Prabhudas Lilladher

KEI Industries

New business forays on the card

June 4, 2008

Rating	**Outperformer**
Price	Rs54
Target Price	Rs82
Implied Upside	50.3%
Sensex	15,515

(Prices as on June 4, 2008)

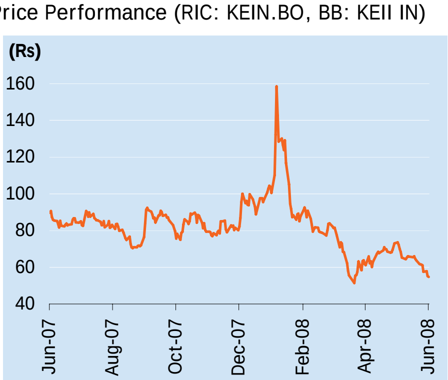
Trading Data	
Market Cap. (Rs bn)	4.2
Shares o/s (m)	78.0
Free Float	65.2%
3M Avg. Daily Vol ('000)	255.1
3M Avg. Daily Value (Rs m)	16.8

Major Shareholders	
Promoters	34.8%
Foreign	17.5%
Domestic Inst.	7.7%
Public & Others	40.0%

Stock Performance

(%)	1M	6M	12M
Absolute	(25.0)	(33.3)	(38.9)
Relative	(13.1)	(12.8)	(45.9)

Price Performance (RIC: KEIN.BO, BB: KEII IN)



Source: Bloomberg

- **Capacity expansion:** KEI Industries' current capacity consists of 37,000kms of LT cables, 3,000kms of HT cables. The company will add another 7,000kms of LT cables at its Bhiwadi plant by June. The Chopanki plant will have a capacity of 8,400kms of LT cables and 1,500kms of HT cables by September 2008. In all, the company will spend Rs1.7bn on the expansion plan.

- **New forays:** KEI has four orders in its EPC business, out of which one is for a 220kv and a 400kv sub-station from Reliance Energy. The company is currently in talks with potential JV partner for a foray into Extra HT. The company is also in the process of setting up a greenfield facility for transformers upto 33kv.

- **Valuation:** We expect earnings to grow at a CAGR of 47% over FY07-10 on the back of topline CAGR of 41.8%. At the ruling price of Rs66, the stock trades at 4.6x FY09E and 3.3x FY10E earnings of Rs11.8 and Rs16.4. We maintain Outperformer on the stock with a target price of Rs82, an upside of 50.3%.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	6,007	8,756	12,678	17,130
Growth (%)	*101.4*	*45.8*	*44.8*	*35.1*
EBITDA (Rs m)	868	1,149	1,756	2,416
PAT (Rs m)	402	518	917	1,277
EPS (Rs)	6.8	6.6	11.8	16.4
Growth (%)	*32.0*	*(2.4)*	*76.8*	*39.3*
Net DPS (Rs)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	*14.4*	*13.1*	*13.8*	*14.1*
RoE (%)	*20.0*	*15.5*	*22.2*	*24.6*
RoCE (%)	*18.1*	*15.4*	*17.3*	*18.7*
EV / sales (x)	0.5	0.5	0.4	0.3
EV / EBITDA (x)	3.4	4.0	2.6	1.8
PE (x)	8.0	8.2	4.6	3.3
P / BV (x)	1.3	1.2	0.9	0.7
Net dividend yield (%)	*0.4*	*0.4*	*0.4*	*0.4*

Source: Company Data; PL Research

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Management representatives:
Mr. Anil Gupta, Chairman & Managing Director
Mr. Rajeev Gupta, Executive Director

Q: What is your current capacity? And is the capacity expansion on track?

A: Our current capacity consists of 37,000kms of LT cables, 3,000kms of HT cables. We will add another 7,000kms of LT cables at our Bhiwadi plant by June. Our Chopanki plant is running late by three months due to delays in machine delivery. We should have a capacity of 8,400kms of LT cables and 1,500kms of HT cable by September 2008. In all, we will spend Rs1.7bn on the expansion plan. This would take our total LT capacity to 52,500kms and HT capacity to 4,500kms.

Q: How have we funded this expansion?

A: We had issued FCCB worth Rs1.4bn, which is convertible at Rs81. The remaining portion of the expansion we will meet through internal accruals.

Q: What is your current order book and any large orders worth mentioning?

A: Our current order book stands at Rs4.25bn. We strive to maintain an order book at three months of sales. We recently received a very large order from Essar worth Rs1.25bn. This is based on a price variation clause and would involve more than 50% of HT cables and should be executable in the next one year.

Q: How is competition in the industry and who are your nearest competitors?

A: Our industry is very competitive; every player is fighting tooth and nail to get orders. What sets us apart is our quality product, our experience in executing large orders and excellent service network. Currently, we are the second largest cable company in India, behind Polycab. Some of our other competitors are Universal Cables, Torrent Cables and Havells.

Q: Are you witnessing any slowdown in orders?

A: We have not witnessed any particular slowdown in the industry. Although orders during March and April were on the lower side, orders during May more than made up for the earlier months. Even if there is a slight slowdown in the industrial and power spending, it will only affect us with a lag effect.

Q: What is our current revenue mix?

A: In terms of clients, 35% of our sales are to power equipment and utilities, another 35% is to industries and the remaining 30% is sold through dealers.

Q: How do you manage your raw material cost?

A: Copper/aluminium account for 35% of sales and steel accounts for 10%. We enter into back-to-back contracts with our suppliers; for our copper and aluminium requirements we in-turn hedge it at the LME. Unfortunately, steel cannot be hedged; therefore due the sudden increase in steel prices we have faced some margin pressures in the last quarter.

Q: Do you have any plans to enter Extra HT cable business?

A: We are currently talking to a few players to form a JV for our foray into Extra HT cables. An overall capital expenditure of Rs1.25bn would be undertaken in the JV to set-up a greenfield facility. We could utilise a part of our 27-acre property at Chopanki for this facility. This would mean that our net expenditure on the JV would be in the range of Rs250m to Rs300m.

Q: Any update on your transformer foray?

A: We have been looking to buy out a transformer company for a while, but haven't had any luck with it so we have decided to set-up our own greenfield facility. In the first phase we intend to spend close to Rs250m on the facility with transformer rating upto 33kv.

Q: What is your outlook on your EPC business?

A: We have been gradually developing our EPC business. We currently have four orders in hand. Two of them from Reliance Energy of 220kv and 400kv sub-stations. These are small denomination orders because all the components have been bought out by Reliance and given to us. We will be doing the erection and construction part of the contract. Although small in denomination orders like these will give us valuable experience in handling such orders. We expect this division to be up and kicking in FY10.

Q: What is your guidance going ahead?

A: We are targeting sales of Rs15bn in FY09 and Rs20bn in FY10. We expect our margins to be more or less stable.

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PL's Recommendation Nomenclature

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly