

HOLD
 TP: Rs 3,120 | ▼ 6%

KEI INDUSTRIES

Consumer Durables

24 January 2024

Decent quarter; maintain HOLD

- Q3 revenue grew 16% YoY with 30bps EBITDA margin expansion; order book up 11% on strong domestic demand
- FY24 guidance of 16-17% revenue growth and 11% EBITDA margin maintained; annual capex to continue at Rs 5bn-6bn
- We raise FY24-FY26 EPS 4-8% and roll to a 33x P/E multiple on Dec'25E (vs. 28x) for a new TP of Rs 3,120 (vs. Rs 2,400); retain HOLD

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Decent quarter: KEII posted Q3FY24 revenue of Rs 20.6bn, an increase of 15.5% YoY and 11.9% on a 4Y CAGR basis. Gross margin expanded 60bps YoY to 23.8% and EBITDA margin increased 30bps YoY to 10.5%. Adj. PAT at Rs 1.5bn grew 17% YoY, making for a 4Y CAGR of 20%. The company's order book moved up 11% YoY and 13.8% QoQ to Rs 38.3bn.

Cables revenue sound: Cables business revenue at Rs 18.7bn increased 14.4% YoY, as against 16.8% YoY for POLYCAB and 11.4% for HAVL. Segmental EBIT margin rose 120bps YoY to 10.6%, compared to a flat margin for HAVL at 10.4% and 30bps expansion for POLYCAB to 14%.

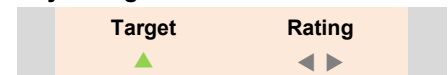
Guidance retained: Management maintained guidance of 16-17% revenue growth for the next few years and an ~11% EBITDA margin for FY24 and FY25. KEII sees scope for improving margins by a further 50-75bps.

Tackling a capacity crunch: In our view, the key reason KEII lags peers is a lack of capacity. During Q3, the company operated at 95% utilisation in cables and 70% in house wires, which affected volume growth. This was partly addressed in Q2FY24 when brownfield expansion for high- and low-tension wires came onstream. The company is incurring further capex to tackle the capacity crunch – it spent Rs 3bn in 9MFY24, with another ~Rs 1.5bn planned for Q4FY24 and Rs 5bn-6bn guided for FY25.

Demand outlook positive: Management sees substantial export opportunities and expects domestic demand for wires and cables to sustain on the back of continuing private and public sector capex. Demand from key verticals such as highways, metros, hotels, hospitals and other real estate is gaining traction as well.

Maintain HOLD: We raise our FY24-FY26 EPS estimates by 4-8% post Q3 and now value the stock at 33x P/E (vs. 28x earlier) – in line with the sector average and at a 15% discount to POLYCAB. On rolling valuations over to Dec'25E, we arrive at a higher TP of Rs 3,120 (vs. Rs 2,400). However, given the sharp 32% run-up in stock price during the last quarter, we maintain our HOLD rating.

Key changes



Ticker/Price	KEII IN/Rs 3,315
Market cap	US\$ 3.6bn
Free float	61%
3M ADV	US\$ 12.5mn
52wk high/low	Rs 3,419/Rs 1,508
Promoter/FPI/DII	37%/27%/20%

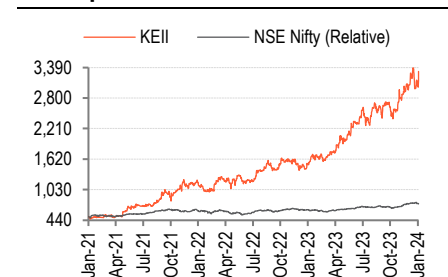
Source: NSE | Price as of 24 Jan 2024

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	10,947
Adj. net profit (Rs mn)	4,773	6,001	7,409
Adj. EPS (Rs)	52.9	66.5	82.2
Consensus EPS (Rs)	52.9	65.3	79.9
Adj. ROAE (%)	20.2	20.9	21.1
Adj. P/E (x)	62.6	49.8	40.3
EV/EBITDA (x)	42.4	34.7	27.6
Adj. EPS growth (%)	27.0	25.7	23.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

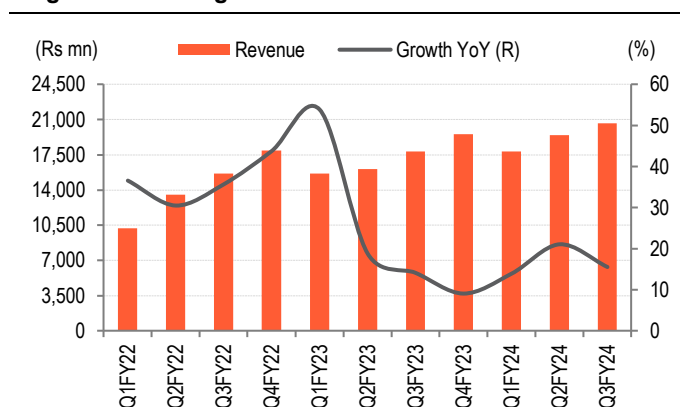
Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	20,617	17,843	15.5	19,466	5.9	57,909	49,578	16.8
EBITDA	2,169	1,822	19.1	2,039	6.4	5,990	5,023	19.3
EBITDA Margin (%)	10.5	10.2	30bps	10.5	0bps	10.3	10.1	20bps
Depreciation	154	144		156		456	428	
Interest	109	78		75		274	246	
Other Income	118	138		77		278	226	
PBT	2,024	1,737	16.5	1,884	7.4	5,538	4,575	21.1
Tax	518	451		482		1,416	1,183	
Adjusted PAT	1,507	1,286	17.2	1,402	7.5	4,122	3,391	21.6
Exceptional item	0	0		0		0	0	
Reported PAT	1,507	1,286		1,402		4,122	3,391	21.6
Adj. PAT Margin (%)	7.3	7.2	10bps	7.2	10bps	7.1	6.8	30bps
EPS (Rs)	16.7	14.3		15.6		45.7	37.6	21.6

Source: Company, BOBCAPS Research

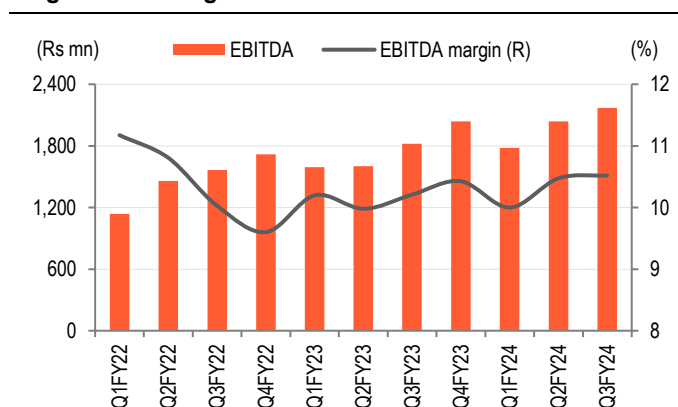
Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Segment revenue											
Cables	8,844	12,112	14,059	16,214	14,206	14,445	16,334	17,555	16,119	17,755	18,691
Growth YoY (%)	36.9	39.1	42.0	51.9	60.6	19.3	16.2	8.2	13.5	22.9	14.4
Stainless Steel Wires	478	518	652	612	610	735	557	649	590	591	465
Growth YoY (%)	130.2	54.4	58.2	32.5	27.6	42.0	(14.5)	6.0	(3.2)	(19.6)	(16.7)
EPC Projects	1,379	2,754	2,428	2,174	1,536	1,059	2,234	2,232	1,847	3,131	3,769
Growth YoY (%)	(21.8)	11.2	(17.1)	(16.3)	11.4	(61.6)	(8.0)	2.6	20.2	195.8	68.7
EBIT											
Cables	947	1,238	1,366	1,312	1,274	1,261	1,515	1,658	1,415	1,919	1,979
EBIT margin (%)	10.7	10.2	9.7	8.1	9.0	8.7	9.3	9.4	8.8	10.8	10.6
Stainless Steel Wires	30	42	31	34	30	45	56	59	31	36	36
EBIT margin (%)	6.3	8.1	4.7	5.5	5.0	6.1	10.0	9.2	5.3	6.1	7.8
EPC Projects	125	213	233	249	95	148	280	145	256	314	439
EBIT margin (%)	9.0	7.7	9.6	11.4	6.2	14.0	12.5	6.5	13.9	10.0	11.6

Source: Company, BOBCAPS Research

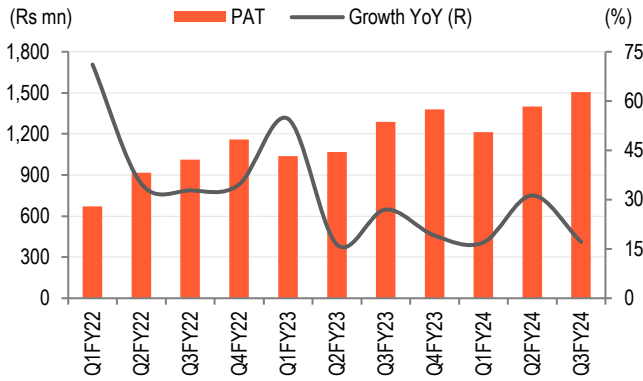
Fig 3 – Revenue growth

Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth

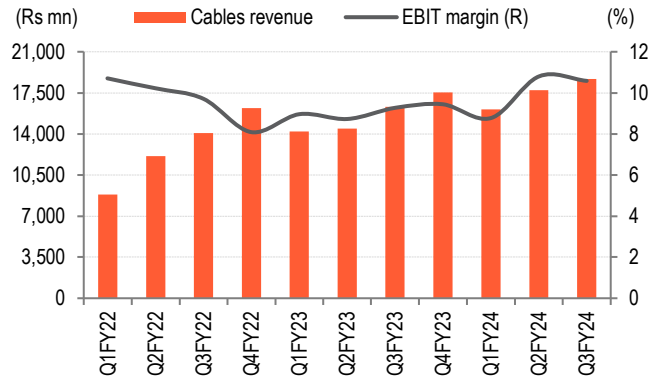
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



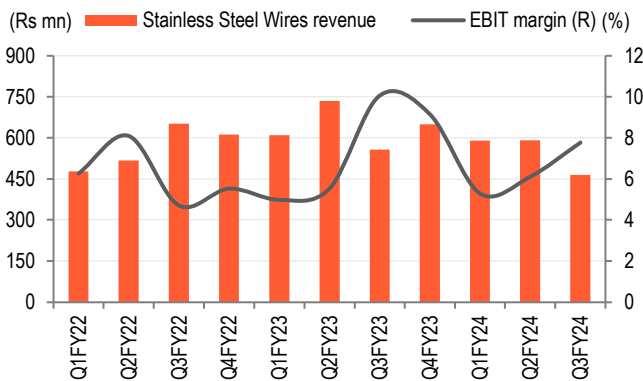
Source: Company, BOBCAPS Research

Fig 6 – Cables division growth



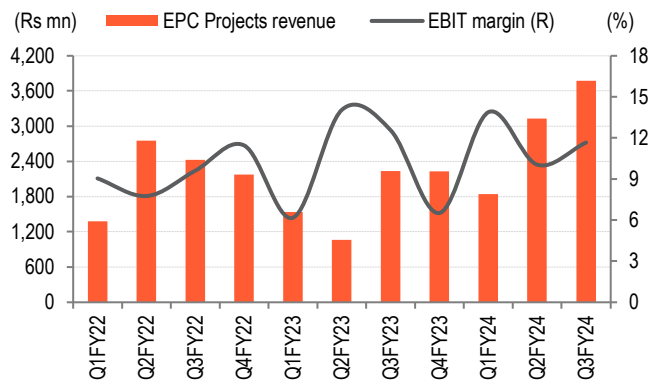
Source: Company, BOBCAPS Research

Fig 7 – Stainless steel wires division growth



Source: Company, BOBCAPS Research

Fig 8 – EPC projects division growth



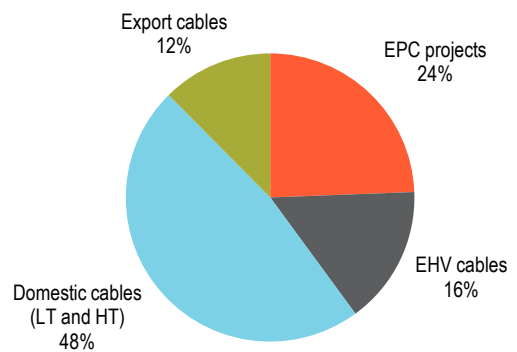
Source: Company, BOBCAPS Research

Fig 9 – Order book trend



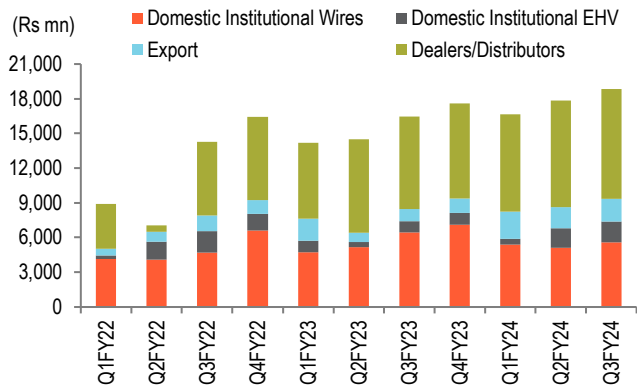
Source: Company, BOBCAPS Research

Fig 10 – Order book bifurcation, Q3FY24



Source: Company, BOBCAPS Research

Fig 11 – Wires segment revenue: Channel mix



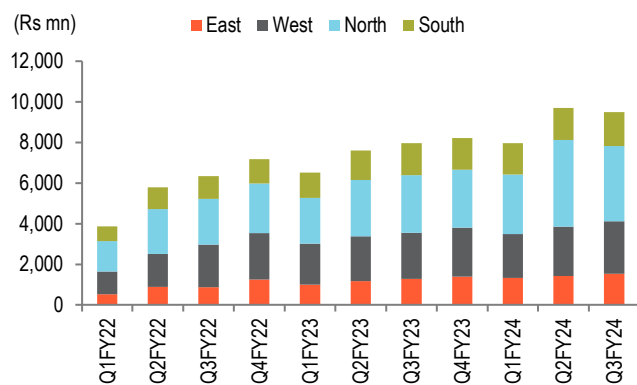
Source: Company, BOBCAPS Research

Fig 12 – Wires segment revenue: City mix



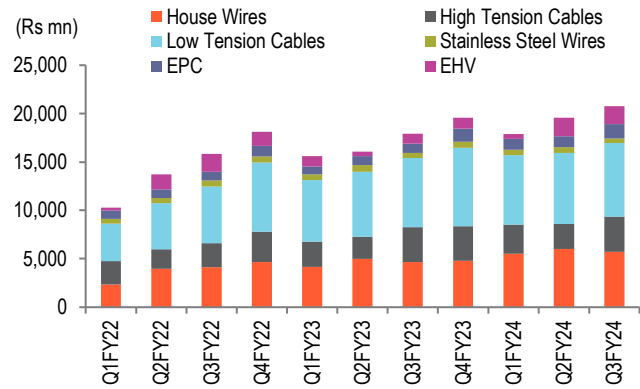
Source: Company, BOBCAPS Research

Fig 13 – Wires segment revenue: Geography mix



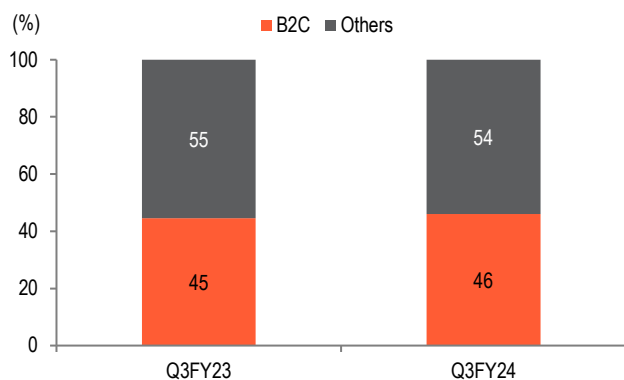
Source: Company, BOBCAPS Research

Fig 14 – Revenue breakup: Product mix



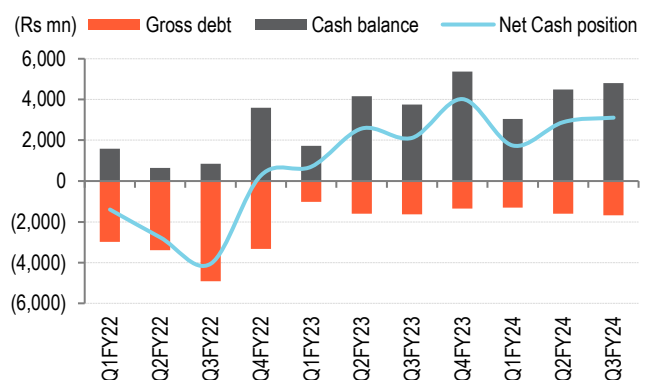
Source: Company, BOBCAPS Research

Fig 15 – B2C contribution, Q3FY24



Source: Company, BOBCAPS Research

Fig 16 – Liquidity profile



Source: Company, BOBCAPS Research

Fig 17 – Capex

Plant (Rs mn)	Type of expansion	Capex declared to be incurred				Incremental revenue potential		
		Q3FY24	Q4FY24	FY25	FY26	Mar-24	Mar-25	Mar-26
Chinchbada	Brownfield	650				6,100		
Pathredi	Brownfield	300		350		5,400	3,600	
Sanand	Greenfield	1,670		4,000-5,000	3,000		20,000	25,000
Total			1,500	~5,000	3,000	11,500	23,600	25,000

Source: Company, BOBCAPS Research

Earnings call highlights

- **Guidance:** Management retained guidance of 16-17% revenue growth for the next few years and an ~11% EBITDA margin for FY24 and FY25 as it sees scope for margin improvement to the tune of 50-75bps.
- **Demand outlook:** Management foresees substantial export opportunities and expects domestic demand for wires and cables to sustain on the back of continuing private and public sector capex. Demand from key verticals such as highways, metros and railways is rising. In construction, large projects such as hotels, hospitals and other real estate are gaining traction as well. Demand for small wires is likely to come from home solar projects.
- **Capacity utilisation:** KEII achieved utilisation of 95% in cables and 70% in house wires during Q3FY24. Capacity has remained a constraint for the company and it is expanding aggressively to cater to demand.
- **Cables:** The cables segment posted 14.4% YoY topline growth to Rs 18.7bn backed by 13% volume growth in Q3FY24 (22% volume growth in 9MFY24). Wires and cables are witnessing good demand from government infrastructure and real estate projects, along with export demand. Additionally, increased investment in telecom infrastructure is promoting growth in the electrical cables industry.
- **Price differential:** KEII's products are 3-5% cheaper than its domestic peers, and management expects to eliminate this gap through a ~1% price increase per annum starting FY25.
- **Industry contrarian:** The company excels in housing wires in comparison to cables, while the industry is seeing the opposite trend. Management believes this stems from an improving geographical push within the country and a low base effect for KEII when compared to competitors such as HAVL and POLYCAB.
- **EHV:** Extra-high voltage (EHV) cables did well in Q3 with a Rs 1.8bn topline.
- **HVDC cables:** KEII will introduce high-voltage direct current (HVDC) cables as development capabilities are built in Sanand (Gujarat), to be used in underground transmission networks. The company currently supplies wires and cables to transmission projects for use in substations.
- **Thermal opportunity:** The company will continue to supply cables to thermal projects as the government plans to add more coal-based power capacities over the next few years. Cable orders for an 800MW thermal project can range from Rs 150mn to Rs 200mn.
- **Exports:** Exports totalled Rs 2.6bn in Q3FY24 (Rs 1.9bn for cables and Rs 690mn for engineering, procurement and construction or EPC projects). Management expects exports to remain robust and is diverting some capacities to fulfill orders.
- **Freight:** The ongoing freight issues globally do not appear to be affecting KEII's operations as the price of cables, a high value item, is not impacted by more than 1-2%. Management does not foresee any impact on topline or margin as any increase in freight will be a pass-through cost.
- **Dealers:** The company has ~1,975 active dealers.

Valuation methodology

Post Q3FY24, we raise our FY24/FY25/FY26 EPS estimates for KEII by 8%/7%/4%. We also roll valuations over to Dec'25E and now ascribe the stock a P/E multiple of 33x from 28x earlier, yielding a higher TP of Rs 3,120 (vs. Rs 2,400). However, given the sharp 32% run-up in stock price during the last quarter, we maintain our HOLD rating.

Note that our target multiple for KEII has been reset to align it with the average sector multiple (RR KABEL, POLYCAB, FNLX, KEII) and is also at a 15% discount to sector leader POLYCAB, which has better market share and ROCE.

Fig 18 – Peer comparison

Companies	FY23-FY26E CAGR (%)			ROE (%)		ROCE (%)		Market share#
	Revenue	EBITDA	PAT	FY23	FY26E	FY23	FY26E	FY23
POLYCAB	18.0	20.0	22.0	20.0	22.0	27.0	27.0	16.0
RRKABEL [^]	20.0	39.0	44.0	20.3	23.3	15.6	27.2	5.0
KEII	17.0	25.0	22.0	20.2	21.1	25.8	25.3	8.0
FNXC	18.0	23.0	21.0	14.4	17.6	18.5	15.0*	6.0
HAVL	14.0	21.0	23.0	17.0	22.0	22.3	22.9	8.0
VGRD	14.0	23.0	30.0	12.0	19.0	14.5	20.8	4.0

Source: Company, BOBCAPS Research | [^]RR Kabel DRHP, *FY25E, #Organised market

Fig 19 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	80,781	94,765	1,09,415	80,781	94,765	1,09,415	0.0	0.0	0.0
EBITDA	8,735	10,947	13,037	8,735	10,758	13,037	0.0	1.8	0.0
PAT	6,001	7,409	8,823	5,558	6,940	8,509	8.0	6.8	3.7
EPS (Rs)	66.5	82.2	97.8	61.6	76.9	94.3	8.0	6.8	3.7
EBITDA Margin (%)	10.8	11.6	11.9	10.8	11.4	11.9	0bps	20bps	0bps

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- better margins than guided, and
- faster growth in B2C business.

Key downside risks are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	57,266	69,123	80,781	94,765	1,09,415
EBITDA	5,887	7,062	8,735	10,947	13,037
Depreciation	555	571	594	605	618
EBIT	5,333	6,491	8,142	10,342	12,419
Net interest inc./(exp.)	404	347	406	758	985
Other inc./(exp.)	146	276	287	322	360
Exceptional items	0	0	0	0	0
EBT	5,075	6,420	8,023	9,906	11,795
Income taxes	1,315	1,647	2,022	2,496	2,972
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,760	4,773	6,001	7,409	8,823
Adjustments	0	0	0	0	0
Adjusted net profit	3,760	4,773	6,001	7,409	8,823

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	31,352	38,401	46,862
Shareholders' fund	21,355	25,892	31,532	38,581	47,043
Total liab. and equities	35,271	37,702	50,772	59,424	70,730
Cash and cash eq.	3,600	5,372	5,460	4,164	6,804
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	10,080	14,474	16,857
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
Total assets	35,270	37,702	50,772	59,424	70,730

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,286	5,139	4,888	4,090	6,024
Capital expenditures	(596)	(977)	(5,000)	(5,000)	(3,000)
Change in investments	(9)	9	(2)	(3)	(3)
Other investing cash flows	22	(404)	64	76	80
Cash flow from investing	(584)	(1,371)	(4,938)	(4,926)	(2,923)
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)
Cash flow from financing	(314)	(2,559)	139	(461)	(461)
Chg in cash & cash eq.	1,389	1,208	89	(1,297)	2,641
Closing cash & cash eq.	3,600	5,372	5,460	4,164	6,804

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	41.5	52.9	66.5	82.2	97.8
Adjusted EPS	41.5	52.9	66.5	82.2	97.8
Dividend per share	2.5	3.0	4.0	4.0	4.0
Book value per share	235.5	287.1	349.6	427.8	521.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.2	4.3	3.8	3.2	2.8
EV/EBITDA	50.7	42.4	34.7	27.6	23.1
Adjusted P/E	80.0	62.6	49.8	40.3	33.9
P/BV	14.1	11.5	9.5	7.7	6.4

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	98.5	95.8	95.0
EBIT margin (EBIT/Revenue)	9.3	9.4	10.1	10.9	11.4
Asset turnover (Rev./Avg TA)	175.1	189.5	182.6	172.0	168.1
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.5	1.6	1.5
Adjusted ROAE	19.2	20.2	20.9	21.1	20.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	36.9	20.7	16.9	17.3	17.0
EBITDA	27.9	19.9	23.7	25.3	19.1
Adjusted EPS	37.6	27.0	25.7	23.5	19.1
Profitability & Return ratios (%)					
EBITDA margin	10.3	10.2	10.8	11.6	11.9
EBIT margin	9.3	9.4	10.1	10.9	11.4
Adjusted profit margin	6.6	6.9	7.4	7.8	8.1
Adjusted ROAE	19.2	20.2	20.9	21.1	20.6
ROCE	24.3	24.5	24.6	25.7	25.4
Working capital days (days)					
Receivables	89	73	82	80	80
Inventory	69	58	67	67	67
Payables	49	40	55	50	50
Ratios (x)					
Gross asset turnover	7.4	8.0	5.9	5.1	5.1
Current ratio	2.2	2.8	2.3	2.3	2.4
Net interest coverage ratio	13.2	18.7	20.1	13.6	12.6
Adjusted debt/equity	0.0	(0.2)	(0.1)	(0.1)	(0.1)

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

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

BUY – Expected return >+15%

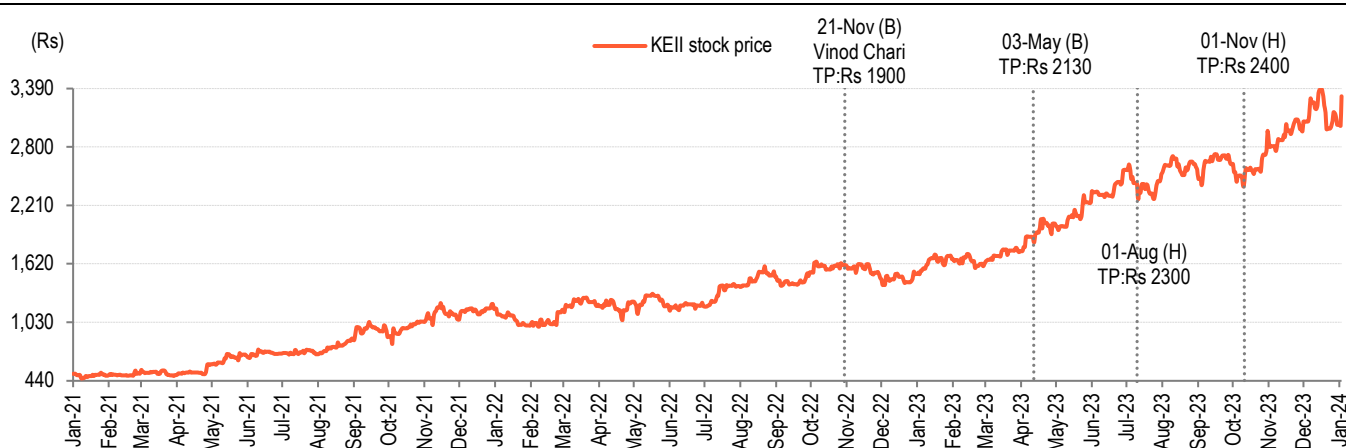
HOLD – Expected return from -6% to +15%

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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