

June 19, 2008

Rating	Outperformer
Price	Rs49
Target Price	Rs71
Implied Upside	44.8%
Sensex	15,088

(Prices as on June 19, 2008)

Trading Data

Market Cap. (Rs bn)	3.8
Shares o/s (m)	78.0
Free Float	65.2%
3M Avg. Daily Vol ('000)	112.7
3M Avg. Daily Value (Rs m)	6.8

Major Shareholders

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

Stock Performance

(%)	1M	6M	12M
Absolute	(25.2)	(46.6)	(40.5)
Relative	(11.7)	(25.6)	(46.1)

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



Source: Bloomberg

KEI Industries

MTM losses, employee cost results in bad quarter

- **Results:** KEI Industries (KEI) reported a topline of Rs2.56bn, growth of 24% YoY, for Q4FY08. EBITDA margin dropped by 240bps YoY and 160bps QoQ to 10.5%. This drop in margin is due to increase in employees cost to Rs85m from Rs38m QoQ. Employee cost included Rs20.5m towards amortisation of deferred employee compensation. KEI reported a PAT of Rs65m, a decrease of 42.9% YoY.
- **Mark-to-market loss:** The company made a provision for mark-to-market (MTM) loss of Rs36.7m. This provision is related to a Yen-denominated derivative contract, which expires in October. We have deducted this loss from other income. Due to this provision being on pretax basis, the effective tax rate shot-up to 53%. PBT, excluding this provisioning, would have been Rs174.7m, a growth of 4% YoY.
- **Capacity expansion slightly delayed:** KEI's current capacity is 47,000 kms of LT cables and 3,000 kms of HT cables. Expansion plan of adding 7,000 kms of LT and 1,500 kms of HT cables has been delayed by two more months, and will be completed only by September 2008. Post expansion, KEI Industries will have a capacity of 54,000 kms of LT cables and 4,500 kms of HT cables.
- **Valuation:** Despite the macro economic headwinds facing industrial stocks, we maintain our positive rating on KEI given its cheap valuations. Earnings are expected to grow at a CAGR of 52% over FY08-10 due to capacity expansions and decent order book. At 5.8x FY09E and 3.8x FY10E earnings, risk-reward is favourable. Maintain Outperformer with a target price of Rs65 (5.5x FY10 earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	6,007	8,747	12,717	17,931
Growth (%)	101.4	45.6	45.4	41.0
EBITDA (Rs m)	868	1,092	1,532	2,183
PAT (Rs m)	402	435	667	1,011
EPS (Rs)	5.1	5.6	8.5	13.0
Growth (%)	54.4	8.3	53.2	51.7
Net DPS (Rs)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	14.4	12.5	12.0	12.2
RoE (%)	20.1	13.2	17.1	21.4
RoCE (%)	18.1	13.3	15.9	18.4
EV / sales (x)	0.4	0.5	0.3	0.2
EV / EBITDA (x)	3.0	3.8	2.7	1.8
PE (x)	9.6	8.8	5.8	3.8
P / BV (x)	1.1	1.1	0.9	0.7
Net dividend yield (%)	0.4	0.4	0.4	0.4

Source: Company Data; PL Research

Apurva Patel
ApurvaPatel@PLIndia.com
+91-22-6632 2257



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	2,585	2,079	24.3	2,335	6,007	8,747	45.6
Expenditure							
Raw material	1,935	1,588	21.8	1,760	4,385	6,572	49.9
<i>% of net sales</i>	<i>74.9</i>	<i>76.4</i>		<i>75.4</i>	<i>73.0</i>	<i>75.1</i>	
Personnel cost	85	39	119.7	38	115	189	64.6
<i>% of net sales</i>	<i>3.3</i>	<i>1.9</i>		<i>1.6</i>	<i>1.9</i>	<i>2.2</i>	
Others	294	201	46.4	236	640	894	39.8
<i>% of net sales</i>	<i>11.4</i>	<i>9.7</i>		<i>10.1</i>	<i>10.6</i>	<i>10.2</i>	
Total expenditure	2,314	1,828	26.6	2,034	5,139	7,654	49.0
EBITDA	270	251	7.9	301	868	1,092	25.9
<i>Margin (%)</i>	<i>10.5</i>	<i>12.1</i>		<i>12.9</i>	<i>14.4</i>	<i>12.5</i>	
Other income	(26)	4	NM	(2)	6	6	(3.7)
Depreciation	24	12	107.2	19	57	81	43.7
EBIT	220	243	(9.5)	280	817	1,017	24.4
Interest	82	75	9.2	105	237	369	55.5
PBT	138	168	(17.8)	175	580	648	11.7
Total taxes	73	54	34.8	41	178	213	19.3
<i>ETR (%)</i>	<i>53.0</i>	<i>32.3</i>		<i>23.3</i>	<i>30.8</i>	<i>32.9</i>	<i>6.8</i>
PAT	65	114	(42.9)	135	402	435	8.3



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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 Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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