RESEARCH REPORT

3rd Feb 2021

KRITI INDUSTRIES (INDIA) LIMITED

BSE : KRITIIND — **Sector: BRANDED PVC PIPES & FITTINGS** — **BSE: 526423**

View - BUY

CMP : Rs. 64

Target Price: Rs 96 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Kriti Industries (I) Limited (KIIL) is the flagship company of the Kriti group and is engaged in the business of manufacturing, sale and supply of plastic Pipes & fittings and accessories which are used in agriculture, construction segment (building products) and drip irrigation systems. KIIL also manufactures and sells PLB Ducts, HDPE&MDPE pipes largely used in infrastructure sector.

KIIL has expanded its range of products from small diameter pipes to 630 mm diameters and sell its products under the **"Kasta"** brand, which is well known in Central India. The major markets where KKIL has a strong hold include M.P, Chhattisgarh, Rajasthan and adjoining districts of Maharashtra.

INVESTMENT HIGHLIGHTS

Heathy business growth continues in FY20 & YTD – In terms of financial performance for FY20, KIIL has posted a Topline of close to Rs 549 crs, EBIDTA margins of 8.20% and a PBT of Rs 21 crs followed by a PAT of Rs 18 crs

KIIL has shown consistent growth since last 7 years starting from FY13 onwards when its Topline was Rs 332 crs which has now touched Rs 550 crs as on FY20 while PBT has improved from 6 crs to Rs 21 crs in the same period with operating margins progressively up to around 12.66% Q3FY21. In the first 9 months of FY18 KIIL has already recorded a Topline of Rs 466 crs, a EBIDTA of Rs 53 crs and a PAT of Rs 31 crs on a equity base of Rs 4.96 crs.

Total Debt on the BS as on March 20 has remained at Rs 77 crs which has further reduced to Rs 46 crs as on Dec 2020

Kriti enjoys a strong product portfolio and distribution reach –

KIIL is a leading player in the PVC/HDPE Pipes and fittings category and caters to four broad business segments. These include the 1. Agriculture Segment 2. Building Products Segment 3. Micro Irrigation Segment and 4. Infrastructure Segment. KIIL has a well positioned product basket for each of these business segments but its focus has been largely on the Agriculture, Building Products and Infrastructure segment. In FY20 Agriculture segment accounted for 76% of revenues while Building Product segment and Infrastructure segment accounted for 9% and 7% of revenues respectively. Micro Irrigation forms a small portion of 8% of the total revenues.

KIIL plans to move up the value chain & hopes to improve its margins going ahead as well. KIIL plans to concentrate more on CPVC pipes in building materials and HDPE pipes for agriculture where the margins are better. The MDPE pipes used as fibre ducts for Telecom infrastructure is the big story going forward and KIIL here has developed products which have already started yielded good results in FY20 where the B2B business from the infrastructure business has already touched 25% of revenues from just 12% in FY17. Going ahead KIIL intends to focus on this business segment aggressively as volumes are large here and it provides steady margins with scope for price increase also unlike the Agri business segment which is retail in nature and where margins are on the lower side.

KEY DATA

FACE VALUE Rs	1.00
DIVD YIELD %	NA
52 WK HI/LOW	71 /10
NSE CODE	NA
BSE CODE	KRITIIND
MARKET CAP	RS 319 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	66%
BANKS, MFs & DIIs	-	%
FIIs	-	%
PUBLIC	-	34%

KEY FUNDAMENTALS

YE	FY21	FY22	FY23
Rev Gr%	12	20	15
EBIDTA Gr%	62	22	15
PAT Gr%	122	37	19
EPS Gr%	122	37	19
EPS (Rs)	8.06	11.03	13.11
ROE %	34	33	29
ROCE %	23	24	22
P/E(x)		6	5

Kriti has built a diversified product basket covering all segments in the markets –

As mentioned earlier KIIL has a well diversified product portfolio within the PVC/HDPE Plastic Pipes and fitting segments which includes four broad business segments. These include –

VERTICAL	PRODUCTS
Agriculture	RPVC Pipe & Fittings, Casing pipe, PE coils, Sprinkler systems, Submersible Pipe , Suction , Garden Pipes
Building products -	SWR & Drainage Pipe and Fittings, CPVC and Plumb Pipe and Fittings, Garden Pipes.
Micro irrigation -	Micro Irrigation lateral (Inline and Online) , Sprinkler systems , RPVC Pipe and Fittings
Infrastructure-	RPVC Ring Fit Pipe (Elastromeric) and Fittings, HDPE and MDPE (PE) Pipes and Fittings, PLB Telecom
	Duct, Micro Duct.

Source- Company

Within the Agriculture segment, KIIL makes 6 different types of products which include

1. RPVC Pipes & Fittings – Product size range here covers 20mm to 400 mm and finds applications in areas like portable water supply to various sectors and Irrigation uses in Agricuture operations.

2. Column Pipes – Product size range here covers 1 inch to 4 inch with product depth ranging from 80 meters to 450 meters.
   Column Pipes are complicated piping, used for Borewell applications. These require immense impact and pressure strength as depths are nearly 1000 ft pressures over 30 Kgf. All Column Pipes in India typically require secondary locking mechanism to ensure coupling.

3. Borewell Casing Pipes – Product size Range here covers 90 mm to 225 mm with borewell depths ranging from 60 feet to 100 feet.

4. HDPE Pipes - Product size range covers 20 mm to 630 mm and these find uses in domestic water supply, farming and industrial applications.

5. Suction Pipes - Product size range covers 2 inch to 6 inch and these find uses in suction and delivery of fresh and sea water sewerage, fertilizers, chemicals etc.

6. Elastomeric Pipes – Product size range covers 63 mm to 400 mm and these find uses in supply of water in residential houses, water supply for irrigation especially in hilly and desert areas where tempretures are very low or high.

Within the Building Products segment, KIIL makes 6 different types of products which include

1. CVPC Pipes – Product size range covers ½ inch to 2 inch with outside diameter ranging between 15 mm to 54 mm and these find uses in supply of water in residential houses, hotels, hot water supply for domestic and residential plumbing applications and heavy industries like chemicals, sugar, paper disterllery operations etc.

2. UPV Pipes - Product size range covers ½ inch to 2 inch with outside diameter ranging between 21 mm to 114 mm and these find uses in supply of water in residential houses, especially for kitchens, bathrooms, sinks hotels, and heavy industries like chemicals, sugar, paper disterllery operations etc

3. SWR/Drainage RPVC Pipes – Product size range covers 1 inch to 4 inch and these find uses in drain and sewer line of residential & commercial complexes, Soil, Waste and Rain disposal lines used in lavatories (basins, commodes etc.) and kitchens, Main vent lines in drainage schemes, Rain water lines connecting rooftop of residences and complexes to gullies and gutters for drainage of excess rain water & Disposal of effluents

4. Garden Pipes – These pipes have high resistance to all types of chemicals and can withstand very high and low temperature. Which is why, they are also suitable for carrying inflammables like petrol, kerosene, diesel etc. and these find uses in In watering gardens, construction sites, residential areas, domestic use etc.Delivery of water, petrol, diesel, kerosene etc, In crop fields for spraying chemicals, Transportation of water and sprinkler systems.

5. Protech CPVC Solvent Cement – Kasta Protech CPVC Solvent Cement is used on all schedules and classes of CPVC pipe and fittings. It is fit to use for all residential and commercial, hot and cold water systems up to 200°F/93°C

6. Protech Solvent Cement – Kasta Protech Solvent Cement. Quality of Solvent Cement plays a important role and influences the joint strength. Hence this is specially formulated solvent cement, supplied by KIIL for ensuring a seamless trouble free performance over the long term product life cycle.

Within the Infrastructure/Telecommunication Products segment, KIIL makes 7 different types of products which include

1. FiberDuct – FiBERDUCT is a superior technology Pre lubricated (PLB) duct design, used for fiber optic & copper cable protection under challenging conditions. It can be blown in existing higher diameter duct (Duct in Duct) or can be used for burial application. This is used majorly by majority by telecom operators , Infrastructure sectors, Oil & gas, CATV and network builders.

2. FiberFly – FiBERFLY is a unique telecom inner ribbed duct design that ensures blowing at an extra distance. The optimized geometry produces “suction effect” that multiples the pulling force and optical fiber cable floats in the HDPE Duct with enhanced velocity. This is used majorly by majority by telecom operators , Infrastructure sectors, Oil & gas, CATV and network builders.

3. FiberTrack – FiBERiTRACK is a burry and forget tracing technology duct design with a coextruded and insulated tinplated copper wire that can pin point where ever the duct is buried. It works hand in hand with a GPS based Locating system that can produce real-time reports.

4. FiberWays – FiBERWAYS is a next generation micro duct design for both in-building & direct burred micro cable installations for FTTH networks. Several Micro ducts are jacketed together and creating dedicated multiple pathways for fiber optic Fiber micro cable wherein it increases network capacities manifold, offering easy Micro fiber installation that are capable of carrying high speed network traffic in small micro ducts

5. FiberF8 - FiBERF8 is a design for Aerial installation of the fiber optic micro cable. Right of way (ROW) is a real challenge when it comes to buried installations as it is impacts time and cost of deployment. Aerial micro fibers protected by FiBERF8 Figure 8 ducts can reduce the ROW issues & installation time.

6. FiberMain – These include HDPE DUCT Accessories for outside Plant (OSP). These are essential accessories for the HDPE duct deployments in outside plant optical fiber networks. These products cater to the key onsite requirements such as ease of use, unavailability of tools on remote sites and lack of skilled man power. They together ensure superior customers experience during duct laying process, Duct integrity test (DIT) and even when cable is finally blown or pulled in the ducts.

7. FiberMicro – KIIL manufactures FiBERWAYS Accessories for Direct Buried Micro ducts & In-building FTTX Installation which are used in Fiber to the Home (FTTH) Networks deliver high speed triple play service such as voice, video, data using a delicate Micro technology products and accessories for both direct buried as well as in building networks. KIIL also manufactures other components here which include Gas Block Connectors, Reducer Connectors, Micro Duct End Caps, Hermetic H Enclosures, T & Y Branch connectors and Straight fit connectors.

Within the Micro Irrigation Products segment, KIIL makes 2 types of products which include

1. Sprinklers - KIIL manufactures HDPE Sprinkler Pipes and Fittings which are tough and resilient, easy to use and light in weight, hence easy to handle for the end users. These sprinklers find applications in use of water, fertilizers and electricity in irrigation of a variety of crops like cotton, soya bean, wheat, gram, groundnut, pulses etc.

2. Irrigation Systems – KIIL manufactures Irrigations Systems which include Emitting Pipe Systems – PE Pipes, Laterals for Irrigation – PE Pipes and Irrigation Equipment Emitters – PE Pipes which are suitable for all closed spaced crops, horticulture plants and medicinal plants such as vegetables, sugarcane, cotton, banana, grapes, papaya, strawberry, mulberry etc.

In terms of product mix as on FY20 KIIL got its major revenues from the following products

Product Segment	**% of Revenues as FY20**
Agriculture	76%
Building Products	9%
Micro Irrigation	8%
Infrastructure	7%

Source- Company

Strong product portfolio under the KASTA Brand –

KIIL manufactures pipes for Potable Water Supply, irrigation purposes, building, constructions pipes etc.and sell these to customers under the “Kasta” brand, which is well known in Central India. The major marketing areas for KIIL are M.P. and adjoining districts of Maharashtra and Rajasthan, where majority of the Plastic Division’s sales take place.

KIIL is strategically located in central India. Its marketing spans the states of MP, Rajasthan, Chhatisgarh & part of UP. It has a strong presence in this region, with a market share of almost 65%. Of the 20 new smart cities planned by the Govt., about 7-8 of them are within the distribution range of the company. Three cities, Indore, Jabalpur & Bhopal are in MP itself. Transportation costs play an important role in this business, so KIIL is in a bit of a sweet spot with nearby markets offering a big business opportunity.

KIIL is also contemplating entry in the south markets in the near term although these plans are yet on drawing board stage and a final proposal is yet to be crystallised by the management. However the management is quite upbeat here and expects some concrete decision here soon.

KIIL enjoys a strong distribution network across PAN India –

Since its inception, KIIL has developed a large network of 450 Dealers Pan India for all its products to cater to both its Retail and B2B customer segments.

Going ahead KIIL is planning to add another 100 new dealers in new and existing markets like Maharashtra where the scope to increase its footprint exists and where it expects strong incremental growth in the next 2-3 years.

Implementation of GST is positive for organized brands & for KIIL going ahead –

The KIIL management believes that the industry is 40% unorganized and expects shift to happen from unorganized to organize in the longer run after implementation of GST.

GST is likely to be a key catalyst for the entire PVC industry. It will reduce the competitive advantages enjoyed by the unorganised sector, providing more room to brand-named organised players and accelerate the shift from the unorganised sector to the formal one.

Meanwhile the GST on Drip irrigation systems including laterals, sprinklers products has been reduced from 18% to 12% as per decision taken at 25th GST Council Meeting held on 18th January, 2018. The new GST rates shall be effective from 25th January, 2018

The market is gradually moving toward brand-named organised players and GST is expected to speed up that process and eventually GST will reduce the competitiveness of unorganised players and benefit branded organised players like KIIL. Also after Demon the markets have slowly started getting normal after a initial hiccup in business operations for most players as earlier this impacted business trends quite drastically as dealer de stocking and topline got impacted. However the KIIL management is confident that these measures announced by the govt will undoubtedly make the industry stronger and vibrant in the long term.

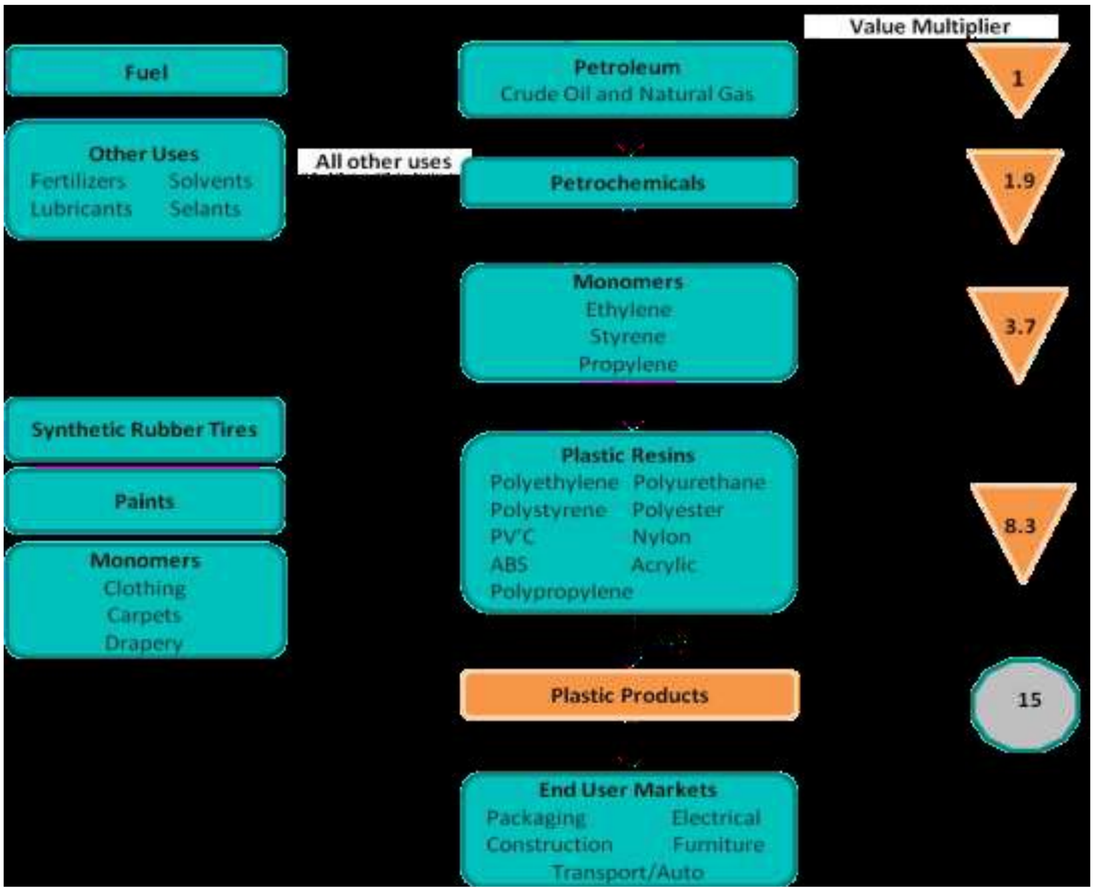
Overall the Plastic Pipes Industry is likely to grow at a healthy pace in the next 3-5 years –

Though India is a highly populated country, it is still behind (U.S., China and Europe) few countries in plastic consumption, as the per capita plastic consumption is just 10kg as of now (27kg world average); however, approximately 30% of the plastics consumed in India are recycled. The Indian plastic market is very much fragmented with a presence of over 30,000 companies, most of which are small to medium in size; however, the top 100 companies account for only 20% of the industry turnover

One interesting fact is that it has outpaced the GDP growth by 1.5x on an average of long term basis while grew at a double pace during better times. The low level of per capita plastics consumption in India (10kg v/s world's 27kg) is indicative of the massive growth potential of the plastic industry.

Globally, USA consumption has reached saturation level, while China's higher levels of consumption are primarily due to exports. India has the advantage of high population and is expected to maintain high economic growth. This should propel India's plastics consumption to new levels in coming years. In short, Indian plastics industry is yet to realize its full potential & advantage of high population.

Plastic: Value addition along the Petrochemical Chain –



Source – Industry,

Region-wise plastic consumption in India –

Western India has traditionally been the largest consumer of plastics (accounting 47% of total consumption) in India followed by Northern region. Western region comprises of Maharashtra, Gujarat, and the union territories of Daman and Diu & Dadra and Nagar haveli along with Madhya Pradesh and Chhattisgarh while northern area comprises of J&K, Himachal Pradesh, Punjab, Haryana, Uttarakhand, Rajasthan, UP, Delhi, and NCR region.

The Company since last year selected Maharashtra to enhance its market presence with measured caution; it entered the most attractive markets and then extended into contiguous areas; it engaged directly with farmers & even though Kriti entered only 15 Maharashtra districts (out of 25), it has already carved away a 15% market share. The Kasta brand has emerged among the largest within that State within just 24 months of starting out business in this high growth state

The Company also performed credibly in the new states where it entered despite challenges of the delayed monsoon and the economic sluggishness. For instance, the Company's sales in Maharashtra nearly doubled and sales in Telangana trebled during the last financial year; the cumulative sales from these two states increased from 8% in 2018-19 to 15% in 2019-20, helping de-risk the Company from an excessive dependence on its traditional markets in Madhya Pradesh and Rajasthan.

Going ahead during FY21 the Company intends to deepen its presence within its existing principal markets of Madhya Pradesh and Rajasthan. It believes that this wider and deeper presence will make it possible for the Company to produce a larger quantity of polymer pipes, enhancing capacity utilisation levels further

The Indian pipes business has been growing rapidly since the past several years mainly due to increasing demand for pipes in the irrigation sector and construction industry.

Among the several varieties of pipes (PVC/CPVC/SWR/Rigid/Agri/PE/PP) available in the market, the demand for plastic pipes such as PVC, CPVC in particular, is on a rise significantly due to

(1) Gaining popularity of plastic pipes over traditional/GI pipes
(2) Huge replacement demand
(3) Flexibility in terms of transportation, less corrosive and long lasting life (25 years v/s 8-10 years of GI pipes)
(4) Easy installation and competitive price in nature (20-25% cheaper over GI pipes).

PVC piping industry in India is segmented into Rigid/Agriculture PVC, UPVC/flexible PVC and chlorinated PVC pipes. PVC pipes and fittings market in India has grown at a CAGR of 12.5% during the period from FY09-14.

Production capacity for chlorinated PVC pipes and fittings have grown at a stupendous CAGR of 30.1% during the period FY09-14 and are further expected to grow at a CAGR of 12-14% during FY20-23E. Although, CPVC pipes and fittings contributed just 10% to the overall production capacity in FY17, it is the fastest growing segment of the PVC pipes and fittings industry in India. Irrigation and water supply together accounted for more than 70% of the market revenue in FY20

The current piping industry size is Rs 250 bn, of which Agri/Rigid PVC pipes constitutes 60% of the market (growing at 10-12% CAGR) while UPVC/SWR/Drainage pipes accounts for 30-32% of overall industry size. The remaining 8-10% of the industry is concentrated by fastest growing CPVC piping segment (over 20% CAGR).

Opportunities ahead –

In the past few years, the government of India has initiated many new projects and investments in the irrigation sector. The focus of the government is on rural water management, which will be fulfilled only when there will be proper infrastructure for the transportation of water to the end-user.

This factor will remain as one of the major drivers for the growth of PVC pipe industry in the country along with the expansion of housing sector and increasing replacement demand for CPVC. The PVC pipes and fittings market in India is projected to register strong growth of 15% CAGR in FY19-25E and is expected to reach Rs400 bn in FY24 as compared to Rs225 bn in FY19

Agriculture/Rigid pipe segment – Opportunity continues

Though India holds one of the largest agricultural land in the world and create significant piping demand (over 60% of overall PVC piping industry), it covers only 44% of land under irrigation (out of total 157.35 mn hectares) while remaining land is still dependent on natural water (rain fed).

The Indian agriculture piping industry is highly fragmented due to presence of large chunk of players, giving tough competition both on product offerings and pricing terms. In addition, the main reason of low yield or margins in this segment is due to the less proportion of fitting in usage, compare to plumbing segment. There are few organised players operating with significant presence through wide distribution network, strong quality product portfolio.

Plastics are playing a major role in managing the water resources. The various applications of plastics in water management includes plastic rain water collection tanks, pipes, profiles; waste water applications (waste water treatment plants); plastic pipes for water transportation (PVC, HDPE, LLDPE, PP, FRP) etc.

Plastic products in water management are being used as compared to various alternate competitive materials like metal, cement, due to light and weight durability, rust free, smoother surface etc.

Ministry of Water Resources is responsible for laying down policy guidelines for water conservation. PVC pipes and fittings having BIS certification is being used in various water/sewerage transportation applications in various private/government supplies.

The Government of India has launched various programs in the agriculture sector to focus on water supply, which will only be fulfilled with effective use of pipelines. The thrust on bringing more area under irrigation (by linking rivers for ensuring optimal water resources) to improve farm yield and production through minimal water consumption would drive the demand.

The recent initiatives by the government –

Increase in rural infra development fund from Rs 30k crs to Rs 40k crs

Increase in micro irrigation fund from Rs 5k crs to Rs 10k crs

Doubling farmers income and thrust for Jal Jivan Mission

Plumbing pipes – A future lies here

Though the plumbing segment (SWR/Drainage/CPVC/UPVC) constitutes nearly 30% of PVC piping segment in India, it is getting strong traction and growing faster due to the inherent features, widely accepted products across plumbers, architect community.

Strong replacement demand, gaining popularity over GI pipes, high durability and easy installation made it more prominent product in recent years. The branding awareness and better quality product-mix helped the organised players to eat the market share of unorganised players.

The various applications of plastics in building/ construction includes PP cut fibres for concrete structures, materials handling equipment, fencing, PVC windows and doors, pipes for hot and cold plumbing, PVC pipes for soil & waste drainage/rain water harvesting/electrical conduits, water and septic tanks, furniture, PVC/PC/FRP roofing, wire and cables etc.

Key growth drivers –

Government initiatives under the program of “Housing for All by 2022” to provide 20 mn houses in urban areas and 40 mn houses in rural areas and create “100 smart cities” would surge the demand of building materials products. Further, huge replacement demand and shifting preference towards branded plastic pipes would keep the demand intact in the long run.

CPVC pipe – gaining popularity day by day

There are 3 leading polymers which are used for hot water piping systems in construction

Chlorinated PVC – Most popular in India

PPR (Random Poly Propylene Copolymer) – Used extensively in China, Far East and Europe

Polybutadiene – Floor embedded Hot Water heating systems in cold climates like North America and Europe.

How CPVC Pipes have evolved in India?

CPVC opens the market for hot water systems in plumbing and hot, corrosive liquids in Chemical Plants, which was previously shut to PVC. Though the major property improvement of CPVC over PVC is increase in heat resistance, the mechanical properties and chemical resistance are still comparable.

The maximum operating temperature of PVC is 60C and softening point is 70C, for CPVC, it is 85C-100C respectively, due to which it is widely accepted.

Features of CPVC pipes

CPVC is one of the safest polymers from the flammability hazard point of view.

The chlorine content may go up to 70% in some grades of CPVC. It does not need any additional fire retardant additives and no flammable plasticisers are used in its compounding.

Only the Fluorinated Polymers like PTFE have better flammability performance.

The increased awareness of CPVC products both within and outside the country gives a boost to the replacement demand for various products. In many old constructions where metallic pipes need to be replaced because of the problems of corrosion, scaling and rusting, CPVC pipes and fittings are used.

The increasing brand consciousness amongst the builders, architects, plumbers and consumers helped most of the CPVC pipe manufacturer to grow at a faster rate in recent years.

CPVC pipe market in India – Prospects look bright here

Few players standing tall in highly competitive industry

There are large number of players operating under this segment such as Astral Poly, Ashirwad pipes, Ajay Industrial Corporation, Supreme Industries, Prince piping, Superflow, Paras, Dutron, Nandi pipes and Waterflow and many more. Among these,Astral poly and Ashirwad are the leaders in CPVC product market and enjoying higher premium prices over others.

Superior product portfolio, continuous new innovative product launches, higher spend on branding and promotional activities helped them to achieve pioneer position in highly competitive segment. Their products are also widely accepted by the end-users.

Increasing awareness amongst end-users, quality product offerings and strong distribution network helped most of the large players to improve the market share (Organised market share increased from 50% to now 70%). In CPVC market, the three major players cover 70% of the total market value, due to quality product offering (Astral enjoys 3o-35% market share).

It’s a game of high share of fittings; better margins –

Plumbing products finds application in building, commercial, malls and construction segments, where the usage of fittings are higher compared to agriculture segments, which helps the company to generate better margins. As per the industry, the usage of pipes and fittings in plumbing segment are 65:35 with an operating margin of 7-8%: 25%, respectively.

Shifting focus towards branded premium products –

In recent years, the CPVC market has seen tremendous traction of shifting preference towards branded premium products (inspite of price differentiation of 30-40%).

Our channel check suggests that strong branding and regular product campaigning through plumbers meet (educating them about the products along with small prizes, gifts to encourage them) and wide distribution network helped few players to pocket a wallet share and create a strong reputation in the customer’s eyes.

Strong replacement demand -

CPVC pipes have seen strong demand in construction industry due to its best features of carrying hot water without any damage to the pipes. Around 50% of CPVC pipe demand comes from replacement (over GI pipes through renovation and refurbishment of house) while new construction prefers to install PVC/CPVC pipes

Strong Demand expected from the Telecom Sector Also –

With advances in technology in modern day Telecommunications, over a period of time, it became very important to upgrade the HDPE pipes to be used particularly for Telecom applications.

The Optical Fibre Cables used for Telecommunications being very delicate and sensitive, it became necessary to modify the HDPE Pipes to be used as conduits for optical fibre cables. This led to the development of **Permanently Lubricated (PLB) HDPE Telecom Ducts**.

KIIL has been amongst the first few manufacturers to acquire technology and equipment for establishing complete manufacturing facility for PLB-HDPE Telecom Ducts.

The inner layer of these PLB HDPE ducts is duly silicon coated which minimizes the friction between OFC and the duct during the process of blowing the cable into the ducts, thus providing smooth installation of OFC in the duct without damaging the cable fibres.

Domestic factors also positive and will drive optic fiber demand in India

Key drivers for fiber demand in India are 1) Big projects like Bharat Net, 2) New 4G & proposed 5G network roll out by Reliance Jio & other telcos 3) aggressive network expansion by other telco operators and 3) ongoing NFS project (Network for Spectrum from Government of India). Hence increasing data demand will drive network expansion and up gradation by telecom service providers, which will in turn, benefit optic fiber companies and players like KIIL who cater to the Telecom sector.

Bharat Net project can be the game changer for Indian optic fiber demand –

The broadband infrastructure is the backbone of the Government's 100 Smart Cities, BharatNet and Digital India missions. The thrust of the government towards the successful completion of these projects has opened up various opportunities for STL. Bharat Net project is a very ambitious project with a vision to create a national broadband network. It has moved into a different format in the last couple of years, and brings last-mile connectivity between gram panchayat and block levels. The government has budgeted Rs 700 bn for the implementation of this project.

The government's plans to implement Bharat Net envisages laying of 39m fkm of optic fiber cables under the 'Digital India' program, to connect 250lac village blocks with broadband connectivity.

Also following the completion of the ninth city gas distribution bidding round, city gas distribution would be available in 178 GAs comprising 280 districts spread over 26 States and Union Territories covering more than 50% of India's population and 35% of its GA. India also launched the tenth city gas distribution bidding round in 50 GAs spread over 124 districts in 14 States to potentially reach piped gas to 200 lakh households. This is also expected to be a big growth for the PVC Pipes sector and for Kriti going ahead

The Company is a value added player in a commoditised space. The Company manufactured products addressing the highest quality standard and generating a premium. Value added fittings accounted for 6% of the Company's revenues.

Some Key Benefits for KIIL from the Recent Union Budget 2021-22

Govt focus towards increasing farm income (total MSP outlay towards wheat and paddy increased by 2.22x/2.7x over 2013-14 to 2020-21), agri credit target stood at Rs 16.5 trn for FY22

Increase in rural infra development fund from Rs 30k crs to Rs 40k crs

Increase in micro irrigation fund from Rs 5k crs to Rs 10k crs

Doubling farmers income and thrust for Jal Jivan Mission

With the aim of providing piped water supply to all households , Jal Jeevan Mission recently was announced.

Rs. 2,87,000 crs outlay is being planned over 5 years for Jal Jeevan Mission (Urban) which is being launched with an aim to provide 2.86 crs household tap connections

Rs. 1,41,678 crs over 5 years for Urban Swachh Bharat Mission 2.0

What is KIIL's strategy and approach to tap this huge market opportunity?

KIIL has a well diversified product basket catering to the Agriculture, Building Products, Micro Irrigation and Telecom Infrastructure business segments. However as a strategy KIIL has focused more on the Agriculture Building Products and Telecom Infrastructure segments as these offer both a large volume market with stable and reasonable margins across product categories.

KIIL's strategy going forward is to capitalize its existing strengths in the Agriculture domain where it enjoys a long standing business exposure of over 2-3 decades and where farmers value its products for there quality and durability.

Alternatively the Building Products and Telecom Infrastructure product segments are growing very fast and offer a large volume market for KIIL as these are new generation technology products fast getting accepted over traditional products. Also these product segments are less price sensitive as compared to the Agriculture segment.

Product designing and quality control shall remain the key differentiating factors for KIIL as it will continue to target attracting more consumers with consistent launch of trendsetting products.

KIIL enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –

In terms of financial performance for FY20, KIIL has posted a Topline of close to Rs 549 crs, EBIDTA margins of 8.20% and a PBT of Rs 21 crs followed by a PAT of Rs 18 crs

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Total Debt on the BS as on March 20 has remained at Rs 77 crs which has further reduced to Rs 46 crs as on Dec 2020

We expect that going ahead overall bottomline growth in the next 3 years starting FY20 onwards should easily increase at a CAGR of 40-50% and with capex being funded largely from internal accruals and hence going ahead we believe that net cash flows generated will remain healthy going ahead.

Peer Comparsion

Company	Market Cap	FY21A	FY22E	FY23E
	Rs Crs	**P/E**	**P/E**	**P/E**
KIIL	319	8	6	5
Finolex Industries	7984	15	22.2	20.8
Astral Poly Technik	29291	92.5	74.7	67.0
Supreme Ind	24326	30.9	38.3	32.5
Nilkamal	2275	61.0	13.9	12.7
Jain Irrigation	975	NA	NA	NA

More Restructuring going ahead likely –

KIIL owns a 100% subsidiary called Kriti Auto & Engineering Plastics Pvt Ltd which is into Auto components and makes plastic extruded components.

KAEPPL is the engineering plastics division of Kriti Industries (I) Ltd. It has a world class facility spread over 3200 sq.mt with injection moulding machines and support infrastructure to give high quality, on time deliveries. This facility has expertise in processing a wide range of engineering polymers and a bouquet of machines to cater to varied customer requirements in different sectors.

The facility is located in Ranjangaon MIDC, around 60km distant from Pune in the second largest automotive hub of India.

KAEPPL is an established Tier 2 supplier to the automotive sector and is a preferred supplier to various established companies in the region. It is ISO /TS 16949: 2009 certified facility.

Apart from the automotive sector, components for high quality furniture and music systems are manufactured for leading companies in India are manufactured here. KAEPPL has also developed and patented key products for the telecom industry for the first time in India

While there is no official confirmation from the management we feel that going ahead there are good chances that this unit will be either be de merged or sold off by the management as this has been a drag on KIIL's overall profitability. In terms of the upside here to KIIL we believe that more than the fixed asset investment value which is not big, it is the land value at Ranjangaon which can give a significant value upside to KIIL in case of an outright sale.

If this is done we believe the markets would like this as this would improve the profitability levels and make the company's capital structure more healthy and stronger.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY21, Revenue is expected to touch Rs 616 crs.

On the bottomline level we expect the company to record a PAT of Rs 40 crs in FY21E. Thus on a conservative basis, KIIL should record a operational EPS of Rs 8 for FY21E. For FY22E & FY23E our expectation is that earnings traction for KIIL will continue to remain attractive wherein we expect a EPS of Rs 11 and Rs 13 respectively.

KIIL has a well diversified product basket catering to the Agriculture, Building Products, Micro Irrigation and Telecom Infrastructure business segments. However as a strategy KIIL has focused more on the Agriculture Building Products and Telecom Infrastructure segments as these offer both a large volume market with stable and reasonable margins across product categories.

KIIL's strategy going forward is to capitalize its existing strengths in the Agriculture domain where it enjoys a long standing business exposure of over 2-3 decades and where farmers value its products for there quality and durability. Alternatively the Building Products and Telecom Infrastructure product segments are growing very fast and offer a large volume market for KIIL as these are new generation technology products fast getting accepted over traditional products. Also these product segments are less price sensitive as compared to the Agriculture segment.

We estimate KIIL earnings to witness a CAGR of 40-50% over FY20-23E. This will be driven by strong revenue growth (18-20% CAGR over FY20-23E) and a steady EBITDA margin over the same period. Also we expect the RoE to expand to 28% plus by FY23 from a level of 20% in FY13 with ROCE also set to improve to 22% by FY23E from 15% as on Mar 2020. From a industry standpoint KIIL remains in a sweet spot as PVC pipes demand is likely to maintain its growth trajectory (10-12% volume CAGR over FY20-23), driven by strong demand from agriculture and housing. Over 1/3rd of the 1.5 mn ton PVC pipe industry is unorganized and GST implementation would also benefit KIIL.

More importantly for KIIL, headwinds for all its business segments namely Agriculture, Building Products, Telecom Infrastructure and Micro Irrigation look very positive with growth expected to grow strongly ahead. More importantly KIIL is already a large player in the Agri segment in Central India and is now moving in the B2B Telecom Infra space with value added products catering to big clients like Reliance Jio, DOT etc where volumes over the next 2-3 years will be very large thus offering a strong growth platform for KIIL going ahead. We hence remain very positive on the managements strategy to service these segments where demand potential is huge.

Currently KIIL gets a market cap to revenue multiple of 0.51x based on FY21E revenue estimates which we believe could easily get improved ahead over the next 2 years considering the strong promoters background, strong financial track record with attractive ROCE levels, its product range and strong customer pull and overall positive outlook for the Agri, Building Products and Telecom Infrastructure segment going ahead.

Hence we believe that the KIIL stock should be purchased at the current price for a price target of around Rs 96 over the next 12 to 18 months.

FINANCIALS

For the Year Ended March Rs Crs	FY19A	FY20	FY21E	FY22E	FY23E
Net Sales	587.65	549.00	616.00	739.2	850.08
EBIDTA	29.00	45.00	73.00	88.70	102.01
EBIDTA %	4.93	8.20	11.85	12.00	12.00
Interest	15.00	17.00	11.00	8.00	6.00
Depreciation	6.00	7.00	8.00	9.00	11.00
Non Operational Other Income	2.00	1.00	1.00	1.00	1.00
Profit Before Tax	10.00	21.00	55.00	72.70	86.01
Profit After Tax	6.00	18.00	40.00	54.70	65.01
Diluted EPS (Rs)	1.21	3.63	8.06	11.03	13.11
Equity Capital	4.96	4.96	4.96	4.96	4.96
Reserves	76.00	94.00	134.00	188.70	253.71
Borrowings	78.00	77.00	50.00	40.00	40.00
GrossBlock	117.00	132	147.00	182.00	212.00
Investments	0.00	0.00	0.00	0.00	0.00

Source Company our Estimates

KEY CONCERNS

Any price fluctuation in PVC (crude oil derivative) may affect operating performance and margin profile

Monsoon factor - Any slowdown in the agri pipes demand due to weak monsoon could hurt the farmer's sentiments and impact the volume growth.

Slower than expected improvement in working capital cycle

Disclaimer –