
Tax rate	23.8	25.4	-	24.9	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Ample levers offer scope for growth

Domestic demand side is improving with unlocking, infrastructure, and construction back in action with labour issues largely resolved, which provide a positive outlook ahead. The wires and cables industry contributes 40%-45% to India's electrical equipment industry. In terms of volumes, the Indian wires and cables industry (including exports) has grown from 6.3 million kms in FY2014 to 14.5 million kms in FY2018, posting a ~23% CAGR over the period. The industry registered an ~11% CAGR in value terms, from Rs. 34,600 crore in FY2014 to Rs. 52,500 crore in FY2018. The C&W industry was expected to register a CAGR of 14.5% from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. However, a slowdown in infrastructure growth and uncertainty in real estate will lead to moderation in growth for the C&W segment. A gradual resumption of normal economic activity and infrastructure projects will push the recovery to H2FY2021. The government has envisaged a Rs. 111 lakh crore capital expenditure in infrastructure sectors in India during FY2020 to FY2025. Sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected infrastructure investments. The continued thrust of the government on infrastructure investment is expected to improve demand for the W&C industry.

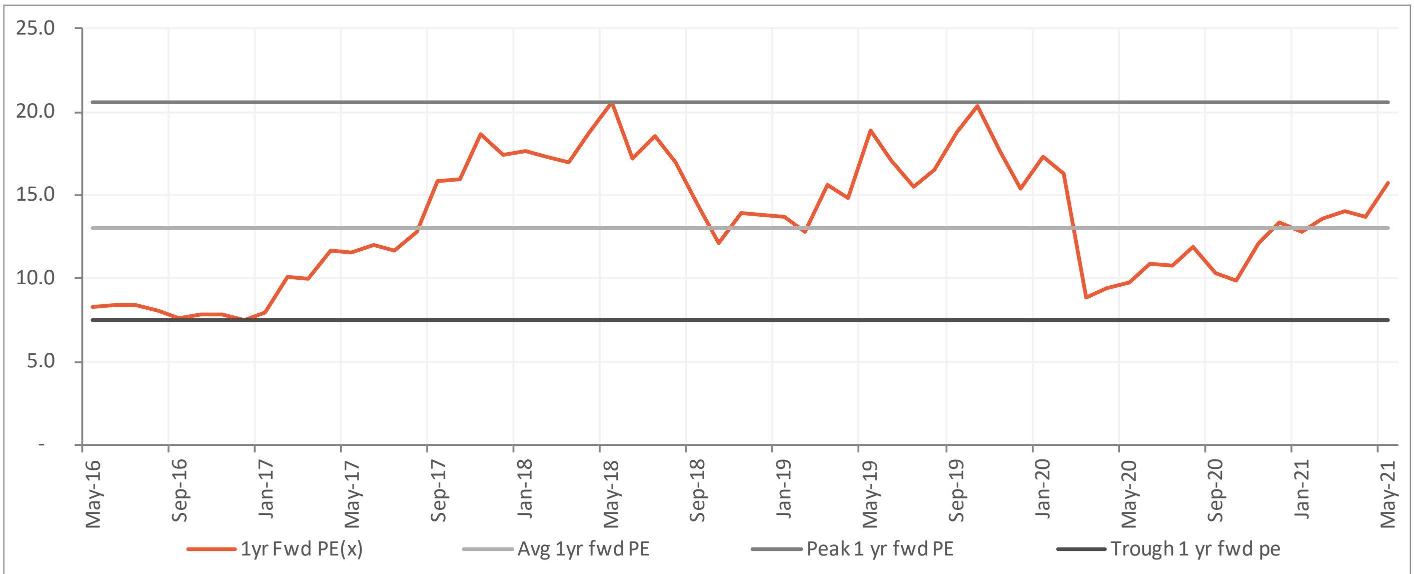
■ Company outlook – Growth prospects bright

The management remains optimistic on the retail and EHV segments in the longer run. It is focused on expanding its retail franchise through expanding its dealer and distribution base (currently at 1,650 numbers and expects it to increase by -20% y-o-y) and expects its retail segment to reach 40% of revenue by FY2023. The management will also cut down its EPC business from earlier levels and utilise the money to channelise the retail segment's growth. On the high-margin EHV front, which remains a Rs. 2,000 crore market in India, while the total capacity is Rs. 1,000 crore-1,100 crore between the company and Universal cables and opportunity size remains huge. The company will be doing Greenfield capex of Rs. 175 crore in LT, HT, and EHV in FY2022 (to be funded through internal accruals). Going ahead, the company will be doing Rs. 150 crore-170 crore capex per annum and expects to generate 5x-6x of revenue from capex. The mmanagement expects FY2022 revenue growth of 17-18% with sustainable margins of 11% and a similar range revenues and margins in consecutive years. On the exports front, management remains focused and is expected to improve ahead as travelling restrictions ease further.

■ Valuation – Retain Buy with a revised PT of Rs. 750:

KEI's outlook is expected to be positive with its diversified user industries, increased focus on retail, high-margin EHV cables, and export sales along with focused industry approach as well as utilisation-driven capex plans likely to help in sustaining strong growth trajectory. We expect revenue and PAT to report a CAGR of 18% and 23%, respectively, during FY2021-FY2023E. We have fine-tuned our estimates for FY2022E-FY2022E. The stock is currently trading at a P/E of 16x/13x its FY2022E/FY2023E EPS which remains reasonable. Hence, we retain Buy on the stock with a revised (PT) of Rs. 750.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

KEI is among the top three organised players in the Indian W&C industry and an EPC player in the power T&D segment. KEI has a diversified business model with a significant presence in domestic and international markets. The company services retail and institutional customers and caters to both private and public sector clients. Currently, KEI manufactures and markets power cables and addresses cabling requirements of a wide spectrum of sectors such as power, oil refineries, railways, automobiles, cement, steel, and real estate, etc. KEI has built its manufacturing facilities at Bhiwadi and Chopanki (in Rajasthan) and Silvassa (Dadra and Nagar Haveli). The company is well poised to garner opportunities from power utilities, core infrastructure, and construction projects across the country. The company's prudent foray into the EHV cable and EPC services for power sector projects has further expanded the opportunity horizon.

Investment theme

Over the years, the company has established its presence in the institutional space by developing the ability to offer various products across locations. KEI has a well-entrenched marketing presence across all states, which increases its ability to deliver products speedily from plants in North and West India. The company has created a presence in building specialised offerings to tap niche segments such as the shipping sector, oil and petroleum plants, etc. The company is now looking at tapping several large realty brands and strengthening all-India presence by embarking on opening new warehouses across India. The retail segment comprises house wires (HW) and a part of low-tension cables (LT) sold through dealers. Total retail revenue has registered a CAGR of ~31% FY2014-FY2018. On account of a growing dealer network and brand-building initiatives (advertising and sponsoring), performance-linked schemes, and dealer-electrician meets etc., we expect KEI to increase its retail presence further. Government initiatives such as 'Housing for All by 2022', affordable housing under 'Pradhan Mantri Awas Yojana,' etc., could boost growth in HW and LT cables segments.

Key Risks

- **Fluctuations in raw-material prices:** Any sharp increase or decrease in key raw materials – copper and aluminium will affect margins sharply.
- **Currency risk:** A decent part of revenue is generated from exports and any fluctuations in forex rates could affect the company's financials.

Additional Data

Key management personnel

Mr. Anil Gupta	Executive Director-Chairperson
Mrs. Akshit Diviaj Gupta	Executive Director
Mrs. Archana Gupta	Non-Executive – Non-Independent Director
Mr. Rajeev Gupta	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Gupta Anil	23.06
2	PROJECTION FIN AND MANAGEM	9.94
3	Franklin Resources Inc	6.09
4	HDFC Asset Management Co Ltd	5.06
5	SHUBH LAXMI MOTELS & INNS.	4.38
6	Soubhagya Agency Pvt Ltd	3.93
7	KEI CABLES PVT LTD	1.98
8	VANTAGE EQUITY FUND	1.95
9	Sundaram Asset Management Co Ltd	1.57
10	Dimensional Fund Advisors LP	1.56

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

---

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.