



Farsight

## MORNING FARSIGHT

Friday, September 28, 2018

**KEI INDUSTRIES**

**CMP:RS 342**

**TRGT:RS 400**

**TIME HORIZON: 1 YEAR**

KEI Industries, manufacturing Power and Industrial cables [Extra High Voltage (EHV), High tension (HT) and low tension (LT) power cables, control and instrumentation cables, winding wires, flexible wires, and house and stainless steel wire] as also engaged in Engineering, Procurement and Construction (EPC) business, is looking a good buy after recent unwarranted correction. The key reason for recent fall we believe is news regarding cut in prices by KEI Industries, of about 5%-12% across brands, coupled with latest market correction. However, market is failing to note that Electric cables have become cheaper as global copper prices fell and this coupled with reduction in Goods and Service Tax rate on wires and cables from 28 percent to 18 percent, has allowed the company to pass on the benefit to consumers This is a positive effort from management and will help the company to gain further market share. For Q1FY19, KEI Industries has reported good set of earnings with EBITDA growth of 12%YoY at Rs 86 cr and EBIDA margin of 9.7% against 9.3% YoY. As Q4 is the strongest quarter for the company, given EPC business, YoY comparison gives true picture. PAT was placed at Rs 31 cr with EPS of Rs 4.11 for Q1FY19. Currently, the company has order book of Rs 2,599 cr (of which, EPC is around Rs 1,290 cr and balance from cables, substation & EHV). Further, the company has L1 order worth Rs 1,592 cr. Capacity Expansion: The new LT cables plant at Pathredi, Rajasthan got operational by May end. KEI plans to incur additional capex of Rs 80 cr in FY19 to add HT cable at Pathredi and house wire line (NW) at Silvassa. HT cable being a Brownfield capex is likely to be operational by Feb 2019. LT cables will add Rs 300 cr, NT cable Rs 200 cr and HW Rs 500 cr worth of revenue at full capacity. Company is currently having market Cap of Rs 2,680 cr and net debt of Rs 670 cr, leading to EV of Rs 3,350 cr and on an estimated EBITDA of Rs 390 cr for FY19 (FY18 EBITDA Rs 340 cr), stock is trading at an EV/EBITDA of 8.5x and PE of 15.9x, which are seen attractive. Share ruling at Rs 342 can move to Rs 400 in about 1 year timeframe. Buy as an investor only in this volatility and pessimism now seen prevailing.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.