



Company Name	: KEI INDUSTRIES
BSE Code	: 517569
Time Duration	: 1 year
CMP	: ₹471.45 (as on 08 August, 2019)
Target Price	: ₹565

Our Value Pick for the month of August is KEI Industries which is engaged in the manufacture and supply of power and other industrial cables. KEI has a diversified business model with a significant presence in domestic and international markets. Its product portfolio includes specialty cables, rubber cables, submersible cables and polyvinyl chloride (PVC)/poly wrapped winding wires. It manufactures and markets power cables and addresses cabling requirements of a wide spectrum of sectors such as power, oil refineries, railways, automobiles, cement, steel, real estate, etc. Its prudent foray into the EHV cable and EPC services for power sector projects has further expanded the opportunity horizon. The company's revenue mix as of Q1FY20 stood at cables- 72 per cent, EPC projects- 26 per cent and stainless steel wires- 2 per cent.

Capacity expansion to sustain its growth trajectory

At present, the company is running at 90 per cent capacity utilisation, hence, it is focusing on expansion of its capacity. Last year, KEI has added capacities in LT and MHV cables and it is further adding capacities in housing wires too. In February 2019, the company commenced the second phase of MHV cable at Pathredi. For this, the company has incurred a capex of Rs. 35 crore and it has the ability to fetch additional revenue of up to Rs. 200 crore. Further, it will undertake debotting at Pathredi for control and instrumentation cables during FY20 at a cost of Rs. 14-15 crore, which can generate incremental revenue of up to Rs 120 crore. It is likely to be completed in the next 3-4 months. Further, the company commenced production at its first phase of expansion at Silvassa for housing wires and has spent Rs 55 crore so far on it. The production is expected to normalise by this month. Phase II expansion is likely to be completed by the end of FY20E, where it will invest around Rs. 40 crore. Both phases can generate combined incremental revenue of Rs 600 crore.

Strong order book

KEI's order book as of June 2019 ended quarter stood strong at Rs. 4,414 crore and Rs. 119 crore for L1 of EHV. As for the order mix, EPC division contribute nearly 50 per cent followed by 23 per cent of cables, 14.5 per cent of exports and the rest from EHV

division. This strong order book gives healthy revenue visibility for the ongoing fiscal. Recently, the company has won its first overseas EPC order from Nepal worth Rs. 450 crore (included in order book) for underground cabling funded by the Asian Development Bank. Also, the company is looking to tap opportunities in the Middle East and African countries through international EPC companies for supply of cables in the oil and gas industry.

Better revenue mix to aid profitability

On account of better product mix (high margin EHV and export segment reported 100 per cent and ~42 per cent YoY growth respectively) the company's margin in the recent quarter has improved. In the recent conference call, the company's management has given guidance that it is confident of maintaining margin above 10.5 per cent owing to strong order book position on EHV and exports, with a possibility to improve them further as volumes grow, which will result in operational efficiencies.

Improving brand building to improve retail business

The company is heavily spending on its brand building and improving dealer network for which it has taken measures like electrician meet, etc. This activity is helping the company in increasing penetration and strengthening the dealer network, which can be seen in the recent strong 23 per cent YoY growth in retail business to Rs. 366 crore. The company's total active dealers as of Q1FY20 stood at 1,500. KEI's efforts in the brand building activity and increasing dealer network will result in higher share from B2C revenue. The company's management expects the revenue share from B2C to increase by nearly 25-30 per cent and the revenue share from this division to improve to 40 per cent from the present 34 per cent by next fiscal. The management believes that the lower base and its aggressiveness in the market would help to provide next leg of growth.

Financials

In the recently concluded quarter Q1FY20, the company has posted robust numbers. The consolidated revenue for the quarter Q1FY20 came in at Rs. 1081.36 crore as against Rs. 883.9 crore in the corresponding quarter last year, registering 22.3 per cent YoY increase. This was supported by jump in revenue from EPC

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projects and cables by 36 per cent and 22 per cent, respectively, on a YoY basis. EBITDA for the quarter grew by 32.3 per cent YoY to Rs. 113.94 crore as against Rs. 86.14 crore in the corresponding quarter last year, with a corresponding margin expansion of 79 bps. EBITDA margin for the quarter stood at 10.5 per cent. Its operating performance has improved due to increase in sales and better product mix. The PAT for the quarter came in at Rs. 45.81 crore as against Rs. 32.18 crore in the corresponding quarter last year, an increase of 42.4 per cent YoY.

Valuation & Outlook

KEI has diversified itself into steel, upstream oil companies,

power, EPC, exports, etc. which helps the company to grow and reduce the risk of concentration. Also, the company's focus on high margin export and EHV segment is likely to aid company's profitability in the coming years. Besides, the capacity expansion would help it to continue its growth trajectory. In terms of return ratios, KEI's ROE and ROCE stand strong at ~23.4 per cent and 48.84 per cent, respectively. Looking at the current valuation, the stock of KEI is available at attractive valuation of 18.8x as compared to five-year median P/E of 17.4x. Hence, we believe the stock has the potential to reach the mark of Rs 565, representing an upside of nearly 20 per cent.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	4226.96	3458.80	2628.46	2325.58	2017.83
Total Income	4234.15	3468.10	2638.52	2331.30	2033.17
Total Expenditure	3784.75	3120.40	2359.44	2083.70	1837.91
PBIDT	449.41	347.69	279.08	247.60	195.25
PAT	181.87	144.56	93.83	62.20	34.25
Dividend %	60.00	50.00	30.00	25.00	20.00
Adj. EPS(Rs)	23.04	18.45	12.06	8.05	4.43

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	1081.36	1258.79	-14.10	883.90	22.34
Total Expenditure	967.42	1121.23	-13.72	797.75	21.27
PBIDT (Excl OI)	113.94	137.56	-17.17	86.14	32.26
PAT	45.81	59.93	-23.56	32.18	42.38
PBIDTM% (Excl OI)	10.54	10.93	-3.57	9.75	8.10
PBIDTM%	11.02	11.22	-1.78	9.87	11.65
PATM%	4.24	4.76	-10.92	3.64	16.48
Adj. EPS(Rs)	5.80	7.59	-23.58	4.11	41.12

Stock vs. Index



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