

KEI Industries (KEII) reported robust numbers with revenues growing 22.2% YoY and 15.8% QoQ to Rs 12,588m. EBITDA grew 36.1% YoY and 16.9% QoQ to Rs 1,376m. EBITDA margins sustained at 10.9%, higher by 110bp YoY and 10bps QoQ on back of better fixed costs absorption. PAT grew 20.9% YoY and 23.8% QoQ to Rs 599m. During FY19, revenues/EBITDA/PAT grew by 22.2%/ 30.7%/ 25.8% to Rs 42,270m/ Rs 4,422m/ Rs 1,819m. EBITDA margins inched up 70bps to 10.5% due to higher volumes and better product mix.

The management has guided 18-20% growth in revenues in FY20 on back of demand from conversion of refineries to meet BS VI noms, metro projects, distribution strengthening in power sector and state orders for underground cabling to improve overall efficiency and reduce AT&C losses. EBITDAM could also improve to 11% going ahead as retail sales and revenues from EHV segment increase.

In accordance the company enhanced its LT and MHV capacity at Pathredi in FY18-19. It is further undertaking a debottling activity at the same location in FY20. Together these will generate incremental revenues of Rs 6bn. Further they are also expanding the Housing wire capacity at Silvassa in two phases during FY20 which will bring in further Rs 6bn of revenues. Based on these expansions the company can achieve peak turnover of Rs 57bn.

We forecast KEI to grow revenues at 16.1% CAGR from FY19-21 but profits by 26.7% CAGR over the same period on back of strong volume growth which will result in better fixed cost absorption strong volume growth. A richer product mix will help push EBITDAM to 10.6% in FY20E and further to 10.7% in FY21E. Newer capacities are likely to achieve optimum utilization within 18-24 months of setting up as the company already has a well established position in the institutional segment, is witnessing strong demand from the retail segment and expanding footprints globally. **At CMP, the stock is trading at PER of 14.6x FY20E and 11.9x FY21E revised EPS estimates of Rs 30.4 and Rs 37.3 respectively. Maintain BUY with a TP of Rs 599.**

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	34,588	42,270	50,200	57,013
<i>Growth (%)</i>	<i>31.6</i>	<i>22.2</i>	<i>18.8</i>	<i>13.6</i>
EBITDA (Rs m)	3,384	4,422	5,299	6,090
PAT (Rs m)	1,445	1,819	2,379	2,921
EPS (Rs)	18.4	23.2	30.4	37.3
<i>Growth (%)</i>	<i>54.0</i>	<i>25.8</i>	<i>30.8</i>	<i>22.8</i>
CEPS (Rs)	22.6	27.5	36.3	43.0
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	10.7
RoE (%)	27.1	26.3	26.6	25.4
RoCE (%)	32.5	31.8	32.2	29.8
EV / sales (x)	1.2	0.9	0.8	0.7
EV / EBITDA (x)	12.6	8.8	7.5	6.6
PE (x)	24.1	19.2	14.6	11.9
P / BV (x)	5.8	4.5	3.5	2.7
Net dividend yield (%)	0.2	0.3	0.2	0.2

Source: Company Data, PL Research

## Q4FY19 Result Update

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Rating	BUY
Price	Rs 445
Target Price	Rs 599
Implied Upside	35%
Sensex	39,110
Nifty	11,738
Bloomberg Code	KEII:IN
Reuters Code	KEIN:NS

(Prices as on May 22, 2019)

### Tracking Data

Market Cap (Rs bn)	34.9
Shares O/s (m)	78.4
3M Avg. Daily Value (Rs m)	129.8

### Major Shareholders

Promoters	46.3%
Domestic Inst.	12.8%
Public & Others	40.9%

### Stock Performance

(%)	1M	6M	12M
Absolute	1.6	22.5	(9.0)
Relative	0.6	11.3	(20.1)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	30.4	29.1	4.5
2021E	37.3	36.5	2.2

### **Capex plans on schedule**

The company has already commissioned the second phase for Medium to high voltage cables in Feb 2019. They spent ~Rs 350m on it and it can generate incremental revenues of up to Rs 2bn. The company will undertake debottling at Pathredi during FY20 at a cost of Rs 200m which will add up to Rs 1bn to revenues. It is likely to be completed in the next 3-4 months.

Further, the company has acquired land and building at Silvassa for expanding the housing wire capacity. Expansion will be done in two phases at a total cost of Rs 10bn which can generate potential incremental revenues of up to Rs 6bn. The two phases are expected to be completed by July-19 and March-20 respectively. Further there will be maintenance capex of ~Rs 80-100m in FY20.

### **Dealer sales increase to from 33% to 35% of revenues primarily driven by the HW segment**

Dealer sales grew 29% YoY during Q4 to Rs 4bn. KEI has a dealer network of ~1300 dealers at the end of Q2FY19 which stands increased to ~1400 dealers at the end of Q3FY19E and 1450 at the end of Q4FY19. Presently 50% of dealer sales are under channel financing which is expected to increase to 70-80% over the next three years.

The housing wire segment recorded 45% growth in FY19 (over and above the 58.4% growth recorded in FY18) to Rs 8.2bn on back of brand building exercises during the year such as electrician and dealer meets in various states, sponsor of chest logos for Rajasthan royals and higher spends on advertising on electronic media channels. The company is confident of continued growth of 30% in this segment.

### **EHV sales record strong growth, EPC Revenues recover**

EPC revenues other than cables grew by 32.8% YoY and 40.3% QoQ as certain retention money was released during Q4FY19. Margins on this segment could appear lumpy depending on stage of execution. If percentage of erection work is higher, margins will be higher and if supply portion is higher then margins will be lower. Going forward this segment is expected to grow at 10% CAGR. EHV revenues grew 91.8% QoQ and 80.8% YoY to Rs 940m. The capacity is now operating at peak utilisation and the management expects this quarterly run rate to continue during FY20.

### **Sharp Increase in Interest cost**

The interest cost increased sharply by 46.7% YoY and 21.8% QoQ to Rs 423m during the quarter on account of bank charges paid on the Bank guarantee provided by KEI. In case the company receives more orders for which they need to provide Bank guarantees, these charges could recur. Total debt as of March-19 stood at Rs 6bn and interest cost of Rs 1,362m. Management has guided similar debt and finance cost levels going ahead.

### **Strong order book position**

The company has an order book of Rs 48.2bn including orders worth Rs 1.1bn where it is L1. Further it includes orders worth Rs 24bn towards EPC, Rs 6.84bn for EHV cables, Rs 10bn for cables, and Rs 7.5bn for exports.

### Financial Overview and Valuations

Post results, we have revised our revenues/EBITDA/PAT estimates upwards by 2.7%/4.7%/2.3% for FY20E to Rs 50,200m/Rs 5,299m/Rs 2,379m. For FY21E while revenues/EBITDA estimates are revised upwards by 0.6%/ 2.5% for FY21E to Rs 57,013m/Rs 6,090m, we have marginally revised our PAT estimates downwards by 1.2% to Rs 2,921m due to higher finance costs.

The management has guided 18-20% growth in revenues in FY20 on back of demand from conversion of refineries to meet BS VI norms, metro projects, distribution strengthening in power sector and state orders for underground cabling to improve overall efficiency and reduce AT&C losses. EBITDAM could also improve to 11% going ahead as retail sales and revenues from EHV segment increase.

We forecast KEI to grow revenues at 16.1% CAGR from FY19-21 but profits by 26.7% CAGR over the same period on back of strong volume growth which will result in better fixed cost absorption strong volume growth. A richer product mix will help push EBITDAM to 10.6% in FY20E and further to 10.7% in FY21E. Newer capacities are likely to achieve optimum utilization within 18-24 months of setting up as the company already has a well established position in the institutional segment, is witnessing strong demand from the retail segment and expanding footprints globally. **At CMP, the stock is trading at PER of 14.6x FY20E and 11.9x FY21E revised EPS estimates of Rs 30.4 and Rs 37.3 respectively. Maintain BUY with a TP of Rs 599.**

<b>Q4FY19 Result Overview (Rs m)</b>							
<b>Y/e March</b>	<b>Q4 '19</b>	<b>Q4'18</b>	<b>YoY gr. (%)</b>	<b>Q3 '19</b>	<b>FY19</b>	<b>FY18</b>	<b>YoY gr. (%)</b>
<b>Net Revenue</b>	<b>12,588</b>	<b>10,304</b>	<b>22.2</b>	<b>10,875</b>	<b>42,270</b>	<b>34,588</b>	<b>22.2</b>
<b>Expenditure</b>							
Raw Material Cost	9,075	7,157	26.8	7,684	29,347	24,111	21.7
<i>% of revenue</i>	<i>72.1</i>	<i>69.5</i>		<i>70.7</i>	<i>69.4</i>	<i>69.7</i>	
Employee Cost	473	412	14.7	433	1,734	1,472	17.8
<i>% of revenue</i>	<i>3.8</i>	<i>4.0</i>		<i>4.0</i>	<i>4.1</i>	<i>4.3</i>	
Other Expense	1,538	1,331	15.6	1,477	5,646	4,536	24.5
<i>% of revenue</i>	<i>12.2</i>	<i>12.9</i>		<i>13.6</i>	<i>13.4</i>	<i>13.1</i>	
Sub contractor exp	126	393	67.9	105	1,121	1,086	3.3
<i>% of revenue</i>	<i>1.0</i>	<i>3.8</i>		<i>1.0</i>	<i>2.7</i>	<i>3.1</i>	
<b>Total Expenditure</b>	<b>11,212</b>	<b>9,294</b>	<b>20.6</b>	<b>9,698</b>	<b>37,847</b>	<b>31,204</b>	<b>21.3</b>
<b>EBITDA</b>	<b>1,376</b>	<b>1,010</b>	<b>36.1</b>	<b>1,177</b>	<b>4,422</b>	<b>3,384</b>	<b>30.7</b>
<i>Margin (%)</i>	<i>10.9</i>	<i>9.8</i>		<i>10.8</i>	<i>10.5</i>	<i>9.8</i>	
Depr. & Amortization	86	80	8.3	85	339	322	5.3
<b>EBIT</b>	<b>1,289</b>	<b>931</b>	<b>38.5</b>	<b>1,092</b>	<b>4,083</b>	<b>3,062</b>	<b>33.4</b>
Net Interest	423	288	46.7	347	1,362	1,113	22.3
Other Income	37	(6)	NA	11	72	93	(22.7)
<b>Profit before Tax</b>	<b>903</b>	<b>636</b>	<b>41.9</b>	<b>756</b>	<b>2,793</b>	<b>2,042</b>	<b>36.8</b>
Total Tax	304	141	115.9	272	974	596	63.4
<i>Effective tax rate (%)</i>	<i>33.6</i>	<i>22.1</i>		<i>36.0</i>	<i>34.9</i>	<i>29.2</i>	
<b>Profit after Tax</b>	<b>599</b>	<b>496</b>	<b>20.9</b>	<b>484</b>	<b>1,819</b>	<b>1,445</b>	<b>25.8</b>
<i>PAT Margin (%)</i>	<i>4.8</i>	<i>4.8</i>		<i>4.4</i>	<i>4.3</i>	<i>4.2</i>	
<b>EPS</b>	<b>7.6</b>	<b>6.3</b>	<b>20.9</b>	<b>6.1</b>	<b>23.2</b>	<b>18.4</b>	<b>25.8</b>

Source: Company Data, Idea Research

**Income Statement (Rs m)**

Y/e March	2018	2019	2020E	2021E
<b>Net Revenue</b>	<b>34,588</b>	<b>42,270</b>	<b>50,200</b>	<b>57,013</b>
Raw Material Expenses	24,111	29,347	34,839	39,567
Gross Profit	10,477	12,923	15,361	17,446
Employee Cost	1,472	1,734	1,959	2,234
Other Expenses	5,621	6,767	8,103	9,122
<b>EBITDA</b>	<b>3,384</b>	<b>4,422</b>	<b>5,299</b>	<b>6,090</b>
Depr. & Amortization	322	339	462	449
Net Interest	1,113	1,362	1,362	1,362
Other Income	93	72	75	80
<b>Profit before Tax</b>	<b>2,042</b>	<b>2,793</b>	<b>3,551</b>	<b>4,360</b>
Total Tax	596	974	1,172	1,439
<b>Profit after Tax</b>	<b>1,445</b>	<b>1,819</b>	<b>2,379</b>	<b>2,921</b>
Ex-Od items / Min. Int.	-	-	-	-
<b>Adj. PAT</b>	<b>1,445</b>	<b>1,819</b>	<b>2,379</b>	<b>2,921</b>
<b>Avg. Shares O/S (m)</b>	<b>78.4</b>	<b>78.4</b>	<b>78.4</b>	<b>78.4</b>
<b>EPS (Rs.)</b>	<b>18.4</b>	<b>23.2</b>	<b>30.4</b>	<b>37.3</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2018	2019	2020E	2021E
C/F from Operations	1,412	6,702	839	875
C/F from Investing	(435)	(1,158)	(437)	(217)
C/F from Financing	(547)	(4,354)	(856)	(1,356)
Inc. / Dec. in Cash	430	1,190	(454)	(698)
Opening Cash	333	763	1,953	1,500
Closing Cash	763	1,954	1,499	802
FCFF	977	5,544	402	657

**Key Financial Metrics**

Y/e March	2018	2019	2020E	2021E
<b>Growth</b>				
Revenue (%)	31.6	22.2	18.8	13.6
EBITDA (%)	25.8	30.7	19.8	14.9
PAT (%)	54.0	25.8	30.8	22.8
EPS (%)	54.0	25.8	30.8	22.8
<b>Profitability</b>				
EBITDA Margin (%)	9.8	10.5	10.6	10.7
PAT Margin (%)	4.2	4.3	4.7	5.1
RoCE (%)	32.5	31.8	32.2	29.8
RoE (%)	27.1	26.3	26.6	25.4
<b>Balance Sheet</b>				
Net Debt : Equity	1.3	0.5	0.5	0.4
Net Wrkng Cap. (days)	71.6	31.0	59.2	72.0
<b>Valuation</b>				
PER (x)	24.1	19.2	14.6	11.9
P / B (x)	5.8	4.5	3.5	2.7
EV / EBITDA (x)	12.6	8.8	7.5	6.6
EV / Sales (x)	1.2	0.9	0.8	0.7
<b>Earnings Quality</b>				
Eff. Tax Rate	29.2	34.9	33.0	33.0
Other Inc / PBT	0.0	0.0	0.0	0.0
Eff. Depr. Rate (%)	7.0	5.9	7.0	6.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2018	2019	2020E	2021E
<b>Non-Current Assets</b>	<b>4,490</b>	<b>5,385</b>	<b>5,469</b>	<b>5,339</b>
<b>Net fixed assets</b>	<b>4,040</b>	<b>4,857</b>	<b>5,211</b>	<b>5,063</b>
Capital Work In Progress	230	316	-	-
Intangible Assets	30	30	27	24
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
<b>Current Assets</b>	<b>17,676</b>	<b>22,256</b>	<b>24,291</b>	<b>28,815</b>
Inventories	5,556	6,896	8,088	9,185
Trade receivables	10,206	10,946	13,000	16,787
Cash & Bank Balance	763	1,953	1,500	801
Loans	14	46	53	61
Other Current Assets	616	1,375	1,650	1,980
Other Financial Assets	521	1039		
<b>Total Assets</b>	<b>22,166</b>	<b>27,642</b>	<b>29,760</b>	<b>34,155</b>

**Equity**

Equity Share Capital	157	157	157	157
Other Equity	5,889	7,631	9,916	12,743
<b>Total Networth</b>	<b>6,045</b>	<b>7,788</b>	<b>10,073</b>	<b>12,900</b>
<b>Non-Current Liabilities</b>	<b>1,922</b>	<b>1,245</b>	<b>1,355</b>	<b>1,365</b>
Long term borrowings	1,457	717	817	817
Provisions	67	86	96	106
Deferred tax liabilities	398	442	442	442
<b>Current Liabilities</b>	<b>14,199</b>	<b>18,609</b>	<b>18,332</b>	<b>19,889</b>
Short term borrowings	6,042	3,865	4,365	4,465
Trade payables	6,272	10,203	8,903	10,112
Other financial liabilities	1,333	3,855	4,241	4,325
Short term provisions	111	135	162	194
Other current liabilities	407	457	549	659
Current Tax liability	34	93	112	134
<b>Total Equity &amp; Liabilities</b>	<b>22,166</b>	<b>27,642</b>	<b>29,760</b>	<b>34,155</b>

**Quarterly Financials (Rs m)**

Y/e March	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>Net Revenue</b>	<b>8,839</b>	<b>9,968</b>	<b>10,875</b>	<b>12,588</b>
<b>EBITDA</b>	<b>862</b>	<b>1,008</b>	<b>1,177</b>	<b>1,376</b>
% of revenue	9.7	10.1	10.8	10.9
Depr. & Amortization	84	84	85	86
Net Interest	287	305	347	423
Other Income	11	12	11	37
<b>Profit before Tax</b>	<b>503</b>	<b>631</b>	<b>756</b>	<b>903</b>
Total Tax	181	218	272	304
<b>Profit after Tax</b>	<b>322</b>	<b>414</b>	<b>484</b>	<b>599</b>

Source: Company Data, PL Research.

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