

**BUY**

TP: Rs 2,130 | ▲ 16%

**KEI INDUSTRIES**

Consumer Durables

03 May 2023

## Momentum continues; capacity addition to spur growth

- Traction in cable business buoyed Q4 topline growth; EHV set to bounce back in FY24
- Revenue growth guidance of 16-17% with 11% EBITDA margin for FY24; capex of Rs 2.5bn-3bn/year
- We pare FY24/FY25 EPS by 3%/2% to be with margin guidance and roll over to a new TP of Rs 2,130 (vs. Rs 1,900); maintain BUY

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**Traction maintained:** KEII posted a fair set of numbers for Q4FY23 wherein the topline came in ahead of our expectations at Rs 19.5bn (8.5% beat) and EBITDA margin was in line at 10.4%. The topline was supported by 13% YoY volume growth amidst easing metal prices. The cable and stainless-steel segments registered 8% and 6% YoY growth to Rs 17.6bn and Rs 649mn respectively while EPC project business remained flat at Rs 2.2bn (+3% YoY). Pending orders moved up to Rs 35.7bn vs. Rs 34bn in Q3FY23.

**EHV business set to bounce back:** Extra high voltage (EHV) product sales at Rs 3.6bn in FY23 have lagged vs. Rs 5.1bn the previous year owing to project delays. Management indicated that the business has an order book of Rs 8.5bn which combines projects from both domestic as well as international regions. As the delayed orders get booked and new orders flow in, we estimate that EHV sales will rise to Rs 5bn-6bn in FY24.

**Retail nearly at par with institutional wire business:** Management's efforts to scale up the retail business are visible from the segment's improving contribution to total sales, from ~34% in FY21 to ~44% in FY23, against lower institutional sales. The company further aims to bolster retail share to 50% over the medium term.

**Strong growth prospects...:** KEII has guided for robust 16-17% revenue growth in FY24 primarily based on the capacity addition at its Silvassa plant and other greenfield expansion projects. Management's strategy of expanding its retail business also augurs well for the company. Further, the capex boost in both private and public sectors is turning beneficial for KEII's core cable and EPC businesses, and is likely to continue in FY24.

**...maintain BUY:** We raise FY24/FY25 revenue estimates by 1%/4% while bringing EBITDA margin assumptions in line with guidance, translating to a 3%/2% cut in EPS. We concurrently raise our target P/E multiple to 28x (25x earlier) given the growth traction and improvement in working capital, while rolling valuations forward to FY25E, taking our TP to Rs 2,130 (Rs 1,900 earlier) – maintain BUY.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KEII IN/Rs 1,836
Market cap	US\$ 2.0bn
Free float	61%
3M ADV	US\$ 3.9mn
52wk high/low	Rs 1,940/Rs 1,040
Promoter/FPI/DII	37%/27%/20%

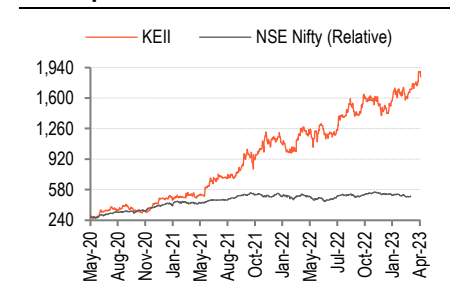
Source: NSE | Price as of 3 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	69,123	80,048	93,909
EBITDA (Rs mn)	7,062	8,634	10,638
Adj. net profit (Rs mn)	4,773	5,489	6,858
Adj. EPS (Rs)	52.9	60.9	76.0
Consensus EPS (Rs)		64.9	85.3
Adj. ROAE (%)	20.2	19.3	20.0
Adj. P/E (x)	34.7	30.2	24.1
EV/EBITDA (x)	23.5	19.6	16.0
Adj. EPS growth (%)	27.0	15.0	25.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	19,545	17,917	9.1	17,843	9.5	69,123	57,266	20.7
EBITDA	2,038	1,720	18.5	1,822	11.9	7,062	5,887	19.9
<b>EBITDA Margin (%)</b>	<b>10.4</b>	<b>9.6</b>	<b>80bps</b>	<b>10.2</b>	<b>20bps</b>	<b>10.2</b>	<b>10.3</b>	<b>(10bps)</b>
Depreciation	143	139	-	144	-	571	555	-
Interest	101	101	-	78	-	347	404	-
Other Income	51	78	-	138	-	276	146	-
PBT	1,845	1,559	18.3	1,737	6.2	6,420	5,075	26.5
Tax	464	399	-	451	-	1,647	1,315	-
Adjusted PAT	1,381	1,160	19.1	1,286	7.4	4,773	3,760	26.9
Exceptional item	0	0	-	0	-	0	0	-
Reported PAT	1,381	1,160	-	1,286	-	4,773	3,760	26.9
<b>Adj. PAT Margin (%)</b>	<b>7.1</b>	<b>6.5</b>	<b>60bps</b>	<b>7.2</b>	<b>(10bps)</b>	<b>6.9</b>	<b>6.6</b>	<b>30bps</b>
EPS (Rs)	15.3	12.9	-	14.3	-	53.0	41.7	26.9

Source: Company, BOBCAPS Research

**Fig 2 – Actual vs. Estimates**

Particulars	Actual	Estimates	Variance (%)
Revenue	19,545	18,021	8.5
EBITDA	2,038	1,875	8.7
EBITDA Margin (%)	10.4	10.4	0bps
Adj. PAT	1,381	995	38.8

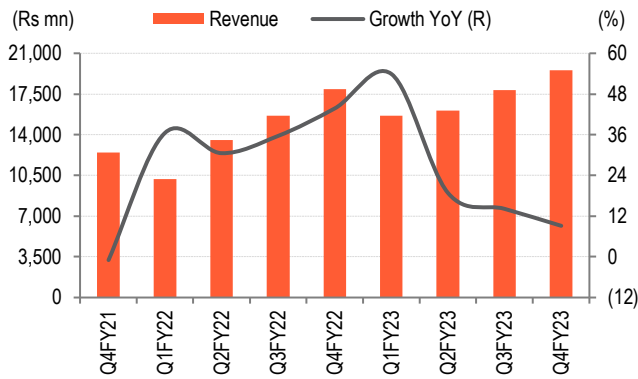
Source: Company, BOBCAPS Research

**Fig 3 – Segment-wise performance**

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Segment revenue</b>													
Cables	10,332	6,463	8,707	9,899	10,675	8,844	12,112	14,059	16,214	14,206	14,445	16,334	17,555
Growth YoY (%)	6.0	(24.4)	(12.5)	(10.0)	3.3	36.9	39.1	42.0	51.9	60.6	19.3	16.2	8.2
Stainless Steel Wires	393	208	335	412	462	478	518	652	612	610	735	557	649
Growth YoY (%)	5.8	(34.7)	(1.1)	26.6	17.5	130.2	54.4	58.2	32.5	27.6	42.0	(14.5)	6.0
EPC Projects	3,701	1,763	2,477	2,929	2,597	1,379	2,754	2,428	2,174	1,536	1,059	2,234	2,232
Growth YoY (%)	(4.2)	(42.6)	(22.8)	(26.5)	(29.8)	(21.8)	11.2	(17.1)	(16.3)	11.4	(61.6)	(8.0)	2.6
<b>EBIT</b>													
Cables	1,149	774	1,117	1,253	999	947	1,238	1,366	1,312	1,274	1,261	1,515	1,658
EBIT margin (%)	11.1	12.0	12.8	12.7	9.4	10.7	10.2	9.7	8.1	9.0	8.7	9.3	9.4
Stainless Steel Wires	42	20	22	32	10	30	42	31	34	30	45	56	59
EBIT margin (%)	10.8	9.5	6.7	7.9	2.1	6.3	8.1	4.7	5.5	5.0	6.1	10.0	9.2
EPC Projects	409	178	213	314	202	125	213	233	249	95	148	280	145
EBIT margin (%)	11.0	10.1	8.6	10.7	7.8	9.0	7.7	9.6	11.4	6.2	14.0	12.5	6.5

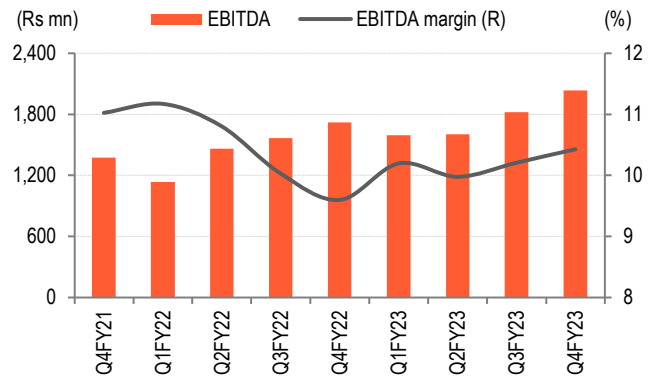
Source: Company, BOBCAPS Research

**Fig 4 – Revenue growth**



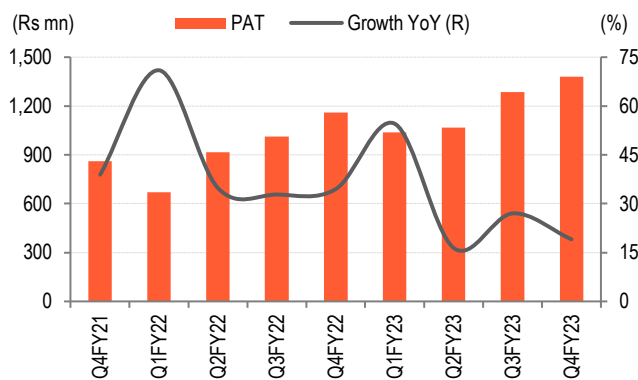
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA growth**



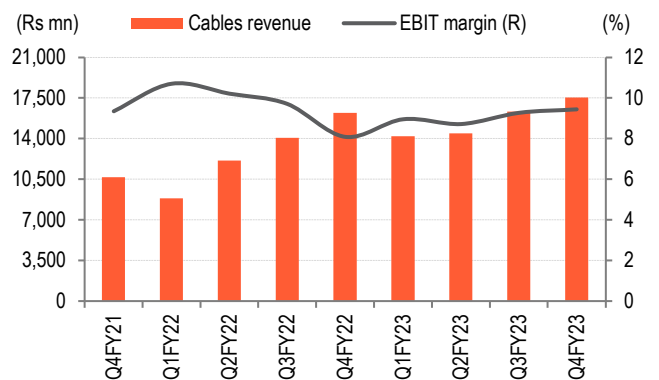
Source: Company, BOBCAPS Research

**Fig 6 – Profitability growth**



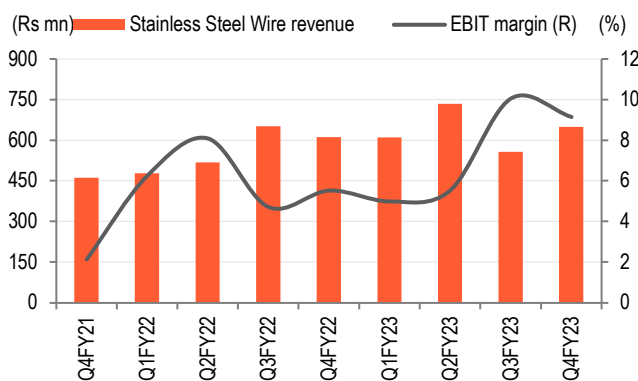
Source: Company, BOBCAPS Research

**Fig 7 – Cable division**



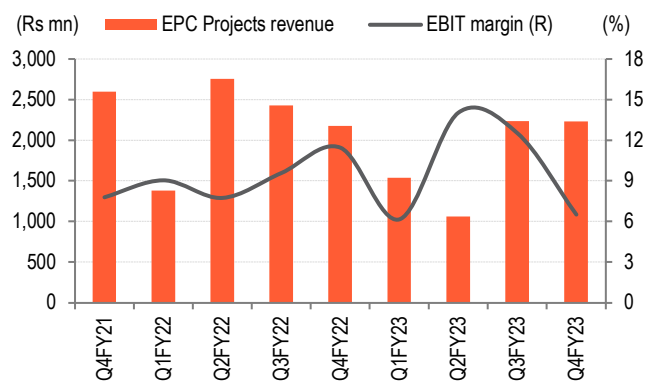
Source: Company, BOBCAPS Research

**Fig 8 – Stainless steel wire division**



Source: Company, BOBCAPS Research

**Fig 9 – EPC projects division**



Source: Company, BOBCAPS Research

## Earnings call takeaways

- **Volumes:** KEI posted 13% YoY volume growth in cables and wires for Q4FY23, and a 20% uptick for FY23. Value growth was lower in the house wires segment due to a decrease in copper prices.
- **Demand:** The company expects strong demand for cables in FY24, backed by growth in solar energy, power transmission and distribution, visible demand from manufacturing companies, and private capex in steel, oil and gas, petrochemicals and miscellaneous industries. Demand will also come from data centres, 5G networks, urban rail transport systems, and highway construction as overhead lines are replaced by underground ones.
- **Guidance:** Management has guided for topline growth of 16-17% for FY24, and expects the house wire business to outpace overall company growth, irrespective of copper price volatility. The company anticipates an EBITDA margin of 11% for the year and aims to expand margins by 150bps over the next five years as retail and export contributions to sales climb higher.
- **Dealer contribution:** The dealer channel contributed ~44% to sales during the year, and KEI expects this share to rise to ~48% next year. Inventory with dealers stands at 15-20 days.
- **Exports:** Exports grew 12% YoY for the quarter. Major countries that form 60% of its exports are Australia, Abu Dhabi, Kuwait, Nigeria and Ghana. All exports are through the company's own brand. KEI is now prioritising sales to the US as required approvals for specific products have been obtained and it has begun supplying vendors there since Jan'23.
- **Capex:** The company is currently adding brownfield capacity at a cost of Rs 400mn-450mn at its Silvassa plant. It is also setting up greenfield capacity in Gujarat for the manufacture of cable and wire products at an estimated cost of Rs 2.5bn-3bn, scheduled to start construction in Jun'23 with production to commence 18 months therefrom. Capex guidance for FY24 is Rs 3.5bn-4bn.

## Valuation methodology

KEII has guided for robust 16-17% revenue growth in FY24 primarily based on the capacity addition at its Silvassa plant and other greenfield expansion projects. Management's strategy of expanding its retail business also augurs well for the company. Further, the capex boost in both private and public sectors is turning beneficial for KEII's core cable and engineering, procurement and construction (EPC) businesses, and is likely to continue in FY24.

We raise FY24/FY25 revenue estimates by 1%/4% while bringing EBITDA margin assumptions in line with guidance, translating to a 3%/2% cut in EPS. We concurrently raise our target P/E multiple to 28x (25x earlier) given the growth traction and improvement in working capital, while rolling valuations forward to FY25E, taking our TP to Rs 2,130 (Rs 1,900 earlier). Our valuation multiple is in line 5Y high of 29x – maintain BUY.

**Fig 10 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	80,048	93,909	79,027	90,285	1.3	4.0
EBITDA	8,634	10,638	9,642	11,628	(10.5)	(8.5)
PAT	5,489	6,858	5,709	7,018	(3.9)	(2.3)
EPS (Rs)	60.9	76.0	62.9	77.4	(3.3)	(1.7)
EBITDA Margin (%)	10.8	11.3	12.2	12.9	(140bps)	(160bps)

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- delays in capacity expansion,
- slowdown in retail expansion, and
- continuation of weak EHV sales.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,844	2,100	HOLD
Blue Star	BLSTR IN	1.7	1,438	1,450	BUY
Crompton Greaves	CROMPTON IN	2.0	257	440	BUY
Dixon Technologies	DIXON IN	2.1	2,908	4,100	BUY
Havells India	HAVL IN	9.5	1,241	1,500	BUY
KEI Industries	KEII IN	2.0	1,836	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	222	290	HOLD
Polycab India	POLYCAB IN	6.0	3,292	3,300	BUY
Syrma SGS	SYRMA IN	0.6	294	400	BUY
V-Guard Industries	VGRD IN	1.3	246	260	HOLD
Voltas	VOLT IN	3.3	810	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>41,815</b>	<b>57,266</b>	<b>69,123</b>	<b>80,048</b>	<b>93,909</b>
EBITDA	4,605	5,887	7,062	8,634	10,638
Depreciation	578	555	571	594	617
EBIT	4,027	5,333	6,491	8,040	10,021
Net interest inc./(exp.)	573	404	347	1,001	1,174
Other inc./(exp.)	201	146	276	298	322
Exceptional items	0	0	0	0	0
EBT	3,654	5,075	6,420	7,338	9,169
Income taxes	921	1,315	1,647	1,849	2,311
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>2,733</b>	<b>3,760</b>	<b>4,773</b>	<b>5,489</b>	<b>6,858</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,733</b>	<b>3,760</b>	<b>4,773</b>	<b>5,489</b>	<b>6,858</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	7,415	7,626	7,482	12,062	12,864
Other current liabilities	1,471	2,387	2,295	4,386	5,146
Provisions	0	0	0	0	0
Debt funds	2,850	3,314	1,399	1,899	1,799
Other liabilities	624	589	634	735	862
Equity capital	180	180	180	180	180
Reserves & surplus	17,601	21,175	25,711	30,840	37,337
Shareholders' fund	17,781	21,355	25,892	31,020	37,518
<b>Total liab. and equities</b>	<b>30,140</b>	<b>35,271</b>	<b>37,702</b>	<b>50,102</b>	<b>58,189</b>
Cash and cash eq.	2,212	3,600	5,372	6,659	6,857
Accounts receivables	13,496	13,955	13,878	17,983	20,583
Inventories	7,682	10,794	11,023	14,694	17,238
Other current assets	1,066	1,261	1,341	1,779	2,087
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	297	349
<b>Total assets</b>	<b>30,140</b>	<b>35,270</b>	<b>37,702</b>	<b>50,102</b>	<b>58,188</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,539</b>	<b>2,286</b>	<b>5,139</b>	<b>4,540</b>	<b>3,586</b>
Capital expenditures	(231)	(596)	(977)	(3,450)	(3,000)
Change in investments	0	(9)	9	(2)	(3)
Other investing cash flows	985	22	(404)	60	76
<b>Cash flow from investing</b>	<b>754</b>	<b>(584)</b>	<b>(1,371)</b>	<b>(3,392)</b>	<b>(2,927)</b>
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)
<b>Cash flow from financing</b>	<b>(1,286)</b>	<b>(314)</b>	<b>(2,559)</b>	<b>139</b>	<b>(461)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,007</b>	<b>1,389</b>	<b>1,208</b>	<b>1,287</b>	<b>198</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,212</b>	<b>3,600</b>	<b>5,372</b>	<b>6,659</b>	<b>6,857</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	30.1	41.5	52.9	60.9	76.0
Adjusted EPS	30.1	41.5	52.9	60.9	76.0
Dividend per share	2.0	2.5	3.0	4.0	4.0
Book value per share	196.0	235.5	287.1	343.9	416.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.9	2.9	2.4	2.1	1.8
EV/EBITDA	35.7	28.0	23.5	19.6	16.0
Adjusted P/E	60.9	44.3	34.7	30.2	24.1
P/BV	9.4	7.8	6.4	5.3	4.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	10.0	10.7
Asset turnover (Rev./Avg TA)	133.1	175.1	189.5	182.3	173.4
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.5	1.5	1.6
Adjusted ROAE	16.6	19.2	20.2	19.3	20.0

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(14.4)	36.9	20.7	15.8	17.3
EBITDA	(7.4)	27.9	19.9	22.3	23.2
Adjusted EPS	6.6	37.6	27.0	15.0	25.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.0	10.3	10.2	10.8	11.3
EBIT margin	9.6	9.3	9.4	10.0	10.7
Adjusted profit margin	6.5	6.6	6.9	6.9	7.3
Adjusted ROAE	16.6	19.2	20.2	19.3	20.0
ROCE	21.5	24.3	24.5	24.7	25.6
<b>Working capital days (days)</b>					
Receivables	118	89	73	82	80
Inventory	67	69	58	67	67
Payables	65	49	40	55	50
<b>Ratios (x)</b>					
Gross asset turnover	5.8	7.4	8.0	6.6	6.2
Current ratio	2.1	2.2	2.8	2.3	2.5
Net interest coverage ratio	7.0	13.2	18.7	8.0	8.5
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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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

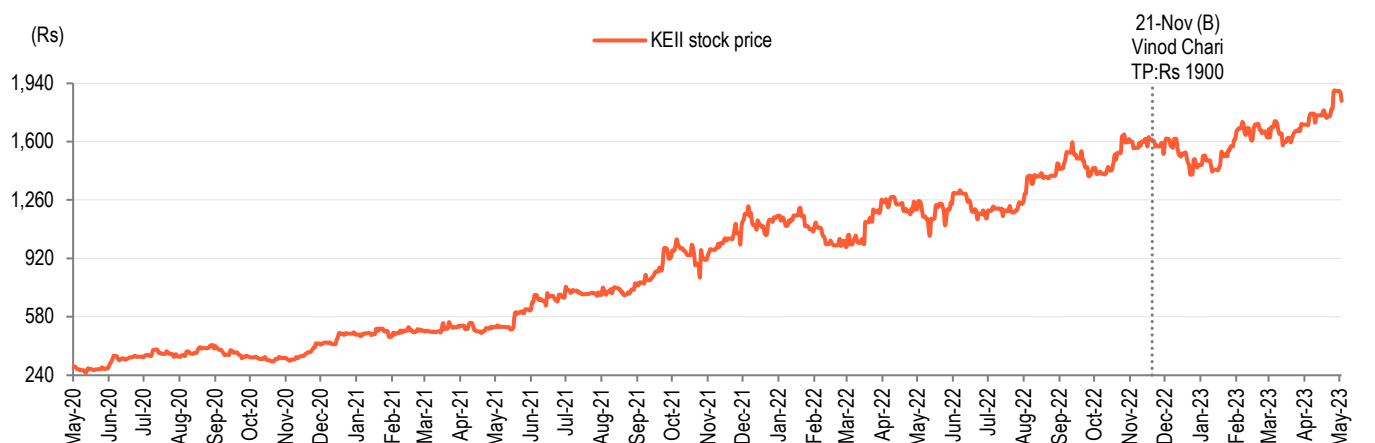
**HOLD** – Expected return from -6% to +15%

**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 (KEI IN)



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

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