

**BUY**  
 TP: Rs 5,000 | ▲ 21%

**KEI INDUSTRIES**

Consumer Durables

22 January 2025

**Momentum continues; capacity fuels growth**

- KEII reported a 20% YoY rise in Q3 revenue, but margins declined due to raw material price volatility and lower share of EHV sales
- KEII upgraded guidance: FY26 revenue growth of 19-20%, EBITDA margin at 11%, and exports to reach 15-17% of topline in 2-3 years
- We pare FY25/FY26/FY27 EPS estimates by 9%/6%/2% due to margin compression, with a revised TP of Rs 5,000. BUY on fair valuations

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**Resilient growth amid EHV headwinds:** KEII demonstrated robust performance in Q3FY25, delivering a topline of Rs 24.6bn (in line with BOBCAP’s estimate of Rs 24.7bn), ~20% YoY growth. It achieved this despite a 60bps dip in EBITDA margin to 9.8% and 120bps contraction in gross margin to 23.5% due to raw material price volatility. Challenges in the EHV segment, driven by Rest of the World (RoW) delays, and other clearances were offset by strong growth in low tension (LT), high tension (HT), and house wires (HW) segments. KEII strategically repurposed idle EHV capacity to scale HT cable production, effectively navigating delays in RoW.

**Strong cables growth amid EPC decline:** The Cables segment delivered strong 26% YoY growth, contributing Rs 23.5bn in revenue, driven by a 19% volume increase during 9MFY25. Cables now account for ~95% of KEII’s total revenue, underscoring its core business strength. In contrast, the EPC segment saw an 80% YoY decline in revenue now contributing just 5% to the topline, aligned with management’s strategy to cap EPC contribution at 5% by FY25. The stainless-steel segment posted growth of 18.5%, generating Rs 551mn in revenue. Despite the mixed performance across segments, KEII holds a strong order book valued at Rs 39bn, supporting future growth prospects.

**Guidance raised:** Management has raised its FY26 revenue growth guidance to 19%, driven by new facilities. It has kept its EBITDA margin guidance at 11%, expecting a 50bps improvement annually over the next two to three years as economies of scale take effect. Capex for FY26 is projected at Rs 6bn-7bn, supporting KEII’s goal of achieving revenue growth of 19-20% CAGR, up from 14-15% CAGR over the past 15 years. The company aims to increase exports to 15-17% of total sales within two to three years from 11% currently.

**Maintain BUY:** Following its strong Q3 results, revised revenue growth guidance, and focus on expanding exports, we remain optimistic on KEII’s prospects. We pare our FY25/FY26/FY27 EPS estimates by 9%/6%/2%, respectively, as margins have fallen short of our expectations. Despite this, we continue to value KEII at 45x P/E, roll forward to Dec’26 with our new TP at Rs 5,000. Maintain BUY on fair valuations.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	KEII IN/Rs 4,128
Market cap	US\$ 4.3bn
Free float	61%
3M ADV	US\$ 13.5mn
52wk high/low	Rs 5,040/Rs 2,900
Promoter/FPI/DII	37%/27%/20%

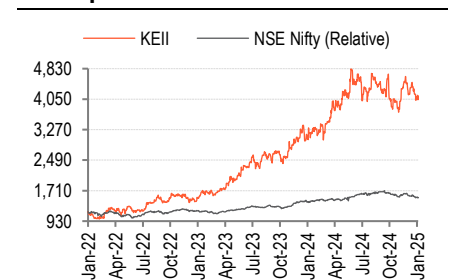
Source: NSE | Price as of 22 Jan 2025

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	81,041	95,200	113,390
EBITDA (Rs mn)	8,375	9,844	12,906
Adj. net profit (Rs mn)	5,809	6,941	8,941
Adj. EPS (Rs)	64.4	72.7	93.6
Consensus EPS (Rs)	64.4	70.0	93.0
Adj. ROAE (%)	20.3	20.0	21.1
Adj. P/E (x)	64.1	56.8	44.1
EV/EBITDA (x)	44.9	38.4	29.2
Adj. EPS growth (%)	21.7	19.5	28.8

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

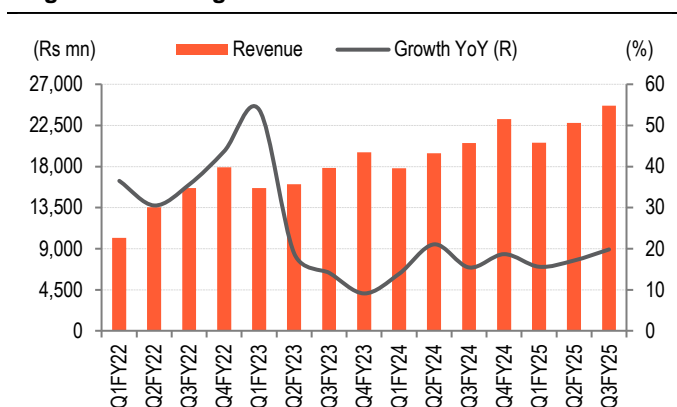
Rs mn	Q3FY25	Q3FY24	YoY (%)	Q1FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	Q3FY25E	Variance (%)
Revenue	24,673	20,594	19.8	22,796	8.2	68,074	57,885	17.6	24,720	0
EBITDA	2,408	2,146	12.3	2,206	9.2	6,760	5,966	13.3	2,573	7
EBITDAM (%)	9.8	10.4	(70bps)	9.7	10bps	9.9	10.3	(40bps)	10.4	7
Depreciation	190	154		163		508	456			
Interest	143	109		133		418	274			
Other Income	136	142		169		484	301			
PBT	2,212	2,024	9.3	2,079	6.4	6,318	5,538	14.1		
Tax	564	518		531		1,619	1,416			
Adjusted PAT	1,648	1,507	9.4	1,548	6.5	4,699	4,122	14.0		
Exceptional item	0	0		0		0	0			
Reported PAT	1,648	1,507		1,548		4,699	4,122	14.0	1,779	8
Adj. PATM (%)	6.7	7.3	(60bps)	6.8	(10bps)	6.9	7.1	(20bps)		
EPS (Rs)	18.3	16.7		17.2		52.1	45.7	14.0		

Source: Company, BOBCAPS Research

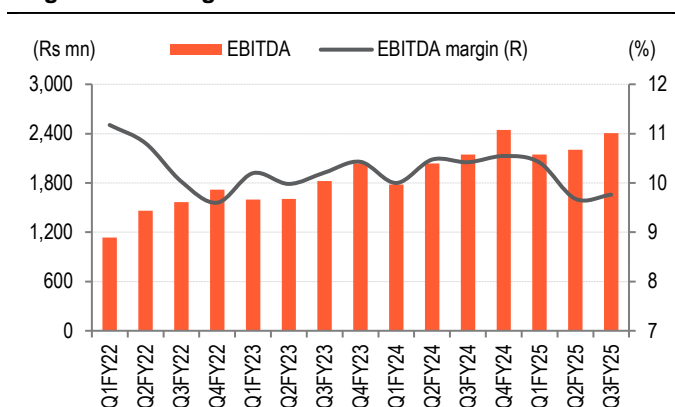
**Fig 2 – Segmental performance**

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Segment revenue</b>													
Cables	14,059	16,214	14,206	14,445	16,334	17,555	16,119	17,755	18,691	20,691	18,757	21,402	23,517
Growth YoY (%)	42.0	51.9	60.6	19.3	16.2	8.2	13.5	22.9	14.4	17.9	16.4	20.5	25.8
Stainless Steel Wires	652	612	610	735	557	649	590	591	465	572	538	598	551
Growth YoY (%)	58.2	32.5	27.6	42.0	(14.5)	6.0	(3.2)	(19.6)	(16.7)	(11.8)	(8.9)	1.3	18.5
EPC Projects	2,428	2,174	1,536	1,059	2,234	2,232	1,847	3,131	3,769	3,405	2,261	1,309	759
Growth YoY (%)	(17.1)	(16.3)	11.4	(61.6)	(8.0)	2.6	20.2	195.8	68.7	52.6	22.4	(58.2)	(79.9)
<b>EBIT</b>													
Cables	1,366	1,312	1,274	1,261	1,515	1,658	1,415	1,919	1,979	2,258	2,067	2,241	2,372
EBIT margin (%)	9.7	8.1	9.0	8.7	9.3	9.4	8.8	10.8	10.6	10.9	11.0	10.5	10.1
Stainless Steel Wires	31	34	30	45	56	59	31	36	36	13	10	29	30
EBIT margin (%)	4.7	5.5	5.0	6.1	10.0	9.2	5.3	6.1	7.8	2.3	1.9	4.8	5.5
EPC Projects	233	249	95	148	280	145	256	314	439	422	298	121	19
EBIT margin (%)	9.6	11.4	6.2	14.0	12.5	6.5	13.9	10.0	11.6	12.4	13.2	9.2	2.5

Source: Company, BOBCAPS Research

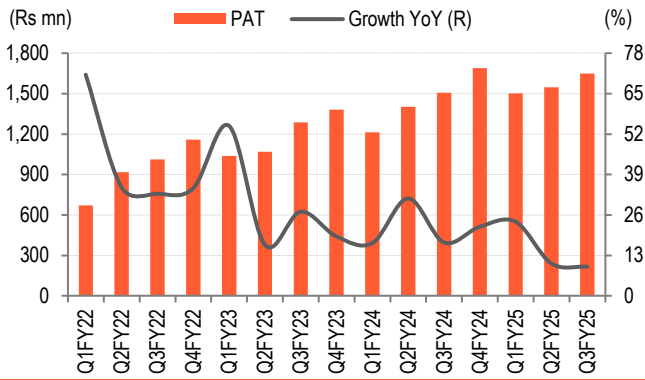
**Fig 3 – Revenue growth**

Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**

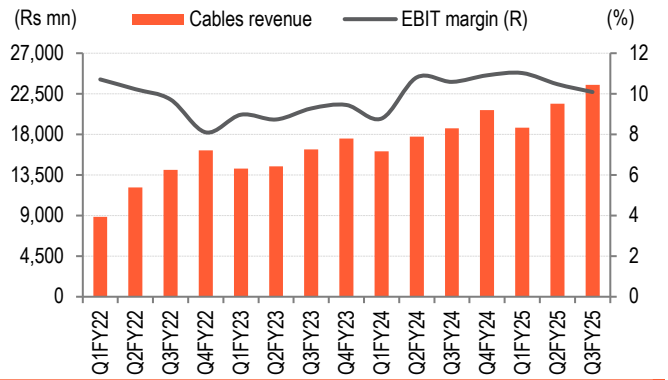
Source: Company, BOBCAPS Research

**Fig 5 – Profit growth**



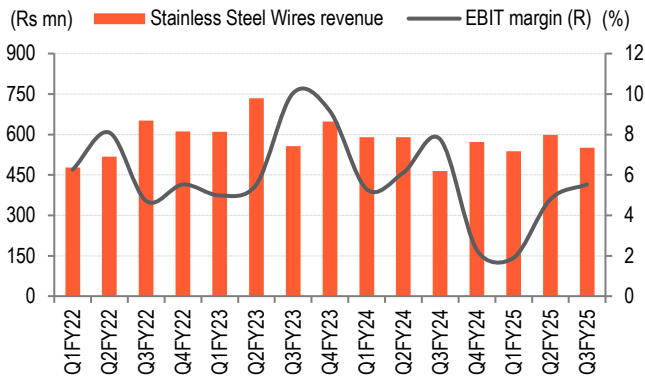
Source: Company, BOBCAPS Research

**Fig 6 – Cables division growth**



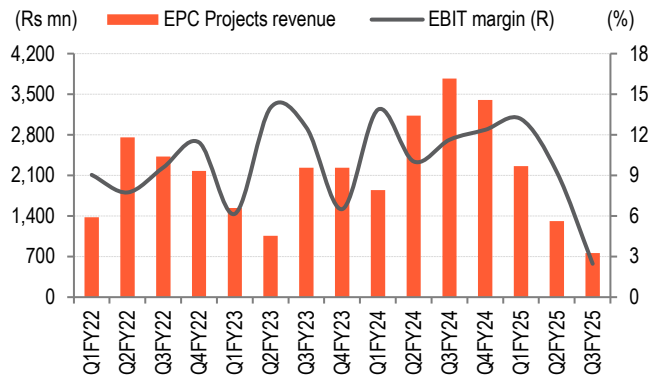
Source: Company, BOBCAPS Research

**Fig 7 – Stainless steel wires division growth**



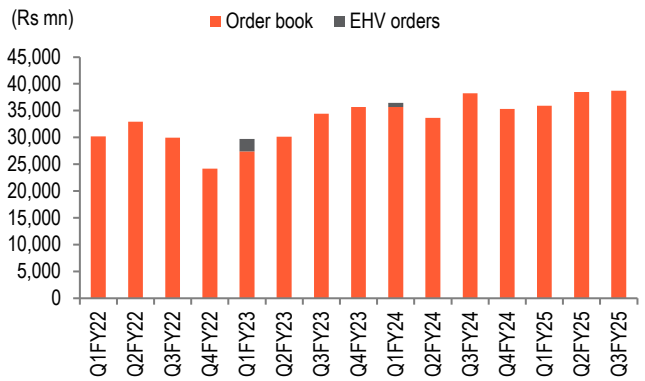
Source: Company, BOBCAPS Research

**Fig 8 – EPC projects division growth**



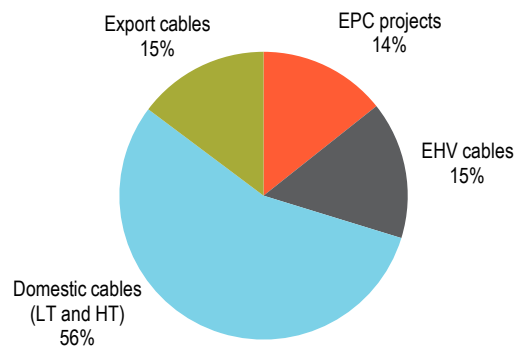
Source: Company, BOBCAPS Research

**Fig 9 – Order book trend**



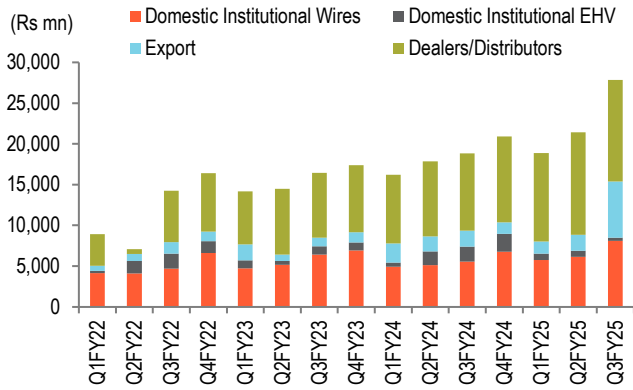
Source: Company, BOBCAPS Research

**Fig 10 – Order book bifurcation, Q3FY25**



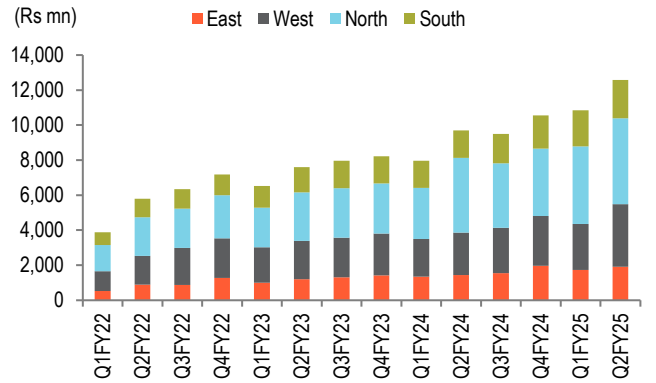
Source: Company, BOBCAPS Research

**Fig 11 – Wires segment revenue: Channel mix**



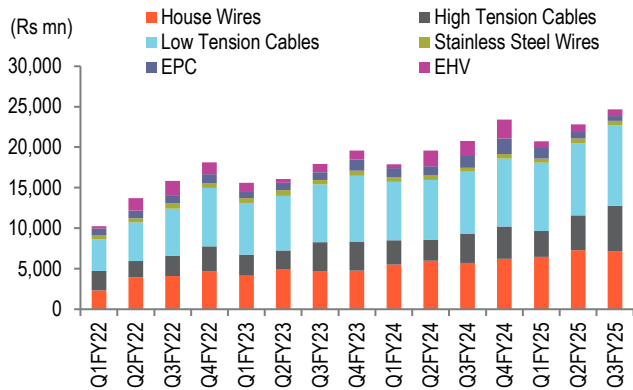
Source: Company, BOBCAPS Research

**Fig 12 – Wires segment revenue: Geographical mix**



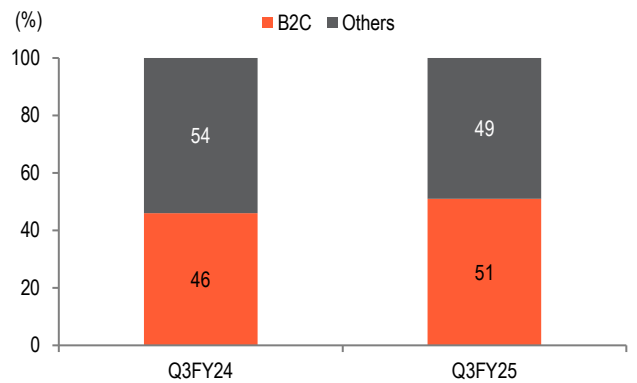
Source: Company, BOBCAPS Research

**Fig 13 – Revenue breakdown: Product mix**



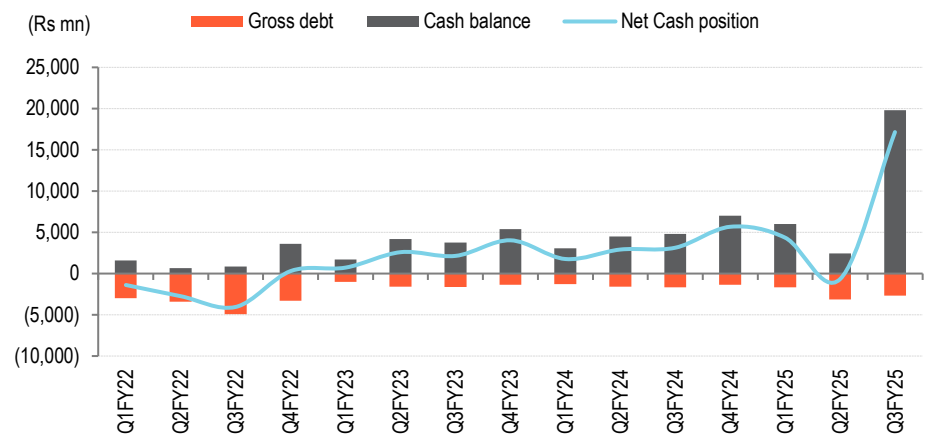
Source: Company, BOBCAPS Research

**Fig 14 – B2C contribution, Q3FY25**



Source: Company, BOBCAPS Research

**Fig 15 – Liquidity profile**



Source: Company, BOBCAPS Research

## Earnings call highlights

- **Quarter gone by:** KEII showcased a strong domestic performance in Q3, despite a 78% decline in extra high-voltage (EHV) cable sales due to delays in RoW permissions. To offset the impact, KEII shifted focus to HT power cables, which saw robust 45% growth. Stainless steel wire sales grew sharply by 49% YoY.
- **Surge in B2C sales:** B2C sales through the distribution network recorded significant growth, contributing 51% to Q3 revenue compared to 46% in the same period last year. KEII's strategic focus on expanding its retail presence and dealer network has driven consistent growth in this segment.
- **Shift in focus from EHV to HT cables:** The decline in EHV cable sales due to non-receipt of RoW permissions enabled KEII to pivot towards HT power cables, resulting in strong growth in this category.
- **Gradual decline in EPC business:** EPC cable sales witnessed a sharp decline, with revenue from the Gambia project falling to Rs 130mn in Q3, compared to Rs 690mn YoY. KEII remains committed to gradually scaling down its EPC business, capping annual sales at Rs 4bn-5bn.
- **Strategic capex driving expansion:** In 9MFY25, KEII invested Rs 4.2bn in capex, with Rs 2.5bn allocated to the Sanand facility. An additional Rs 4bn will be spent in Q4, while FY26 plans include Rs 6bn-7bn for greenfield expansion. These investments aim to support future growth and enhance production capacity.
- **Enhanced capacity utilisation:** Brownfield expansions at Chinchpada and Pathredi boosted KEII's capacity utilisation to 85% in cables, 69% in wires, and 90% in stainless steel. These improvements are expected to drive 16-17% volume growth in FY25.
- **Strong domestic and export order books:** KEII's domestic cable order book stands at Rs 21bn, fueled by demand from solar power and underground cabling projects. Meanwhile, the export order book, valued at Rs 5.7bn, will be executed in three to four months, with significant traction from the US, Australia, the Middle East and Africa.
- **Expanding EHV cable capacity:** KEII is scaling its EHV cable capacity, targeting Rs 3.5bn in sales for FY25 and Rs 5.5bn-6bn in FY26 as production normalises. The Sanand plant will contribute an additional Rs 10bn, taking KEII's total EHV capacity to Rs 16bn.
- **Operational efficiencies and cost optimisation:** KEII has reduced interest costs by utilising QIP funds for capex and adopting cash purchases. The EBITDA margin profile remains healthy, with EHV cables delivering 14-15%, exports 11%, and EPC projects 12-14%.
- **Outlook:** KEII aims to grow revenue at 19-20% CAGR by FY26, supported by strong demand for LT/HT power and EHV cables. The company expects stable EBITDA margins at FY24 levels, with gradual improvements to 12-12.5% by FY28. KEII plans to increase its exports contribution to 15-17% of total sales, up from 11% currently. The company is focused on scaling its global footprint in key markets like the US, Australia and Africa.

- **Strengthening market leadership:** KEI continues to expand its leadership in the domestic and global cable markets. Upcoming investments in the Baroda plant, post-Sanand, are expected to add Rs 50bn-60bn in sales. The company's focus on operational efficiency and capacity expansions will further solidify its position.

## Valuation methodology

Following KEI's strong Q3 results, revised revenue growth guidance, and focus on expanding exports, we remain optimistic about the company's prospects. However, we have cut our EPS estimates for FY25 by 9%, FY26 by 6% and FY27 by 2%, due to margins falling short of our expectations. Despite this, we continue to value the stock at 45x P/E, and upon roll forward to Dec'26 our new TP is Rs 5,000. Maintain BUY on fair valuations.

**Fig 16 – Revised estimates**

Rs mn	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	95,200	113,390	135,865	95,200	113,390	135,865	0.0	0.0	0.0
EBITDA	9,844	12,906	16,197	10,945	13,723	16,428	(10.1)	(6.0)	(1.4)
PAT	6,941	8,941	11,295	7,629	9,557	11,468	(9.0)	(6.4)	(1.5)
EPS (Rs)	72.7	93.6	118.3	79.9	100.1	120.1	(9.0)	(6.4)	(1.5)
EBITDA Margin (%)	10.3	11.4	11.9	11.5	12.1	12.1	(120bps)	(70bps)	(20bps)

Source: 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
<b>Total revenue</b>	<b>69,081</b>	<b>81,041</b>	<b>95,200</b>	<b>113,390</b>	<b>135,865</b>
EBITDA	7,019	8,375	9,844	12,906	16,197
Depreciation	571	614	623	635	648
EBIT	6,449	7,762	9,221	12,271	15,549
Net interest inc./(exp.)	347	439	571	1,021	1,223
Other inc./(exp.)	318	490	520	561	595
Exceptional items	0	0	0	0	0
EBT	6,419	7,813	9,170	11,811	14,921
Income taxes	1,647	2,002	2,228	2,870	3,626
Extraordinary items	0	2	0	0	0
Min. int./Inc. from assoc.	0	(1)	0	0	0
<b>Reported net profit</b>	<b>4,773</b>	<b>5,807</b>	<b>6,941</b>	<b>8,941</b>	<b>11,295</b>
Adjustments	0	2	0	0	0
<b>Adjusted net profit</b>	<b>4,773</b>	<b>5,809</b>	<b>6,941</b>	<b>8,941</b>	<b>11,295</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	7,482	10,079	13,041	16,465	20,101
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	191	191	191
Reserves & surplus	25,711	31,302	37,861	46,421	57,334
Shareholders' fund	25,892	31,483	38,052	46,612	57,525
<b>Total liab. and equities</b>	<b>37,702</b>	<b>46,564</b>	<b>60,517</b>	<b>72,369</b>	<b>88,262</b>
Cash and cash eq.	5,372	7,004	7,934	9,419	11,832
Accounts receivables	13,878	15,179	17,736	20,193	24,195
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	15,081	19,445	23,797
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
<b>Total assets</b>	<b>37,702</b>	<b>46,564</b>	<b>60,517</b>	<b>72,369</b>	<b>88,262</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>5,139</b>	<b>6,105</b>	<b>7,386</b>	<b>8,146</b>	<b>7,870</b>
Capital expenditures	(977)	(4,000)	(8,000)	(5,000)	(5,000)
Change in investments	9	3	(3)	(4)	(4)
Other investing cash flows	(404)	472	19	24	30
<b>Cash flow from investing</b>	<b>(1,371)</b>	<b>(3,526)</b>	<b>(7,984)</b>	<b>(4,980)</b>	<b>(4,975)</b>
Equities issued/Others	20	11	11	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)	(382)	(382)	(382)
<b>Cash flow from financing</b>	<b>(2,559)</b>	<b>(719)</b>	<b>1,529</b>	<b>(1,682)</b>	<b>(482)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,208</b>	<b>1,860</b>	<b>931</b>	<b>1,485</b>	<b>2,413</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,372</b>	<b>7,004</b>	<b>7,934</b>	<b>9,419</b>	<b>11,832</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	52.9	64.4	72.7	93.6	118.3
Adjusted EPS	52.9	64.4	72.7	93.6	118.3
Dividend per share	3.0	3.5	4.0	4.0	4.0
Book value per share	287.1	349.0	398.5	488.1	602.4

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.4	4.6	4.0	3.3	2.8
EV/EBITDA	53.1	44.9	38.4	29.2	23.4
Adjusted P/E	78.0	64.1	56.8	44.1	34.9
P/BV	14.4	11.8	10.4	8.5	6.9

### 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	99.4	96.3	96.0
EBIT margin (EBIT/Revenue)	9.3	9.6	9.7	10.8	11.4
Asset turnover (Rev./Avg TA)	189.3	192.3	177.8	170.7	169.2
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.6	1.5
Adjusted ROAE	20.2	20.3	20.0	21.1	21.7

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	20.6	17.3	17.5	17.0	17.0
EBITDA	19.2	19.3	17.5	31.1	25.5
Adjusted EPS	26.9	21.7	19.5	28.8	26.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.2	10.3	10.3	11.4	11.9
EBIT margin	9.3	9.6	9.7	10.8	11.4
Adjusted profit margin	6.9	7.2	7.3	7.9	8.3
Adjusted ROAE	20.2	20.3	20.0	21.1	21.7
ROCE	24.3	24.1	22.5	25.3	26.1
<b>Working capital days (days)</b>					
Receivables	73	68	68	65	65
Inventory	58	60	60	60	62
Payables	40	45	50	53	54
<b>Ratios (x)</b>					
Gross asset turnover	8.0	7.2	4.9	4.7	4.6
Current ratio	2.8	2.6	2.2	2.1	2.2
Net interest coverage ratio	18.6	17.7	16.1	12.0	12.7
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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## 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**



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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%

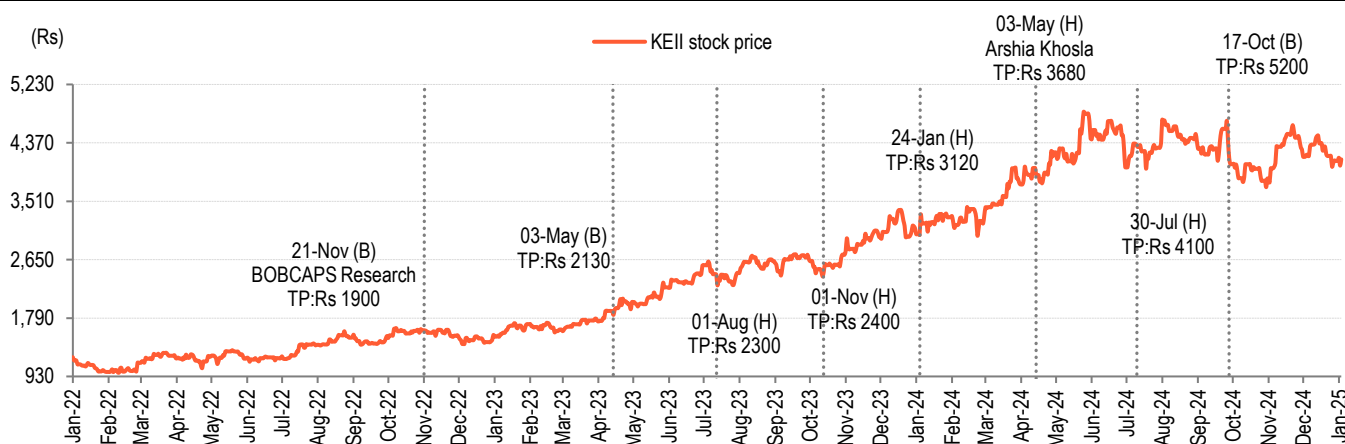
**HOLD** – Expected return from -6% to +15%

**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.

## 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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