FIRST LIGHT

02 August 2023

RESEARCH

KEI INDUSTRIES | TARGET: Rs 2,300 | –5% | HOLD

Capacity constraints mar quarter; lower to HOLD post runup

BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

JK LAKSHMI CEMENT | TARGET: Rs 551 | –10% | SELL

Another slow quarter; maintain SELL

Daily macro indicators

Ticker	28-Jul	31-Jul	Chg (%)
US 10Y yield (%)	3.95	3.96	1bps
India 10Y yield (%)	7.16	7.18	1bps
USD/INR	82.26	82.25	0.0
Brent Crude (US$/bbl)	85.0	85.6	0.7
Dow	35,459	35,560	0.3
Hang Seng	19,917	20,079	0.8
Sensex	66,160	66,528	0.6
India FII (US$ mn)	**27-Jul**	**28-Jul**	**Chg ($ mn)**
FII-D	31.6	46.9	15.3
FII-E	(152.4)	152.3	304.7

Source: Bank of Baroda Economics Research

SUMMARY

KEI INDUSTRIES

- 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

Click here **for the full report.**

INDIA ECONOMICS: BONDS WRAP

Growth remained comparatively on better footing for US, Eurozone and India; thus risk on sentiments led firming up of yields of these economies. Global central banks remained cautiously dovish. Softening inflation data, moderation in employment cost index and well anchored inflation expectations in the US, might reflect that policy rate has peaked in the US. A prolonged data dependent pause might be incumbent for major economies including India. However, on domestic front, food induced inflation is worrisome, with supply shocks getting aggravated on account of skewed monsoon and disruption in production. Thus some upside risk to India's 10Y yield cannot be ruled out. We expect it to settle in the range of 7.15-7.25% in the current month. Only comfort would come from favourable liquidity conditions and government's measures to assuage supply side concerns.

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

JK LAKSHMI CEMENT

- Tepid volume growth of 5% YoY with little support from realisations kept Q1 revenue growth muted
- EBITDA margin dropped 370bps YoY to 10% as costs spiralled and realisations remained under pressure
- Retain SELL with an unchanged TP of Rs 551

Click here for the full report.

RESULT REVIEW

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**

Vinod Chari | Swati Jhunjhunwala
research@bobcaps.in

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%

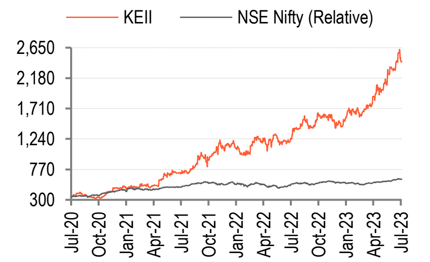
Source: NSE | Price as of 31 Jul 2023

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

BONDS WRAP

01 August 2023

Fortnightly review

Dipanwita Mazumdar
Economist

Growth remained comparatively on better footing for US, Eurozone and India; thus risk on sentiments led firming up of yields of these economies. Global central banks remained cautiously dovish. Softening inflation data, moderation in employment cost index and well anchored inflation expectations in the US, might reflect that policy rate has peaked in the US. A prolonged data dependent pause might be incumbent for major economies including India. However, on domestic front, food induced inflation is worrisome, with supply shocks getting aggravated on account of skewed monsoon and disruption in production. Thus some upside risk to India's 10Y yield cannot be ruled out. We expect it to settle in the range of 7.15-7.25% in the current month. Only comfort would come from favourable liquidity conditions and government's measures to assuage supply side concerns.

Japan's 10Y yield rose at the sharpest pace:

- The most notable jump in 10Y sovereign yield was visible in case of Japan, post the announcement of a tweak in its yield control curve (YCC) policy. The flexibility in allowing its 10-year yields to rise above the 0.5% ceiling to 1.0%, led its 10Y yield on an upswing which previously traded in a stable range.
- In the US, most of the rise in 10Y yield was visible post the release of better than expected Q2 advance estimates of GDP (2.4% against est.: 1.8%, annualized QoQ) and strengthening labour market data. However, some rise in yield was pared post the release of PCE data which dropped to its near 2 year low. Fed officials (Chicago and Minneapolis Fed President) also sounded affirmative on cooling off inflation. Fed President's statement was also cautiously dovish.
- In Germany, 10Y yield firmed up by 10bps following ECB's hint at sufficiently restrictive policy. Further resilient growth in Spain and France also supported the view.
- In UK, 10Y yield have fallen by 8bps in Jul'23 against 21bps increase in Jun'23, on MoM basis. The reversal in trajectory of yields was attributable to softening CPI, PPI and falling consumer confidence data.

Domestic 10Y yield rose by 6bps and traded in the range of 7.06-7.18% in Jul'23 compared to 6.98-7.12% in Jun'23. Upside pressure to domestic yield was visible following higher than expected CPI print in Jun'23. Sudden spiraling of vegetables, some components of pulses, cereals and spices, have exacerbated pressure on headline CPI.

What auctions in the domestic market reflect?

In Jul'23, cut off yields for central government papers' inched up while short end papers got comfort from the underlying liquidity conditions.

SELL
TP: Rs 551 | ∀ 10%

JK LAKSHMI CEMENT | Cement | 01 August 2023

Another slow quarter; maintain SELL

- **Tepid volume growth of 5% YoY with little support from realisations kept Q1 revenue growth muted**
- **EBITDA margin dropped 370bps YoY to 10% as costs spiralled and realisations remained under pressure**
- **Retain SELL with an unchanged TP of Rs 551**

Milind Raginwar
research@bobcaps.in

Topline growth muted: JKLC reported slow 5% YoY (-6% QoQ) revenue growth to Rs 16.3bn in Q1FY24 as volumes grew only 5% (-5% QoQ) to 2.9mn tonnes (including clinker sales) and realisations stayed flat at Rs 5,351/t (-1% QoQ). Key markets such as Gujarat and Rajasthan saw adverse weather impacts and labour shortages in Q1 even as excess supply exerted pressure on prices.

Cost inflation continues, to turn favourable from H2: Operating cost increased 5% YoY (flat QoQ) to Rs 5,011/t as energy-adjusted raw material cost climbed 4% YoY to Rs 2,210/t on a higher base. Limited in-house clinker prompted higher I purchases from UCWL (+29% YoY). Logistics cost inched up 1% YoY to Rs 1,130/t due to the railway's introduction of a busy period surcharge for the entire year.

Margins dented: EBITDA declined 23% YoY (-11% QoQ) to Rs 1.7bn with 370bps contraction in margin to 10.3% due to the high-cost structure and tepid realisations. EBITDA/t decreased 26% YoY (-7% QoQ) to Rs 573/t and PAT dropped 26% YoY (-23% QoQ) to Rs 749mn. Management has set an ambitious EBITDA/t target of Rs 1,000 for FY25.

Expansion plans: Subsidiary UCWL's 1.5mt clinker unit is to be commissioned by Q3FY24 and its 2.5mt cement plant expansion by Q2FY25. Both projects are on track with trial runs of the clinker unit underway. JKLC aims to reach 18mt with the UCWL expansion and 30mt in phase II (via 3mt of brownfield expansion at Durg (Chhattisgarh) and 3mt at Udaipur (Rajasthan), along with 6mt of greenfield capacity, for which it has been allocated two mines in Nagaur (Rajasthan) and Kutch (Gujarat).

Maintain SELL: JKLC plans to fund its capex through debt and has passed an enabling resolution to raise borrowings of Rs 25bn. This will take the net debt/ EBITDA ratio to a peak of 4x, per management. We also expect margins to remain stressed given fierce competition in key markets. Factoring in these negatives, we maintain SELL and continue to value the stock at 8x FY25E EV/EBITDA for a TP of Rs 551 (unchanged). Our TP implies a replacement cost of Rs 6.6bn/mt, a 6% discount to the industry benchmark.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKLC IN/Rs 609
Market cap	US$ 872.9mn
Free float	54%
3M ADV	US$ 2.4mn
52wk high/low	Rs 897/Rs 439
Promoter/FPI/DII	46%/14%/26%

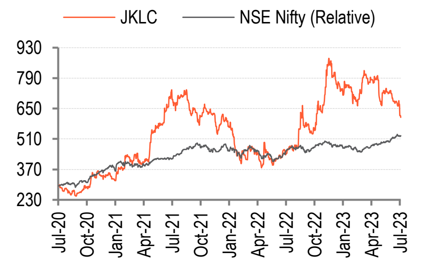
Source: NSE | Price as of 31 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	60,711	67,356	73,729
EBITDA (Rs mn)	7,043	7,860	9,558
Adj. net profit (Rs mn)	3,307	3,876	4,708
Adj. EPS (Rs)	28.1	32.9	40.0
Consensus EPS (Rs)	28.1	44.2	51.1
Adj. ROAE (%)	12.8	13.4	14.4
Adj. P/E (x)	21.7	18.5	15.2
EV/EBITDA (x)	10.2	9.5	8.7
Adj. EPS growth (%)	(26.5)	17.2	21.5

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

Stock performance



Source: NSE

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "**Losses**") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.