

HOLD

TP: Rs 2,300 | ▼ 5%

KEI INDUSTRIES

Consumer Durables

01 August 2023

Capacity constraints mar quarter; lower to HOLD post runup

- Core cables and wires business hampered by lack of capacity; likely to be addressed in coming quarters
- Guidance intact at 16-17% revenue growth and 11% EBITDA margin for FY24 and FY25, with capex of Rs 3bn-3.5bn per year
- We tweak estimates and roll over to a new TP of Rs 2,300 (vs. Rs 2,130); cut to HOLD on recent stock runup

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Underperforms peers in Q1: KEII reported relatively weak Q1FY24 topline growth of 14% YoY, volume growth of 22% and slightly softer operating margins. Though the cables and wires industry has done well in Q1 as visible from peer performance, KEII's numbers depict a different story owing to capacity constraints.

Capacity crunch to be addressed in Q2: KEII's core cables and wires business grew 14% YoY in Q1, lagging peers such as POLYCAB (+42%) and HAVL (+24%). The primary reason was a lack of capacity as the company was operating at 90% utilisation, which in turn impacted volume growth (22% vs. 50%+ for POLYCAB). Management believes this issue will be ironed out in Q2 when its brownfield expansion for high- and low-tension wires comes onstream, bringing growth back on track for FY24.

Guidance retained: KEII has retained its guidance for robust 16-17% revenue growth in FY24 and FY25 primarily based on the capacity addition at its Silvassa plant and other greenfield expansion projects in Gujarat. Further, it expects EBITDA margin to remain at ~11%. Management's strategy of expanding its retail business also augurs well for the company. Further, the capex upturn in both private and public sectors is turning beneficial for KEII's core cables and EPC businesses, and is likely to continue through FY24.

Cut to HOLD: We raise our FY24/FY25 revenue and EPS estimates by 1% each and continue to value the stock at a P/E multiple of 28x – in line with the 5Y average – given the expected growth traction and improvement in working capital. On rolling valuations forward to Jun'25E, our TP rises to Rs 2,300 (Rs 2,130 earlier). Considering the sharp 25% runup in stock price since our [last update of 3 May](#), we downgrade the stock from BUY to HOLD and wait for a lower entry point.

Key changes

Target	Rating
▲	▼

Ticker/Price	KEII IN/Rs 2,430
Market cap	US\$ 2.7bn
Free float	61%
3M ADV	US\$ 7.8mn
52wk high/low	Rs 2,815/Rs 1,221
Promoter/FPI/DII	37%/27%/20%

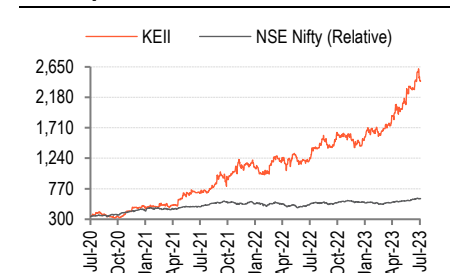
Source: NSE | Price as of 31 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	69,123	80,781	94,765
EBITDA (Rs mn)	7,062	8,735	10,758
Adj. net profit (Rs mn)	4,773	5,558	6,940
Adj. EPS (Rs)	52.9	61.6	76.9
Consensus EPS (Rs)	52.9	65.7	81.1
Adj. ROAE (%)	20.2	19.5	20.2
Adj. P/E (x)	45.9	39.4	31.6
EV/EBITDA (x)	31.1	25.5	20.8
Adj. EPS growth (%)	27.0	16.4	24.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

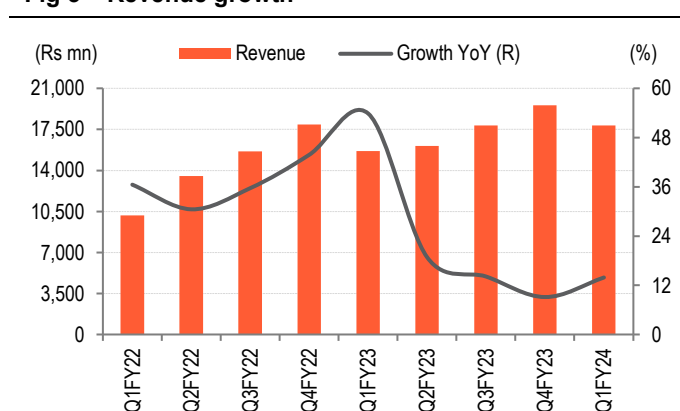
Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	17,826	15,654	13.9	19,545	(8.8)
EBITDA	1,782	1,596	11.7	2,038	(12.6)
EBITDA margin (%)	10.0	10.2	(20bps)	10.4	(40bps)
Depreciation	147	139	-	143	-
Interest	89	92	-	101	-
Other Income	83	35	-	51	-
PBT	1,630	1,401	16.4	1,845	(11.7)
Tax	416	363	-	464	-
Adjusted PAT	1,213	1,038	16.9	1,381	(12.1)
Exceptional item	0	0	-	0	-
Reported PAT	1,213	1,038	-	1,381	-
Adj. PAT margin (%)	6.8	6.6	20bps	7.1	(30bps)
EPS (Rs)	13.5	11.5	-	15.3	-

Source: Company, BOBCAPS Research

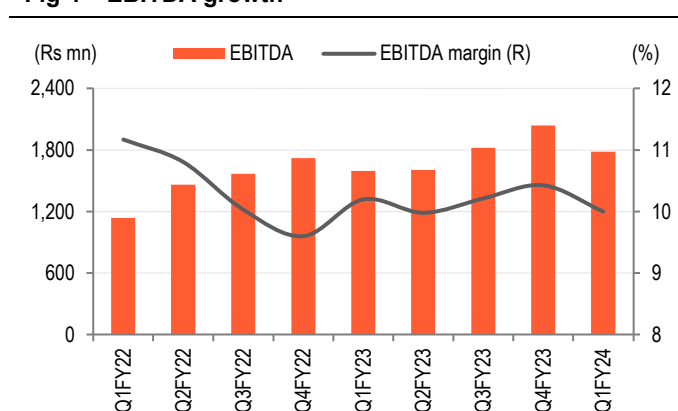
Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Segment revenue													
Cables	6,463	8,707	9,899	10,675	8,844	12,112	14,059	16,214	14,206	14,445	16,334	17,555	16,119
Growth YoY (%)	(24.4)	(12.5)	(10.0)	3.3	36.9	39.1	42.0	51.9	60.6	19.3	16.2	8.2	13.5
Stainless Steel Wires	208	335	412	462	478	518	652	612	610	735	557	649	590
Growth YoY (%)	(34.7)	(1.1)	26.6	17.5	130.2	54.4	58.2	32.5	27.6	42.0	(14.5)	6.0	(3.2)
EPC Projects	1,763	2,477	2,929	2,597	1,379	2,754	2,428	2,174	1,536	1,059	2,234	2,232	1,847
Growth YoY (%)	(42.6)	(22.8)	(26.5)	(29.8)	(21.8)	11.2	(17.1)	(16.3)	11.4	(61.6)	(8.0)	2.6	20.2
EBIT													
Cables	774	1,117	1,253	999	947	1,238	1,366	1,312	1,274	1,261	1,515	1,658	1,415
EBIT margin (%)	12.0	12.8	12.7	9.4	10.7	10.2	9.7	8.1	9.0	8.7	9.3	9.4	8.8
Stainless Steel Wires	20	22	32	10	30	42	31	34	30	45	56	59	31
EBIT margin (%)	9.5	6.7	7.9	2.1	6.3	8.1	4.7	5.5	5.0	6.1	10.0	9.2	5.3
EPC Projects	178	213	314	202	125	213	233	249	95	148	280	145	256
EBIT margin (%)	10.1	8.6	10.7	7.8	9.0	7.7	9.6	11.4	6.2	14.0	12.5	6.5	13.9

Source: Company, BOBCAPS Research

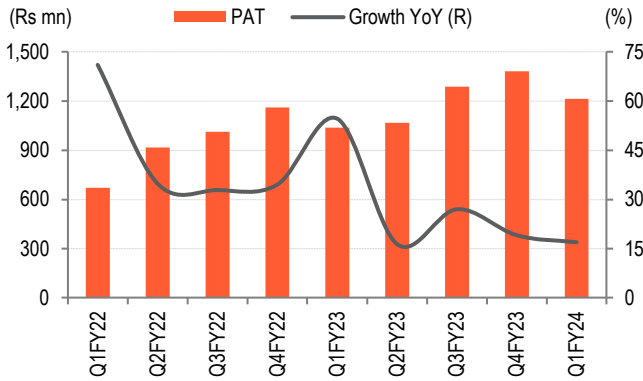
Fig 3 – Revenue growth

Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth

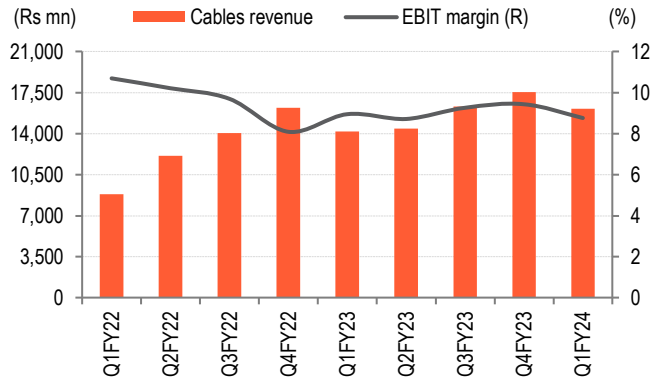
Source: Company, BOBCAPS Research

Fig 5 – Profitability growth



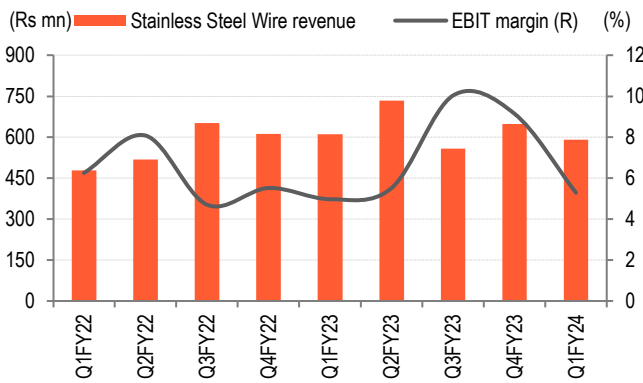
Source: Company, BOBCAPS Research

Fig 6 – Cable division growth



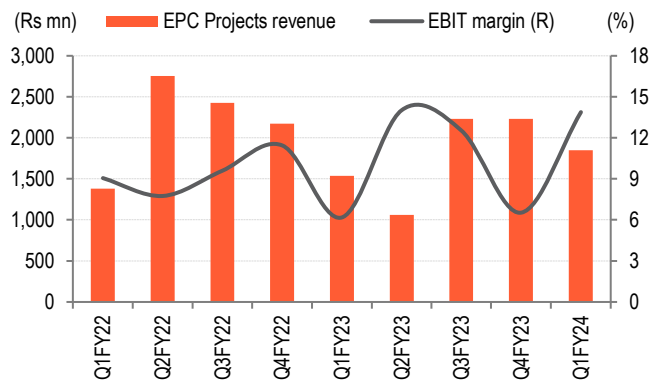
Source: Company, BOBCAPS Research

Fig 7 – Stainless steel wire division growth



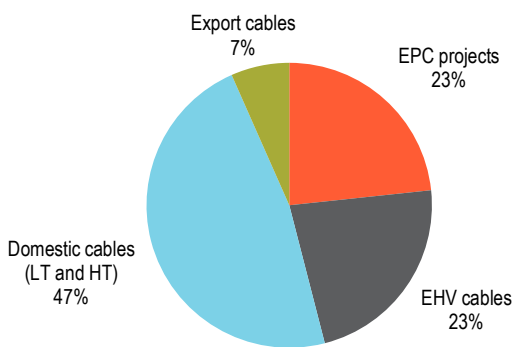
Source: Company, BOBCAPS Research

Fig 8 – EPC projects division growth



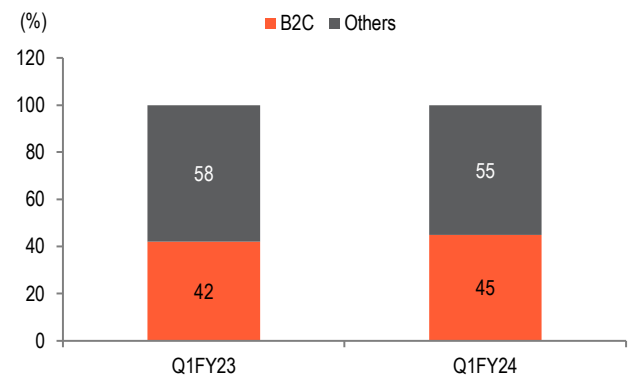
Source: Company, BOBCAPS Research | EPC: Engineering, Procurement and Construction

Fig 9 – Order book bifurcation, Q1FY24



Source: Company, BOBCAPS Research | LT: Low Tension; HT: High Tension; EHV: Extra-High Voltage

Fig 10 – B2C sales contribution



Source: Company, BOBCAPS Research

Earnings call highlights

- **Guidance:** KEI has maintained its guidance of 16-17% revenue growth for FY24 and a CAGR of 17% for the next 10 years. Management also expects EBITDA margin expansion to 11% in FY24, rising further to 12-12.5% in FY26. In addition, it is targeting a 17% contribution from exports to the topline in FY24, consistent with Q1 levels.
- **Margins:** EBITDA margin dipped slightly by 20bps YoY to 10% in Q1FY24 due to a Rs 100mn-120mn rise in advertising costs toward the Indian Premier League (IPL). KEI earns an 11% EBITDA margin in house wires as compared to 14% for peers. Retail business garners an 11% margin while institutional business earns 10-10.5%.
- **Raw material sourcing:** KEI procures most of its raw materials (such as copper and aluminium) domestically from players like Hindalco and Vedanta. However, some products warrant imported inputs. The company follows a just-in-time procurement system, where copper is procured whenever it has order visibility. It is thus, not sensitive to copper prices, and the impact comprises a like-to-like expansion/contraction in topline in accordance with the increase/decrease in prices of the metal.
- **Capacity utilisation:** The company achieved utilisation of 90% in power cables and 63% at the Silvassa plant for low-tension cables. It expects utilisation in the extra-high voltage (EHV) segment to jump to 90-95% in Q2 as orders are fulfilled. At peak capacity, KEI estimates that it can generate a topline of Rs 94bn-95bn for a fiscal year.
- **Capex:** Management expects to incur capex of Rs 3bn-3.5bn per year from FY25. For FY24, it expects to spend Rs 2bn on greenfield expansion in cables and wires in Gujarat, which is due to commence operations by the end of Q3 (taking effect from Q4). It has also invested Rs 450mn in the Silvassa plant during the quarter and will spend Rs 950mn cumulatively. Silvassa has a revenue potential of Rs 5bn at peak capacity. KEI further plans to spend Rs 1.1bn on the Bhiwadi (Rajasthan) unit during FY24, taking total capex for the fiscal year to Rs 4bn.
- **EHV:** EHV cables were soft during the quarter, posting a topline of Rs 500mn compared to Rs 1bn in the same period last year. With a strong order book, the company expects to deliver a segmental topline of Rs 1bn-1.25bn per quarter going forward.

Valuation methodology

We raise our FY24/FY25 revenue and EPS estimates by 1% each and continue to value the stock at a P/E multiple of 28x – in line with the five-year average of 29x – given the expected growth traction and improvement in working capital. On rolling valuations forward to Jun'25E, our TP rises to Rs 2,300 (Rs 2,130 earlier). Considering the sharp 25% runup in stock price since our **last update of 3 May**, we downgrade the stock from BUY to HOLD and wait for a lower entry point.

Fig 11 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	80,781	94,765	80,048	93,909	0.9	0.9
EBITDA	8,735	10,758	8,634	10,638	1.2	1.1
PAT	5,558	6,940	5,489	6,858	1.3	1.2
EPS (Rs)	61.6	76.9	60.9	76.0	1.3	1.2
EBITDA Margin (%)	10.8	11.4	10.8	11.3	0bps	0bps

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-guided growth, and
- better margin expansion than guided.

Key downside risks to our estimates are:

- delays in capacity expansion,
- decline in market share in cables and wires, and
- slowdown in retail expansion.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,435	2,500	HOLD
Blue Star	BLSTR IN	0.9	784	1,650	BUY
Crompton Greaves	CROMPTON IN	2.3	294	370	BUY
Dixon Technologies	DIXON IN	3.0	4,122	4,300	HOLD
Havells India	HAVL IN	10.2	1,334	1,600	BUY
KEI Industries	KEII IN	2.7	2,430	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	231	240	HOLD
Polycab India	POLYCAB IN	8.8	4,817	5,000	BUY
V-Guard Industries	VGRD IN	1.5	284	270	HOLD
Voltas	VOLT IN	3.1	780	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	41,815	57,266	69,123	80,781	94,765
EBITDA	4,605	5,887	7,062	8,735	10,758
Depreciation	578	555	571	594	617
EBIT	4,027	5,333	6,491	8,142	10,141
Net interest inc./(exp.)	573	404	347	1,010	1,185
Other inc./(exp.)	201	146	276	298	322
Exceptional items	0	0	0	0	0
EBT	3,654	5,075	6,420	7,430	9,278
Income taxes	921	1,315	1,647	1,872	2,338
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,733	3,760	4,773	5,558	6,940
Adjustments	0	0	0	0	0
Adjusted net profit	2,733	3,760	4,773	5,558	6,940

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	7,415	7,626	7,482	12,172	12,981
Other current liabilities	1,471	2,387	2,295	4,426	5,193
Provisions	0	0	0	0	0
Debt funds	2,850	3,314	1,399	1,899	1,799
Other liabilities	624	589	634	741	870
Equity capital	180	180	180	180	180
Reserves & surplus	17,601	21,175	25,711	30,908	37,488
Shareholders' fund	17,781	21,355	25,892	31,089	37,668
Total liab. and equities	30,140	35,271	37,702	50,328	58,511
Cash and cash eq.	2,212	3,600	5,372	6,567	6,813
Accounts receivables	13,496	13,955	13,878	18,148	20,770
Inventories	7,682	10,794	11,023	14,828	17,395
Other current assets	1,066	1,261	1,341	1,795	2,106
Investments	12	20	13	15	17
Net fixed assets	5,371	5,313	5,673	8,530	10,912
CWIP	71	165	146	146	146
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	230	162	257	300	352
Total assets	30,140	35,270	37,702	50,328	58,511

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	1,539	2,286	5,139	4,444	3,633
Capital expenditures	(231)	(596)	(977)	(3,450)	(3,000)
Change in investments	0	(9)	9	(2)	(3)
Other investing cash flows	985	22	(404)	64	76
Cash flow from investing	754	(584)	(1,371)	(3,388)	(2,926)
Equities issued/Others	(612)	667	20	0	0
Debt raised/repaid	79	56	(1,961)	500	(100)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(753)	(1,037)	(618)	(361)	(361)
Cash flow from financing	(1,286)	(314)	(2,559)	139	(461)
Chg in cash & cash eq.	1,007	1,389	1,208	1,195	246
Closing cash & cash eq.	2,212	3,600	5,372	6,567	6,813

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	30.1	41.5	52.9	61.6	76.9
Adjusted EPS	30.1	41.5	52.9	61.6	76.9
Dividend per share	2.0	2.5	3.0	4.0	4.0
Book value per share	196.0	235.5	287.1	344.7	417.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	5.2	3.8	3.2	2.8	2.4
EV/EBITDA	47.4	37.1	31.1	25.5	20.8
Adjusted P/E	80.6	58.6	45.9	39.4	31.6
P/BV	12.4	10.3	8.5	7.0	5.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	74.8	74.1	74.4	74.8	74.8
Interest burden (PBT/EBIT)	90.7	95.2	98.9	91.3	91.5
EBIT margin (EBIT/Revenue)	9.6	9.3	9.4	10.1	10.7
Asset turnover (Rev./Avg TA)	133.1	175.1	189.5	183.5	174.1
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.5	1.5	1.6
Adjusted ROAE	16.6	19.2	20.2	19.5	20.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(14.4)	36.9	20.7	16.9	17.3
EBITDA	(7.4)	27.9	19.9	23.7	23.2
Adjusted EPS	6.6	37.6	27.0	16.4	24.9
Profitability & Return ratios (%)					
EBITDA margin	11.0	10.3	10.2	10.8	11.4
EBIT margin	9.6	9.3	9.4	10.1	10.7
Adjusted profit margin	6.5	6.6	6.9	6.9	7.3
Adjusted ROAE	16.6	19.2	20.2	19.5	20.2
ROCE	21.5	24.3	24.5	25.0	25.8
Working capital days (days)					
Receivables	118	89	73	82	80
Inventory	67	69	58	67	67
Payables	65	49	40	55	50
Ratios (x)					
Gross asset turnover	5.8	7.4	8.0	6.7	6.3
Current ratio	2.1	2.2	2.8	2.3	2.5
Net interest coverage ratio	7.0	13.2	18.7	8.1	8.6
Adjusted debt/equity	0.0	0.0	(0.2)	(0.2)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

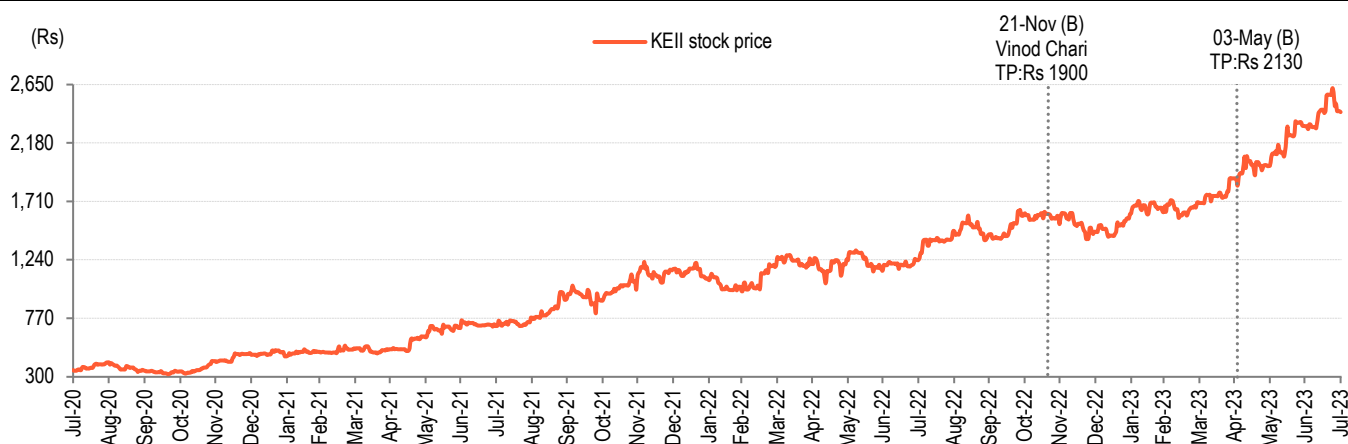
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): KEI INDUSTRIES (KEI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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