

KEI Industries (KEII) reported strong results. Revenues grew 23.4% YoY to Rs 12,302m, EBITDA by 21.2% to Rs 1,222m, PBT by 22.4% to Rs 773m and PAT by 84.1% YoY to Rs 762m. In spite of a 90 bps drop in gross margins, EBITDA margins were down 20 bps YoY on back of higher fixed cost absorption. Due to seasonal nature of business, sequential comparisons would be misleading.

During the quarter Institutional cable revenues were up ~33.0% YoY to Rs 6.9bn (Domestic Rs 4.7bn, Export Rs 2.2bn). Sales through dealer/ distributor network were up 4% YoY to Rs 3.6bn and total active working dealers as on 30th September'19 were ~1450. EHV revenues stood at Rs 950m as compared to Rs 70m in Q2FY19 (driven by new capacity additions). EPC Sales (other than cable) grew by 34.9% to Rs 2bn. Order book as on date is ~Rs 43.7bn and the company is L1 in orders worth Rs 1.3bn.

Management has guided 18% topline growth in FY20E and EBITDA margins of ~10.3%. Growth is well diversified across various segments. The slowdown in the housing wire segment is being offset by exports and EHV segments.

Going forward, buoyant demand, strong order book visibility and expanded capacities will help drive revenue/EBITDA/PAT CAGR of 16.6%/18.4%/35.8% over FY19-21E. We have revised our PAT estimates upwards by 14.8% and 14.7% in FY20E and FY21E based on lower tax rates and marginally higher depreciation. Total debt as of September 30, 2019 stood at Rs 6.7bn and management has guided that debt will stay below the peak levels of Rs 8.4bn. **At CMP, the stock is trading at PER of 15.5x FY20E and 12.7x FY21E. Our previous price target of Rs 599 has been achieved, but we maintain BUY with a revised TP of Rs 677.**

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	34,588	42,270	50,535	57,421
Growth (%)	31.6	22.2	19.6	13.6
EBITDA (Rs m)	3,384	4,422	5,348	6,198
PAT (Rs m)	1,445	1,819	2,732	3,355
EPS (Rs)	18.4	23.2	34.4	42.2
Growth (%)	54.0	25.8	48.0	22.8
CEPS (Rs)	22.6	27.5	41.1	49.2
Net DPS (Rs)	1.0	1.2	1.0	1.0
Profitability & Valuation	2018	2019	2020E	2021E
EBITDA margin (%)	9.8	10.5	10.6	10.8
RoE (%)	27.1	26.3	30.0	27.8
RoCE (%)	32.5	31.8	34.6	31.7
EV / sales (x)	1.2	0.9	1.0	0.8
EV / EBITDA (x)	12.5	8.7	9.1	7.9
PE (x)	23.9	19.0	15.8	12.8
P / BV (x)	5.7	4.4	4.1	3.1
Net dividend yield (%)	0.2	0.3	0.2	0.2

Source: Company Data, PL Research

Q2FY20 Result Update

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Rating	BUY
Price	Rs 542
Target Price	Rs 677
Implied Upside	24.8%
Sensex	40,116
Nifty	11,840
Bloomberg Code	KEII:IN
Reuters Code	KEIN:NS

(Prices as on November 13, 2019)

Tracking Data

Market Cap (Rs bn)	43.1
Shares O/s (m)	79.5
3M Avg. Daily Value (Rs m)	155.5

Major Shareholders

Promoters	45.6%
Domestic Inst.	19.4%
Public & Others	35.0%

Stock Performance

(%)	1M	6M	12M
Absolute	3.1	49.7	42.7
Relative	(2.3)	44.0	29.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	34.4	29.4	17.2
2021E	42.2	37.7	12.1

Price Chart



Existing capacities at high utilization levels, new capacity addition on schedule

The current capacities are already operating at 83% utilization for cables division, 68% for housing wire and 89% for Stainless Steel wires. Utilization for housing wire division was due to ongoing expansion at Silvassa facility.

KEI has a capex of ~Rs1bn for phase one and two of expansion at the Silvassa facility and the second phase is likely to be completed by March-20. The management has guided a capex of ~1.2bn p.a to be funded through internal accruals to expand existing capacities.

Housing wire witnesses slowdown during Q2FY20

KEI reported muted QoQ Revenue growth of 4% in the housing wire segment on account of extended monsoons and slowdown in the retail sector. Demand from housing wire has seen some revival in October but the management expects significant improvement only from Nov-20.

The management has revised its FY20 Revenue growth guidance downwards for housing wire from ~25% to 15% on account of the slowdown in the economy.

Diversification to enable 18% revenue growth

Despite revenue growth of just 12.9% YoY in H1FY20 in the housing wire segment the management is confident of achieving a 18% topline growth during FY20 as other segments such as exports and EHV segments are doing well (Exports grew by 34.7% in H1FY20 and revenues from EHV segment grew 4x from Rs 460m last year to Rs 1,730m in H1FY20)

EPC Revenues expected to remain flat

Revenues from EPC segment will remain flat during FY20. Margins from the EPC segment were lower in Q2FY20 however the management has stated that in an EPC project when the supply portion is high the margins are low but when the erection portion is high the margins are higher. The margins will therefore normalize on full year basis.

In any EPC project ~35%-50% of the value is for cables, ~35% for execution and the balance for distribution transformer, structure ring and main unit. KEI currently has orders worth Rs 8+bn from West Bengal, Rs 7+bn from Jharkhand, and Rs 4bn from Nepal (funded by the Asian Development Bank).

Strong order book position

The company has an order book of Rs 43.7bn excluding orders worth Rs 1.3bn where it is L1. Further it includes orders worth Rs 20.3bn towards EPC, Rs 6.3bn for EHV cables, Rs 11.9bn for cables, and Rs 5.2bn for exports.

Order book for export has been lower compared to Rs7.5bn in Q2FY19 as the company had already booked domestic orders and was therefore unable to take export orders due to capacity restrictions.

Board passes enabling resolution to raise Rs 10bn

The board has taken an enabling resolution to raise not more than Rs 10bn, in one or more tranches, through a Qualified Institutions Placement ("QIP"), preferential issue and / or any combination thereof or any other mode by issue of Equity Shares and / or Eligible Securities in accordance with SEBI. The money raised is likely to be utilized to fund capex in order to sustain 20% growth in future. But no concrete plans have been finalized yet. The company can achieve peak revenues of Rs 6bn from existing capacities.

Financial Overview and Valuations

Total debt as of September 30, 2019 stood at Rs 6.7bn and management has guided that debt will always stay below the peak debt levels of Rs 8.4bn. Management has guided 18% topline growth in FY20E and EBITDA margins of ~10.3%. Growth is well diversified across various segments. The slowdown in the housing wire segment is being offset by exports and EHV segments.

Going forward, buoyant demand, strong order book visibility and expanded capacities will help drive revenue/EBITDA/PAT CAGR of 16.6%/18.4%/35.8% over FY19-21E. We have revised our PAT estimates upwards by 14.8% and 14.7% in FY20E and FY21E based on lower tax rates and marginally higher depreciation. Total debt as of September 30, 2019 stood at Rs 6.7bn and management has guided that debt will always stay below the peak debt levels of Rs 8.4bn **Our previous price target of Rs 599 has been achieved, but we maintain BUY with a revised TP of Rs 677.**

Q1FY20 Result Overview (Rs m)							
Y/e March	Q2 '20	Q2 '19	YoY gr.%	Q1 '20	H1'20	H1'19	YoY gr.%
Net Revenue	12,302	9,968	23.4	10,814	23,115	18,807	22.9
Raw Material Cost	8,513	6,805	25.1	7,473	15,986	12,588	26.9
<i>% of revenue</i>	<i>69.2</i>	<i>68.3</i>		<i>69.1</i>	<i>69.2</i>	<i>66.9</i>	
Employee Cost	567	423	34.0	515	1,082	828	30.7
<i>% of revenue</i>	<i>4.6</i>	<i>4.2</i>		<i>4.8</i>	<i>4.7</i>	<i>4.4</i>	
Other Expense	1,644	1,345	22.3	1,316	2,961	2,630	12.6
<i>% of revenue</i>	<i>13.4</i>	<i>13.5</i>		<i>12.2</i>	<i>12.8</i>	<i>14.0</i>	
Sub Contractor expenses	356	388	(8.2)	370	725	890	(18.5)
<i>% of revenue</i>	<i>2.9</i>	<i>3.9</i>		<i>3.4</i>	<i>3.1</i>	<i>4.7</i>	
Total Expenditure	11,080	8,960	23.7	9,674	20,754	16,937	22.5
EBITDA	1,222	1,008	21.2	1,139	2,361	1,870	26.3
<i>Margin (%)</i>	<i>10.5</i>	<i>10.1</i>		<i>10.5</i>	<i>10.2</i>	<i>9.9</i>	
Depr. & Amortization	137	84	62.0	152	288	168	71.7
EBIT	1085	924	17.5	988	2,073	1,702	21.8
Net Interest	355	305	16.6	330	685	591	15.8
Other Income	43	12	248.9	52	95	24	301.2
Profit before Tax	773	631	22.4	710	1,483	1,134	30.7
Total Tax	11	218	(94.9)	252	263	399	(34.0)
<i>Effective tax rate (%)</i>	<i>1.4</i>	<i>34.5</i>		<i>35.5</i>	<i>17.7</i>	<i>35.1</i>	
Profit after Tax	762	414	84.1	458	1,220	736	65.8
<i>PAT Margin (%)</i>	<i>6.2</i>	<i>4.2</i>		<i>4.2</i>	<i>5.3</i>	<i>3.9</i>	
EPS	9.6	5.2	84.1	5.8	15.3	9.3	65.8

Revenue Breakup (Rs m)							
Segment wise	Q2 '20	Q2 '19	YoY gr.%	Q1 '20	H1'20	H1'19	YoY gr.%
Domestic	6,562	5,338	22.9	6,034	12,595	10,407	21.0
Dealer	3,550	3,420	3.8	3,660	7,210	6,400	12.7
Exports	2,190	1,210	81.0	1,120	3,310	2,000	65.5
Total	12,302	9,968	22.3	10,814	23,115	18,807	22.9
Product wise							
LT Cables	5,120	4,300	19.1	4,040	9,160	7,440	23.1
HT Cables	1,710	1,520	12.5	1,560	3,270	3,010	8.6
EHV	950	70	1257.1	780	1,730	460	276.1
HW	2,200	2,090	5.3	2,190	4,390	3,890	12.9
SS Wire	330	360	(8.3)	310	640	670	(4.5)
EPC Other than cables	2010	1,490	34.9	1,950	3,960	3,070	29.0
Others	90	140	(35.7)	-	74	270	(72.6)
Total	12,410	9,970	22.5	10,814	23,224	18,810	23.5

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2018	2019	2020E	2021E
Net Revenue	34,588	42,270	50,535	57,421
Raw Material Expenses	24,111	29,347	35,071	39,850
Gross Profit	10,477	12,923	15,464	17,571
Employee Cost	1,472	1,734	1,959	2,214
Other Expenses	5,621	6,767	8,157	9,159
EBITDA	3,384	4,422	5,348	6,198
Depr. & Amortization	322	339	536	560
Net Interest	1,113	1,362	1,362	1,362
Other Income	93	72	202	209
Profit before Tax	2,042	2,793	3,652	4,486
Total Tax	596	974	920	1,130
Profit after Tax	1,445	1,819	2,732	3,355
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	1,445	1,819	2,732	3,355
Avg. Shares O/S (m)	78.4	78.4	79.5	79.5
EPS (Rs.)	18.4	23.2	34.4	42.2

Cash Flow Abstract (Rs m)

Y/e March	2018	2019	2020E	2021E
C/F from Operations	1,412	6,224	777	1,228
C/F from Investing	(435)	(1,158)	(578)	(88)
C/F from Financing	(547)	(3,876)	(806)	(1,357)
Inc. / Dec. in Cash	430	1,190	(607)	(217)
Opening Cash	333	763	1,953	1,346
Closing Cash	763	1,953	1,346	1,129
FCFF	977	5,066	199	1,139

Key Financial Metrics

Y/e March	2018	2019	2020E	2021E
Growth				
Revenue (%)	31.6	22.2	19.6	13.6
EBITDA (%)	25.8	30.7	20.9	15.9
PAT (%)	54.0	25.8	50.2	22.8
EPS (%)	54.0	25.8	48.0	22.8
Profitability				
EBITDA Margin (%)	9.8	10.5	10.6	10.8
PAT Margin (%)	4.2	4.3	5.4	5.8
RoCE (%)	32.5	31.0	34.6	31.7
RoE (%)	27.1	26.3	30.0	27.8
Balance Sheet				
Net Debt : Equity	1.3	0.5	0.5	0.4
Net Wrkng Cap. (days)	71.6	31.0	59.2	72.0
Valuation				
PER (x)	29.4	23.4	15.8	12.8
P / B (x)	7.0	5.5	4.1	3.1
EV / EBITDA (x)	14.8	10.5	9.1	7.9
EV / Sales (x)	1.4	1.1	1.0	0.8
Earnings Quality				
Eff. Tax Rate	29.2	34.9	25.2	25.2
Other Inc / PBT	0.0	0.0	0.1	0.0
Eff. Dep. Rate (%)	7.0	5.9	8.0	8.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2018	2019	2020E	2021E
Non-Current Assets	4,490	5,385	5,662	5,421
Net fixed assets	4,040	4,857	5,237	4,977
Capital Work In Progress	230	316	-	-
Intangible assets	30	30	27	24
Right of Use Asset	-	-	168	168
Non-Current Investments	28	16	31	31
Loans	41	69	78	87
Other financial assets	3	6	7	8
Other Non-Current Assets	119	92	115	127
Current Assets	17,676	22,258	24,278	29,329
Inventories	5,556	6,896	8,142	9,251
Trade receivables	10,206	10,946	13,087	16,907
Cash & Bank Balance	763	1,953	1,346	1,129
Loans	14	46	53	61
Other financial Assets	521	1,040	-	-
Other Current Assets	616	1,375	1,650	1,980
Total Assets	22,166	27,643	29,940	34,750

Equity

Equity Share Capital	157	158	159	159
Other Equity	5,889	7,631	10,267	13,527
Total Networth	6,045	7,789	10,426	13,686
Non-Current Liabilities	1,922	1,721	1,749	1,759
Long Term borrowings	1,457	1,193	1,343	1,343
Provisions	67	86	96	106
Deferred tax liabilities	398	442	309	309
Current Liabilities	14,199	18,133	17,765	19,305
ST Debt / Current of LT Debt	6,042	3,865	4,365	4,465
Trade payables	6,272	10,203	8,963	10,184
Other Financial Liabilities	1,333	3,379	3,717	3,791
Short Term Provisions	111	135	162	194
Other current Liabilities	407	457	549	659
Current Tax Liability(net)	34	93	10	11
Total Equity & Liabilities	22,166	27,643	29,940	34,750

Quarterly Financials (Rs m)

Y/e March	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	10,875	12,588	10,814	12,302
EBITDA	1,177	1,376	1,139	1,222
% of revenue	10.8	10.9	10.5	9.9
Depr. & Amortization	85	86	152	137
Net Interest	347	423	330	355
Other Income	11	37	52	43
Profit before Tax	756	903	710	773
Total Tax	272	304	252	11
Profit after Tax	484	599	458	762

Source: Company Data, PL Research.

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