



COMPANY NAME	: KEI Industries
BSE Code	: 517569
Time Duration	: 1 year
CMP	: ₹372 (as on 15 Mar., 2018)
Target Price	: ₹498

The Mid Bridge for the month of March is KEI Industries. The company, which is headquartered in New Delhi, offers an extensive range of cabling solutions. It manufactures Extra-High Voltage (EHV), Medium Voltage (MV) and Low Voltage (LV) power cables and serves both the retail and institutional segments. Its presence has increased in the Engineering, Procurement and Construction (EPC) services domain, which has strengthened its leadership position. The cables segment account for 74% of the total revenue and the EPC division accounts for 23%. The company's revenue and PAT has grown at a CAGR of 18.1% and 103.5%, respectively, over FY15-17.

Aided by the technological collaboration with Switzerland-based Brugg Kabel AG, the company caters to the sectors across transmission companies, mega power plants, metro cities, industries such as steel, cement, refineries, petrochemicals, large realty projects such as IT parks, large residential complexes, etc. Also, infrastructure development and demand from housing industry will trigger demand for cables in the upcoming years.

Rise in dealer base and export sales

The company sells cables to major three segments, namely, institutional, dealer and through exports sales, which contributed 55%, 31% and 14%, respectively, towards the revenue from cables in FY17. The contribution by dealers and export segments is expected to go up to more than 50% by 2020. In FY17, the company added 221 new dealers, thereby taking the total strength of its dealers to 1147. These segments have better margin profile, which is expected to expand by 100-200 bps going forward.

KEI Industries has developed strong presence across 45 countries in the international market. In the exports business, it offers a wide range of cables, including EHV cables, with focus on the vital segments of oil and gas, and utilities. The growth in exports has been boosted by bagging new orders from oil and gas utilities in Kuwait, Abu Dhabi and Oman, and also many utilities in Africa, SAARC region and the Middle East. The company has the target to deliver 15-20% growth in exports every year from now onwards. At present, the company's order book under the export segment is Rs 173 crore approximately. Also, it has opened new offices in Singapore, Nigeria and Kazakhstan.

Improving market share in cables

About 35% of the cable market in India is unorganised, of which

78% market is captured by the four biggest players. Of these four players, KEI Industries stands at the third position and its market share has gradually increased from 8% to 11% in FY17. Post the GST implementation, the organised sector is expected to expand, and considering the growth of KEI, its market share will increase in the upcoming years. The company has been focusing to spend on advertisement and selling expenses, especially in the retail segment by roping celebrities as brand ambassadors and providing sponsorship to IPL to gain more market share. In Q3FY18, the cables volume growth was 19% and in terms of value, it was 24%.

Strong order book

The current order book of the company is at Rs 2,347 crore that includes cables Rs 730 crore, EPC Rs 1,428 crore and substation Rs 189 crore. As compared to the FY17 revenue, the existing order book gives revenue visibility for next 1 - 1.5 years. Company has been getting orders from the Indian Railways too.

Traction in EPC services domain

In FY12, the company had collaborated with Woosun Electric Co, Korea, to foray into the EPC segment for power projects and with Cobra Engineer, Spain, for substation execution. Then onwards, the revenue from this segment has grown at CAGR of 39% by FY17. Of the total order book of EPC segment, major orders are from the state of Uttar Pradesh. The margins from this segment are in double digits and the company is optimistic of maintaining it in the upcoming years.

Reduction in debt levels

In FY12, the company had high debt-equity ratio of 2.16x, which improved to 1.5x in FY17. During 9MFY18, the debt has been further reduced to Rs 700 cr in FY17. This increased the interest coverage ratio to 2.09x in FY17 as against 1.3x in FY12. The revenue growth has been strong and the increased contribution from retail and exports will improve its margins. One third of its debt is paid through internal accruals and, going forward, the DE ratio is expected to reduce to 1x by FY20.

Financial Performance

The company's revenue and profits have grown in double digits over the last few years. In FY17, on a YoY basis, its revenue was up 13.2%, while the operating profit and PAT grew by 15% and

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58.9% YoY, respectively. The EBITDA margin stood at 10.28% in FY17 while the PAT margin stood at 3.5%.

In 9MFY18, the revenue grew by 23.47% YoY to Rs 2466 cr from Rs 1997.31 cr. The PAT for the same period jumped by 47.8% YoY to Rs 95 cr from Rs 64.25 cr. The revenue for Q3FY18 came in at Rs 888.66 cr, registering an increase of 16.2 per cent YoY. Its EBITDA for the quarter rose by 8.3 per cent YoY to Rs 84.31 crore, with a corresponding margin contraction of 139 bps. The EBITDA margin for the quarter stood at 9.5 per cent. The PAT for the quarter came in at Rs. 39.03 crore, an increase of 50.6 per cent YoY.

Valuation:

The company is trading at TTM P/E of 22.9 with TTM EPS of Rs 16.16. For FY17, it has delivered high ROE and ROCE of 23.7% and 25.03%, respectively. We believe the retail and export sales in cables will bring expansion in the topline and margins, which will help the company in repayment of its debts. Also, the EPC segment has robust demand and is performing well. The order book is also strong across the segments, giving good revenue visibility. The valuations are attractive and the return ratios are higher than its peers. Considering these factors, we expect a potential upside of 34% with target price of Rs 498 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201703	201603	201503	201403	201303
Net Sales	2669.09	2325.58	2017.83	1617.33	1689.95
Total Income	2689.82	2331.30	2033.17	1618.61	1692.31
Total Expenditure	2405.08	2083.70	1837.91	1464.29	1519.43
PBIDT	284.74	247.60	195.25	154.32	172.87
PAT	98.64	62.20	34.25	11.60	26.34
Dividend %	30.00	25.00	20.00	10.00	10.00
Adj. EPS(Rs)	12.68	8.05	4.43	1.57	3.75

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	888.66	753.81	17.89	764.77	16.20
Total Expenditure	804.36	677.55	18.71	687.91	16.93
PBIDT (Excl OI)	84.31	76.25	10.56	76.85	9.70
PAT	39.03	28.50	36.92	25.90	50.68
PBIDTM% (Excl OI)	9.49	10.12	-6.23	10.05	-5.57
PBIDTM%	10.31	10.25	0.59	10.10	2.08
PATM%	4.39	3.78	16.14	3.39	29.50
Adj. EPS(Rs)	4.98	3.64	36.81	3.33	49.55

