

BUY
 TP: Rs 5,200 | ▲ 19%

KEI INDUSTRIES

Consumer Durables

17 October 2024

Sustaining growth with stability

- KEII reported a 17% YoY rise in Q2 revenue, but margins declined due to raw material price volatility and lower share of EHV sales and exports
- KEII is planning a QIP of Rs 20bn for capital expenditure and will fund future working capital through internal cash flows
- We pare our FY25/FY26/FY27 EPS by 4%/2%/3% and value the stock at 45x with new TP at Rs 5,200; upgrade to BUY

Arshia Khosla

research@bobcaps.in

Robust growth amid EHV and export challenges: KEII demonstrated resilience in Q2FY25, achieving a topline of Rs 22.7bn and marking strong YoY growth of ~17%. While the EBITDA margin dipped 80bps to 9.7% vs the previous year, gross margin contracted to 24.1% due to volatile raw material prices. Despite facing challenges in the EHV segment – hit by issues and delays in RoW – and setbacks in exports from postponed dispatches, KEII's 2Q performance was buoyed by strong results in the low tension (LT), high tension (HT) and house wires (HW) segments. KEII adeptly repurposed idle EHV capacity to boost HT cable production.

Segmental performance overview: The Cables segment showcased robust 20.5% YoY growth, generating Rs 21.4bn in revenue. This growth was bolstered by a 14% increase in volume during H1FY25, with cables contributing ~94% of KEII's total revenue. In contrast, the Engineering, Procurement and Construction (EPC) segment declined significantly, contracting by 58% YoY and currently accounting for just 6% of the topline. Management remains committed to reducing the EPC contribution to 5% by the end of FY25. The Stainless Steel segment grew a modest 1.3%, with revenue at Rs 598mn. Despite these mixed results, KEII maintains a strong export order book, valued at Rs 38bn.

Guidance affirmed; strategic fund-raising initiatives on anvil: Management reaffirmed its revenue growth guidance of 16%-17% for FY25 and FY26, alongside projected EBITDA margin of 11% for FY25. It also maintained its capex guidance of Rs 9bn to Rs 10bn for FY25, with Rs 3.12bn already incurred in H1FY25. KEI has approved a QIP of Rs 20bn to finance its capex needs – a somewhat unexpected move given prior expectations of relying solely on internal accruals for funding.

Upgrade to BUY: Following KEII's Q2 results, while H1 volume growth has softened due to election-related impacts and raw material price volatility, we remain optimistic about the company's future. We have adjusted our FY25/FY26/FY27 EPS estimates downward by 4%/2%/3%, respectively, but we now value it at 45x (vs 35x), a 25% premium to its 5Y average. Factoring in the strong OCF and robust ROIC, we upgrade the stock to BUY with a revised TP of Rs 5,200.

Key changes

Target	Rating
▲	▲

Ticker/Price	KEII IN/Rs 4,385
Market cap	US\$ 4.7bn
Free float	61%
3M ADV	US\$ 15.1mn
52wk high/low	Rs 5,040/Rs 2,321
Promoter/FPI/DII	37%/27%/20%

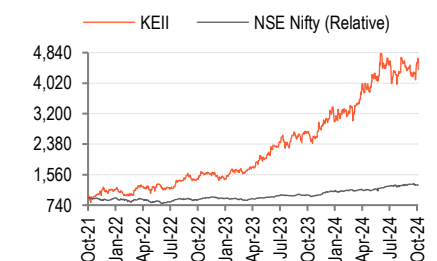
Source: NSE | Price as of 16 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	81,041	95,200	113,390
EBITDA (Rs mn)	8,375	10,945	13,723
Adj. net profit (Rs mn)	5,809	7,629	9,557
Adj. EPS (Rs)	64.4	84.6	106.0
Consensus EPS (Rs)	64.4	84.0	105.0
Adj. ROAE (%)	20.3	21.7	22.0
Adj. P/E (x)	68.1	51.8	41.4
EV/EBITDA (x)	47.7	36.6	29.2
Adj. EPS growth (%)	21.7	31.3	25.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOB cap Est. Q2FY25	Variance (%)
Revenue	22,796	19,466	17.1	20,605	10.6	43,401	37,291	16.4	22,775	0
EBITDA	2,206	2,039	8.2	2,146	2.8	4,352	3,821	13.9	2,424	10
EBITDAM (%)	9.7	10.5	(80bps)	10.4	(70bps)	10.0	10.2	(20bps)	10.6	10
Depreciation	163	156		155		318	302			
Interest	133	75		142		275	165			
Other Income	169	77		178		348	160			
PBT	2,079	1,884	10.3	2,027	2.5	4,106	3,514	16.9		
Tax	531	482		525		1,056	898			
Adjusted PAT	1,548	1,402	10.4	1,502	3.0	3,051	2,615	16.6		
Exceptional item	0	0		0		0	0			
Reported PAT	1,548	1,402		1,502		3,051	2,615	16.6	1,689	9
Adj. PATM (%)	6.8	7.2	(40bps)	7.3	(50bps)	7.0	7.0	0bps		
EPS (Rs)	17.2	15.6		16.7		33.9	29.0	16.6		

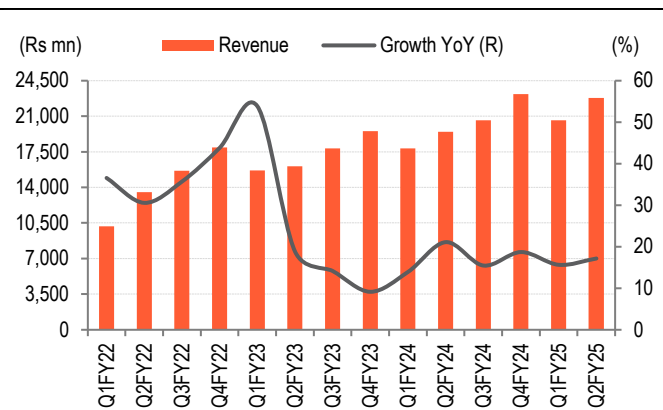
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
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	21,402
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	20.5
Stainless Steel Wires	478	518	652	612	610	735	557	649	590	591	465	572	538	598
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)	1.3
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	1,309
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	(58.2)
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	2,241
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	10.5
Stainless Steel Wires	30	42	31	34	30	45	56	59	31	36	36	13	10	29
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	4.8
EPC Projects	125	213	233	249	95	148	280	145	256	314	439	422	298	121
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	9.2

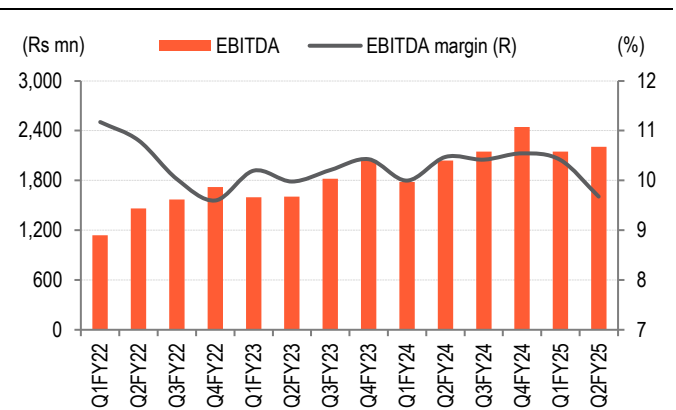
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



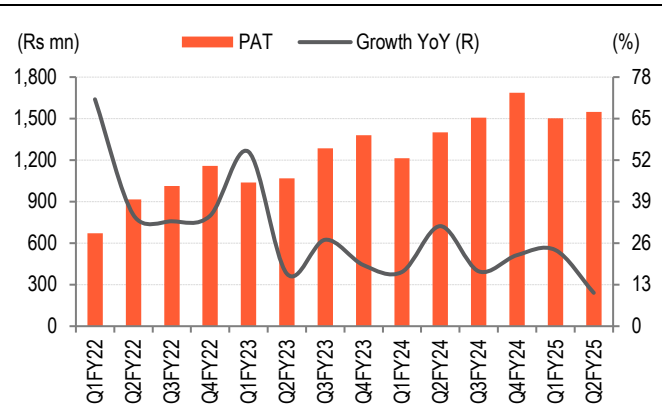
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



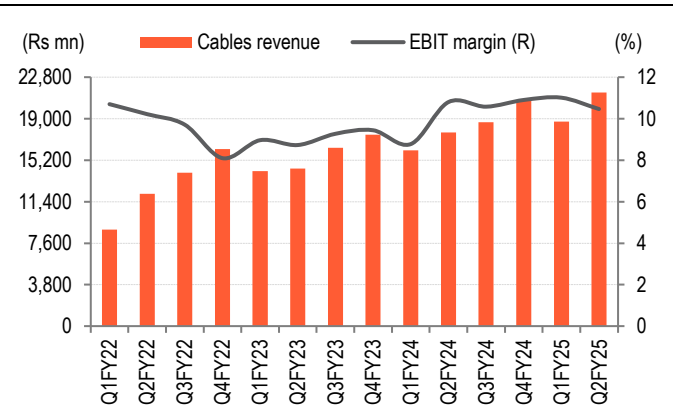
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



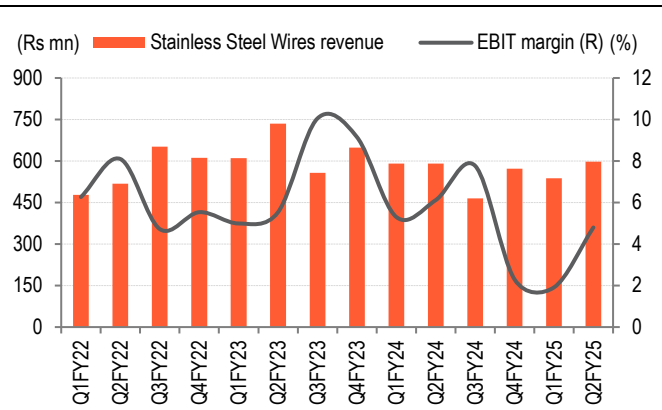
Source: Company, BOBCAPS Research

Fig 6 – Cables division growth



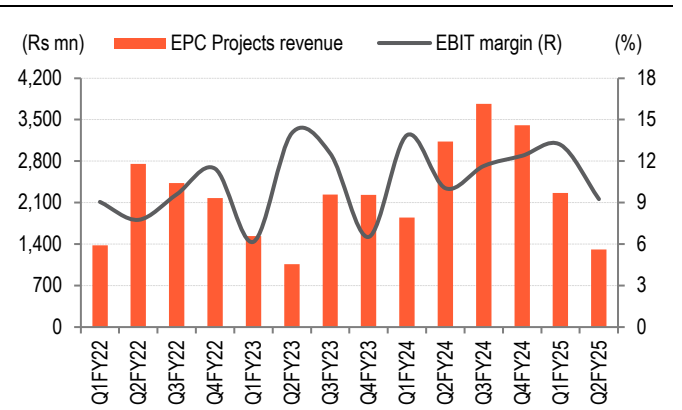
Source: Company, BOBCAPS Research

Fig 7 – Stainless steel wires division growth



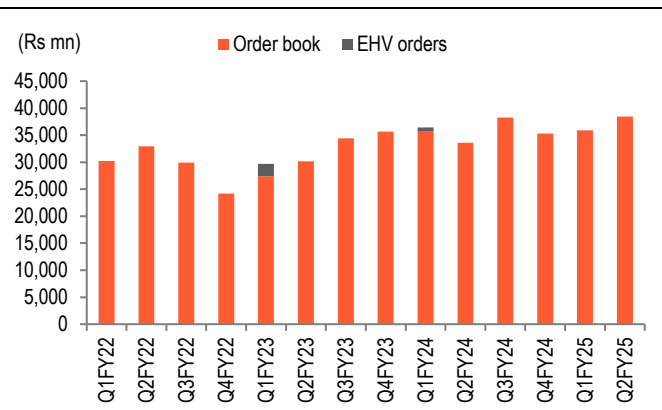
Source: Company, BOBCAPS Research

Fig 8 – EPC projects division growth



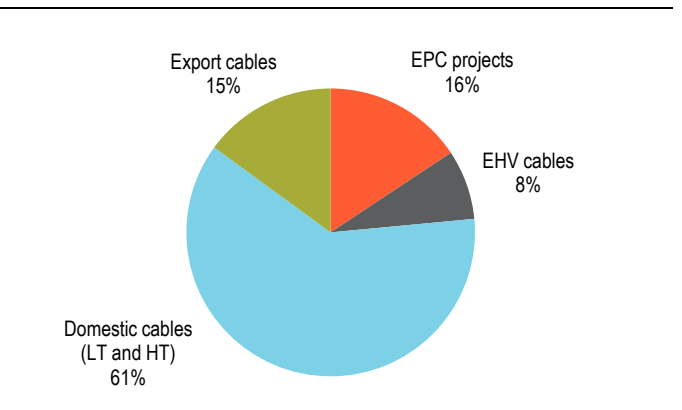
Source: Company, BOBCAPS Research

Fig 9 – Order book trend



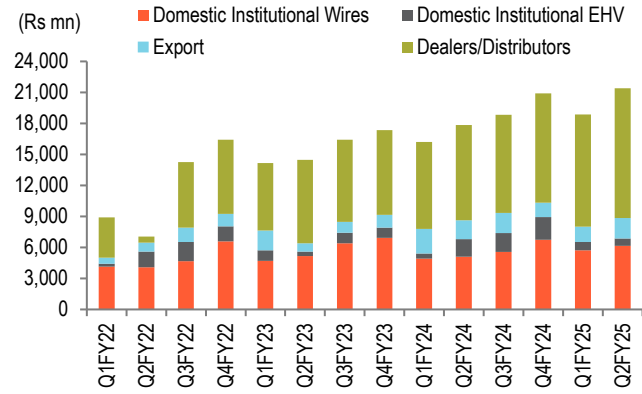
Source: Company, BOBCAPS Research | Extra-High Voltage (EHV)

Fig 10 – Order book bifurcation, Q2FY25



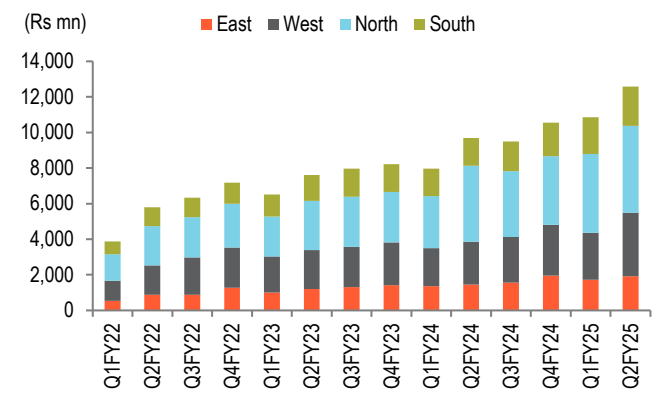
Source: Company, BOBCAPS Research

Fig 11 – Wires segment revenue: Channel mix



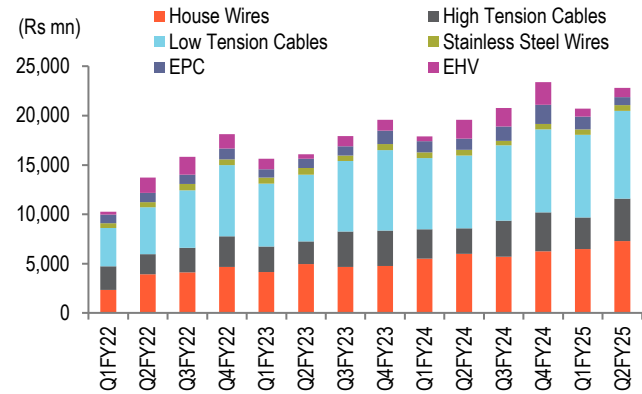
Source: Company, BOBCAPS Research

Fig 12 – Wires segment revenue: Geography mix



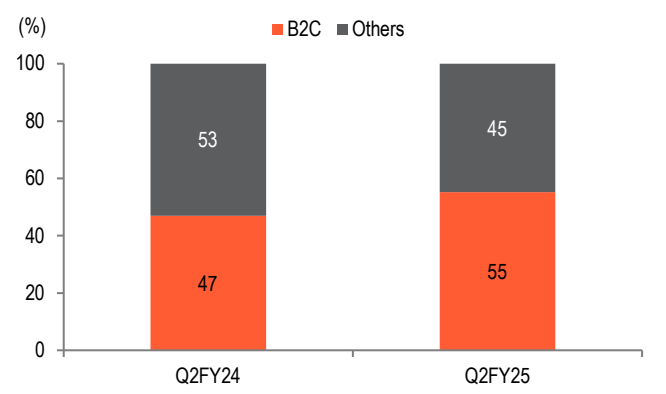
Source: Company, BOBCAPS Research

Fig 13 – Revenue breakdown: Product mix



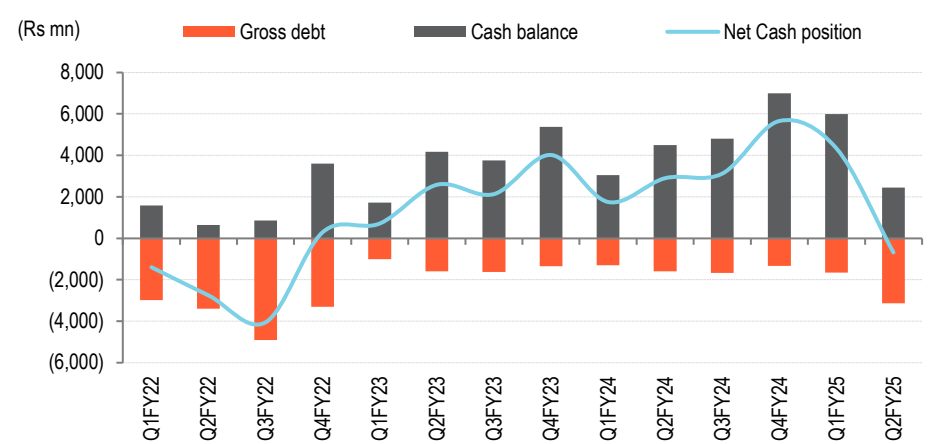
Source: Company, BOBCAPS Research

Fig 14 – B2C contribution, Q2FY25



Source: Company, BOBCAPS Research

Fig 15 – Liquidity profile



Source: Company, BOBCAPS Research

Earnings call highlights

- **Positive market momentum and strategic global expansion:** The company is experiencing strong growth momentum across both domestic and international markets. Management highlighted that its strategic initiatives are driving sustained demand, positioning the company for continued success. With an increasing focus on key markets abroad, the company is successfully expanding its global footprint, further enhancing its competitive edge and market presence worldwide.
- **Strong demand outlook driven by infrastructure, renewables, and data centres:** Management anticipates significant export opportunities and sustained domestic demand for wires and cables, fueled by continued investments from both the private and public sectors. This rising demand covers critical infrastructure projects, including highways, metro systems, and railways, as well as large-scale construction developments such as hotels, hospitals, and real estate. Additionally, growing adoption of home solar installations is expected to boost demand for small wires. Further, renewable energy projects and the increasing need for data centres are driving additional growth, positioning the company to capitalise on these expanding sectors.
- **Revenue and margin outlook:** Management reiterated its revenue growth guidance of 16%-17% for FY25 and FY26, with an expected EBITDA margin of around 11%.
- **Operational efficiency and capacity utilisation:** KEI Industries maintained healthy capacity utilisation rates in the first half of FY25. The cable division operated at 78% capacity, while the housewire division achieved a utilisation rate of 71% and stainless steel wire 93%. The company emphasised the importance of optimising production across various segments, particularly focusing on the growing B2C sales channel, which played a pivotal role in driving overall performance.
- **KEI announces QIP to support capex:** KEI has approved a Rs 20bn Qualified Institutional Placement to support its capital expenditure, a shift from earlier plans to rely solely on internal accruals. Management highlighted that future working capital needs will still be met through internal cash flows. Notably, it stated that the QIP proceeds, combined with internal funds, will eliminate the need for any additional financing over the next five to seven years.

Capital expenditure

- During the first half of FY24-25, KEI Industries incurred a capital expenditure of about Rs 3.12bn. This includes significant investments such as Rs 1.6bn for the Sanand project, Rs 480mn for the Chinchpada facility in Silvassa, Rs 480mn for Bhiwadi, Rs 250mn for another site in Bhiwadi, Rs 380mn for Pathredi, and Rs 320mn across other plants and locations. The completion and full commissioning of brownfield capital expenditures at Chinchpada and Pathredi have enhanced production capabilities. This strategic brownfield expansion is expected to support a growth rate of 16% to 17% for the current financial year
- Also, KEI Industries has planned a total capacity capital expenditure of Rs 9bn to Rs 10bn for greenfield expansion at Sanand, targeting the production of low

tension (LT) and extra high voltage (EHV) cables in Gujarat, with commercial production anticipated to begin in the first quarter of FY25-26. The company intends to allocate another Rs 600mn in subsequent financial years to complete this project, aiming to sustain a CAGR of 15% to 16%, compared to the 14%-15% CAGR achieved over the last 15 years.

- **Greenfield expansion plans at Sanand:** Looking to the future, KEI Industries has announced an ambitious greenfield expansion at Sanand. The company plans to invest Rs 9bn to Rs 10bn in the project, with the goal of commencing commercial production by Q1FY26. This expansion is part of KEI's strategy to maintain 15-16% CAGR over the next few years, with additional growth coming from the increasing demand for extra high voltage (EHV) and high voltage (HV) cables.

Cables

- The cables segment experienced strong YoY revenue growth of about 20%, reaching Rs 21.4bn, driven by a notable 14% increase in volume during H1FY25. This strong demand for wires and cables is propelled by substantial government infrastructure projects, thriving real estate developments, and heightened export activity. Additionally, increased investments in telecom infrastructure are further stimulating growth in the electrical cables sector.

Dealers and distribution

- As of September 2024, the company had about 2,038 active working dealers. The company is in the process of enhancing its dealer network by replacing some smaller dealers with larger distributors.

Valuation methodology

Following KEI's Q2 results, the company's first-half volume growth has exhibited a softer trajectory compared to historical norms. This trend has been influenced by a confluence of factors, including election-related impacts and significant volatility in raw material prices. Consequently, we have adjusted our EPS estimates downward for FY25, FY26 and FY27 by 4%, 2%, and 3%, respectively.

However, we are optimistic about KEI's long-term prospects and have consequently upgraded our valuation multiple to 45x – up from the previous 35x. This adjustment reflects a 25% premium to its five-year average, underscoring our confidence in the company's potential. We are upgrading our rating to BUY from HOLD with a revised target price of Rs 5,200 from Rs 4,100.

Additionally, KEI's strong operating cash flows, exceeding Rs 6bn annually, combined with a robust return on invested capital (ROIC), are likely to sustain investor interest. We anticipate that these factors will enable KEI to maintain premium valuations moving ahead.

Fig 16 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	95,200	113,390	135,865	95,676	113,952	136,533	(0.5)	(0.5)	(0.5)
EBITDA	10,945	13,723	16,428	11,397	14,034	16,934	(4.0)	(2.2)	(3.0)
PAT	7,629	9,557	11,468	7,968	9,789	11,846	(4.3)	(2.4)	(3.2)
EPS (Rs)	84.6	106.0	127.1	88.3	108.5	131.3	(4.3)	(2.4)	(3.2)
EBITDA Margin (%)	11.5	12.1	12.1	11.9	12.3	12.4	(40bps)	(20bps)	(30bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- delays in capacity expansion, and
- excessive raw material price volatility.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	69,081	81,041	95,200	113,390	135,865
EBITDA	7,019	8,375	10,945	13,723	16,428
Depreciation	571	614	626	638	651
EBIT	6,449	7,762	10,320	13,085	15,777
Net interest inc./(exp.)	347	439	762	1,021	1,223
Other inc./(exp.)	318	490	520	561	595
Exceptional items	0	0	0	0	0
EBT	6,419	7,813	10,078	12,625	15,149
Income taxes	1,647	2,002	2,449	3,068	3,681
Extraordinary items	0	2	0	0	0
Min. int./Inc. from assoc.	0	(1)	0	0	0
Reported net profit	4,773	5,807	7,629	9,557	11,468
Adjustments	0	2	0	0	0
Adjusted net profit	4,773	5,809	7,629	9,557	11,468

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	7,482	10,079	13,041	15,533	18,612
Other current liabilities	2,295	2,830	5,216	6,213	7,445
Provisions	0	0	0	0	0
Debt funds	1,399	1,404	3,304	2,004	1,904
Other liabilities	634	769	903	1,075	1,288
Equity capital	180	180	180	180	180
Reserves & surplus	25,711	31,302	38,570	47,767	58,874
Shareholders' fund	25,892	31,483	38,751	47,947	59,054
Total liab. and equities	37,702	46,564	61,215	72,772	88,303
Cash and cash eq.	5,372	7,004	8,636	10,897	14,021
Accounts receivables	13,878	15,179	17,736	21,125	26,056
Inventories	11,023	13,427	15,649	18,639	23,078
Other current assets	1,341	1,365	2,112	2,515	3,013
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	777	926	1,110
Total assets	37,702	46,564	61,215	72,772	88,303

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	5,139	6,105	8,077	6,902	6,560
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)	1,900	(1,300)	(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)	1,539	(1,661)	(461)
Chg in cash & cash eq.	1,208	1,860	1,632	2,261	3,124
Closing cash & cash eq.	5,372	7,004	8,636	10,897	14,021

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	52.9	64.4	84.6	106.0	127.1
Adjusted EPS	52.9	64.4	84.6	106.0	127.1
Dividend per share	3.0	3.5	4.0	4.0	4.0
Book value per share	287.1	349.0	429.6	531.6	654.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.7	4.9	4.2	3.5	3.0
EV/EBITDA	56.4	47.7	36.6	29.2	24.6
Adjusted P/E	82.9	68.1	51.8	41.4	34.5
P/BV	15.3	12.6	10.2	8.2	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	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	96.0
EBIT margin (EBIT/Revenue)	9.3	9.6	10.8	11.5	11.6
Asset turnover (Rev./Avg TA)	189.3	192.3	176.7	169.3	168.7
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	20.2	20.3	21.7	22.0	21.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	20.6	17.3	17.5	17.0	17.0
EBITDA	19.2	19.3	30.7	25.4	19.7
Adjusted EPS	26.9	21.7	31.3	25.3	20.0
Profitability & Return ratios (%)					
EBITDA margin	10.2	10.3	11.5	12.1	12.1
EBIT margin	9.3	9.6	10.8	11.5	11.6
Adjusted profit margin	6.9	7.2	8.0	8.4	8.4
Adjusted ROAE	20.2	20.3	21.7	22.0	21.4
ROCE	24.3	24.1	24.8	26.3	25.8
Working capital days (days)					
Receivables	73	68	68	68	70
Inventory	58	60	60	60	62
Payables	40	45	50	50	50
Ratios (x)					
Gross asset turnover	8.0	7.2	4.9	5.1	5.4
Current ratio	2.8	2.6	2.3	2.3	2.4
Net interest coverage ratio	18.6	17.7	13.6	12.8	12.9
Adjusted debt/equity	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)

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%

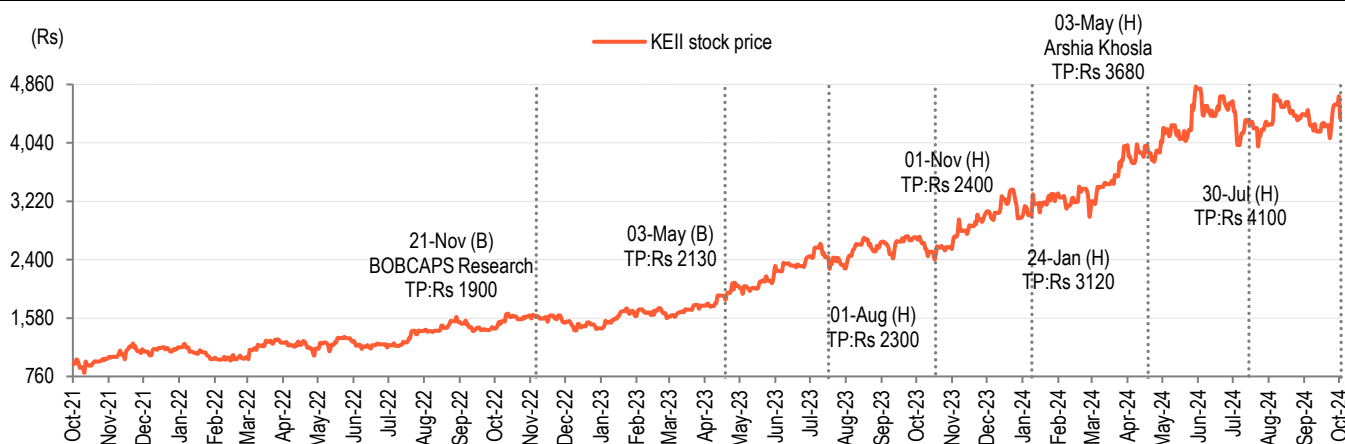
HOLD – Expected return from -6% to +15%

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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