RESEARCH REPORT

26th Feb 2018

KRITI INDUSTRIES (INDIA) LIMITED

BSE : KRITIIND

Sector: BRANDED PVC PIPES & FITTINGS

BSE: 526423

View - BUY

CMP : Rs. 51

Target Price: Rs 90 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Kriti Industries (I) Limited (KIIL) is the flagship company of the Kriti group and is engaged in the business of manufacturing, sale and supply of plastic Pipes & fittings and accessories which are used in agriculture, construction segment (building products) and drip irrigation systems. KIIL also manufactures and sells PLB Ducts, HDPE&MDPE pipes largely used in infrastructure sector.

KIIL has expanded its range of products from small diameter pipes to 630 mm diameters and sell its products under the **"Kasta"** brand, which is well known in Central India. The major markets where KKIL has a strong hold include M.P, Chhattisgarh, Rajasthan and adjoining districts of Maharashtra.

INVESTMENT HIGHLIGHTS

Healthy business growth continues in FY18 YTD – In terms of financial performance for FY17, KIIL has posted a Topline of close to Rs 387.55 crs, EBIDTA margins of 7.50% and a PBT of Rs 12.66 crs followed by a PAT of Rs 8.33 crs.

KIIL has shown consistent growth since last 7 years starting from FY13 onwards when its Topline was Rs 276 crs which has now touched Rs 387.55 crs as on FY17 while PBT has improved from 8.78 crs to Rs 12.66 crs in the same period with operating margins progressively up to around .8/40% in Q3FY18. In the first 9 months of FY18 KIIL has already recorded a Topline of Rs 348.61 crs, a EBIDTA of Rs 21.63 crs and a PAT of Rs 5.96 crs on a equity base of Rs 4.96 crs.

Kriti enjoys a strong product portfolio and distribution reach –

KIIL is a leading player in the PVC/HDPE Pipes and fittings category and caters to four broad business segments. These include the 1. Agriculture Segment 2. Building Products Segment 3. Micro Irrigation Segment and 4. Infrastructure Segment. KIIL has a well positioned product basket for each of these business segments but its focus has been largely on the Agriculture, Building Products and Infrastructure segment. In FY17 Agriculture segment accounted for 73% of revenues while Building Product segment and Infrastructure segment accounted for 9% and 12% of revenues respectively. Micro Irrigation forms a small portion of 6% of the total revenues.

KIIL plans to move up the value chain & hopes to improve its margins going ahead as well. KIIL plans to concentrate more on CPVC pipes in building materials and HDPE pipes for agriculture where the margins are better. The MDPE pipes used as fibre ducts for Telecom infrastructure is the big story going forward and KIIL here has developed products which have already started yielded good results in FY18 where the B2B business from the infrastructure business has already touched 25% of revenues from just 12% in FY17. Going ahead KIIL intends to focus on this business segment aggressively as volumes are large here and it provides steady margins with scope for price increase also unlike the Agri business segment which is retail in nature and where margins are on the lower side.

KEY DATA

FACE VALUE Rs	1.00
DIVD YIELD %	0.29
52 WK HI/LOW	54/33
NSE CODE	--------
BSE CODE	526423
MARKET CAP	RS 255 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	66%
BANKS, MFs & DIIs	-	%
FIIs	-	%
PUBLIC	-	34%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	12	38	25
EBIDTA Gr%	-0.10	45	29
PAT Gr%	11	91	46
EPS Gr%	11	91	46
EPS (Rs)	1.87	3.57	5.21
ROE %	13	21	24
ROCE %	21	23	23
P/E(x)		14	10

Kriti has built a diversified product basket covering all segments in the markets –

As mentioned earlier KIIL has a well diversified product portfolio within the PVC/HDPE Plastic Pipes and fitting segments which includes four broad business segments. These include –

VERTICAL	PRODUCTS
Agriculture	RPVC Pipe & Fittings, Casing pipe, PE coils, Sprinkler systems, Submersible Pipe , Suction , Garden Pipes
Building products -	SWR & Drainage Pipe and Fittings, CPVC and Plumb Pipe and Fittings, Garden Pipes.
Micro irrigation -	Micro Irrigation lateral (Inline and Online) , Sprinkler systems , RPVC Pipe and Fittings
Infrastructure-	RPVC Ring Fit Pipe (Elastromeric) and Fittings, HDPE and MDPE (PE) Pipes and Fittings, PLB Telecom Duct, Micro Duct.

Source- Company

Within the Agriculture segment, KIIL makes 6 different types of products which include

1. RPVC Pipes & Fittings – Product size range here covers 20mm to 400 mm and finds applications in areas like portable water supply to various sectors and Irrigation uses in Agricuture operations.

2. Column Pipes – Product size range here covers 1 inch to 4 inch with product depth ranging from 80 meters to 450 meters.
   Column Pipes are complicated piping, used for Borewell applications. These require immense impact and pressure strength as depths are nearly 1000 ftpressures over 30 Kgf. All Column Pipes in India typically require secondary locking mechanism to ensure coupling.

3. Borewell Casing Pipes – Product size Range here covers 90 mm to 225 mm with borewell depths ranging from 60 feet to 100 feet.

4. HDPE Pipes - Product size range covers 20 mm to 630 mm and these find uses in domestic water supply, farming and industrial applications.

5. Suction Pipes - Product size range covers 2 inch to 6 inch and these find uses in suction and delivery of fresh and sea water sewerage, fertilizers, chemicals etc.

6. Elastomeric Pipes – Product size range covers 63 mm to 400 mm and these find uses in supply of water in residential houses, water supply for irrigation especially in hilly and desert areas where tempretures are very low or high.

Within the Building Products segment, KIIL makes 6 different types of products which include

1. CVPC Pipes – Product size range covers ½ inch to 2 inch with outside diameter ranging between 15 mm to 54 mm and these find uses in supply of water in residential houses, hotels, hot water supply for domestic and residential plumbing applications and heavy industries like chemicals, sugar, paper disterllery operations etc.

2. UPV Pipes - Product size range covers ½ inch to 2 inch with outside diameter ranging between 21 mm to 114 mm and these find uses in supply of water in residential houses, especially for kitchens, bathrooms, sinks hotels, and heavy industries like chemicals, sugar, paper disterllery operations etc

3. SWR/Drainage RPVC Pipes – Product size range covers 1 inch to 4 inch and these find uses in drain and sewer line of residential & commercial complexes, Soil, Waste and Rain disposal lines used in lavatories (basins, commodes etc.) and kitchens, Main vent lines in drainage schemes, Rain water lines connecting rooftop of residences and complexes to gullies and gutters for drainage of excess rain water & Disposal of effluents

4. Garden Pipes – These pipes have high resistance to all types of chemicals and can withstand very high and low temperature. Which is why, they are also suitable for carrying inflammables like petrol, kerosene, diesel etc. and these find uses in In watering gardens, construction sites, residential areas, domestic use etc.Delivery of water, petrol, diesel, kerosene etc, In crop fields for spraying chemicals, Transportation of water and sprinkler systems.

5. Protech CPVC Solvent Cement – Kasta Protech CPVC Solvent Cement is used on all schedules and classes of CPVC pipe and fittings. It is fit to use for all residential and commercial, hot and cold water systems up to 200°F/93°C

6. Protech Solvent Cement – Kasta Protech Solvent Cement. Quality of Solvent Cement plays a important role and influences the joint strength. Hence this is specially formulated solvent cement, supplied by KIIL for ensuring a seamless trouble free performance over the long term product life cycle.

Within the Infrastructure/Telecommunication Products segment, KIIL makes 7 different types of products which include

1. FiberDuct – FiBERDUCT is a superior technology Pre lubricated (PLB) duct design, used for fiber optic & copper cable protection under challenging conditions. It can be blown in existing higher diameter duct (Duct in Duct) or can be used for burial application. This is used majorly by majority by telecom operators , Infrastructure sectors, Oil & gas, CATV and network builders.

2. FiberFly – FiBERFLY is a unique telecom inner ribbed duct design that ensures blowing at an extra distance. The optimized geometry produces “suction effect” that multiples the pulling force and optical fiber cable floats in the HDPE Duct with enhanced velocity. This is used majorly by majority by telecom operators , Infrastructure sectors, Oil & gas, CATV and network builders.

3. FiberTrack – FiBERiTRACK is a burry and forget tracing technology duct design with a coextruded and insulated tinplated copper wire that can pin point where ever the duct is buried. It works hand in hand with a GPS based Locating system that can produce real-time reports.

4. FiberWays – FiBERWAYS is a next generation micro duct design for both in-building & direct burred micro cable installations for FTTH networks. Several Micro ducts are jacketed together and creating dedicated multiple pathways for fiber optic Fiber micro cable wherein it increases network capacities manifold, offering easy Micro fiber installation that are capable of carrying high speed network traffic in small micro ducts

5. FiberF8 - FiBERF8 is a design for Aerial installation of the fiber optic micro cable. Right of way (ROW) is a real challenge when it comes to buried installations as it is impacts time and cost of deployment. Aerial micro fibers protected by FiBERF8 Figure 8 ducts can reduce the ROW issues & installation time.

6. FiberMain – These include HDPE DUCT Accessories for outside Plant (OSP). These are essential accessories for the HDPE duct deployments in outside plant optical fiber networks. These products cater to the key onsite requirements such as ease of use, unavailability of tools on remote sites and lack of skilled man power. They together ensure superior customers experience during duct laying process, Duct integrity test (DIT) and even when cable is finally blown or pulled in the ducts.

7. FiberMicro – KIIL manufactures FiBERWAYS Accessories for Direct Buried Micro ducts & In-building FTTX Installation which are used in Fiber to the Home (FTTH) Networks deliver high speed triple play service such as voice, video, data using a delicate Micro technology products and accessories for both direct buried as well as in building networks. KIIL also manufactures other components here which include Gas Block Connectors, Reducer Connectors, Micro Duct End Caps, Hermetic H Enclosures, T & Y Branch connectors and Straight fit connectors.

Within the Micro Irrigation Products segment, KIIL makes 2 types of products which include

1. Sprinklers - KIIL manufactures HDPE Sprinkler Pipes and Fittings which are tough and resilient, easy to use and light in weight, hence easy to handle for the end users. These sprinklers find applications in use of water, fertilizers and electricity in irrigation of a variety of crops like cotton, soya bean, wheat, gram, groundnut, pulses etc.

2. Irrigation Systems – KIIL manufactures Irrigations Systems which include Emitting Pipe Systems – PE Pipes, Laterals for Irrigation – PE Pipes and Irrigation Equipment Emitters – PE Pipes which are suitable for all closed spaced crops, horticulture plants and medicinal plants such as vegetables, sugarcane, cotton, banana, grapes, papaya, strawberry, mulberry etc.

In terms of product mix as on FY17 KIIL got its major revenues from the following products

Product Segment	**% of Revenues as FY17**
Agriculture	73%
Building Products	9%
Micro Irrigation	6%
Infrastructure	12%

Source- Company

Strong product portfolio under the KASTA Brand –

KIIL manufactures pipes for Potable Water Supply, irrigation purposes, building, constructions pipes etc.and sell these to customers under the “Kasta” brand, which is well known in Central India. The major marketing areas for KIIL are M.P. and adjoining districts of Maharashtra and Rajasthan, where majority of the Plastic Division’s sales take place.

KIIL is strategically located in central India. Its marketing spans the states of MP, Rajasthan, Chhatisgarh & part of UP. It has a strong presence in this region, with a market share of almost 65%. Of the 20 new smart cities planned by the Govt., about 7-8 of them are within the distribution range of the company. Three cities, Indore, Jabalpur & Bhopal are in MP itself. Transportation costs play an important role in this business, so KIIL is in a bit of a sweet spot with nearby markets offering a big business opportunity.

KIIL is also contemplating entry in the south markets in the near term although these plans are yet on drawing board stage and a final proposal is yet to be crystallised by the management. However the management is quite upbeat here and expects some concrete decision here soon.

KIIL enjoys a strong distribution network across PAN India –

Since its inception, KIIL has developed a large network of 400 Dealers Pan India for all its products to cater to both its Retail and B2B customer segments.

Going ahead KIIL is planning to add another 100 new dealers in new and existing markets like Maharashtra where the scope to increase its footprint exists and where it expects strong incremental growth in the next 2-3 years.

Implementation of GST is positive for organized brands & for KIIL going ahead –

The KIIL management believes that the industry is 40% unorganized and expects shift to happen from unorganized to organize in the longer run after implementation of GST.

GST is likely to be a key catalyst for the entire PVC industry. It will reduce the competitive advantages enjoyed by the unorganised sector, providing more room to brand-named organised players and accelerate the shift from the unorganised sector to the formal one.

Meanwhile the GST on Drip irrigation systems including laterals, sprinklers products has been reduced from 18% to 12% as per decision taken at 25th GST Council Meeting held on 18th January, 2018. The new GST rates shall be effective from 25th January, 2018

The market is gradually moving toward brand-named organised players and GST is expected to speed up that process and eventually GST will reduce the competitiveness of unorganised players and benefit branded organised players like KIIL. Also after Demon the markets have slowly started getting normal after a initial hiccup in business operations for most players as earlier this impacted business trends quite drastically as dealer de stocking and topline got impacted. However the KIIL management is confident that these measures announced by the govt will undoubtedly make the industry stronger and vibrant in the long term.

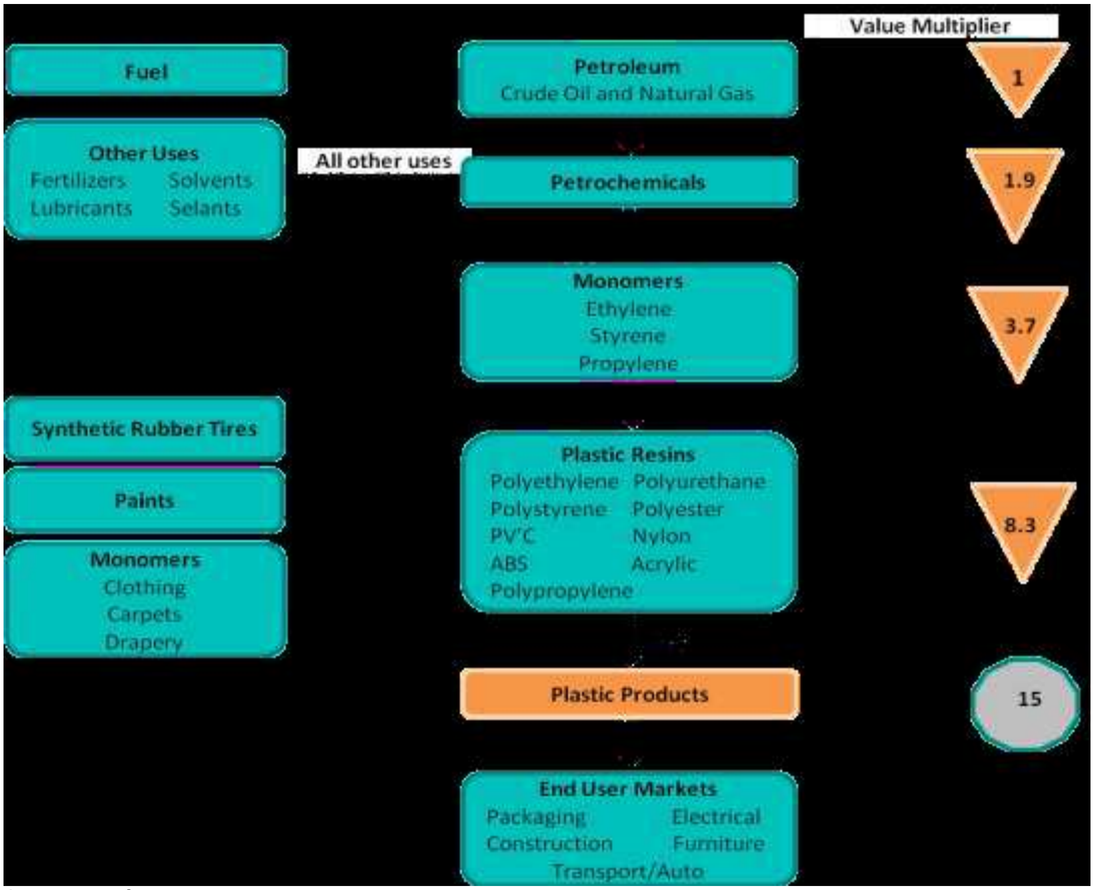
Overall the Plastic Pipes Industry is likely to grow at a healthy pace in the next 3-5 years –

Though India is a highly populated country, it is still behind (U.S., China and Europe) few countries in plastic consumption, as the per capita plastic consumption is just 10kg as of now (27kg world average); however, approximately 30% of the plastics consumed in India are recycled. The Indian plastic market is very much fragmented with a presence of over 30,000 companies, most of which are small to medium in size; however, the top 100 companies account for only 20% of the industry turnover

One interesting fact is that it has outpaced the GDP growth by 1.5x on an average of long term basis while grew at a double pace during better times. The low level of per capita plastics consumption in India (10kg v/s world's 27kg) is indicative of the massive growth potential of the plastic industry.

Globally, USA consumption has reached saturation level, while China's higher levels of consumption are primarily due to exports. India has the advantage of high population and is expected to maintain high economic growth. This should propel India's plastics consumption to new levels in coming years. In short, Indian plastics industry is yet to realize its full potential & advantage of high population.

Plastic: Value addition along the Petrochemical Chain –



Source – Industry,

Region-wise plastic consumption in India –

Western India has traditionally been the largest consumer of plastics (accounting 47% of total consumption) in India followed by Northern region. Western region comprises of Maharashtra, Gujarat, and the union territories of Daman and Diu & Dadra and Nagar haveli along with Madhya Pradesh and Chhattisgarh while northern area comprises of J&K, Himachal Pradesh, Punjab, Haryana, Uttarakhand, Rajasthan, UP, Delhi, and NCR region.

The Indian pipes business has been growing rapidly since the past several years mainly due to increasing demand for pipes in the irrigation sector and construction industry.

Among the several varieties of pipes (PVC/CPVC/SWR/Rigid/Agri/PE/PP) available in the market, the demand for plastic pipes such as PVC, CPVC in particular, is on a rise significantly due to

(1) Gaining popularity of plastic pipes over traditional/GI pipes
(2) Huge replacement demand
(3) Flexibility in terms of transportation, less corrosive and long lasting life (25 years v/s 8-10 years of GI pipes)
(4) Easy installation and competitive price in nature (20-25% cheaper over GI pipes).

PVC piping industry in India is segmented into Rigid/Agriculture PVC, UPVC/flexible PVC and chlorinated PVC pipes. PVC pipes and fittings market in India has grown at a CAGR of 12.5% during the period from FY09-14.

Production capacity for chlorinated PVC pipes and fittings have grown at a stupendous CAGR of 30.1% during the period FY09-14 and are further expected to grow at a CAGR of 32.1% during FY14-19E. Although, CPVC pipes and fittings contributed just 10% to the overall production capacity in FY17, it is the fastest growing segment of the PVC pipes and fittings industry in India. Irrigation and water supply together accounted for more than 70% of the market revenue in FY17

The current piping industry size is Rs225 bn, of which Agri/Rigid PVC pipes constitutes 60% of the market (growing at 10-12% CAGR) while UPVC/SWR/Drainage pipes accounts for 30-32% of overall industry size. The remaining 8-10% of the industry is concentrated by fastest growing CPVC piping segment (over 20% CAGR).

Opportunities ahead –

In the past few years, the government of India has initiated many new projects and investments in the irrigation sector. The focus of the government is on rural water management, which will be fulfilled only when there will be proper infrastructure for the transportation of water to the end-user.

This factor will remain as one of the major drivers for the growth of PVC pipe industry in the country along with the expansion of housing sector and increasing replacement demand for CPVC. The PVC pipes and fittings market in India is projected to register strong growth of 15% CAGR in FY15-19E and is expected to reach Rs391 bn in FY19E as compared to Rs225 bn in FY15.

Agriculture/Rigid pipe segment – Opportunity continues

Though India holds one of the largest agricultural land in the world and create significant piping demand (over 60% of overall PVC piping industry), it covers only 44% of land under irrigation (out of total 157.35 mn hectares) while remaining land is still dependent on natural water (rain fed).

The Indian agriculture piping industry is highly fragmented due to presence of large chunk of players, giving tough competition both on product offerings and pricing terms. In addition, the main reason of low yield or margins in this segment is due to the less proportion of fitting in usage, compare to plumbing segment. There are few organised players operating with significant presence through wide distribution network, strong quality product portfolio.

Plastics are playing a major role in managing the water resources. The various applications of plastics in water management includes plastic rain water collection tanks, pipes, profiles; waste water applications (waste water treatment plants); plastic pipes for water transportation (PVC, HDPE, LLDPE, PP, FRP) etc.

Plastic products in water management are being used as compared to various alternate competitive materials like metal, cement, due to light and weight durability, rust free, smoother surface etc.

Ministry of Water Resources is responsible for laying down policy guidelines for water conservation. PVC pipes and fittings having BIS certification is being used in various water/sewerage transportation applications in various private/government supplies.

The Government of India has launched various programs in the agriculture sector to focus on water supply, which will only be fulfilled with effective use of pipelines. The thrust on bringing more area under irrigation (by linking rivers for ensuring optimal water resources) to improve farm yield and production through minimal water consumption would drive the demand.

The recent initiatives by the government –

Government's focus on increasing irrigation opportunity in non rain-fed areas through the Rs500 bn allocated to PMKSY (2016-20E).

Increased allocation of agriculture loan and investments in rural infrastructure to Rs8.5 lakh crore.

Plumbing pipes – A future lies here

Though the plumbing segment (SWR/Drainage/CPVC/UPVC) constitutes nearly 30% of PVC piping segment in India, it is getting strong traction and growing faster due to the inherent features, widely accepted products across plumbers, architect community.

Strong replacement demand, gaining popularity over GI pipes, high durability and easy installation made it more prominent product in recent years. The branding awareness and better quality product-mix helped the organised players to eat the market share of unorganised players.

The various applications of plastics in building/ construction includes PP cut fibres for concrete structures, materials handling equipment, fencing, PVC windows and doors, pipes for hot and cold plumbing, PVC pipes for soil & waste drainage/rain water harvesting/electrical conduits, water and septic tanks, furniture, PVC/PC/FRP roofing, wire and cables etc.

Key growth drivers –

Government initiatives under the program of “Housing for All by 2022” to provide 20 mn houses in urban areas and 40 mn houses in rural areas and create “100 smart cities” would surge the demand of building materials products. Further, huge replacement demand and shifting preference towards branded plastic pipes would keep the demand intact in the long run.

CPVC pipe – gaining popularity day by day

There are 3 leading polymers which are used for hot water piping systems in construction

Chlorinated PVC – Most popular in India

PPR (Random Poly Propylene Copolymer) – Used extensively in China, Far East and Europe

Polybutadiene – Floor embedded Hot Water heating systems in cold climates like North America and Europe.

How CPVC Pipes have evolved in India?

CPVC opens the market for hot water systems in plumbing and hot, corrosive liquids in Chemical Plants, which was previously shut to PVC. Though the major property improvement of CPVC over PVC is increase in heat resistance, the mechanical properties and chemical resistance are still comparable.

The maximum operating temperature of PVC is 60C and softening point is 70C, for CPVC, it is 85C-100C respectively, due to which it is widely accepted.

Features of CPVC pipes

CPVC is one of the safest polymers from the flammability hazard point of view.

The chlorine content may go up to 70% in some grades of CPVC. It does not need any additional fire retardant additives and no flammable plasticisers are used in its compounding.

Only the Fluorinated Polymers like PTFE have better flammability performance.

The increased awareness of CPVC products both within and outside the country gives a boost to the replacement demand for various products. In many old constructions where metallic pipes need to be replaced because of the problems of corrosion, scaling and rusting, CPVC pipes and fittings are used.

The increasing brand consciousness amongst the builders, architects, plumbers and consumers helped most of the CPVC pipe manufacturer to grow at a faster rate in recent years.

CPVC pipe market in India – Prospects look bright here

Few players standing tall in highly competitive industry

There are large number of players operating under this segment such as Astral Poly, Ashirwad pipes, Ajay Industrial Corporation, Supreme Industries, Prince piping, Superflow, Paras, Dutron, Nandi pipes and Waterflow and many more. Among these,Astral poly and Ashirwad are the leaders in CPVC product market and enjoying higher premium prices over others.

Superior product portfolio, continuous new innovative product launches, higher spend on branding and promotional activities helped them to achieve pioneer position in highly competitive segment. Their products are also widely accepted by the end-users.

Increasing awareness amongst end-users, quality product offerings and strong distribution network helped most of the large players to improve the market share (Organised market share increased from 50% to now 70%). In CPVC market, the three major players cover 70% of the total market value, due to quality product offering (Astral enjoys 3o-35% market share).

It's a game of high share of fittings; better margins –

Plumbing products finds application in building, commercial, malls and construction segments, where the usage of fittings are higher compared to agriculture segments, which helps the company to generate better margins. As per the industry, the usage of pipes and fittings in plumbing segment are 65:35 with an operating margin of 7-8%: 25%, respectively.

Shifting focus towards branded premium products –

In recent years, the CPVC market has seen tremendous traction of shifting preference towards branded premium products (inspite of price differentiation of 30-40%).

Our channel check suggests that strong branding and regular product campaigning through plumbers meet (educating them about the products along with small prizes, gifts to encourage them) and wide distribution network helped few players to pocket a wallet share and create a strong reputation in the customer's eyes.

Strong replacement demand -

CPVC pipes have seen strong demand in construction industry due to its best features of carrying hot water without any damage to the pipes. Around 50% of CPVC pipe demand comes from replacement (over GI pipes through renovation and refurbishment of house) while new construction prefers to install PVC/CPVC pipes

Strong Demand expected from the Telecom Sector Also –

With advances in technology in modern day Telecommunications, over a period of time, it became very important to upgrade the HDPE pipes to be used particularly for Telecom applications.

The Optical Fibre Cables used for Telecommunications being very delicate and sensitive, it became necessary to modify the HDPE Pipes to be used as conduits for optical fibre cables. This led to the development of **Permanently Lubricated (PLB) HDPE Telecom Ducts**.

KIIL has been amongst the first few manufacturers to acquire technology and equipment for establishing complete manufacturing facility for PLB-HDPE Telecom Ducts.

The inner layer of these PLB HDPE ducts is duly silicon coated which minimizes the friction between OFC and the duct during the process of blowing the cable into the ducts, thus providing smooth installation of OFC in the duct without damaging the cable fibres.

Domestic factors also positive and will drive optic fiber demand in India

Key drivers for fiber demand in India are 1) Big projects like Bharat Net, 2) New 4G network roll out by Reliance Jio, 3) aggressive network expansion by other telco operators and 3) ongoing NFS project (Network for Spectrum from Government of India). Hence increasing data demand will drive network expansion and up gradation by telecom service providers, which will in turn, benefit optic fiber companies and players like KIIL who cater to the Telecom sector.

Bharat Net project can be the game changer for Indian optic fiber demand –

The broadband infrastructure is the backbone of the Government's 100 Smart Cities, BharatNet and Digital India missions. The thrust of the government towards the successful completion of these projects has opened up various opportunities for STL. Bharat Net project is a very ambitious project with a vision to create a national broadband network. It has moved into a different format in the last couple of years, and brings last-mile connectivity between gram panchayat and block levels. The government has budgeted Rs 700 bn for the implementation of this project.

The government's plans to implement Bharat Net envisages laying of 39m fkm of optic fiber cables under the 'Digital India' program, to connect 250lac village blocks with broadband connectivity.

Some Key Benefits for KIIL from the Recent Union Budget 2018-19

Total allocation for Rural, Agriculture sector is Rs.14.34 lakh crore. Institutional credit for agriculture sector raised to Rs. 11 lakh crore for 2018-19. Scope of Long Term Irrigation Fund to be expanded to cover specified command area development projects. An Agri Market Infrastructure Fund with a corpus of Rs. 2,000 crs to be set up for developing and upgrading agricultural marketing infrastructure

Under the Pradhan Mantri Krishi Sinchai Yojana, 48 AIBP priority projects of Rs. 15,000 crs to be completed by December 2019 and utilisation of irrigation potential of 15 lakh hectares (har khet ko pani) a project of Rs. 2,300 crores to be undertaken. Irrigation projects of Rs. 4,000 crs covering 17.2 lakh hectares to be implemented

Niti Ayog, in consultation with Central and State Governments, will put in place a fool proof mechanism so that farmers to get adequate price for their produce.

Extending facility of Kisan Credit cards to farmers to help them meet their working capital needs. Small and marginal farmers to benefit

Under the Prime Minister Awas Scheme it is proposed to complete construction of one crore houses by 2019 in the rural areas. In urban areas 37 lakh houses has been sanctioned for construction. A dedicated Affordable Housing Fund in NHB to be established. Smart Cities Mission to build 100 smart cities with state-of-art amenities and the AMRUT program to provide water supply

Surplus liquidity post demonetization, government initiates to provide houses in rural and urban areas which may have a fresh demand for pipes. Affordable housing to be given infrastructure status. Proposal to complete construction of one crore houses by 2019. Boost in housing due to refinancing by NHB.

Swachh Bharat Mission (Gramin) has made tremendous progress in promoting safe sanitation. Sanitation coverage in ruralIndia has gone up from 42% in October2014 to about 60% currently. Villages with sanitation coverage are now being given priority for piped water supply

What is KIIL's strategy and approach to tap this huge market opportunity?

KIIL has a well diversified product basket catering to the Agriculture, Building Products, Micro Irrigation and Telecom Infrastructure business segments. However as a strategy KIIL has focused more on the Agriculture Building Products and Telecom Infrastructure segments as these offer both a large volume market with stable and reasonable margins across product categories.

KIIL's strategy going forward is to capitalize its existing strengths in the Agriculture domain where it enjoys a long standing business exposure of over 2-3 decades and where farmers value its products for there quality and durability. Alternatively the Building Products and Telecom Infrastructure product segments are growing very fast and offer a large volume market for KIIL as these are new generation technology products fast getting accepted over traditional products. Also these product segments are less price sensitive as compared to the Agriculture segment.

Product designing and quality control shall remain the key differentiating factors for KIIL as it will continue to target attracting more consumers with consistent launch of trendsetting products.

KIIL enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –

In terms of financial performance for FY17, KIIL has posted a Topline of close to Rs 387.55 crs, EBIDTA margins of 7.50% and a PBT of Rs 12.66 crs followed by a PAT of Rs 8.33 crs.

KIIL has shown consistent growth since last 7 years starting from FY13 onwards when its Topline was Rs 276 crs which has now touched Rs 387.55 crs as on FY17 while PBT has improved from 8.78 crs to Rs 12.66 crs in the same period with operating margins progressively up to around .8/40% in Q3FY18. In the first 9 months of FY18 KIIL has already recorded a Topline of Rs 348.61 crs, a EBIDTA of Rs 21.63 crs and a PAT of Rs 5.96 crs on a equity base of Rs 4.96 crs.

What is quite noteworthy about KIIL is that ROCE on its existing Plastic Business is quite healthy ranging between 25% to 30%. This is shown in the table below –

Year Ended	FY12	FY13	FY14	FY15	FY16	FY17
Plastics – Cap Employed Rs Crs	52.18	60.18	56.42	64.92	82.17	86.82
Plastics- Op Profits Rs Crs	19.99	21.36	21.98	16.77	35.16	25.31
ROCE % from the Plastics Business	38.30	35.49	38.94	25.83	42.78	29.15

Source Company Annual Reports, Quarterly Reports

Total Debt on the BS as on March 2017 has remained at Rs 58 crs as compared to Rs 55 crs last year. with the net D:E currently as on Mar 2017 at 0.86:1.

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 40-50% and with capex being funded largely from internal accruals and hence going ahead we believe that net cash flows generated will remain healthy going ahead.

Peer Comparsion

Company	Market Cap	FY17A	FY18E	FY19E	FY20E
	Rs Crs	P/E	P/E	P/E	P/E
KIIL	255	30	27	14	10
Finolex Industries	7904	23	20	18	17
Astral Poly Technik	9390	65	52	41	34
Supreme Ind	15084	35	32	28	26
Nilkamal	2524	20	19	16	14
Jain Irrigation	5859	61	31	20	14

DU PONT Analysis –

DuPont Analysis	FY2017	FY2018E	FY2019E	FY20E
Return on Equity %	12.39	12.88	20.73	24.13
Return on Assets %	21.68	20.78	23.12	23.38
Financial Leverage	0.86	0.83	0.76	0.60
Operating Return on Sales %	7.5	6.67	7.00	7.20
Asset Turnover	4.92	4.90	5.51	6.06

Source – Annual Reports, Our Estimates

During the last financial year KIIL has reported a ROE and ROA of 12.39% and 21.68% respectively. Going ahead ROA is also expected to improve to over 23.38% by FY20, This is a key positive for KIIL. The other two key drivers of ROA which are ROE and financial leverage are also expected to fare well in this 2 year period, and between operating return on sales and ATO, which are the two drivers of ROA, we see that ROS is steady but ATO is driving ROA. This implies the company is generating strong revenue growth with higher levels of operating leverage capacity.

Further, going ahead we expect incremental topline growth to be faster as new products and product segments & services are added over the next 2 to 3 years.

Going ahead we expect KIIL to benefit from sustainable EBITDA margins of around 7 to 8% which will lead to higher ROCE in coming years. Hence on the ROA side we see with better asset utilisation, will enable a ROA to cross 23% by FY20E driven by better asset turnover levels which is another key positive and a strong financial indicator for KIIL.

More Restructuring going ahead likely –

KIIL owns a 100% subsidiary called Kriti Auto & Engineering Plastics Pvt Ltd which is into Auto components and makes plastic extruded components.

KAEPPL is the engineering plastics division of Kriti Industries (I) Ltd. It has a world class facility spread over 3200 sq.mt with injection moulding machines and support infrastructure to give high quality, on time deliveries. This facility has expertise in processing a wide range of engineering polymers and a bouquet of machines to cater to varied customer requirements in different sectors.

The facility is located in Ranjangaon MIDC, around 60km distant from Pune in the second largest automotive hub of India.

KAEPPL is an established Tier 2 supplier to the automotive sector and is a preferred supplier to various established companies in the region. It is ISO /TS 16949: 2009 certified facility.

Apart from the automotive sector, components for high quality furniture and music systems are manufactured for leading companies in India are manufactured here. KAEPPL has also developed and patented key products for the telecom industry for the first time in India

The total revenue in FY17 for KAEPPL was however not encouraging with Topline placed at Rs 22.83 crs and a net loss of Rs 54 lacs. Even on the operating profitability side this company is yet to strike the right balance as yet operating margins continue to remain low here.

While there is no official confirmation from the management we feel that going ahead there are good chances that this unit will be either be de merged or sold off by the management as this has been a drag on KIIL's overall profitability. In terms of the upside here to KIIL we believe that more than the fixed asset investment value which is not big, it is the land value at Ranjangaon which can give a significant value upside to KIIL in case of an outright sale.

If this is done we believe the markets would like this as this would improve the profitability levels and make the company's capital structure more healthy and stronger.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 435 crs.

On the bottomline level we expect the company to record a PAT of Rs 9.26 crs in FY18E. Thus on a conservative basis, KIIL should record a operational EPS of Rs 1.87 for FY18E. For FY19E & FY20E our expectation is that earnings traction for KIIL will continue to remain attractive wherein we expect a EPS of Rs 3.57 and Rs 5.21 respectively.

KIIL has a well diversified product basket catering to the Agriculture, Building Products, Micro Irrigation and Telecom Infrastructure business segments. However as a strategy KIIL has focused more on the Agriculture Building Products and Telecom Infrastructure segments as these offer both a large volume market with stable and reasonable margins across product categories.

KIIL's strategy going forward is to capitalize its existing strengths in the Agriculture domain where it enjoys a long standing business exposure of over 2-3 decades and where farmers value its products for there quality and durability. Alternatively the Building Products and Telecom Infrastructure product segments are growing very fast and offer a large volume market for KIIL as these are new generation technology products fast getting accepted over traditional products. Also these product segments are less price sensitive as compared to the Agriculture segment.

We estimate KIIL earnings to witness a CAGR of 40-50% over FY17-20E. This will be driven by strong revenue growth (18-20% CAGR over FY17-20E) and a steady EBITDA margin over the same period. Also we expect the RoE to expand to 24% plus by FY20 from a level of 12% in FY13 with ROCE also set to improve to 23% by FY20E from 21% as on Mar 2017. From a industry standpoint KIIL remains in a sweet spot as PVC pipes demand is likely to maintain its growth trajectory (10-12% volume CAGR over FY17-20), driven by strong demand from agriculture and housing. Over 1/3rd of the 1.5 mn ton PVC pipe industry is unorganized and GST implementation would also benefit KIIL.

Also KIIL which runs the Auto subsidiary Kriti Auto & Engineering Plastics is likely to either demerge or dispose this unit going ahead. While there is no official confirmation from the management we feel that going ahead there are good chances of this happening as this has been a drag on KIIL's overall profitability. In terms of the upside here to KIIL we believe that more than the fixed asset investment value here which is not big, it is the land value at Ranjangaon which can give a significant value upside to KIIL in case of an outright sale.

If this is done we believe the markets would like this as this would improve the profitability levels and make the company's capital structure more healthy and stronger

More importantly for KIIL, headwinds for all its business segments namely Agriculture, Building Products, Telecom Infrastructure and Micro Irrigation look very positive with growth expected to grow strongly ahead. More importantly KIIL is already a large player in the Agri segment in Central India and is now moving in the B2B Telecom Infra space with value added products catering to big clients like Reliance Jio, DOT etc where volumes over the next 2-3 years will be very large thus offering a strong growth platform for KIIL going ahead. We hence remain very positive on the managements strategy to service these segments where demand potential is huge.

Currently KIIL gets a market cap to revenue multiple of 0.57x based on FY18E revenue estimates which we believe that even this is retained at 0.60x on FY20E it could easily get a market cap of Rs 450 crs over the next 2 years considering the strong promoters background, strong financial track record with attractive ROCE levels, its product range and strong customer pull and overall positive outlook for the Agri, Building Products and Telecom Infrastructure segment going ahead.

Hence we believe that the KIIL stock should be purchased at the current price for a price target of around Rs 90 over the next 12 to 18 months.

FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18E	FY19E	FY20E
Net Sales	387.55	435.00	600.00	750.00
EBIDTA	29.06	29.03	42.00	54.00
EBIDTA %	7.50	6.67	7.00	7.20
Interest	12.70	11.26	10.50	10.00
Depreciation	5.13	5.45	6.10	6.50
Non Operational Other Income	1.43	1.50	1.00	1.00
Profit Before Tax	12.66	13.82	26.40	38.50
Profit After Tax	8.33	9.26	17.69	25.85
Diluted EPS (Rs)	1.68	1.87	3.57	5.21
Equity Capital	4.96	4.96	4.96	4.96
Reserves	62.25	71.51	89.20	115.05
Borrowings	58.00	60.00	65.00	65.00
GrossBlock	78.81	88.81	108.81	123.81
Investments	0.02	0.02	0.02	0.02

Source Company our Estimates

KEY CONCERNS

Any price fluctuation in PVC (crude oil derivative) may affect operating performance and margin profile

Monsoon factor - Any slowdown in the agri pipes demand due to weak monsoon could hurt the farmer's sentiments and impact the volume growth.

Slower than expected improvement in working capital cycle

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CONTACT DETAILS

Mr. Avinash Gorakshakar (Research Head)	Tel.: 4033 4766,	Email: avinashg@joindre.com
Mr. Vikas Khandelwal (Research Sr. Executive)	Tel.: 4033 4900	Email: vikas@joindre.com

COMPLIANCE TEAM

Mr. A. P. Shukla (President & COF)	Tel.: 4033 4723	Email: shuklaap@joindre.com
Mrs. Sujata Poojary (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com
Mrs. Nikita Shah (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com