

**HOLD**

TP: Rs 2,400 | ▼ 0%

**KEI INDUSTRIES**

Consumer Durables

01 November 2023

### Capacity addition to spur growth

- Middling Q2 performance with easing capacity constraints; cables revenue healthy but margin lagged peers
- FY24 guidance retained at 16-17% revenue growth and 11% EBITDA margin; capex plan raised to ~Rs 5bn
- TP moves to Rs 2,400 (vs. Rs 2,300) upon rollover to Sep'25E; maintain HOLD

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**Middling quarter:** KEII posted Q2FY24 revenue of Rs 19.5bn, an increase of 21% YoY and a 4Y CAGR of 12.1%. Gross margin expanded 110bps YoY and 40bps QoQ to 24.1% while EBITDA margin increased 50bps YoY and QoQ to 10.5%. Adj. PAT at Rs 1.4bn grew 31% YoY, making for a 4Y CAGR of 16.5%. The company's order book moved up 11% YoY (-6% QoQ) to Rs 33.6bn.

**Cables revenue performance healthy but margin lags peers:** Cables revenue at Rs 17.8bn increased 22.9% YoY, as against 28.9% YoY for POLYCAB and 8.1% YoY for HAVL. Segmental EBIT margin stood at 10.8%, rising 210bps YoY, compared to expansion of 430bps for HAVL (to 11.6%) and 310bps for POLYCAB (to 14.6%).

**Capacity crunch addressed:** KEII underperformed peers in Q1FY24 due to a lack of capacity as the company was operating at high 90% utilisation, which in turn affected volume growth. This has been ironed out in Q2, when brownfield expansion for high- and low-tension wires came onstream, as reflected in the 26% YoY volume growth in cables.

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

**Retain HOLD:** We 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 Sep'25E, our TP rises to Rs 2,400 (Rs 2,300 earlier). However, considering the sharp 50% rally in stock price during FY24 YTD, we retain HOLD and wait for a lower entry point.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KEII IN/Rs 2,402
Market cap	US\$ 2.6bn
Free float	61%
3M ADV	US\$ 9.7mn
52wk high/low	Rs 2,815/Rs 1,353
Promoter/FPI/DII	37%/27%/20%

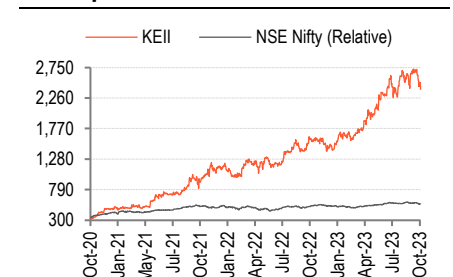
Source: NSE | Price as of 31 Oct 2023

### 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	65.3	79.9
Adj. ROAE (%)	20.2	19.5	20.2
Adj. P/E (x)	45.4	39.0	31.2
EV/EBITDA (x)	30.7	25.3	20.6
Adj. EPS growth (%)	27.0	16.4	24.9

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

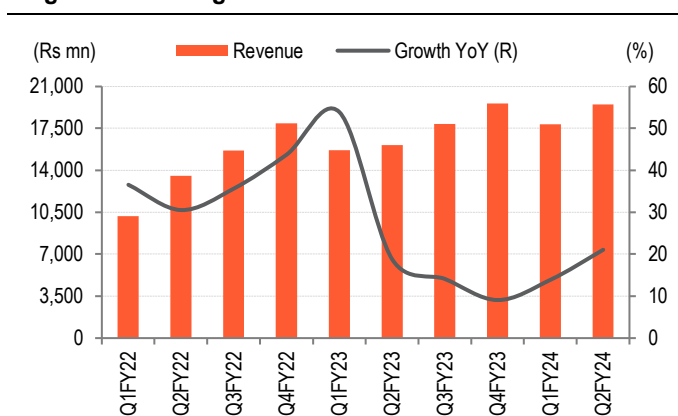
Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	19,466	16,081	21.1	17,826	9.2	37,291	31,735	17.5
EBITDA	2,039	1,605	27.0	1,782	14.4	3,821	3,201	19.4
EBITDA margin (%)	10.5	10.0	50bps	10.0	50bps	10.2	10.1	20bps
Depreciation	156	145		147		302	284	
Interest	75	76		89		165	168	
Other Income	77	53		83		160	88	
PBT	1,884	1,437	31.1	1,630	15.6	3,514	2,837	23.8
Tax	482	369		416		898	732	
Adjusted PAT	1,402	1,068	31.3	1,213	15.5	2,615	2,105	24.2
Exceptional item	0	0		0		0	0	
Reported PAT	1,402	1,068		1,213		2,615	2,105	24.2
Adj. PAT margin (%)	7.2	6.6	60bps	6.8	40bps	7.0	6.6	40bps
EPS (Rs)	15.6	11.8		13.5		29.0	23.4	24.2

Source: Company, BOBCAPS Research

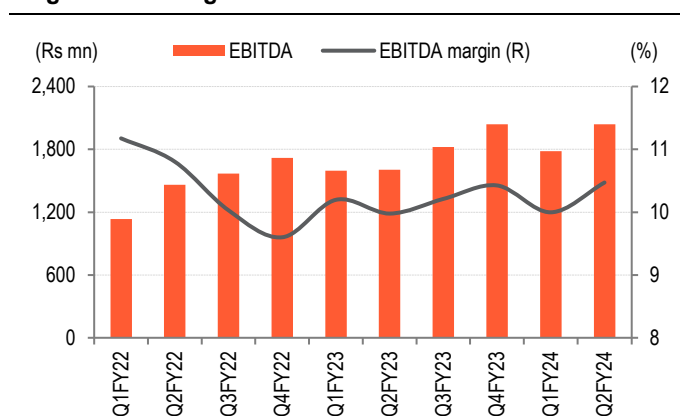
**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Segment revenue</b>													
Cables	8,707	9,899	10,675	8,844	12,112	14,059	16,214	14,206	14,445	16,334	17,555	16,119	17,755
Growth YoY (%)	(12.5)	(10.0)	3.3	36.9	39.1	42.0	51.9	60.6	19.3	16.2	8.2	13.5	22.9
Stainless Steel Wires	335	412	462	478	518	652	612	610	735	557	649	590	591
Growth YoY (%)	(1.1)	26.6	17.5	130.2	54.4	58.2	32.5	27.6	42.0	(14.5)	6.0	(3.2)	(19.6)
EPC Projects	2,477	2,929	2,597	1,379	2,754	2,428	2,174	1,536	1,059	2,234	2,232	1,847	3,131
Growth YoY (%)	(22.8)	(26.5)	(29.8)	(21.8)	11.2	(17.1)	(16.3)	11.4	(61.6)	(8.0)	2.6	20.2	195.8
<b>EBIT</b>													
Cables	1,117	1,253	999	947	1,238	1,366	1,312	1,274	1,261	1,515	1,658	1,415	1,919
EBIT margin (%)	12.8	12.7	9.4	10.7	10.2	9.7	8.1	9.0	8.7	9.3	9.4	8.8	10.8
Stainless Steel Wires	22	32	10	30	42	31	34	30	45	56	59	31	36
EBIT margin (%)	6.7	7.9	2.1	6.3	8.1	4.7	5.5	5.0	6.1	10.0	9.2	5.3	6.1
EPC Projects	213	314	202	125	213	233	249	95	148	280	145	256	314
EBIT margin (%)	8.6	10.7	7.8	9.0	7.7	9.6	11.4	6.2	14.0	12.5	6.5	13.9	10.0

Source: Company, BOBCAPS Research

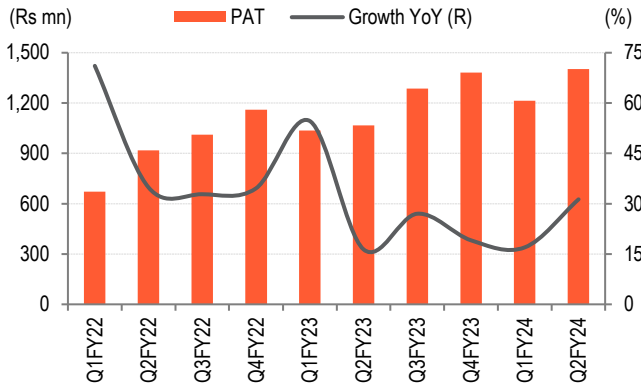
**Fig 3 – Revenue growth**

Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**

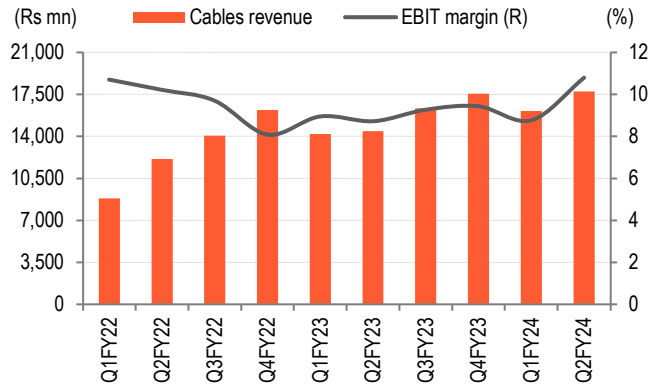
Source: Company, BOBCAPS Research

**Fig 5 – Profit growth**



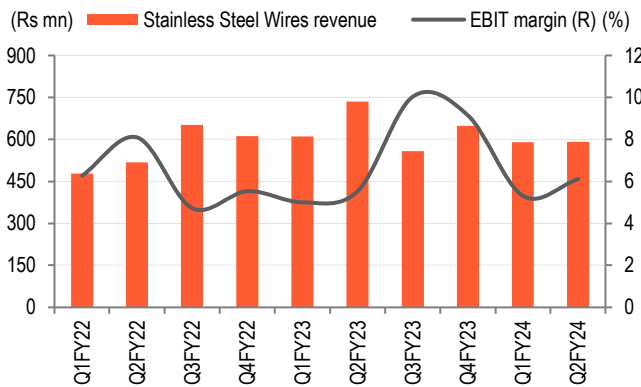
Source: Company, BOBCAPS Research

**Fig 6 – Cable division growth**



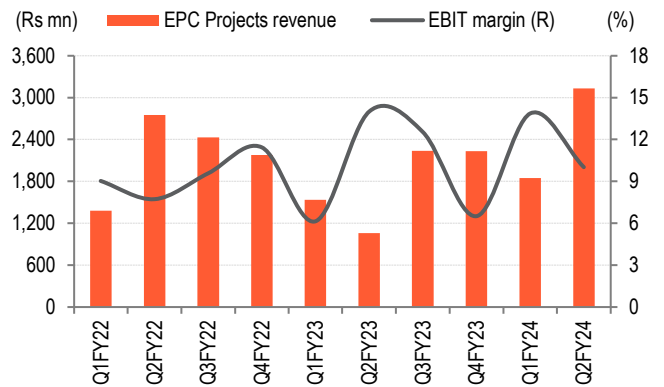
Source: Company, BOBCAPS Research

**Fig 7 – Stainless steel wire division growth**



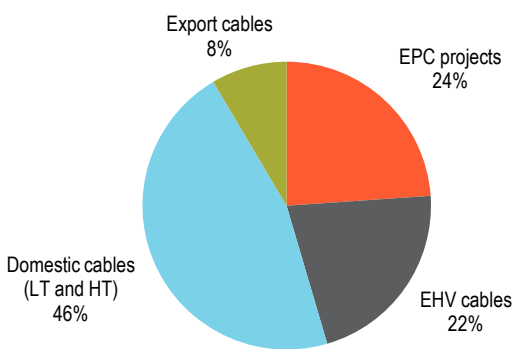
Source: Company, BOBCAPS Research

**Fig 8 – EPC projects division growth**



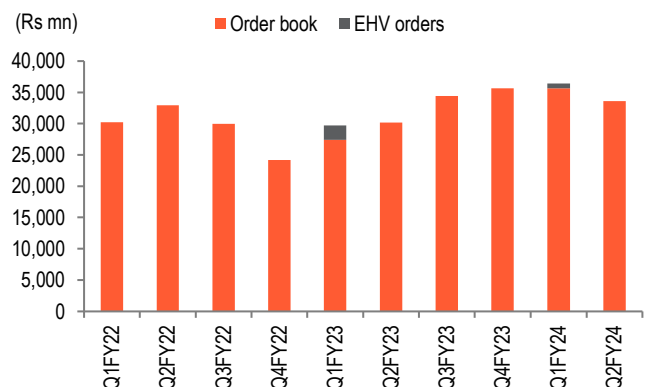
Source: Company, BOBCAPS Research

**Fig 9 – Order book bifurcation, Q2FY24**



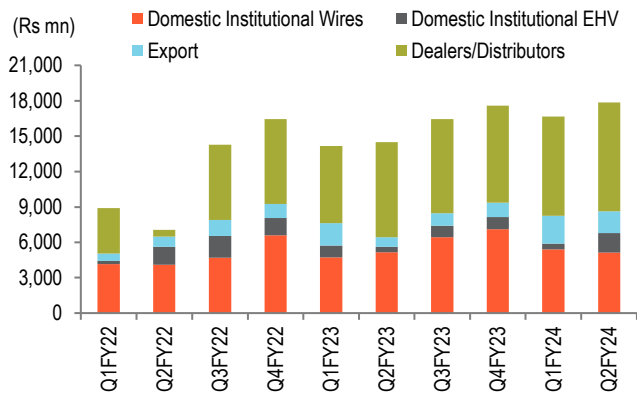
Source: Company, BOBCAPS Research | EHV: Extra-High Voltage; LT: Low Tension; HT: High Tension

**Fig 10 – Order book trend**



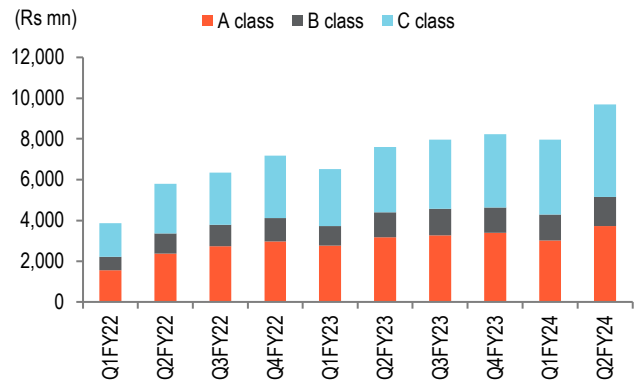
Source: Company, BOBCAPS Research

**Fig 11 – Wires segment revenue breakup: Channel mix**



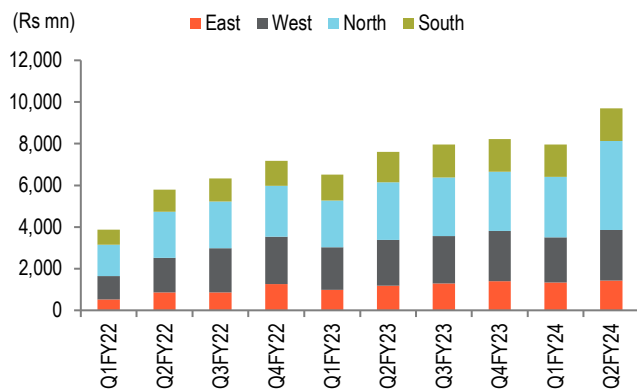
Source: Company, BOBCAPS Research

**Fig 12 – Wires segment revenue breakup: City mix**



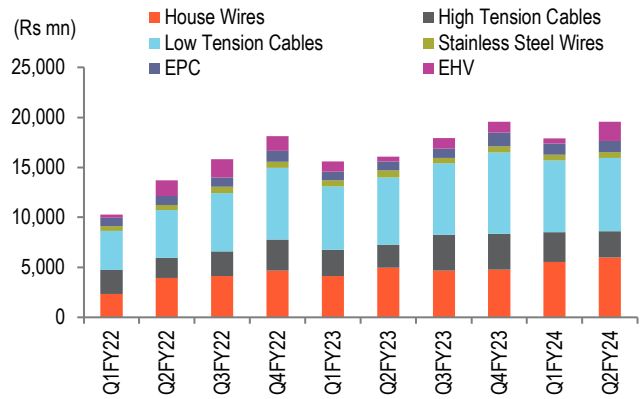
Source: Company, BOBCAPS Research

**Fig 13 – Wires segment revenue breakup: Geography mix**



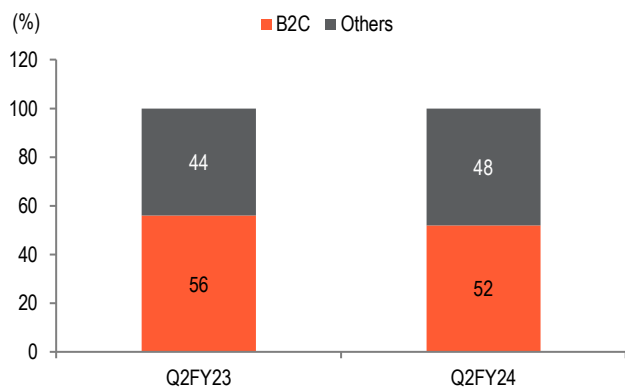
Source: Company, BOBCAPS Research

**Fig 14 – Revenue breakup: Product mix**



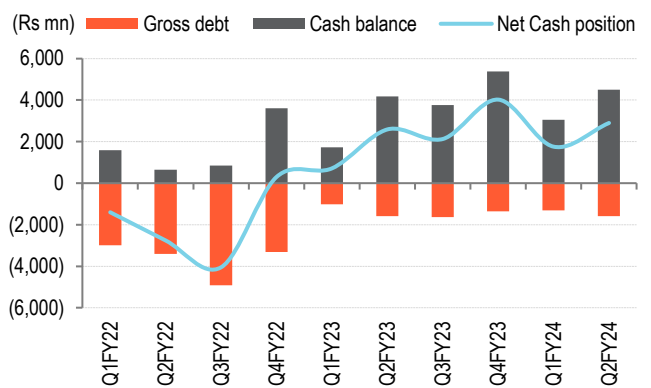
Source: Company, BOBCAPS Research

**Fig 15 – B2C Contribution, Q2FY24**



Source: Company, BOBCAPS Research

**Fig 16 – Liquidity profile**



Source: Company, BOBCAPS Research

**Fig 17 – Capex schedule**

Plant (Rs mn)	Type of expansion	Capex to be incurred			Incremental revenue potential		
		H2FY24E	FY25E	FY26E	Mar-24E	Mar-25E	Mar-26E
Chinchbada	Brownfield	670			6,100		
Pathredi	Brownfield	750	350		5,400	3,600	
Sanand	Greenfield	1,500	4,000	3,000		20,000	25,000
<b>Total</b>		<b>2,920</b>	<b>4,350</b>	<b>3,000</b>	<b>11,500</b>	<b>23,600</b>	<b>25,000</b>

Source: Company, BOBCAPS Research

## Earnings call highlights

- **Capacity utilisation:** KEI achieved utilisation of 97% in cables and 70% in house wires. Capacity has remained a constraint for the company, and it is expanding aggressively to cater to demand.
- **Exports:** The company's exports jumped 110% YoY to Rs 2.1bn during Q2FY24 (Rs 1.8bn for cables and Rs 380mn for EPC projects). Management expects exports to remain buoyant and is diverting some capacities to fulfill orders.
- **EHV:** Extra-high voltage (EHV) cables have performed well in Q2 with a topline of Rs 1.9bn. The postponement of EHV order fulfilment in the first quarter due to operational issues was a contributing factor to the 300% YoY growth in the product category. Management expects demand for EHV cables to remain robust in the medium term.
- **Cables:** The cables segment posted 23% YoY topline growth to Rs 17.8bn backed by 26% volume growth. Volume growth exceeded value growth largely due to a 10-12% YoY reduction in aluminium prices. Wires and cables are witnessing good demand from government infrastructure and real estate projects, along with export demand.
- **Outlook:** Management retained guidance of 16-17% revenue growth and a ~11% EBITDA margin for both FY24 and FY25 and expects to sustain this revenue run-rate for the next decade.
- **Capex:** The company has incurred capex of Rs 2.2bn in H1FY24 and expects to incur an additional ~Rs 2.9bn in H2.

## Valuation methodology

We maintain our FY24/FY25 forecasts for KEI while introducing FY26 projections. We continue to value the stock at a P/E multiple of 28x – in line with the five-year average – given the expected growth traction and improvement in working capital. On rolling valuations forward to Sep'25E, our TP rises to Rs 2,400 (Rs 2,300 earlier). However, considering the sharp 50% rally in stock price during FY24 YTD, we retain HOLD and wait for a lower entry point.

**Fig 18 – Key assumptions**

(Rs mn)	FY24E	FY25E	FY26E
Sales	80,781	94,765	1,09,415
EBITDA	8,735	10,758	13,037
PAT	5,558	6,940	8,509
EPS (Rs)	61.6	76.9	94.3
EBITDA Margin (%)	10.8	11.4	11.9

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

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

Key downside risks are:

- delays in capacity expansion, and
- slowdown in retail business expansion.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.2	2,934	2,900	HOLD
Blue Star	BLSTR IN	2.1	885	1,100	BUY
Crompton Greaves	CROMPTON IN	2.2	282	360	BUY
Dixon Technologies	DIXON IN	3.7	5,102	6,300	BUY
Havells India	HAVL IN	9.5	1,246	1,600	BUY
KEI Industries	KEI IN	2.6	2,402	2,400	HOLD
Orient Electric	ORIENTEL IN	0.6	218	250	HOLD
Polycab India	POLYCAB IN	9.0	4,922	6,100	BUY
V-Guard Industries	VGRD IN	1.6	300	290	HOLD
Voltas	VOLT IN	3.4	838	910	HOLD

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

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>57,266</b>	<b>69,123</b>	<b>80,781</b>	<b>94,765</b>	<b>1,09,415</b>
EBITDA	5,887	7,062	8,735	10,758	13,037
Depreciation	555	571	594	617	642
EBIT	5,333	6,491	8,142	10,141	12,395
Net interest inc./(exp.)	404	347	1,010	1,185	1,368
Other inc./(exp.)	146	276	298	322	348
Exceptional items	0	0	0	0	0
EBT	5,075	6,420	7,430	9,278	11,375
Income taxes	1,315	1,647	1,872	2,338	2,867
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>3,760</b>	<b>4,773</b>	<b>5,558</b>	<b>6,940</b>	<b>8,509</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,760</b>	<b>4,773</b>	<b>5,558</b>	<b>6,940</b>	<b>8,509</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,626	7,482	12,172	12,981	14,988
Other current liabilities	2,387	2,295	4,426	5,193	5,995
Provisions	0	0	0	0	0
Debt funds	3,314	1,399	1,899	1,799	1,699
Other liabilities	589	634	741	870	1,004
Equity capital	180	180	180	180	180
Reserves & surplus	21,175	25,711	30,908	37,488	45,636
Shareholders' fund	21,355	25,892	31,089	37,668	45,816
<b>Total liab. and equities</b>	<b>35,271</b>	<b>37,702</b>	<b>50,328</b>	<b>58,511</b>	<b>69,503</b>
Cash and cash eq.	3,600	5,372	6,567	6,813	9,163
Accounts receivables	13,955	13,878	18,148	20,770	23,981
Inventories	10,794	11,023	14,828	17,395	20,084
Other current assets	1,261	1,341	1,795	2,106	2,431
Investments	20	13	15	17	20
Net fixed assets	5,313	5,673	8,530	10,912	13,270
CWIP	165	146	146	146	146
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	162	257	300	352	406
<b>Total assets</b>	<b>35,270</b>	<b>37,702</b>	<b>50,328</b>	<b>58,511</b>	<b>69,503</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>2,286</b>	<b>5,139</b>	<b>4,444</b>	<b>3,633</b>	<b>5,734</b>
Capital expenditures	(596)	(977)	(3,450)	(3,000)	(3,000)
Change in investments	(9)	9	(2)	(3)	(3)
Other investing cash flows	22	(404)	64	76	80
<b>Cash flow from investing</b>	<b>(584)</b>	<b>(1,371)</b>	<b>(3,388)</b>	<b>(2,926)</b>	<b>(2,923)</b>
Equities issued/Others	667	20	0	0	0
Debt raised/repaid	56	(1,961)	500	(100)	(100)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(1,037)	(618)	(361)	(361)	(361)
<b>Cash flow from financing</b>	<b>(314)</b>	<b>(2,559)</b>	<b>139</b>	<b>(461)</b>	<b>(461)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,389</b>	<b>1,208</b>	<b>1,195</b>	<b>246</b>	<b>2,351</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,600</b>	<b>5,372</b>	<b>6,567</b>	<b>6,813</b>	<b>9,163</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	41.5	52.9	61.6	76.9	94.3
Adjusted EPS	41.5	52.9	61.6	76.9	94.3
Dividend per share	2.5	3.0	4.0	4.0	4.0
Book value per share	235.5	287.1	344.7	417.7	508.0

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	3.1	2.7	2.3	2.0
EV/EBITDA	36.7	30.7	25.3	20.6	17.0
Adjusted P/E	58.0	45.4	39.0	31.2	25.5
P/BV	10.2	8.4	7.0	5.8	4.7

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	74.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	95.2	98.9	91.3	91.5	91.8
EBIT margin (EBIT/Revenue)	9.3	9.4	10.1	10.7	11.3
Asset turnover (Rev./Avg TA)	175.1	189.5	183.5	174.1	170.9
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.5	1.6	1.5
Adjusted ROAE	19.2	20.2	19.5	20.2	20.4

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	36.9	20.7	16.9	17.3	17.0
EBITDA	27.9	19.9	23.7	23.2	21.2
Adjusted EPS	37.6	27.0	16.4	24.9	22.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.3	10.2	10.8	11.4	11.9
EBIT margin	9.3	9.4	10.1	10.7	11.3
Adjusted profit margin	6.6	6.9	6.9	7.3	7.8
Adjusted ROAE	19.2	20.2	19.5	20.2	20.4
ROCE	24.3	24.5	25.0	25.8	26.0
<b>Working capital days (days)</b>					
Receivables	89	73	82	80	80
Inventory	69	58	67	67	67
Payables	49	40	55	50	50
<b>Ratios (x)</b>					
Gross asset turnover	7.4	8.0	6.7	6.3	6.1
Current ratio	2.2	2.8	2.3	2.5	2.5
Net interest coverage ratio	13.2	18.7	8.1	8.6	9.1
Adjusted debt/equity	0.0	(0.2)	(0.2)	(0.1)	(0.2)

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

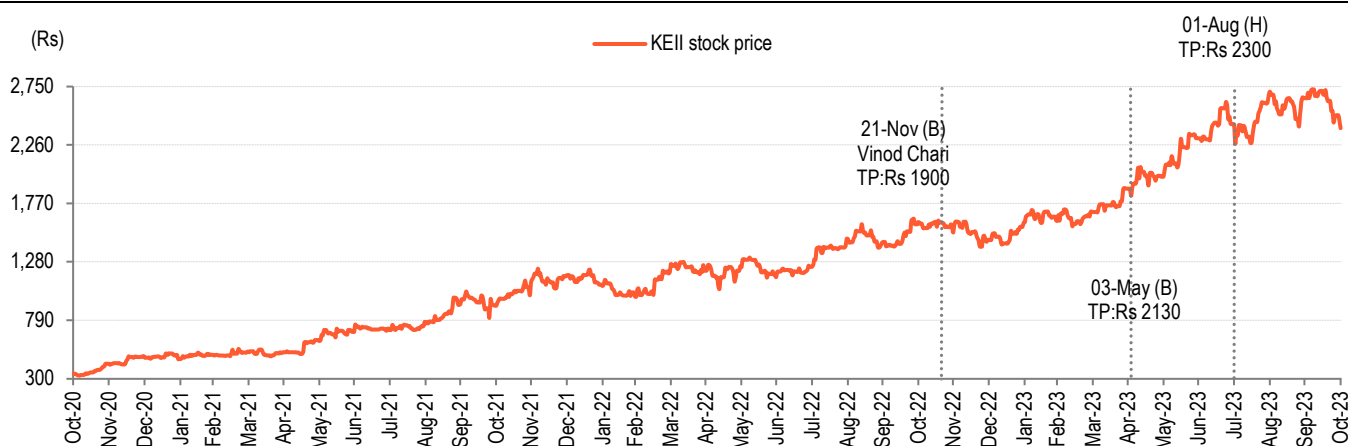
**HOLD** – Expected return from -6% to +15%

**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 (KEII IN)



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

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