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KEI Industries Ltd

-Ready to capitalize a huge growth opportunity

Multibagger Report

Recommendation	:	Buy
CMP	:	Rs 112.5
Target	:	NA
% Allocation	:	5%

Sector	:	Electricals
Sensex	:	25881
Bloomberg code	:	KEIL.IN
Reuters Code	:	KEIN.NS

AT A GLANCE

52 Week High Low	:	:126.4/60.15
Mkt. Cap (Rs. in Crs)	:	:869
Major Shareholders	:	
Promoters (%)	:	:49.39%
Free Float (%)	:	:50.61%

Background: KEI is one of the leading players in the domestic cable and wire sector – its diversified product range (of 400 SKUs) covers a wide variety of cables and wires catering to the needs of the industrial and household segments. Its portfolio spans house wire cables to extra high voltage cables (EHV) (up to 220kV, with the underlying expectation that it will be able to manufacture up to 400KV) and includes high and medium voltage cables (MV/HV), LT cables, control and instrumentation cables, specialty and rubber cables, stainless steel wires and winding, and flexible and housing wires. KEI is the third largest producer of EHV cables, in technical collaboration with Switzerland based Brugg Kabel AG.

Wide array of products

KEI has diversified product range covers a wide variety of cables, catering to the requirements of both the industrial and household sectors. KEI manufactures all kind of power cables—extra-high-voltage cables up to and including 220kV, high- and medium-voltage cables, low-tension cables, control and instrumentation cables, specialty and rubber cables, winding, flexibles and house wire, and stainless-steel wire.

Cables & Wire – Long term opportunity

Cables and wires is its primary business which contributes ~88% revenue contribution in FY15 while turnkey contributed ~11%. Even though the former category is highly commoditised and extremely price sensitive due to intense competition from the unorganised sector, KEI persists with it in order to offer its customers a well rounded product profile. The company believes this strategy gets the company more orders from customers across the board.

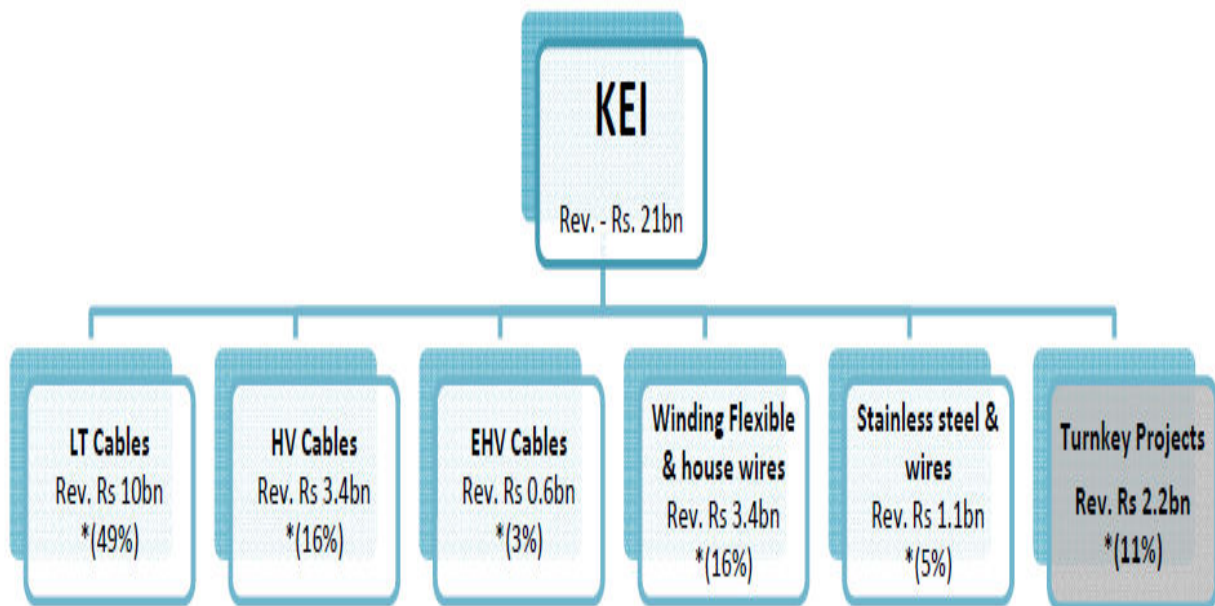
Outlook & Valuation

We Initiate coverage of KEI Industries Ltd with a **BUY** rating. Given the diversified product mix , Growing addressable market, and an improving product mix are key positives for the stock. We expect KEI to report an EPS growth of 20% for the next 3 years. At the CMP of INR 112.50, the stock trades at 25.40x EPS of FY17E. **Key Risks** to our recommendation include any slow down in the economy which will lower capex and any steep increase in raw material prices will adversely impact the company.

Year(Rs.Cr)	Net Sales*	Operating Profit	Pre-tax Profit*	Net Profit*	OPM Margin	PBT Margin	PAT Margin	PE (X)
2013	1,658.35	170.52	43.09	26.34	10.28	2.60	1.59	30.00
2014	1,618.91	153.04	21.82	11.6	9.45	1.35	0.72	71.66
2015	2,030.95	192.86	52.86	34.25	9.50	2.60	1.69	25.40

Investment Arguments

Company Profile: KEI is one of the leading players in the domestic cable and wire sector – its diversified product range (of 400 SKUs) covers a wide variety of cables and wires catering to the needs of the industrial and household segments. Its portfolio spans house wire cables to extra high voltage cables (EHV) (up to 220kV, with the underlying expectation that it will be able to manufacture up to 400kV) and includes high and medium voltage cables (MV/HV), LT cables, control and instrumentation cables, specialty and rubber cables, stainless steel wires and winding, and flexible and housing wires. KEI is the third largest producer of EHV cables, in technical collaboration with Switzerland based Brugg Kabel AG.



KEI has three reporting segments:

- Cables
- Stainless steel wires
- Turnkey projects

Cables: This segment consists of extra high voltage (EHV), low tension (LT) and high tension (HT) power cables, control and instrumentation cables, winding wires and flexible and house wires.

Stainless steel wires: This segment offers rubber cables, elastomeric cables, single/ multicore flexible wires, submersible cables, braided cables, and zero halogen cables for sectors, such as power, oil refineries, railways, automobiles, cement, steel, fertilizers, textile and real estate.

Turnkey projects: In this segment, it provides integrated turnkey solutions. Services include providing integrated design, engineering, material procurement, field services, construction, and project management services.

Wide array of products:

The diversified product range covers a wide variety of cables, catering to the requirements of both the industrial and household sectors. KEI manufactures all kind of power cables—extra-high-voltage cables up to and including 220kV, high- and medium-voltage cables, low-tension cables, control and instrumentation cables, specialty and rubber cables, winding, flexibles and house wire, and stainless-steel wire.

Its manufacturing plants are located at Bhiwadi, Chopanki and Silvassa. Products are used in different sectors (power, oil refineries, Railways, automobiles, cement, steel, fertilisers, textiles and real estate, among others). Supported by growth in these sectors, cables are likely to benefit, hence leading to growth in the company.

Product Basket

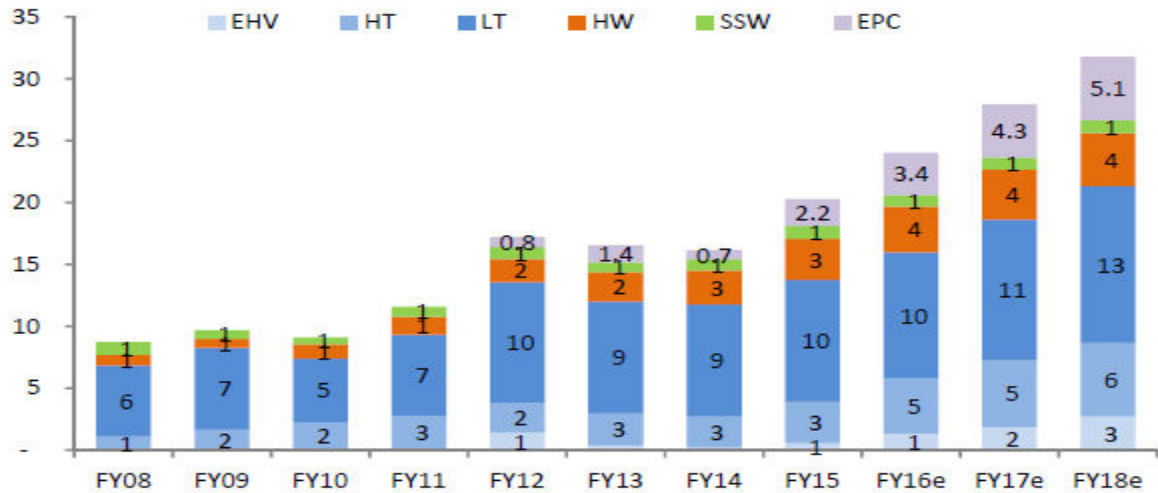
Products	Application
Control Cables	Used for electrical distribution systems such as generating stations, industrial application and indoor and outdoor projects.
Rubber Cables	Rubber cables are used in mines, ships, aircraft, earth-moving equipment, etc.
Power Cables	Used in underground as well as overhead transmission of power in power plants, industries, projects etc.
Instrumental cables	Used to transmit power from the main control room to the machines.
Housing wires	These have application in electrification of residential, commercial and industrial establishments
Winding wires	These are used for submersible pumps and electrical motors
Flexible wires	Used in electrical panel wiring, consumer electrical goods, etc.
Stainless steel wires	Wide application in graded house fasteners, weaving, knitting and other industrial applications

Cable & Wires – Long Term opportunity:

Cables and wires is its primary business which contributes ~88% revenue contribution in FY15 while turnkey contributed ~11%. Even though the former category is highly commoditised and extremely price sensitive due to intense competition from the unorganised sector, KEI persists with it in order to offer its customers a well rounded product profile. The company believes this strategy gets the company more orders from customers across the board.

EHV enjoys high margins of 12-15% while its remaining products have a margin range of 9-12%. KEI operates at below 75% capacity and this will increase to full utilisation with a rise in demand.

Revenue break up across segments (Rs bn)



Infrastructure, Power and T&D sector- Key growth driver

Industry expects demand for cables to rise significantly as sectors such as infrastructure, power, and T&D is projected to see an investment of more than US\$ 1.5tn in the long run. This major capex will generate a cable demand of ~US\$ 12bn. Based this, KEI is expected to be a big beneficiary, as the company has products across the value chain and services all the major sectors both public and private.

Retail division to bring in the next leg of growth

KEI has achieved exceptionally higher growth vs. the overall sector's growth because of its focused efforts on brand building and strengthening of its distribution and dealership network. It is currently present in both Institutional and retail segments of cables. Within its revenues, B2B contributes ~75% and B2C ~25% share.

KEI is focused on increasing its distribution network for its retail (B2C) division, which comprises of household wires, and LT/HT cables – this division has already seen considerable growth in recent years and contributed ~25% to its total FY15 revenues.

With strong brand equity and wide distribution network (+870 dealers as of 3QFY16 and plans to add ~100 by FY16 end), KEI is aggressively working towards increasing its retail share (B2C) to ~50% of its revenue in the next 3-4 years.

Currently, the company has very strong presence in north India, followed by west, south, and east. With the dealer expansion, it is planning to strengthen its operations in the eastern and southern parts of India. Its distribution network covers most India metros and tier-1 and tier-2 cities. It is building its visibility through aggressive brand promotion and advertisement campaigns wherein the company plans to spend ~Rs 70mn in advertising in FY17. These aggressive promotion activities will help the company to increase its presence in the domestic retail market.

KEI's increasing share in the retail market will help improve its margins, and lower working capital days. KEI has also indicated vendor financing, which will also help reduce working capital needs and will enable it to sweat its distribution channel more effectively.

EHV cables and EPC will drive institutional growth

KEI's institutional cables division provides EHV, HV, and some LT cables to all major industries and the government sector. This division will see a huge surge in demand as a consequence of growth in infrastructure and power (T&D) sector. In FY15, this segment contributed 11% of KEI's sales. With an introduction of EHV cables (up to 400KV) in KEI's portfolio, we expect this segment's CAGR of 30% over FY16-18, contributing 17% of KEI's sales in FY18.

Technical Collaboration - Game Changer

Technological collaboration with Switzerland based Brugg Kabel AG has enabled KEI to become the third company in India to manufacture EHV cables. Its EHV production used to range from 66kV to 220kV; with recent capex, it is able to manufacture up to 400KV. The collaboration supports KEI by providing designs, process backup, and services.

The EHV India industry is worth Rs 25bn of which Indian players only supply Rs 8bn while the remaining Rs 17bn is imported. There is a huge supply scope, and with the strong demand for EHV cables, this is expected to be a big opportunity for KEI in this segment.

In FY15, EHV cables contributed only about 3% to its revenue. As of 3QFY16, KEI had an EHV order book of Rs 2bn. KEI is in the process of spending (capex) Rs 650mn over FY15-16 which is expected to be commissioned in September 2016 to double its EHV capacity to ~1,200km. With a strong order book and additional capacity, we expect EHV revenue CAGR of 60% over FY15-18 with strong margin of 12-15%.

Exports – Strong growth prospects

In FY15, exports contributed to 7% of its revenues at Rs 1.5bn. The management expect these to grow at a CAGR of 30% over FY16-18 based on competitive prices, customised solutions, and the strong visibility.

KEI is present in 45 countries with a focus on oil & gas and utilities. It offers a wide range of cables in the export market: EHV- 66-220kV, MV- 11-66kV, and LV < 11kV. It offers competitive pricing, customised solutions, and speciality cables. It has opened offices in Singapore, Nigeria, and Kazakhstan, apart from existing offices in Dubai/Abu Dhabi. It has a presence in Korea and Australia too through its agent network. In fact, it sells all its cables through overseas offices and its agent network.

Its participation in various international exhibitions, help KEI establish new linkages and showcase its products. The management expect its export market to grow rapidly, as it has already bid for more than Rs 5bn worth of tenders. In exports, KEI's margins are 9-10% with lower working capital requirement. Increasing share of exports will improve profitability and help lower working capital needs because most of the projects in exports are small gestation period.

Overseas Major Clients	
Country Name	Client Name
Abu Dhabi	Areva
Cyprus	Cyprus Telecom
Dubai	NPCC
Jebel Ali	Mc Dermott
Kenya	ARM
Malaysia	BHEL
Mauritius	CEB
Nigeria	Nigeria Cement
Sharjah	Alstom
Sri Lanka	Larsen & Toubro
Uganda	TCIL-TORO

Forward Integration – Game Changer:

EPC sector has vast growth opportunities for KEI and this division enjoys higher margins of 12-15%. KEI's main services offered in EPC are – execution of power transmission projects (of 66kV to 400kV sub-stations) on a turnkey basis, EPC of EHV and HV cable systems, electrical balance of plant for power plants, and electrical industrial projects.

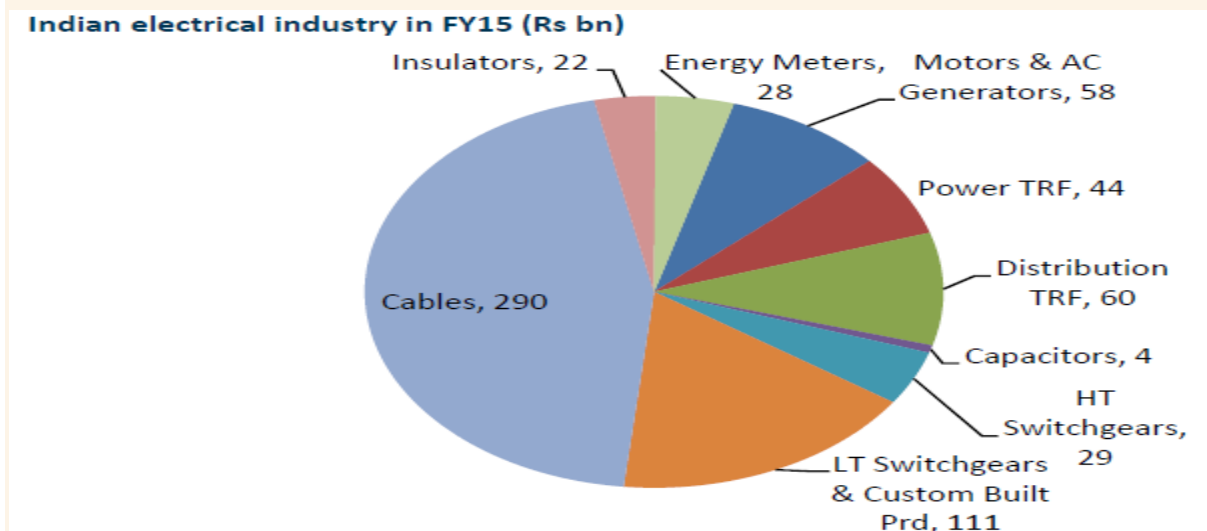
In EPC, KEI has the advantage of manufacturing in house EHV, HV and LT cables which usually constitute ~30% of the total EPC project value, leading to superior margins. Through this segment, KEI serves various sectors such as power, infra, SEZ, MRT/airport, and steel, with an average working capital of 90-100 days.

In EPC until 3QFY16, KEI has a total order book of Rs 8.6 bn. KEI is L1 in more than Rs 2bn worth of orders. Considering large scale spending expected in these sectors, we expect KEI to receive ~Rs 4-7bn of new orders in the next two years. EPC has already registered a CAGR of 39% over FY12-15 and with strong order booking; we expect 34% CAGR over FY17-19, which will translate to revenues of Rs 3.4/4.3/5.1bn for the EPC division in FY/17/18/19.

Indian Electrical Industry Outlook

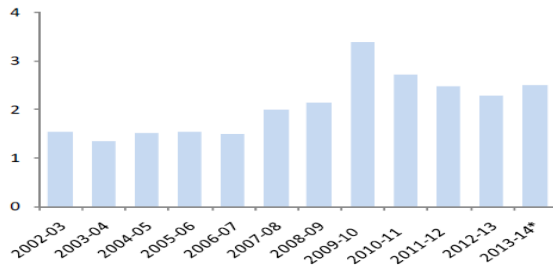
With a size of Rs 644bn, the Indian electrical industry is a lead indicator of industrial capex as well as individual household capex. It has direct links to frontline sectors of the Indian economy – such as banking, power, roads, and logistics – which have enabled it to clock a CAGR of 3% over the last five years, despite sluggish economic conditions. Over the past several years, the industry has been transforming; some noteworthy trends include fall in market share of unorganized players, consumer preference for premiumisation, and reducing working capital intensity of organised players.

We believe that the drivers for the electrical industry remain in place and are gradually building up momentum, thereby making the sector a worthwhile investment opportunity.

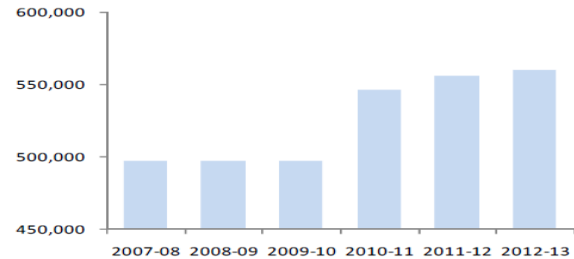


Rising housing stock: With more than 25mn houses built in rural areas under the Indira Awaas Yojana (IAY) and increasing budgetary allocation for this in successive budgets, housing is proving to be a big source of consumption of household electricals. This, coupled with stable crop prices over the past few years, has resulted in a rise in rural incomes, boosting conspicuous consumption in these areas. This has served to improve consumption of electrical goods in the country.

Rural housing stock in India

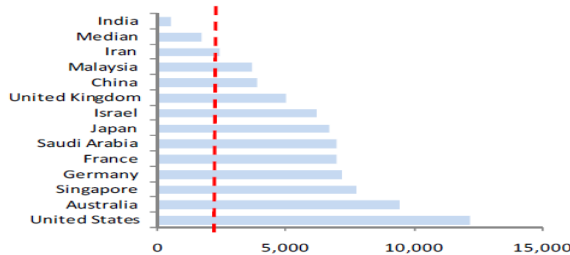


No. of electrified villages in India

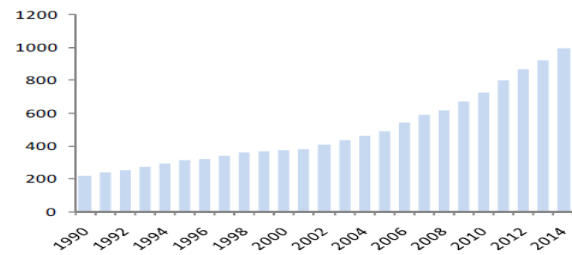


Structural changes boosting demand. Low per capita consumption of electricity in the country, especially due to poor availability in rural areas, has hampered offtake of electrical products. However, a gradual rectification of this problem is underway, through increased generation and improving availability — this will be one of the largest drivers of sales for the electricals sector, but not necessarily large, organized players.

Low per capita consumption of electricity vs. other countries



Rising power-generation capacity ('000 MW)



Change in consumer preferences. A variety of factors such as increase in literacy and affordability, higher standards of living, and heightened quality consciousness, have contributed to a gradual change in consumption patterns over the last decade. Increasing sales of TVs, refrigerators, washing machines and other appliances like micro-waves and ovens have also contributed to the increasing consumption of electrical goods such as wires and switchgears. While this shift has been more pronounced in urban India, the proliferation of satellite television has resulted in an emergence of this phenomenon in rural India as well.

Household requirement of electricals

Component	Unit	Requirement
Cables	(m)	280-300
Switches	(no.s)	22
Switchgears	(no.s)	2
Fans	(no.s)	3
FTL	(no.s)	4
CFL / LED bulb	(no.s)	4

Profit & Loss (Standalone)

Standalone Profit & Loss account(Rs.Cr)	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
Income					
Sales Turnover	1,163.11	1,722.30	1,658.35	1,753.47	2,170.92
Excise Duty	0	0	0	134.56	139.97
Net Sales	1,163.11	1,722.30	1,658.35	1,618.91	2,030.95
Other Income	5.99	1.62	2.36	1.28	4.99
Stock Adjustments	69.56	8.43	43.39	41.95	39.47
Total Income	1,238.66	1,732.35	1,704.10	1,662.14	2,075.41
Expenditure					
Raw Materials	1,020.01	1,377.19	1,304.73	1,301.71	1,573.93
Power & Fuel Cost	20.6	26.53	28.52	30.1	32.44
Employee Cost	27.54	37.05	46.14	51.59	62.07
Miscellaneous Expenses	76.75	139.88	151.83	124.42	209.12
Total Expenses	1,144.90	1,580.65	1,531.22	1,507.82	1,877.56
Operating Profit	87.77	150.08	170.52	153.04	192.86
PBDIT	93.76	151.7	172.88	154.32	197.85
Interest	59.32	96.16	109.35	111.53	120.4
PBDT	34.44	55.54	63.53	42.79	77.45
Depreciation	16.61	19.54	20.44	20.97	24.59
Profit Before Tax	17.83	36	43.09	21.82	52.86
PBT (Post Extra-ord Items)	17.83	36	43.09	21.82	52.86
Tax	7.26	11.67	16.74	10.22	18.63
Reported Net Profit	10.56	24.33	26.34	11.6	34.25
Earning Per Share (Rs)	1.58	3.63	3.75	1.57	4.43

Balance Sheet(Standalone)

Standalone Balance Sheet(Rs.Cr)	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
Sources Of Funds					
Total Share Capital	13.39	13.39	14.05	14.75	15.45
Equity Share Capital	13.39	13.39	14.05	14.75	15.45
Share Application Money	0	0	0	4.43	0
Reserves	224.53	213.7	241.52	253.91	288.4
Networth	237.92	227.09	255.57	273.09	303.85
Secured Loans	251.1	416.43	365.21	438.08	374.8
Unsecured Loans	4.38	3.87	24.26	5.43	1.02
Total Debt	255.48	420.3	389.47	443.51	375.82
Total Liabilities	493.4	647.39	645.04	716.6	679.67
Application Of Funds					
Gross Block	367.03	400.99	410.94	433.95	443.04
Less: Accum. Depreciation	65.35	82.89	102.07	119.87	144.96
Net Block	301.68	318.1	308.87	314.08	298.08
Capital Work in Progress	6.95	0.21	2.6	0.24	4.39
Investments	3.08	3.08	3.08	3.09	3.14
Inventories	282.26	292.24	358.16	403.14	440.32
Sundry Debtors	263.35	482.6	421.22	428.63	479.84
Cash and Bank Balance	12.44	4.37	15.62	4.56	4.69
Total Current Assets	558.05	779.21	795	836.33	924.85
Loans and Advances	59.19	94.33	67.61	89.78	111.28
Total CA, Loans & Advances	617.24	873.54	862.61	926.11	1,036.13
Current Liabilities	431.82	541.37	525.39	519.93	649.87
Provisions	3.73	6.18	6.72	7	12.2
Total CL & Provisions	435.55	547.55	532.11	526.93	662.07
Net Current Assets	181.69	325.99	330.5	399.18	374.06
Total Assets	493.4	647.38	645.05	716.59	679.67

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