

HOLD
 TP: Rs 4,100 | ▼ 5%

KEI INDUSTRIES

| Consumer Durables

| 30 July 2024

In-line quarter; guidance retained

- **KEII's Q1 revenue jumped 16% YoY with 40bps EBITDA margin expansion, and driven by robust infrastructure and real estate demand**
- **Management reiterated FY25 revenue growth of 16%-17%, EBITDA margin of 11% and capex of Rs 9bn-10bn**
- **We maintain our FY25/FY26 EPS. We value the stock at 35x P/E, and raise TP to Rs 4,100 (from Rs 3,680). Maintain HOLD**

Arshia Khosla

research@bobcaps.in

In-line quarter: KEII delivered a solid quarter with topline of Rs 20.6bn, showcasing robust growth of 16% YoY. The EBITDA margin remained strong at 10.4% for Q1, expanding 40bps from the previous year. Gross margin improved significantly, due to a 260bps drop in raw material costs, rising to 26.3% in Q1FY25 from 23.7% in Q1FY24. This strong performance was driven by increased infrastructure investments and a surge in real estate demand.

Segmental performance: The Cables Division delivered robust 16% YoY growth, generating Rs 18.7bn, a significant 18% rise in volume in Q1FY25, and constituting ~90% of KEII's total revenue. EPC projects rose 22% YoY from a low base, reaching Rs 2.2bn. However, the SS segment declined 9%, totaling Rs 538mn revenue. In Q1FY25, exports reached Rs 2.3bn, a decline of 24% YoY, primarily due to logistical challenges such as delayed container arrivals from overseas customers. Despite this, KEII holds a strong export order book of Rs 5.5bn. According to management, the logistics issue has been resolved and pending orders are set to be dispatched this month.

Guidance retained: Management reaffirmed its revenue growth guidance of 16%-17% for both FY25 and FY26, with an 11% EBITDA margin projected for FY25. KEII anticipates the potential to improve margins further by an additional 100bps in the coming years. Management retained its capex guidance of Rs 9bn-10bn for FY25, with Rs 1.45bn incurred in Q1FY25.

Maintain HOLD: Following KEII's Q1 results, we maintain our FY25/FY26 EPS estimates, and now value the stock at 35x P/E (earlier 33x) in line with its 5Y average, its 25% discount to the industry leader POLYCAB, and buoyed by robust domestic demand and export advantages. We roll forward valuations to Jun'26E, and raise our TP to Rs 4,100 (previously Rs 3,680). However, given the stock's substantial 20% surge in price since our last report published on 3 May 2024, we retain our HOLD recommendation.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KEII IN/Rs 4,307
Market cap	US\$ 4.6bn
Free float	61%
3M ADV	US\$ 14.6mn
52wk high/low	Rs 5,040/Rs 2,223
Promoter/FPI/DII	37%/27%/20%

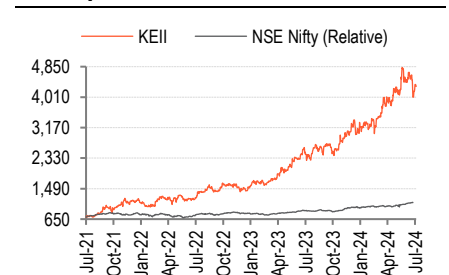
Source: NSE | Price as of 30 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	81,041	95,676	113,952
EBITDA (Rs mn)	8,375	11,397	14,034
Adj. net profit (Rs mn)	5,809	7,968	9,789
Adj. EPS (Rs)	64.4	88.3	108.5
Consensus EPS (Rs)	64.4	87.9	108.2
Adj. ROAE (%)	20.3	22.6	22.3
Adj. P/E (x)	66.9	48.8	39.7
EV/EBITDA (x)	46.9	34.6	27.7
Adj. EPS growth (%)	21.7	37.2	22.9

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	BOB Cap.Q1FY25E	Variance (%)
Revenue	20,605	17,826	15.6	23,193	(11.2)	20,767	1
EBITDA	2,146	1,782	20.4	2,446	(12.3)	2,170	1
EBITDAM (%)	10.4	10.0	40 bps	10.5	(10bps)	10.4	0
Depreciation	155	147		158			
Interest	142	89		165			
Other Income	178	83		152			
PBT	2,027	1,630	24.4	2,274	(10.9)		
Tax	525	416		587			
Adjusted PAT	1,502	1,213	23.8	1,687	(10.9)		
Exceptional item	0	0		2			
Reported PAT	1,502	1,213		1,685		1,489	(1)
Adj. PATM (%)	7.3	6.8	50 bps	7.3	0 bps		
EPS (Rs)	16.7	13.5		18.7			

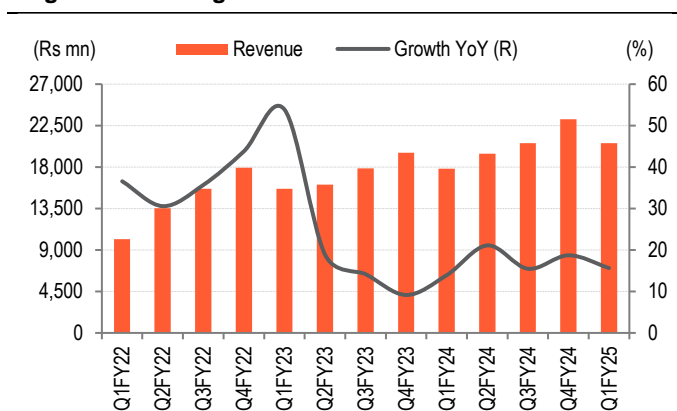
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
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	20,691	18,757
Growth YoY (%)	36.9	39.1	42.0	51.9	60.6	19.3	16.2	8.2	13.5	22.9	14.4	17.9	16.4
Stainless Steel Wires	478	518	652	612	610	735	557	649	590	591	465	572	538
Growth YoY (%)	130.2	54.4	58.2	32.5	27.6	42.0	(14.5)	6.0	(3.2)	(19.6)	(16.7)	(11.8)	(8.9)
EPC Projects	1,379	2,754	2,428	2,174	1,536	1,059	2,234	2,232	1,847	3,131	3,769	3,405	2,261
Growth YoY (%)	(21.8)	11.2	(17.1)	(16.3)	11.4	(61.6)	(8.0)	2.6	20.2	195.8	68.7	52.6	22.4
EBIT													
Cables	947	1,238	1,366	1,312	1,274	1,261	1,515	1,658	1,415	1,919	1,979	2,258	2,067
EBIT margin (%)	10.7	10.2	9.7	8.1	9.0	8.7	9.3	9.4	8.8	10.8	10.6	10.9	11.0
Stainless Steel Wires	30	42	31	34	30	45	56	59	31	36	36	13	10
EBIT margin (%)	6.3	8.1	4.7	5.5	5.0	6.1	10.0	9.2	5.3	6.1	7.8	2.3	1.9
EPC Projects	125	213	233	249	95	148	280	145	256	314	439	422	298
EBIT margin (%)	9.0	7.7	9.6	11.4	6.2	14.0	12.5	6.5	13.9	10.0	11.6	12.4	13.2

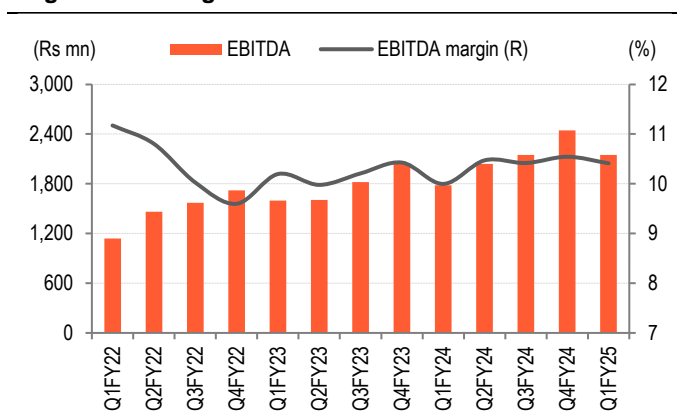
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



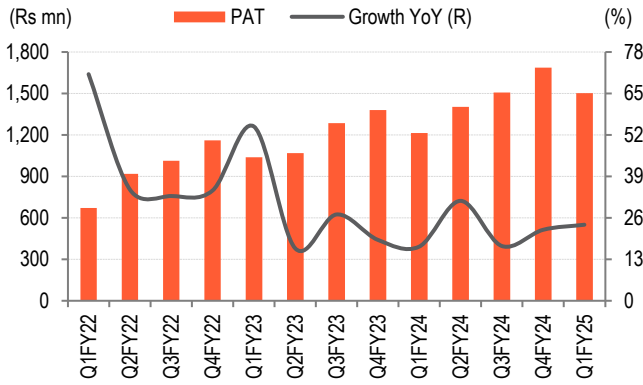
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



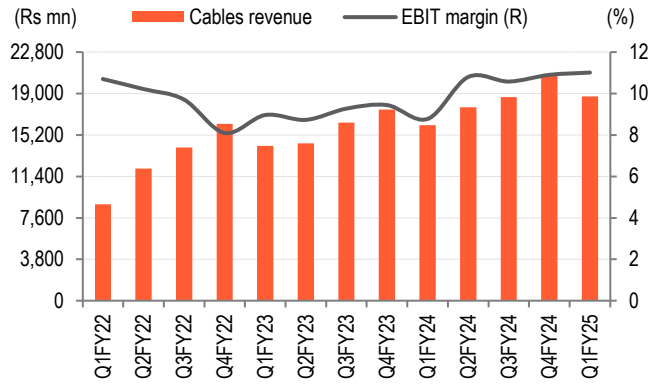
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



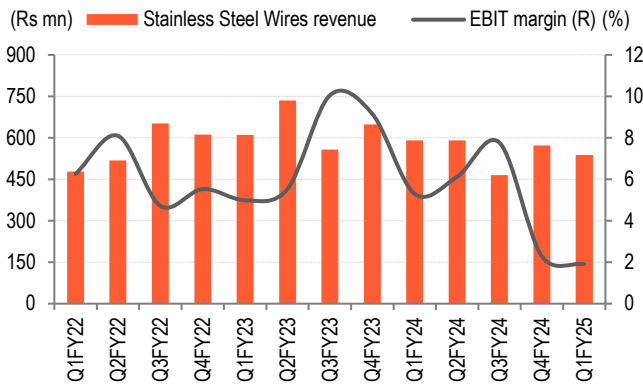
Source: Company, BOBCAPS Research

Fig 6 – Cables division growth



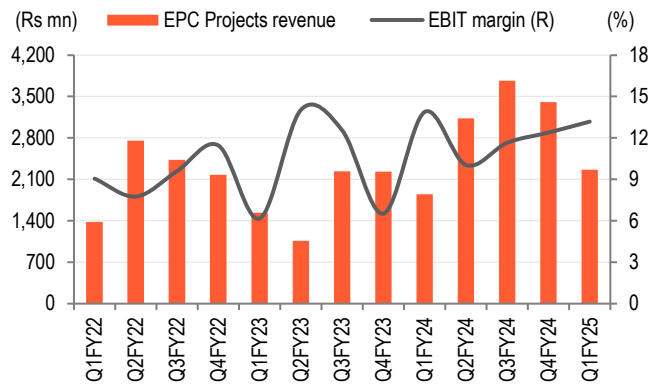
Source: Company, BOBCAPS Research

Fig 7 – Stainless steel wires division growth



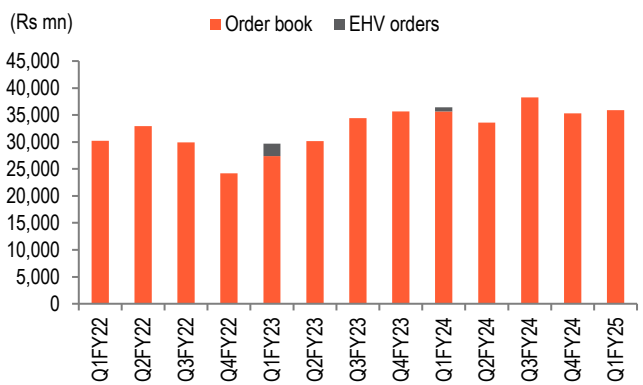
Source: Company, BOBCAPS Research

Fig 8 – EPC projects division growth



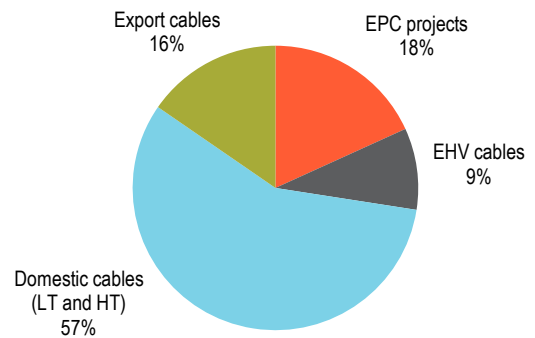
Source: Company, BOBCAPS Research

Fig 9 – Order book trend



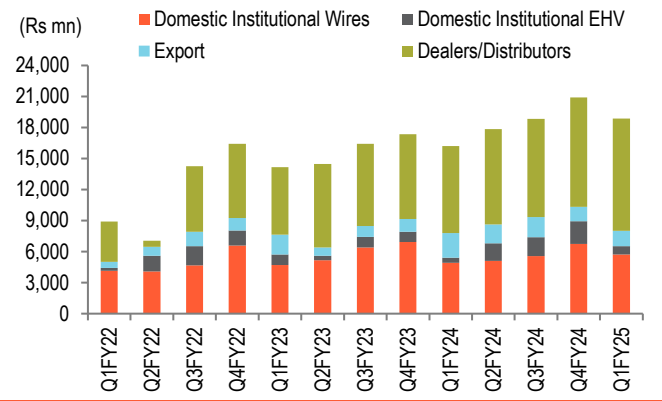
Source: Company, BOBCAPS Research

Fig 10 – Order book bifurcation, Q1FY25



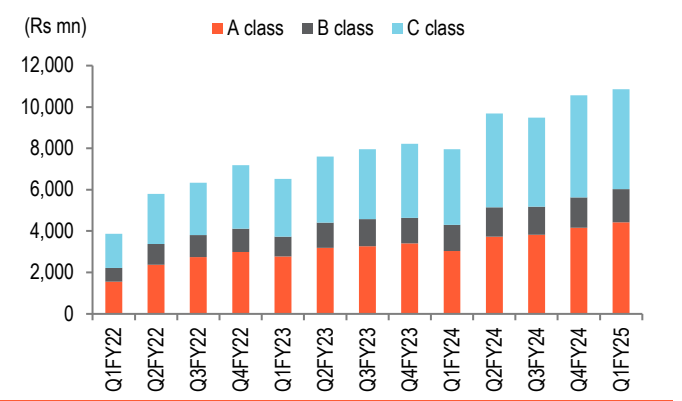
Source: Company, BOBCAPS Research

Fig 11 – Wires segment revenue: Channel mix



Source: Company, BOBCAPS Research

Fig 12 – Wires segment revenue: City mix



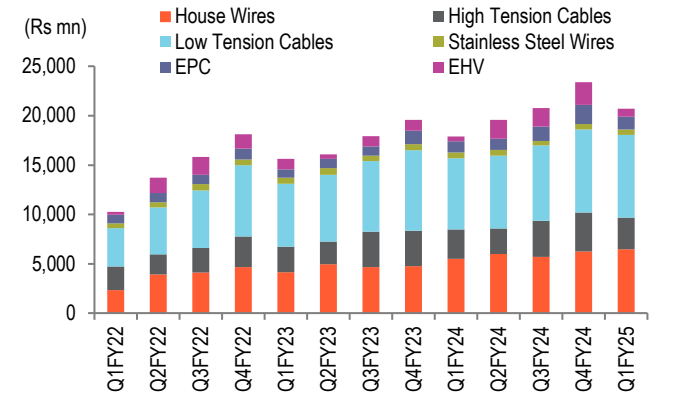
Source: Company, BOBCAPS Research

Fig 13 – Wires segment revenue: Geography mix



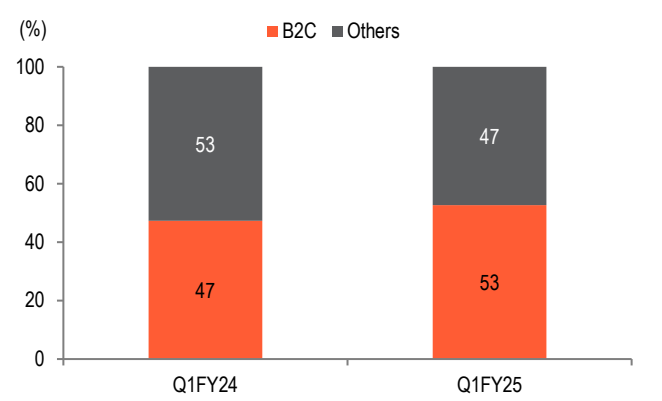
Source: Company, BOBCAPS Research

Fig 14 – Revenue breakup: Product mix



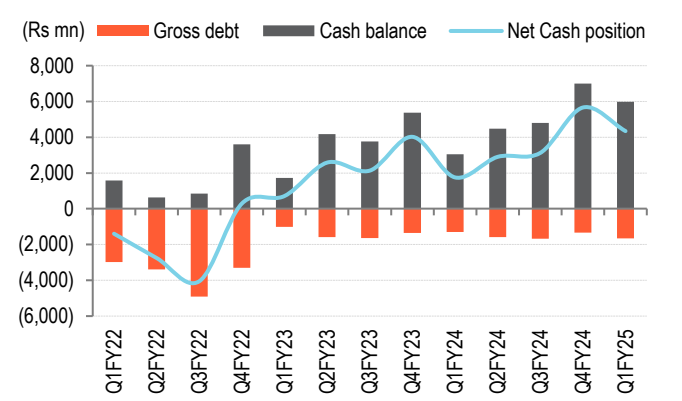
Source: Company, BOBCAPS Research

Fig 15 – B2C contribution, Q1FY25



Source: Company, BOBCAPS Research

Fig 16 – Liquidity profile



Source: Company, BOBCAPS Research

Earnings call highlights

- **Macroeconomic landscape:** According to management, the company is experiencing strong and increasing demand within domestic and international markets. Its strategic efforts are yielding positive outcomes as it advances towards expanding its global footprint across various key markets. Notably, the company is securing significant traction in the US and European markets, demonstrating robust market penetration and growth potential
- **Demand outlook:** Management anticipates substantial export opportunities and continued domestic demand for wires and cables, fuelled by persistent investments from the private and public sectors. This surge in demand spans critical infrastructure projects, including highways, metro systems, and railways. Large-scale construction projects – such as hotels, hospitals, and real estate developments – are gaining significant traction. A notable increase in demand for small wires is expected, driven by the growing adoption of home solar installations.
- **Guidance:** Management has reaffirmed its FY25/FY26 revenue growth guidance of 16%-17%, with an anticipated EBITDA margin of ~11%. Also, it projects 100bps expansion in EBITDA margin from next year.
- **Capacity utilisation:** For Q1FY25, KEI reported capacity utilisation of 87-88% for cables, 80% for house wires, and 90% for stainless steel wires. To address these capacity constraints and accommodate rising demand, the company is actively pursuing an ambitious expansion strategy designed to enhance production capabilities and sustain growth.

Capital expenditure

- **Capex:** In Q1 FY24-25, the company invested Rs 1.45bn in capital expenditure, with notable allocations including Rs 760mn for the Sanand project near Ahmedabad, Rs 240mn for Chinchpada in Silvassa, Rs 210mn for Bhiwadi, Rs 140mn for Pathredi, and Rs 100mn for other plant locations. The capital expenditure primarily focuses on expanding capacities for wires, house wires, and empty power cables at existing facilities. The Chinchpada expansion is set to be partially commissioned and fully completed by Q2FY25, while the Pathredi expansion will enhance power cable capacity by Rs 8bn-9bn per millimetre and is expected to be operational by Aug or Sep of this financial year.
- This strategic brownfield expansion is projected to support a growth rate of 16%-17% for the current financial year. In addition, the company plans to invest Rs 9bn-10bn in greenfield projects for low-tension-high-tension (LTHT) and extra high voltage (EHV) cables in Gujarat, specifically at Sanand, with commercial production slated to begin by the end of Q4FY25. Construction for this project commenced in FY23-24, and a further Rs 5bn-6bn will be invested in the following financial year to ensure the completion of the project and sustain a long-term CAGR of 15%-16%, building on a historical CAGR of 14%-15% over the past 15 years.

Cables

- **Cables:** The cables segment saw strong ~16% YoY revenue growth, reaching Rs 18.7bn, fuelled by a significant 18% rise in volume in Q1FY25. The buoyant demand for wires and cables is being driven by robust government infrastructure projects, booming real estate developments, and increased export activity. Higher investments in telecom infrastructure is further accelerating growth in the electrical cables sector.
- **EHV:** Extra-high voltage cables did well in Q1 with a Rs 790mn topline vs. Rs 490mn in Q1FY24.
- **EVH guidance:** The segment showed significant growth, primarily due to a low base effect. However, growth in the EHV sector is anticipated to remain stable. The company's full financial year guidance for EHV continues to reflect management's earlier projection of flat growth YoY.

Wires

- **House Wire/Winding Wires:** The segment has shown strong growth, particularly driven by increased use of wires and flexibles in the real estate and channel markets. This growth is notably attributed to developments in the real estate sector.

Dealer and distribution

- **Dealers:** As of 30 June 2024, the company had about 2,015 active working dealers. The company is in the process of enhancing its dealer network by replacing some smaller dealers with larger distributors.

Exports

- **Exports:** In Q1FY25, exports totalled Rs 2.3bn, down from Rs 3bn in Q1FY24. This decline was primarily due to Rs 650mn worth of export orders being held up due to logistical challenges, particularly the delayed arrival of containers from the overseas customers' end. However, management emphasised its exports order book was robust at Rs 5.5bn and that container availability issues had been resolved. As a result, these orders are scheduled for dispatch within the month. The company is now well-positioned to make substantial progress in fulfilling these pending orders. Looking ahead, management anticipates sustained export strength and is proactively re-allocating resources to manage growing order volumes effectively.
- **International presence:** The company has expanded its exports reach to include such regions as Australia, USA, Europe, Africa, and the Middle East (where it has maintained a substantial presence for the past 15 years). Notable markets within the Middle East include Abu Dhabi, Qatar, and Oman, known for their significant oil industries. The company is also present in Bangladesh and Nepal.
- **Export markets:** The company exports cables with voltage ratings ranging from 33kV to 66kV to several regions, including Australia, the Middle East, Africa, the US, and Europe. Its activities in the US and Europe commenced only recently. These cables are primarily used in sectors such as the oil and gas industry in the Middle East and the US.

Valuation methodology

Following Q1 results, we have maintained our FY25/FY26 EPS estimates, and we now value the stock at 35x P/E (earlier 33x) in line with its 5Y average, which is at a 25% discount to the industry leader POLYCAB and buoyed by robust domestic demand and export advantages. We roll forward our valuations to Jun'26E, and raise our TP to Rs 4,100 (previously Rs 3,680). However, given the stock's substantial 20% surge in price since our last report published on 3 May 2024, we retain our HOLD recommendation.

Key risks

Key upside risks to our estimates are:

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

Key downside risks to our estimates are:

- steep rise in raw material prices; and
- delays in capacity expansion.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Total revenue	69,081	81,041	95,676	113,952	136,533
EBITDA	7,019	8,375	11,397	14,034	16,934
Depreciation	571	614	626	638	651
EBIT	6,449	7,762	10,771	13,396	16,283
Net interest inc./(exp.)	347	439	765	1,026	1,229
Other inc./(exp.)	318	490	520	561	595
Exceptional items	0	0	0	0	0
EBT	6,419	7,813	10,526	12,931	15,649
Income taxes	1,647	2,002	2,558	3,142	3,803
Extraordinary items	0	2	0	0	0
Min. int./Inc. from assoc.	0	(1)	0	0	0
Reported net profit	4,773	5,807	7,968	9,789	11,846
Adjustments	0	2	0	0	0
Adjusted net profit	4,773	5,809	7,968	9,789	11,846

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	7,482	10,079	13,106	15,610	18,703
Other current liabilities	2,295	2,830	5,242	6,244	7,481
Provisions	0	0	0	0	0
Debt funds	1,399	1,404	2,104	2,004	1,904
Other liabilities	634	769	907	1,081	1,295
Equity capital	180	180	180	180	180
Reserves & surplus	25,711	31,302	38,909	48,338	59,823
Shareholders' fund	25,892	31,483	39,090	48,518	60,003
Total liab. and equities	37,702	46,564	60,450	73,456	89,387
Cash and cash eq.	5,372	7,004	2,709	5,435	9,232
Accounts receivables	13,878	15,179	20,970	24,976	29,925
Inventories	11,023	13,427	17,562	20,917	25,062
Other current assets	1,341	1,365	2,122	2,527	3,028
Investments	13	16	19	22	27
Net fixed assets	5,673	7,703	15,078	17,439	19,788
CWIP	146	1,209	1,209	1,209	1,209
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	257	662	781	931	1,115
Total assets	37,702	46,564	60,450	73,456	89,387

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	5,139	6,105	3,349	6,167	7,233
Capital expenditures	(977)	(4,000)	(8,000)	(3,000)	(3,000)
Change in investments	9	3	(3)	(4)	(4)
Other investing cash flows	(404)	472	19	24	30
Cash flow from investing	(1,371)	(3,526)	(7,984)	(2,980)	(2,975)
Equities issued/Others	20	11	0	0	0
Debt raised/repaid	(1,961)	(10)	700	(100)	(100)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(618)	(720)	(361)	(361)	(361)
Cash flow from financing	(2,559)	(719)	339	(461)	(461)
Chg in cash & cash eq.	1,208	1,860	(4,295)	2,726	3,797
Closing cash & cash eq.	5,372	7,004	2,709	5,435	9,232

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	52.9	64.4	88.3	108.5	131.3
Adjusted EPS	52.9	64.4	88.3	108.5	131.3
Dividend per share	3.0	3.5	4.0	4.0	4.0
Book value per share	287.1	349.0	433.4	537.9	665.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	5.6	4.8	4.1	3.4	2.9
EV/EBITDA	55.4	46.9	34.6	27.7	23.1
Adjusted P/E	81.4	66.9	48.8	39.7	32.8
P/BV	15.0	12.3	9.9	8.0	6.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.3	74.4	75.7	75.7	75.7
Interest burden (PBT/EBIT)	99.5	100.7	97.7	96.5	96.1
EBIT margin (EBIT/Revenue)	9.3	9.6	11.3	11.8	11.9
Asset turnover (Rev./Avg TA)	189.3	192.3	178.8	170.2	167.7
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.2	20.3	22.6	22.3	21.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	20.6	17.3	18.1	17.0	17.0
EBITDA	19.2	19.3	36.1	23.1	20.7
Adjusted EPS	26.9	21.7	37.2	22.9	21.0
Profitability & Return ratios (%)					
EBITDA margin	10.2	10.3	11.9	12.3	12.4
EBIT margin	9.3	9.6	11.3	11.8	11.9
Adjusted profit margin	6.9	7.2	8.3	8.6	8.7
Adjusted ROAE	20.2	20.3	22.6	22.3	21.8
ROCE	24.3	24.1	26.4	26.6	26.2
Working capital days (days)					
Receivables	73	68	80	80	80
Inventory	58	60	67	67	67
Payables	40	45	50	50	50
Ratios (x)					
Gross asset turnover	8.0	7.2	5.0	5.1	5.4
Current ratio	2.8	2.6	2.2	2.3	2.5
Net interest coverage ratio	18.6	17.7	14.1	13.1	13.3
Adjusted debt/equity	(0.2)	(0.2)	0.0	(0.1)	(0.1)

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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

BUY – Expected return >+15%

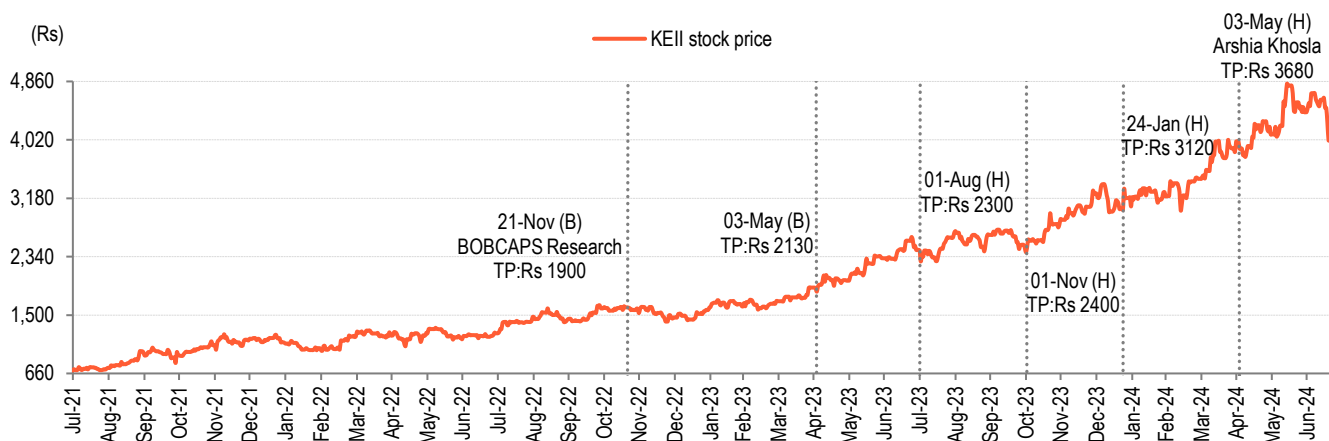
HOLD – Expected return from -6% to +15%

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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