KEI Industries

24 December 2018

Reuters: KEI.BO; Bloomberg: KEII IN

Management Meet Update

Aims To Sustain Healthy Growth And Margins

We had a meeting with the management of KEI Industries (KEI) recently to get the latest business update. The management is aiming at a healthy sustainable long-term growth driven by strong growth in retail segment, EHV cables and export markets while institutional sales are also likely to grow at a healthy pace, in line with the industry. Distribution network expansion and capacity addition will drive incremental growth, while EBITDA margin is likely to sustain above 10% aided by an improving revenue mix. We currently do not have any rating on the stock.

Following are the key takeaways from the meeting:

Institutional segment outlook: KEI is one of the top three manufacturers of cables in India having a presence across the entire spectrum of cables including EHV, HT, LT, house wires and specialty cables. KEI has a strong presence in the institutional segment driven by demand from key sectors such as power, infrastructure, refinery, railways, automobile, cement, steel, fertiliser, textile and real estate. The institutional segment accounted for 55% of total sales in FY18. The clients includes EPC companies (like Larsen & Toubro, Siemens), power companies (like NTPC, PGCIL, state electricity boards, IPPs) and large corporates (like Indian Railways, various oil & gas companies, metal companies etc). The key success factor includes the ability to offer multiple products (including niche cables for specialised segments such as shipping, refineries and solar) at pan-India locations with fast delivery and flawless servicing. The major competitors of KEI include Polycab and Universal Cables who compete in large sized orders (upwards of Rs50mn). KEI has a market share of 12%-15% in institutional segment and an order book of Rs9bn, which is executable in a period of three months. The capacity expansion at Pathreri, Rajasthan, for LT cables is complete, while that of HT cables is likely to conclude by March 2019 which will add additional capacity worth Rs2bn. The segment operates at an EBITDA margin profile of 9%. As part of further diversification, KEI has scaled up its EPC execution capability for turnkey contracts as well as moved up the value chain with EHV cables.

Attained turnkey EPC capabilities: KEI has scaled up its presence in turnkey EPC projects as they need a significant portion of power cables. The key services offered by KEI include turnkey sub-station projects (66KV to 400KV), EPC of EHV and HV cable systems, electrical balance of plant and electrical industrial projects.

Y/E March (Rsmn)	FY14	FY15	FY16	FY17	FY18
Net revenues	16,189	20,310	23,256	26,663	34,459
YoY growth (%)	*(2.4)*	*25.5*	*14.5*	*14.7*	*29.2*
EBITDA	1,543	1,979	2,476	2,791	3,477
EBITDA margin (%)	*9.5*	*9.7*	*10.6*	*10.5*	*10.1*
PAT	116	343	622	938	1,446
PAT margin (%)	*0.7*	*1.7*	*2.7*	*3.5*	*4.2*
EPS (Rs)	1.5	4.4	8.0	12.1	18.6
EPS growth (%)	*(55.9)*	*195.3*	*81.6*	*50.9*	*54.1*
P/E (x)	252.8	85.6	47.2	31.3	20.3
RoCE (%)	*18*	*22*	*27*	*28*	*31*
RoE (%)	*5*	*13*	*19*	*23*	*27*

Source: Company, Nirmal Bang Institutional Equities Research

NOT RATED

Sector: Capital Goods

CMP: Rs377

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Key Data

Current Shares O/S (mn)	78.9
Mkt Cap (Rsbn/US$mn)	29.7/423.2
52 Wk H / L (Rs)	496/248
Daily Vol. (3M NSE Avg.)	255,152

Price Performance (%)

	1 M	6 M	1 Yr
KEI Industries	8.9	(13.1)	5.5
Nifty Index	1.5	0.1	3.0

Source: Bloomberg

KEI has collaborated with Woosun Electric of South Korea for power projects and Cobra Engineers of Spain for sub-station execution. The government capex in schemes such as Deen Dayal Upadhaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS), Saubhagya scheme for household electrification, green energy corridors, wind and solar projects, railway electrification and infrastructure projects acts as a major growth driver for EPC work. KEI takes EPC projects under two strict criteria: (a) The project must be funded by PFC or REC to ensure timely collection of receivables. (b) The project must have a large cable supply portion (20%-30% of project value). KEI currently has EPC order book worth Rs15bn with an execution cycle of ~18 months and operates at 12%-14% margin profile.

Moving up the value chain through EHV cables

KEI started a new line of 400KV EHV cables at its Chopanki plant in Rajasthan and became the third company in India to manufacture EHV cables. The EHV foray is aided by technological collaboration with Switzerland-based Brugg Kabel, which has the ability to manufacture cables up to 550KV. Considering that a large part of the demand for EHV cables in India is met by imports (from Korea and Mexico), KEI aims to scale up this business much faster. Further, it will also be margin-accretive as EHV cable is technologically a much superior product. The key users of EHV cables include transmission firms, mega power plants, steel and cement companies, refineries, large IT parks etc. The current size of the domestic industry is Rs20bn and is growing rapidly. KEI has EHV capacity of Rs9bn and mainly competes with Universal Cables. KEI has an order book worth Rs6bn, of which 75% is constituted by cables and the balance 25% by accessories and erection works. The EHV cable division operates at an EBITDA margin profile of 15%.

Rising market share in the retail segment

KEI has been gradually building up its retail B2C business of house wires by creating awareness of its brand and increasing its reach. Over the past five years, KEI's distribution network posted a 19% CAGR from 650 dealers in FY14 to 1,284 dealers in FY18 and is likely to grow further by 10%-12% per annum for the next few years. Correspondingly, KEI's retail sales has posted a 20% CAGR over the past five years from Rs5.3bn in FY14 to Rs10.8bn in FY18 and formed 32% of total sales in FY18. KEI intends to further increase it to 40% of total sales in the next three years. KEI has earmarked advertisement spending of Rs160mn for brand-building and is increasing this budget by Rs20mn-Rs30mn per annum. The total domestic industry size stands at Rs130bn-Rs150bn and is growing by 10%-15% per annum. KEI intends to outpace the industry growth through increasing its market share (currently at 7%-8%) and capacity expansion. KEI is increasing its house wire capacity by Rs3bn in phase-1 at Silvassa in Gujarat by incurring a capex of Rs400mn for plant & machinery. KEI plans to further increase its capacity by Rs3bn in phase-2 by incurring an additional capex of Rs300mn. KEI operates at a healthy EBITDA margin profile of 11% in retail segment and has the lowest receivable cycle across all its business segments, at 30 days. Major competitors in retail segment include Finolex Cables, Havells India, Polycab and RR Kable.

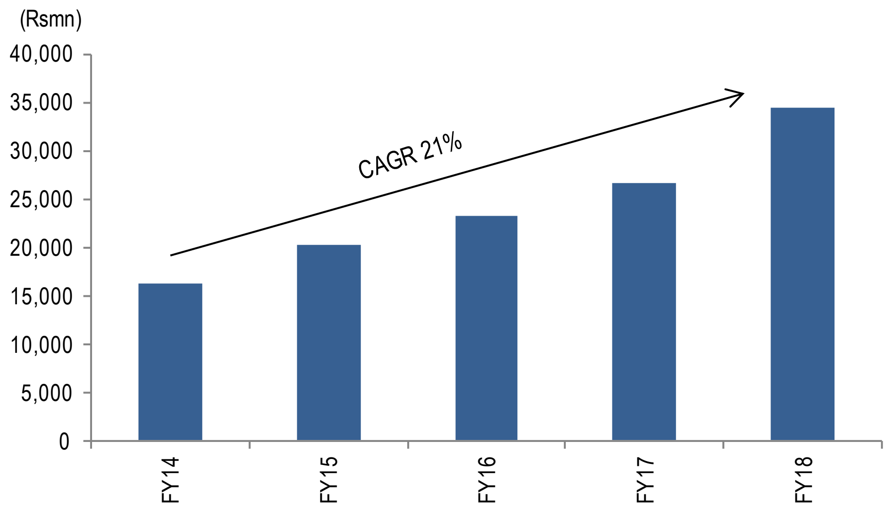
Scaling up its presence in export markets

KEI is scaling up its international presence rapidly, with exports now accounting for 13% of total sales. KEI has its presence in 45 countries with offices in Singapore, Nigeria, Kazakhstan, Dubai and Gambia. It has presence in countries like South Korea and Australia through sales agents. The key sectors of focus in international markets are oil & gas (75% to 80% of export revenues) and utilities where KEI competes with international players. With an export order book worth Rs6bn and attaining pre-qualification criteria for large projects, the company intends to scale up exports in a big way. KEI enjoys a healthy EBITDA margin of 11% in exports.

Future outlook

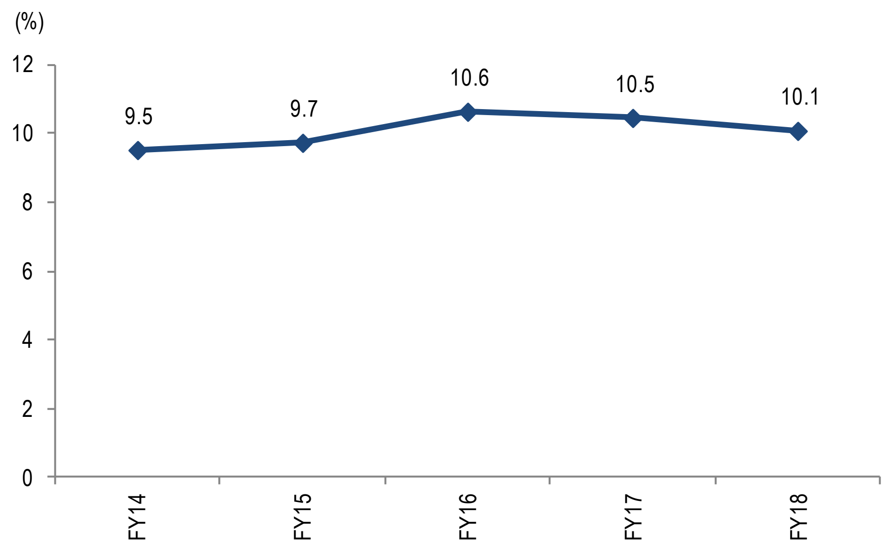
KEI aims to achieve 20% revenue CAGR over the next three years driven by strong growth in retail sales, EHV cables and exports along with industry-linked normal growth in institutional sales. Distribution network expansion and capacity addition will aid incremental growth. KEI targets capex of Rs900mn-Rs1bn in FY19E and Rs700mn in FY20E. It intends to maintain EBITDA margin profile in excess of 10%. With an improving revenue mix, the working capital cycle has reduced from 2.85 months in FY18 to 2.67 months in 1HFY19 which the management aims to reduce further.

Exhibit 1: Net revenue trend



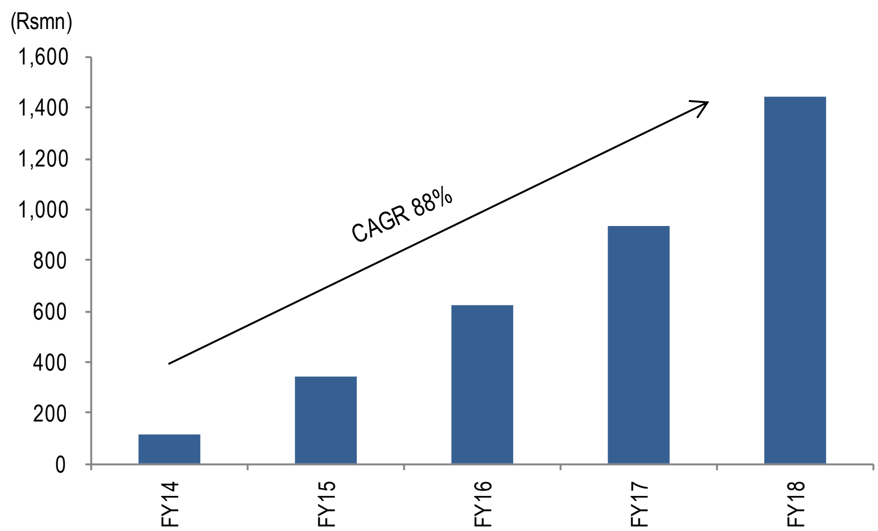
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: EBITDA margin trend



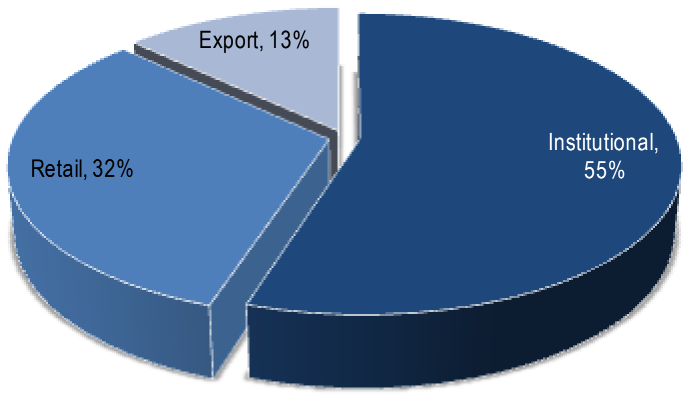
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Net profit trend



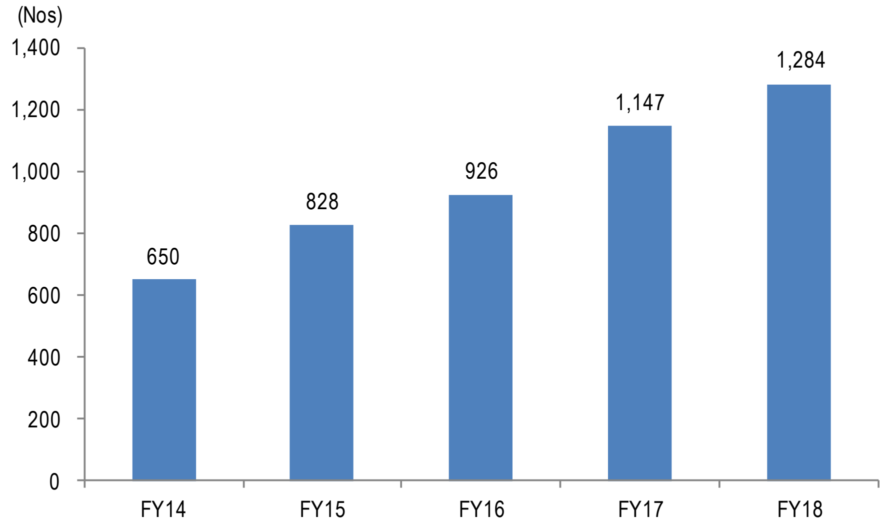
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: FY18 revenue mix



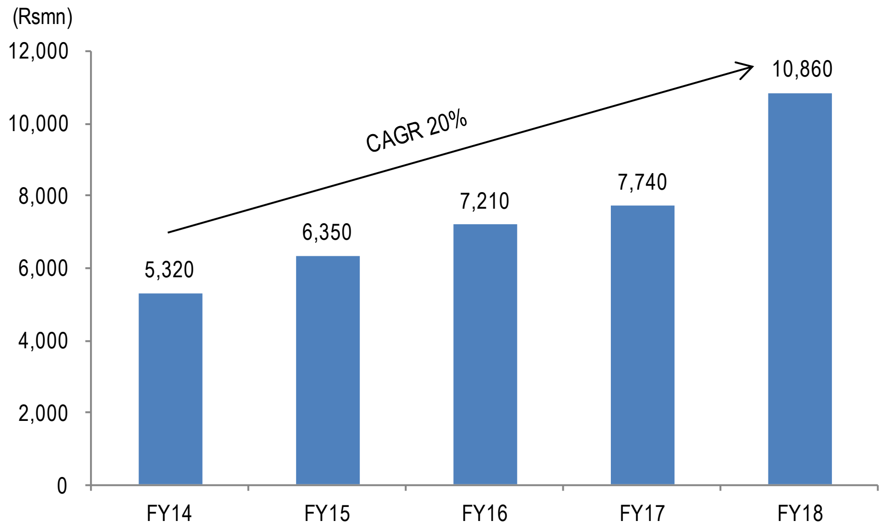
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Dealer network addition



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Retail sales trend



Source: Company, Nirmal Bang Institutional Equities Research

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ACCUMULATE -5% to15%

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