

Good Q2; Increased focus on retail; Upgrade to Buy

- KEI saw revenues in line with estimates but EBIDTA and PAT came in better than estimates (Exhibit 1) led by gross margin expansion of 141bps. The pending order book was Rs26.6bn at the end of H1FY21, compared to Rs29.5bn at the end of Q1, a conscious decline in order book as the company is trying to reduce its EPC print and focus on retail instead.
- Working capital was worse off as it paid Rs4bn to vendors in H1. It also saw debtors move up due to its EPC projects on the power distribution side. It however expects Rs2.5-3bn to be recovered in H2 and working capital comes back to normal.
- KEI is increasing its focus on retail. Distribution expansion will propel growth in the retail segment. It is also pursuing the EHV cable business where there is limited competition. We like KEI in the cable and wire space and upgrade our rating to Buy with a TP of Rs440, valuing the stock at 12x Sep 22E

Inline sales, EBIDTA PAT better than estimates

Revenue in line with our estimates at Rs10.4bn which was a de-growth of 16% YoY. Operating profit at Rs.1.2bn with gross margins expanding by 141bps YoY at 32.2%. Net profit came in at Rs682mn. The pending order book was Rs26.6bn at the end of H1FY21, compared to Rs29.5bn at the end of Q1. CFO at Rs338mn in H1FY21 while net debt was Rs1.5bn, similar to March 20 levels. WC days came in at 105 days compared to 79 days in March quarter mainly due to sharp decrease in payables by 25 days as it paid Rs4bn to vendors in H1, as well as Rs2.9bn stuck in performance guarantee payments for its old distribution projects.

Higher focus on the retail business

KEI has taken a conscious decision to cut down its exposure to the EPC business and bring down its revenues from the current Rs10bn to around 5-6bn. It plans to close existing projects and focus on collections. It will instead increase its focus on the retail business, where working capital turns are better. This will also reduce its interest outgo in the medium term due to lower borrowings on WC and this interest savings will be channelized into A&P as it increases its retail print. Its current distribution network is 1600 dealers and it expects to add another 200-300 in the next one year.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	10,369	12,302	(15.7)	7,453	39.1
Total Expense	9,186	11,080	(17.1)	6,730	36.5
EBITDA	1,184	1,222	(3.2)	723	63.8
Depreciation	142	137	3.7	146	(2.7)
EBIT	1,042	1,085	(4.0)	577	80.6
Other Income	36	43	(15.7)	86	(58.0)
Interest	150	355	(57.9)	168	(10.9)
EBT	928	773	20.1	495	87.5
Tax	246	11	2117.6	133	85.4
RPAT	682	762	(10.4)	362	88.3
APAT	682	762	(10.4)	362	88.3
			(bps)		(bps)
Gross Margin (%)	32.2	30.8	141	29.7	255
EBITDA Margin (%)	11.4	9.9	148	9.7	172
NPM (%)	6.6	6.2	39	4.9	172
Tax Rate (%)	26.5	1.4	2508	26.8	(31)
EBIT Margin (%)	10.0	8.8	122	7.7	231

CMP	Rs 329
Target / Upside	Rs 440 / 34%
NIFTY	11,814

Scrip Details

Equity / FV	Rs 179mn / Rs 2
Market Cap	Rs 29bn
	USD 395mn
52-week High/Low	Rs 586/ 208
Avg. Volume (no)	261,784
Bloom Code	KEI IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	(7)	(44)
Rel to NIFTY (%)	(8)	(16)	(44)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	40.5	40.5	40.3
MF/Banks/FIs	24.7	23.4	24.1
FIIIs	15.3	15.3	14.0
Public / Others	19.5	20.8	21.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	13.4	9.6	8.6
EV/EBITDA	6.7	5.2	4.5
ROE (%)	13.6	16.6	15.8
RoACE (%)	19.4	24.1	23.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	39,932	53,872	61,823
EBITDA	4,148	5,611	6,401
PAT	2,190	3,072	3,416
EPS (Rs.)	24.5	34.3	38.2

VP - Research: Vinod Chari

Tel: +91 22 40969776

E-mail: vinodc@dolatcapital.com

Associate: Pranav Lala

Tel: +9122 40969722

E-mail: pranavl@dolatcapital.com

Emphasis on EHV cable business to continue

The company aims to become one of the few select players globally to manufacture and supply 400kV EHV cables. Stringent requirements for meeting compliances and securing product approvals further make it difficult for new players to enter the market. It has won a landmark order from Tamil Nadu Transmission Corporation Limited for EHV cables of 400kV in FY20 of Rs1.5bn, the largest single order it has received till date for 400kV cables. This along with the strong prequalification credentials of KEI will drive its growth in this space.

Valuations are undemanding; Upgrade to Buy

KEI expects recovery to continue through Tier 2, Tier 3 cities. Distribution expansion will propel growth in the retail segment. Working capital cycle will normalize in H2 FY21. We like KEI in the cable and wire space and find the current valuations at 9.5x FY22E undemanding. We roll forward our estimates and upgrade our rating to Buy with a TP of Rs440, valuing the stock at 12x Sep 22E.

Exhibit 1: Actual v/s DART estimates

Particulars (Rs. Mn)	Actual	DART Estimate	Concensus	Deviation DART (%)	Deviation BBG (%)	Comments
Revenue	10,369	10,276	10,905	0.9	(4.9)	Sales in line with expectation
EBITDA	1,184	956	988	23.8	19.8	Better EBITDA due to well managed employee cost
EBITDA Margin (%)	11.4	9.3	9.1	211.1	26.0	
PAT	682	546	550	24.9	24.1	Better PAT with reducing interest burden

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	39,932	37,178	7.4	53,872	50,264	7.2
EBITDA	4,148	3,680	12.7	5,611	5,281	6.2
EBITDA Margin (%)	10.4	9.9	49.0	10.4	10.5	-9.1
PAT	2,190	1,656	32.2	3,072	2,822	8.9
EPS (Rs)	24.5	18.5	32.2	34.3	31.5	8.9

Source: Company, DART

Exhibit 3: Quarterly performance

Rs in Mn	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY %
Income from Operation	10,369	12,302	(15.7)	7,453	39.1	17,822	23,115	(22.9)
Total Income	10,369	12,302	(15.7)	7,453	39.1	17,822	23,115	(22.9)
Expenditure	9,186	11,080	(17.1)	6,730	36.5	15,916	20,754	(23.3)
Consumption of Raw Materials	7,481	9,160	(18.3)	4,002	86.9	11,483	17,599	(34.8)
Purchase of Stock in Trade	89	7	1,220.9	15	487.7	104	19	445.7
Change in Inventory	(540)	(654)	(17.3)	1,226	(144.1)	685	(1,633)	(142.0)
Total Raw Material Cost	7,030	8,513	(17.4)	5,243	34.1	12,273	15,986	(23.2)
Sub-Contractor expense for turnkey projects	380	356	6.7	198	91.4	578	725	(20.3)
Staff Cost	496	567	(12.5)	447	11.0	943	1,082	(12.9)
Other Expenditure	1,281	1,644	(22.1)	842	52.0	2,123	2,961	(28.3)
Operating Profit	1,184	1,222	(3.2)	723	63.8	1,906	2,361	(19.3)
Other Income	36	43	(15.7)	86	(58.0)	122	95	28.8
Interest	150	355	(57.9)	168	(10.9)	317	685	(53.7)
Depreciation	142	137	3.7	146	(2.7)	288	288	(0.2)
PBT	928	773	20.1	495	87.5	1,423	1,483	(4.0)
Tax	246	11	2,117.6	133	85.4	379	263	44.0
Net Profit	682	762	(10.4)	362	88.3	1,044	1,220	(14.4)
Other Comprehensive Income	(0)	(9)		1		1	(17)	
Total Comprehensive Income	682	753	(9.5)	363	87.8	1,045	1,203	(13.1)
Equity	180	159	-	179	-	180	159	-
			(bps)		(bps)			(bps)
EPS	7.6	9.6	(198.9)	4.0	354.4	11.6	15.3	(371.9)
Gross Margin (%)	32.2	30.8	140.8	29.7	255.3	31.1	30.8	29.4
Tax Rate (%)	26.5	1.4	2,507.9	26.8	(30.5)	26.6	17.7	888.0
OPM (%)	11.4	9.9	147.9	9.7	171.8	10.7	10.2	48.0
NPM (%)	6.6	6.2	38.7	4.9	171.8	5.9	5.3	58.3

Source: DART

Exhibit 4: Segment revenue (Rs mn)

Segment revenues (Rs Mn)	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY %
a) Cables	8,707	9,948	(12.5)	6,462	34.7	15,169	18,497	(18.0)
b) Stainless steel wire	335	339	(1.1)	208	61.4	543	657	(17.4)
c) Turnkey projects	2,477	3,207	(22.8)	1,763	40.5	4,240	6,281	(32.5)
Total	11,519	13,494	(14.6)	8,433	36.6	19,952	25,435	(21.6)
Less: Inter segment elimination	3	(98)	(102.7)	15	(83.2)	18	4	393.2
Less: Inter segment revenue	1,147	1,290	(11.1)	965	18.9	2,112	2,316	(8.8)
Net sales/Income from operations	10,369	12,302	(15.7)	7,453	39.1	17,822	23,115	(22.9)
Segment results (PBIT)								
a) Cables	1,117	1,042	7.2	753	48.4	1,870	1,933	(3.3)
b) Stainless steel wire	22	12	79.8	1	2,157.6	23	32	(26.1)
c) Turnkey projects	213	318	(33.1)	178	19.3	391	761	(48.6)
Total	1,352	1,372	(1.5)	932	45.1	2,284	2,726	(16.2)
Less: Inter segment results	101	(81)	(225.4)	121	(16.3)	222	21	976.1
Less: interest	150	355	(57.9)	168	(10.9)	317	685	(53.7)
Unallocable exp. net of unallocable income	173	325	(46.6)	148	16.9	321	537	(40.2)
Total PBT	928	773	20.1	495	87.5	1,423	1,483	(4.0)
Segment Assets								
a) Cables	17,984	20,302	(11.4)	17,576	2.3	35,559	39,429	(9.8)
b) Stainless steel wire	568	642	(11.5)	594	(4.4)	1,162	1,376	(15.6)
c) Turnkey projects	8,147	7,403	10.0	9,132	(10.8)	17,278	14,883	16.1
d) Unallocated segment	1,744	2,450	(28.8)	1,487	17.2	3,231	5,026	(35.7)
Total	28,442	30,796	(7.6)	28,789	(1.2)	57,231	60,714	(5.7)
Segment liabilities								
a) Cables	8,307	12,997	(36.1)	7,767	7.0	16,075	25,459	(36.9)
b) Stainless steel wire	165	258	(35.9)	167	(1.0)	333	693	(52.0)
c) Turnkey projects	1,175	1,452	(19.1)	1,211	(3.0)	2,386	3,117	(23.5)
d) Unallocated segment	2,520	7,166	(64.8)	4,163	(39.5)	6,684	14,290	(53.2)
Total	12,168	21,873	(44.4)	13,309	(8.6)	25,477	43,559	(41.5)
Capital employed								
a) Cables	9,676	7,305	32.5	9,808	(1.3)	19,484	13,970	39.5
b) Stainless steel wire	402	384	4.9	427	(5.8)	830	683	21.5
c) Turnkey projects	6,972	5,951	17.2	7,921	(12.0)	14,893	11,766	26.6
d) Unallocated segment	(777)	(4,716)	(83.5)	(2,676)	(71.0)	(3,453)	(9,265)	(62.7)
Total	16,274	8,923	82.4	15,480	5.1	31,754	17,154	85.1
Segment margins (%)								
a) Cables	12.8	10.5	235.5	11.6	118.3	12.3	10.5	187.6
b) Stainless steel wire	6.7	3.7	300.2	0.5	619.1	4.3	4.8	(50.8)
c) Turnkey projects	8.6	9.9	(132.5)	10.1	(152.4)	9.2	12.1	(290.0)
PBT margin (%)	9.0	6.3	267.1	6.6	231.0	8.0	6.4	157.1
Segment wise % of total revenue								
a) Cables	64.5	98.7	(3,417.5)	54.1	1,040.4	59.6	94.3	(3,463.1)
b) Stainless steel wire	2.5	3.4	(88.0)	1.7	74.5	2.1	3.3	(121.4)
c) Turnkey projects	18.4	31.8	(1,346.1)	14.8	359.0	16.7	32.0	(1,533.8)
Segment wise % of total segmental profit								
a) Cables	81.4	94.7	(1,330.8)	55.6	2,579.5	68.6	91.3	(2,274.2)
b) Stainless steel wire	1.6	1.1	49.9	0.1	155.5	0.9	1.5	(63.6)
c) Turnkey projects	15.5	28.9	(1,338.7)	13.2	232.5	14.3	36.0	(2,162.2)

Source: DART, Company

Exhibit 5: Pending order (in Mn)

Particulars	In Hand Orders
EPC- Domestic	6,210
EPC- Export	3,580
EPC EHV	5,520
Cable Domestic	10,260
Cable Export	960
Total	26,530

Source: Company, DART

Exhibit 6: Interest Cost (in Mn)

Particulars	H1FY21	H1FY20
Term Loans	25	77
Working capital Int.	136	305
Int. on LC	74	149
Bank charges on LC	28	61
Bank Guarantee	36	49
Other Processing	17	43

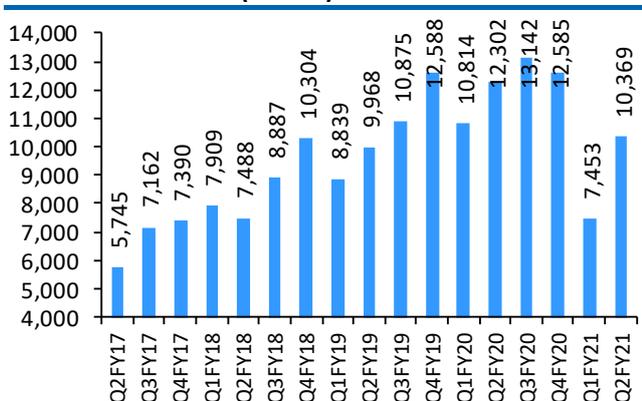
Source: Company, DART

Exhibit 7: Product sales (Rs mn)

Particulars	Q2FY21	Q2FY20	% chg
LT	3,900	5,120	(23.8)
HT	1,480	1,710	(13.5)
EHV	1,020	950	7.4
HW/WW	2,270	2,200	3.2
SS Wire	330	330	0.0
EPC (other than cable)	1,330	2,010	(33.8)
Other	60	90	(33.3)
Total Sales	10,390	12,410	(16.3)
Less: IndAs adj.	21	108	(81.0)
Net Sales	10,369	12,302	(15.7)

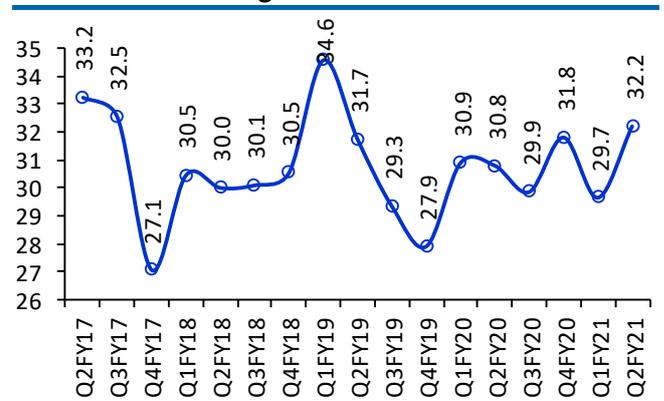
Source: Company, DART

Exhibit 8: Revenue (Rs Mn)



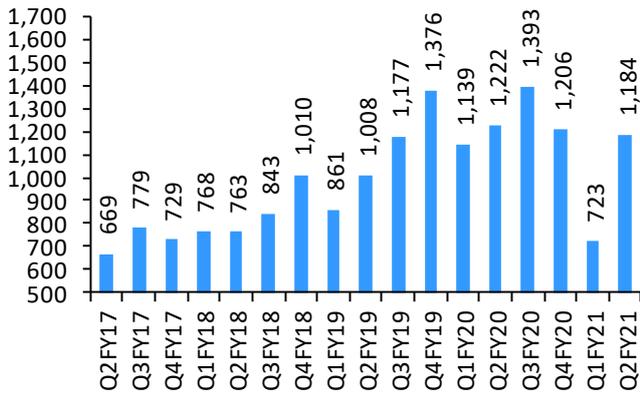
Source: Company, DART

Exhibit 9: Gross margin %



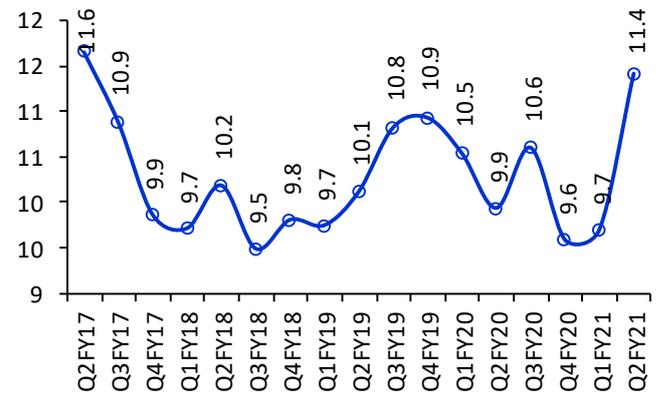
Source: Company, DART

Exhibit 10: Operating profit (Rs mn)



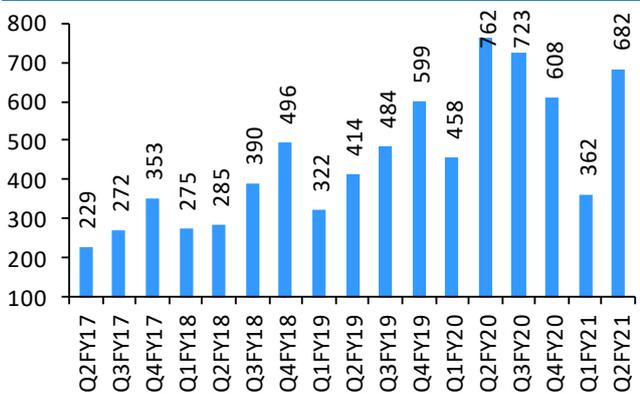
Source: Company, DART

Exhibit 11: OPM %



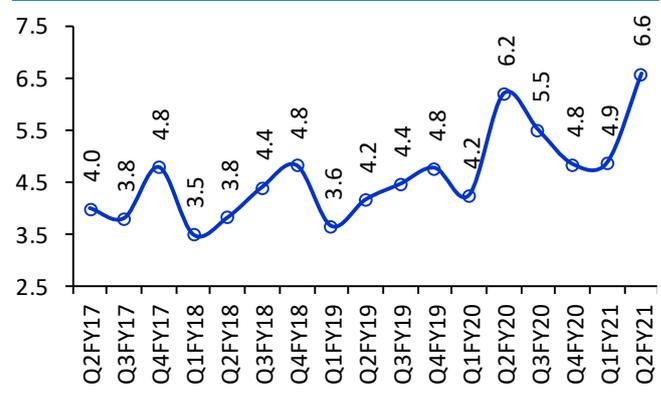
Source: Company, DART

Exhibit 12: Net profit (Rs mn)



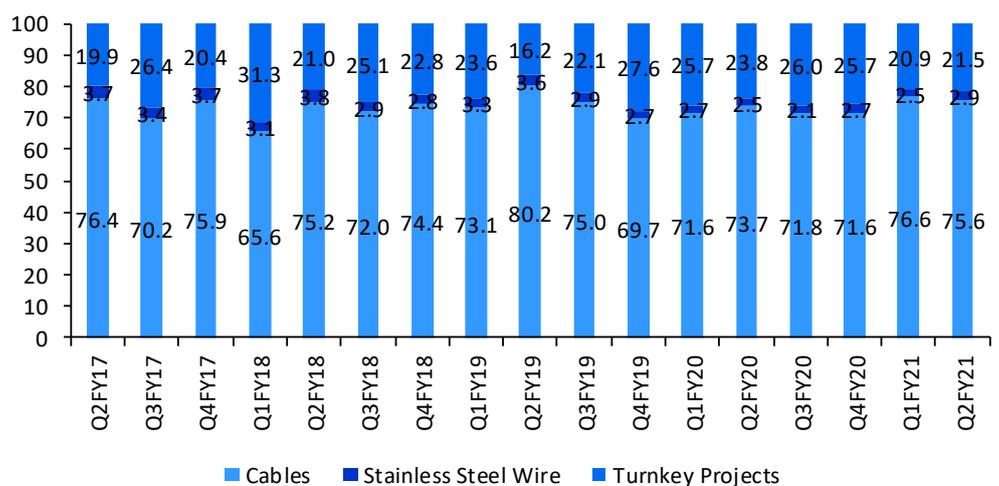
Source: Company, DART

Exhibit 13: NPM %



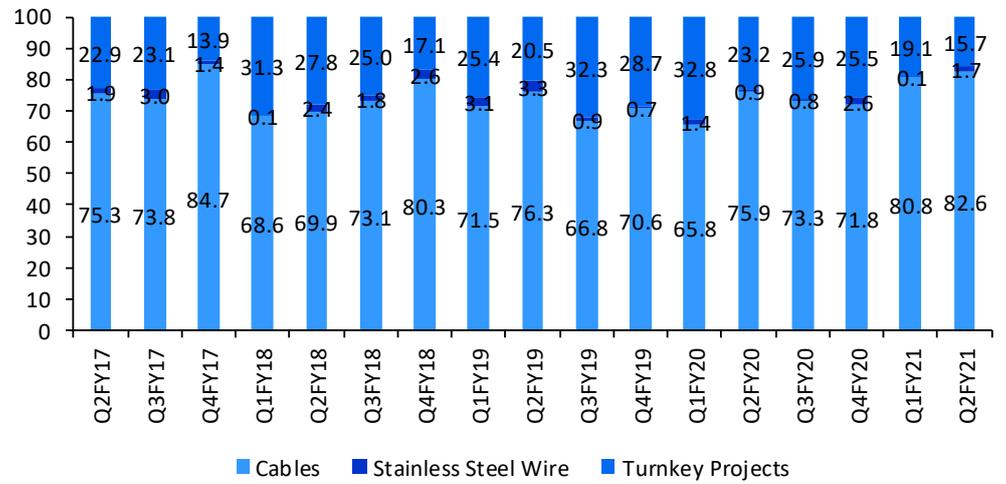
Source: Company, DART

Exhibit 14: Segment wise % of total revenue



Source: Company, DART

Exhibit 15: Segment wise % of total segmental profit



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	48,843	39,932	53,872	61,823
Total Expense	43,882	35,783	48,261	55,422
COGS	33,786	27,153	36,902	42,349
Employees Cost	3,882	2,640	3,062	3,552
Other expenses	6,214	5,990	8,296	9,521
EBIDTA	4,960	4,148	5,611	6,401
Depreciation	567	627	716	828
EBIT	4,393	3,521	4,895	5,573
Interest	1,292	845	1,140	1,308
Other Income	165	250	350	300
Exc. / E.O. items	0	0	0	0
EBT	3,267	2,926	4,106	4,565
Tax	716	737	1,033	1,149
RPAT	2,551	2,190	3,072	3,416
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,551	2,190	3,072	3,416

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	179	179	179	179
Minority Interest	0	0	0	0
Reserves & Surplus	14,889	16,921	19,805	23,033
Net Worth	15,068	17,100	19,984	23,212
Total Debt	3,151	2,919	2,820	2,720
Net Deferred Tax Liability	310	325	341	358
Total Capital Employed	18,528	20,344	23,145	26,290

Applications of Funds

Net Block	5,536	5,909	6,693	7,365
CWIP	112	115	115	115
Investments	6	8	8	9
Current Assets, Loans & Advances	27,032	24,069	28,865	33,023
Inventories	8,638	7,002	9,594	11,010
Receivables	13,676	9,846	13,283	15,244
Cash and Bank Balances	2,143	4,443	2,989	3,531
Loans and Advances	1,091	1,146	1,203	1,263
Other Current Assets	1,484	1,633	1,796	1,976
Less: Current Liabilities & Provisions	14,158	9,757	12,537	14,222
Payables	11,690	7,067	9,605	11,022
Other Current Liabilities	2,469	2,689	2,932	3,200
		<i>sub total</i>		
Net Current Assets	12,874	14,312	16,329	18,801
Total Assets	32,687	30,101	35,682	40,512

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	30.8	32.0	31.5	31.5
EBIDTA Margin	10.2	10.4	10.4	10.4
EBIT Margin	9.0	8.8	9.1	9.0
Tax rate	21.9	25.2	25.2	25.2
Net Profit Margin	5.2	5.5	5.7	5.5
(B) As Percentage of Net Sales (%)				
COGS	69.2	68.0	68.5	68.5
Employee	7.9	6.6	5.7	5.7
Other	12.7	15.0	15.4	15.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.1	0.1
Interest Coverage	3.4	4.2	4.3	4.3
Inventory days	65	64	65	65
Debtors days	102	90	90	90
Average Cost of Debt	28.2	27.8	39.7	47.2
Payable days	87	65	65	65
Working Capital days	96	131	111	111
FA T/O	8.8	6.8	8.0	8.4
(D) Measures of Investment				
AEPS (Rs)	28.5	24.5	34.3	38.2
CEPS (Rs)	34.8	31.5	42.3	47.4
DPS (Rs)	1.5	1.5	1.8	1.8
Dividend Payout (%)	5.3	6.1	5.2	4.7
BVPS (Rs)	168.3	191.1	223.3	259.3
RoANW (%)	22.3	13.6	16.6	15.8
RoACE (%)	27.8	19.4	24.1	23.8
RoAIC (%)	31.8	23.4	29.1	27.4
(E) Valuation Ratios				
CMP (Rs)	329	329	329	329
P/E	11.5	13.4	9.6	8.6
Mcap (Rs Mn)	29,416	29,416	29,416	29,416
MCap/ Sales	0.6	0.7	0.5	0.5
EV	30,424	27,892	29,246	28,605
EV/Sales	0.6	0.7	0.5	0.5
EV/EBITDA	6.1	6.7	5.2	4.5
P/BV	2.0	1.7	1.5	1.3
Dividend Yield (%)	0.5	0.5	0.5	0.5
(F) Growth Rate (%)				
Revenue	15.6	(18.2)	34.9	14.8
EBITDA	12.2	(16.4)	35.3	14.1
EBIT	7.6	(19.9)	39.0	13.8
PBT	17.0	(10.4)	40.3	11.2
APAT	40.3	(14.2)	40.3	11.2
EPS	40.3	(14.2)	40.3	11.2
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	(131)	4,683	1,478	3,641
CFI	110	(199)	(1,502)	(1,502)
CFF	994	(1,233)	(1,427)	(1,596)
FCFF	(933)	3,680	(22)	2,141
Opening Cash	221	1,194	4,443	2,989
Closing Cash	1,194	4,443	2,989	3,531

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	ACCUMULAT E	630	541
Jun-20	BUY	360	308
Aug-20	Accumulate	442	377
Aug-20	Accumulate	442	371
Aug-20	Accumulate	442	399

*Price as on recommendation date

DART Team

Purvag Shah **Managing Director** **purvag@dolatcapital.com** **+9122 4096 9747**

Amit Khurana, CFA **Head of Equities** **amit@dolatcapital.com** **+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
