

Rating: BUY | CMP: Rs749 | TP: Rs854

August 2, 2021

Q1FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current FY23E	Previous FY24E	Current FY23E	Previous FY24E
Rating	BUY	BUY		
Target Price	854	825		
Sales (Rs. m)	61,787	70,297	60,423	68,983
% Chng.	2.3	1.9		
EBITDA (Rs. m)	7,021	8,057	6,745	7,838
% Chng.	4.1	2.8		
EPS (Rs.)	49.8	57.7	47.7	56.3
% Chng.	4.3	2.5		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	41,815	54,055	61,787	70,297
EBITDA (Rs. m)	4,605	6,120	7,021	8,057
Margin (%)	11.0	11.3	11.4	11.5
PAT (Rs. m)	2,733	3,888	4,474	5,184
EPS (Rs.)	30.4	43.3	49.8	57.7
Gr. (%)	6.2	42.3	15.1	15.9
DPS (Rs.)	2.0	3.1	3.8	4.5
Yield (%)	0.3	0.4	0.5	0.6
RoE (%)	16.6	19.7	18.8	18.3
RoCE (%)	21.8	25.4	24.7	24.1
EV/Sales (x)	1.6	1.3	1.1	0.9
EV/EBITDA (x)	14.8	11.1	9.5	8.2
PE (x)	24.6	17.3	15.0	13.0
P/BV (x)	3.8	3.1	2.6	2.2

Key Data	KEIN.BO KEII IN
52-W High / Low	Rs.764 / Rs.319
Sensex / Nifty	52,951 / 15,885
Market Cap	Rs.67bn/ \$ 906m
Shares Outstanding	90m
3M Avg. Daily Value	Rs.746.41m

Shareholding Pattern (%)			
Promoter's	39.23		
Foreign	18.09		
Domestic Institution	25.91		
Public & Others	16.77		
Promoter Pledge (Rs bn)			

	1M	6M	12M
Absolute	1.9	53.5	115.2
Relative	1.0	44.4	52.9

Paarth Gala
paarthgala@plindia.com | 91-22-66322242

Amnish Aggarwal
amnishaggarwal@plindia.com | 91-22-66322233

Growth momentum to continue; BUY

Quick Pointers:

- Lockdown/restricted movement led to non-dispatch of EHV cable worth Rs75cr
- No Price hikes in July; don't see too much upside on copper from hereon

We increase our FY22 / FY23 / FY24 earnings by 5.1% / 4.3% / 2.5% and reiterate our positive stance on KEI given 1) growing demand for cables and wires arising from Infra, Industrial, Railways, Solar & housing construction activity and 2) sustained momentum in dealer network sales (38% of sales; up 80bps QoQ)

With strong demand outlook (Rs30.2bn order book) and stabilizing copper prices, KEI's management remains confident of growing FY22 sales by minimum 20% (LT CAGR of 17%-18%) while maintaining 11%+ margins. We believe KEI is well placed to capture demand for wires and cables given 1) wide product portfolio catering to various industries 2) amongst very few players having EHV cable capabilities 3) focus on scaling up channel expansion (1,650 dealers) and 4) tapping into rising export opportunities. We estimate Sales/PAT CAGR of 21.6%/27.9% over FY21-23E. We value the stock at 16x Sept23 EPS (33% discount to Polycab) and arrive at target price of Rs854 (earlier Rs825). Maintain BUY. Sharp correction in copper prices remains key risk to our estimates.

Sales grew by 36.5%, PAT up by 71.1%: Revenues grew by 36.5% YoY to Rs10.2bn. Gross margins expanded by 10bps YoY to 27.6%. EBITDA grew by 49.1% YoY to Rs1.1bn while margins expanded by 100bps YoY to 11.2%. 20bps increase in Other expenses was more than offset by 100bps decline in employee cost (as a % of sales) YoY. PAT grew by 71.1% YoY to Rs671mn.

Cables sales up by 36.9% YoY while margins contract by 130bps to 10.7%: Cables Revenues/EBIT grew by 36.9%/ 22.4% YoY to Rs8.8bn/ Rs947mn; margins contracted by 130bps YoY to 10.7%. Stainless Steel Wires Revenues/ EBIT grew by 130.2%/ 51.1% YoY to Rs478mn/ Rs30mn; while margins contracted by 330bps to 6.3%. EPC Revenues/ EBIT declined by 21.8%/ 30% YoY to Rs1.4bn/ Rs125mn; margins contracted by 110bps to 9%. Dealer network sales grew by 108% YoY to Rs3.9bn contributing 38% of overall revenues (up 1300bps/ 80bps YoY/ QoQ)

Concall Takeaways: **1)** EHV cables worth Rs75cr could not be dispatched due to lockdowns and restrictions in movements. Will be billed in Q2. **2)** Inducted 150 sales people to strengthen dealer network sales. Dealer sales to grow by 25% **3)** Remain on track to receive Rs1.5bn EPC retention money in FY22. **4)** Maintain guidance of minimum 20% sales growth with 11%+ margins. Long term Sales CAGR of 17-18%. **5)** With copper prices stabilizing, no price hikes taken in July. Don't see too much upside on copper prices from hereon **6)** Channel financing recourse on company in certain banks down from 100% to 50%. **7)** Total order book of Rs30.2bn: EPC Rs11.6bn; EHV: Rs5bn; Domestic Cables: Rs13.1bn; Export Cables: Rs0.5bn **8)** Capacity utilization: Cables 66%; Housing Wires 43%; Stainless Steel Wires 100%

Exhibit 1: Q1FY22 Result Overview (Rs mn): Sales grew by 36.5% YoY; PAT grew by 71.1% YoY

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	10,176	7,454	36.5	12,463	41,815	48,878	-14.4
Operating & Manufacturing Expenses	7,363	5,401	36.3	9,217	30,590	35,428	-13.7
% of Net Sales	72.4	72.5		74.0	73.2	72.5	
Gross Profit	2,812	2,052	37.0	3,246	11,225	13,450	-16.5
% of Net Sales	27.6	27.5		26.0	26.8	27.5	
Personnel Cost	505	447	13.1	437	1,849	2,276	-18.7
% of Net Sales	5.0	6.0		3.5	4.4	4.7	
Other Expenses	1,170	843	38.8	1,393	4,771	6,203	-23.1
% of Net Sales	11.5	11.3		11.2	11.4	12.7	
Total Expenditure	9,039	6,691	35.1	11,047	37,210	43,907	-15.3
EBITDA	1,137	763	49.1	1,416	4,605	4,971	-7.4
Margin (%)	11.2	10.2		11.4	11.0	10.2	
Other income	28	86	-67.7	25	201	167	20.5
Depreciation	139	146	-5.0	145	578	567	2.0
EBIT	1,026	703	46.0	1,296	4,227	4,570	-7.5
Interest	114	168	-32.0	125	573	1,292	-55.6
PBT before JV/Associates/Minority share	912	535	70.4	1,171	3,654	3,279	11.5
Total Taxes	241	143	68.8	278	921	716	28.7
ETR (%)	26.4	26.7		23.8	25.2	21.8	
Share of JV/Associates	-	-		1	1	-	
Non-controlling Interest	-	-		-	1	-	
Adj. PAT	671	392	71.1	893	2,733	2,563	6.6
Exceptional Item	-	-		-	-	-	
PAT	671	392	71.1	893	2,733	2,563	6.6

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): Cables revenues grew by 36.9% while margins contracted by 130bps YoY

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Revenues							
Cables	8,844	6,463	36.9	10,675	35,743	39,859	-10.3
Stainless Steel Wire	478	208	130.2	462	1,417	1,375	3.0
EPC	1,379	1,763	-21.8	2,597	9,767	13,967	-30.1
Less: inter-segment revenue	525	980		1,271	5,111	6,323	
Total	10,176	7,454	36.5	12,463	41,815	48,878	-14.4
EBIT							
Cables	947	774	22.4	1,041	4,164	4,414	-5.7
EBIT margin (%)	10.7	12.0		9.8	11.6	11.1	
Stainless Steel Wire	30	20	51.1	9	65	88	-25.7
EBIT margin (%)	6.3	9.5		2.0	4.6	6.4	
EPC	125	178	-30.0	202	907	1,637	-44.6
EBIT margin (%)	9.0	10.1		7.8	9.3	11.7	
Less: inter-segment result	29	121	-76.4	99	542	271	100.1
Total EBIT	1,073	851	26.1	1,154	4,594	5,867	-21.7
EBIT margin (%)	10.5	11.4		9.3	11.0	12.0	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	41,815	54,055	61,787	70,297
YoY gr. (%)	(14.4)	29.3	14.3	13.8
Cost of Goods Sold	30,590	39,217	44,796	50,860
Gross Profit	11,225	14,838	16,991	19,437
Margin (%)	26.8	27.5	27.5	27.7
Employee Cost	1,849	2,324	2,626	2,952
Other Expenses	3,119	4,150	4,750	5,404
EBITDA	4,605	6,120	7,021	8,057
YoY gr. (%)	(7.4)	32.9	14.7	14.8
Margin (%)	11.0	11.3	11.4	11.5
Depreciation and Amortization	578	619	758	869
EBIT	4,027	5,501	6,262	7,188
Margin (%)	9.6	10.2	10.1	10.2
Net Interest	573	404	390	388
Other Income	201	187	208	245
Profit Before Tax	3,654	5,284	6,080	7,045
Margin (%)	8.7	9.8	9.8	10.0
Total Tax	921	1,395	1,605	1,860
Effective tax rate (%)	25.2	26.4	26.4	26.4
Profit after tax	2,733	3,889	4,475	5,185
Minority interest	1	1	1	1
Share Profit from Associate	1	-	-	-
Adjusted PAT	2,733	3,888	4,474	5,184
YoY gr. (%)	6.6	42.3	15.1	15.9
Margin (%)	6.5	7.2	7.2	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,733	3,888	4,474	5,184
YoY gr. (%)	6.6	42.3	15.1	15.9
Margin (%)	6.5	7.2	7.2	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,733	3,888	4,474	5,184
Equity Shares O/s (m)	90	90	90	90
EPS (Rs)	30.4	43.3	49.8	57.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	9,063	10,994	12,720	14,468
Tangibles	8,971	10,892	12,608	14,336
Intangibles	92	102	112	132
Acc: Dep / Amortization	3,692	4,311	5,070	5,939
Tangibles	3,618	4,225	4,970	5,824
Intangibles	74	87	100	115
Net fixed assets	5,371	6,683	7,650	8,529
Tangibles	5,353	6,667	7,638	8,512
Intangibles	18	16	12	17
Capital Work In Progress	71	100	100	100
Goodwill	-	-	-	-
Non-Current Investments	212	247	265	283
Net Deferred tax assets	(295)	(329)	(368)	(414)
Other Non-Current Assets	29	37	37	38
Current Assets				
Investments	-	-	-	-
Inventories	7,682	9,626	11,003	12,519
Trade receivables	13,496	14,809	16,082	18,296
Cash & Bank Balance	2,212	1,699	2,992	3,874
Other Current Assets	783	1,081	1,236	1,406
Total Assets	30,140	34,596	39,682	45,363
Equity				
Equity Share Capital	180	180	180	180
Other Equity	17,601	21,489	25,684	30,531
Total Networth	17,781	21,669	25,864	30,711
Non-Current Liabilities				
Long Term borrowings	314	208	107	55
Provisions	329	270	293	316
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,536	2,204	2,368	2,466
Trade payables	7,415	8,166	8,714	9,197
Other current liabilities	1,471	1,784	2,039	2,320
Total Equity & Liabilities	30,140	34,596	39,682	45,363

Source: Company Data, PL Research

Cash Flow (Rs m)					Key Financial Metrics				
Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	3,655	5,284	6,080	7,045	EPS	30.4	43.3	49.8	57.7
Add. Depreciation	578	619	758	869	CEPS	36.9	50.2	58.2	67.4
Add. Interest	573	404	390	388	BVPS	197.9	241.2	287.8	341.8
Less Financial Other Income	201	187	208	245	FCF	14.6	2.5	18.5	14.3
Add. Other	56	(178)	(187)	(220)	DPS	2.0	3.1	3.8	4.5
Op. profit before WC changes	4,863	6,129	7,042	8,083	Return Ratio(%)				
Net Changes-WC	(2,420)	(2,554)	(2,048)	(3,189)	RoCE	21.8	25.4	24.7	24.1
Direct tax	(903)	(1,395)	(1,605)	(1,860)	ROIC	17.5	19.6	19.9	19.7
Net cash from Op. activities	1,539	2,180	3,389	3,034	RoE	16.6	19.7	18.8	18.3
Capital expenditures	(231)	(1,959)	(1,726)	(1,748)	Balance Sheet				
Interest / Dividend Income	42	187	208	245	Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Others	943	(500)	(1,000)	-	Net Working Capital (Days)	120	110	109	112
Net Cash from Invt. activities	754	(2,273)	(2,518)	(1,503)	Valuation(x)				
Issue of share cap. / premium	79	-	-	-	PER	24.6	17.3	15.0	13.0
Debt changes	(714)	(517)	91	75	P/B	3.8	3.1	2.6	2.2
Dividend paid	(180)	-	(279)	(337)	P/CEPS	20.3	14.9	12.9	11.1
Interest paid	(573)	(404)	(390)	(388)	EV/EBITDA	14.8	11.1	9.5	8.2
Others	102	-	-	-	EV/Sales	1.6	1.3	1.1	0.9
Net cash from Fin. activities	(1,286)	(921)	(578)	(650)	Dividend Yield (%)	0.3	0.4	0.5	0.6
Net change in cash	1,007	(1,013)	293	882					
Free Cash Flow	1,308	221	1,663	1,287					

Source: Company Data, PL Research

Source: Company Data, PL Research

Quarterly Financials (Rs m)				
Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	10,369	11,529	12,463	10,176
YoY gr. (%)	(15.9)	(12.3)	(1.0)	36.5
Raw Material Expenses	7,409	8,523	9,217	7,363
Gross Profit	2,960	3,006	3,246	2,812
Margin (%)	28.5	26.1	26.0	27.6
EBITDA	1,183	1,283	1,416	1,137
YoY gr. (%)	(3.1)	(7.9)	16.2	57.4
Margin (%)	11.4	11.1	11.4	11.2
Depreciation / Depletion	142	145	145	139
EBIT	1,041	1,138	1,271	999
Margin (%)	10.0	9.9	10.2	9.8
Net Interest	150	130	125	114
Other Income	36	53	25	28
Profit before Tax	928	1,061	1,171	912
Margin (%)	8.9	9.2	9.4	9.0
Total Tax	246	264	278	241
Effective tax rate (%)	26.5	24.9	23.8	26.4
Profit after Tax	682	797	892	671
Minority interest	1	-	-	-
Share Profit from Associates	-	-	1	-
Adjusted PAT	681	797	893	671
YoY gr. (%)	(10.5)	9.9	44.0	85.2
Margin (%)	6.6	6.9	7.2	6.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	681	797	893	671
YoY gr. (%)	(10.5)	9.9	44.0	85.2
Margin (%)	6.6	6.9	7.2	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	681	797	893	671
Avg. Shares O/s (m)	90	90	90	90
EPS (Rs)	7.6	8.9	9.9	7.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Jul-21	BUY	825	721
2	23-Jun-21	BUY	825	673

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	InterGlobe Aviation	Hold	1,630	1,705
2	KEI Industries	BUY	825	721
3	Polycab India	Hold	1,977	1,912
4	SpiceJet	Hold	85	79

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209
www.plindia.com