

HOLD

TP: Rs 3,680 | ▼ 5%

KEI INDUSTRIES

| Consumer Durables

| 03 May 2024

Addressing capacity limitations; maintain HOLD

- Q4 revenue jumps 19% YoY with 10bps EBITDA margin boost. FY24 revenue up 17%, driven by robust infrastructure and real estate demand
- Management guides for FY25 revenue growth of 16%-17%, EBITDA margin of 11%, and capex of Rs 9bn-10bn
- Raise FY25/FY26 EPS 8%/11% on strong Q4. Higher TP of Rs 3,680 (from Rs 3,120) valued at 33x FY26E P/E. Maintain HOLD

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Ending the year with strong numbers: KEI's quarter was decent, with a Rs 23bn topline, boasting robust 19% YoY growth. FY24 revenue was Rs 81bn, up 17% from the previous year. EBITDA margin held firm at 10.5% for Q4 and 10.3% for FY24, expanding 10bps quarterly and annually. However, gross margins contracted slightly by 40bps in Q4FY24 (23.4% vs. 23.8% in Q4FY23) due to higher raw material prices. The strong Q4 performance was fueled by infrastructure investments and heightened demand in real estate.

Guidance retained: Management upheld its revenue growth guidance of 16%-17% for both FY25 and FY26, with 11% EBITDA margin for FY25 and FY26. KEI expects opportunities to enhance margins by an additional 50bps.

Optimistic demand outlook: Management anticipates significant export opportunities and foresees sustained domestic demand for wires and cables, driven by ongoing private and public sector investments. The demand surge extends across key sectors like highways, metros, and railways. Large-scale construction ventures such as hotels, hospitals, and real estate developments are gaining momentum.

Expanding dealership network: In the dealer and distribution market, management focuses on achieving a 20% growth target for both wires and cables, with plans to expand into additional geographies and boost manpower, particularly in South and East India. Efforts are underway to reinforce dealer networks and enhance margins through effective brand strategies. Initiatives include establishing wires and cables in 26 locations and fortifying the sales team nationwide.

Maintain HOLD: Post Q4 results, we have raised our FY25/FY26 EPS estimates by 8%/11%, keeping our valuation unchanged at 33x FY26E P/E, which is aligned with the sector average and at a 15% discount to POLYCAB. We roll over valuations to Mar'26E, and raise our TP to Rs 3,680 (previously Rs 3,120). However, considering the stock's significant 35% increase since our last report, we maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KEI IN/Rs 3,893
Market cap	US\$ 4.3bn
Free float	61%
3M ADV	US\$ 10.8mn
52wk high/low	Rs 4,117/Rs 1,818
Promoter/FPI/DII	37%/27%/20%

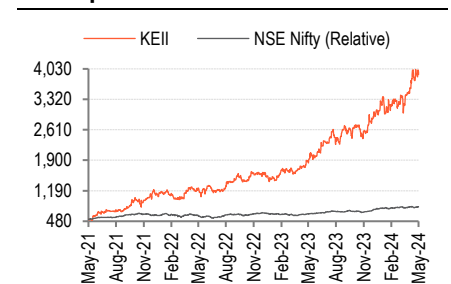
Source: NSE | Price as of 3 May 2024

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	9,781
Adj. EPS (Rs)	64.4	88.3	108.4
Consensus EPS (Rs)	64.4	87.9	108.2
Adj. ROAE (%)	20.3	22.6	22.3
Adj. P/E (x)	60.4	44.1	35.9
EV/EBITDA (x)	42.4	31.3	25.3
Adj. EPS growth (%)	21.7	37.2	22.8

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	23,193	19,545	18.7	20,594	12.6	81,041	69,123	17.2
EBITDA	2,446	2,038	20.0	2,146	14.0	8,375	7,062	18.6
EBITDAM (%)	10.5	10.4	10bps	10.4	10bps	10.3	10.2	10bps
Depreciation	158	143		154		614	571	
Interest	165	101		109		439	347	
Other Income	152	51		142		490	276	
PBT	2,274	1,845	23.3	2,024	12.4	7,813	6,420	21.7
Tax	587	464		518		2,002	1,647	
Adjusted PAT	1,687	1,381	22.1	1,507	12.0	5,811	4,773	21.7
Exceptional item	2	0		0		2	0	
Reported PAT	1,685	1,381		1,507		5,807	4,773	21.7
Adj. PATM (%)	7.3	7.1	20bps	7.3	0bps	7.2	6.9	30bps
EPS (Rs)	18.7	15.3		16.7		64.4	52.9	21.7

Source: Company, BOBCAPS Research

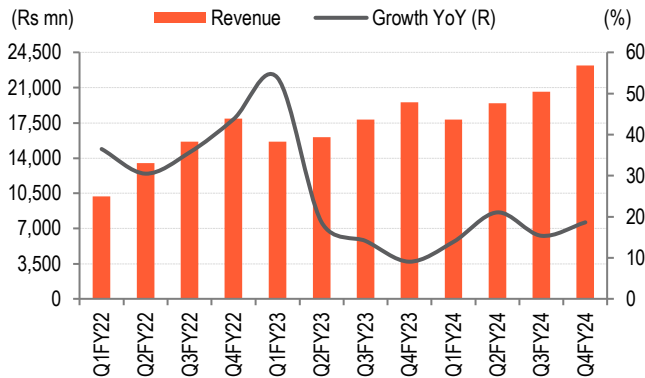
Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
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
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
Stainless Steel Wires	478	518	652	612	610	735	557	649	590	591	465	572
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)
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
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
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
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
Stainless Steel Wires	30	42	31	34	30	45	56	59	31	36	36	13
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
EPC Projects	125	213	233	249	95	148	280	145	256	314	439	422
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

Source: Company, BOBCAPS Research

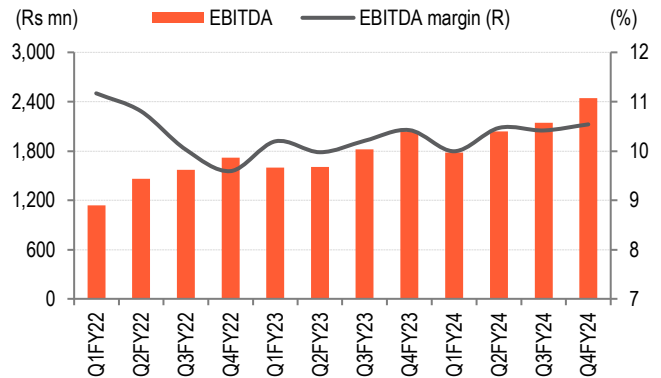
Key metrics: Quarterly

Fig 3 – Revenue growth



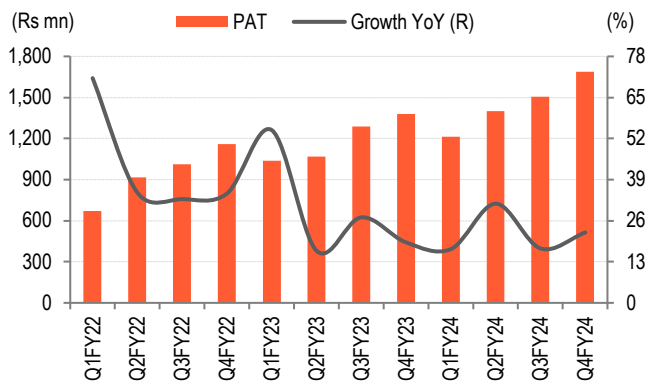
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



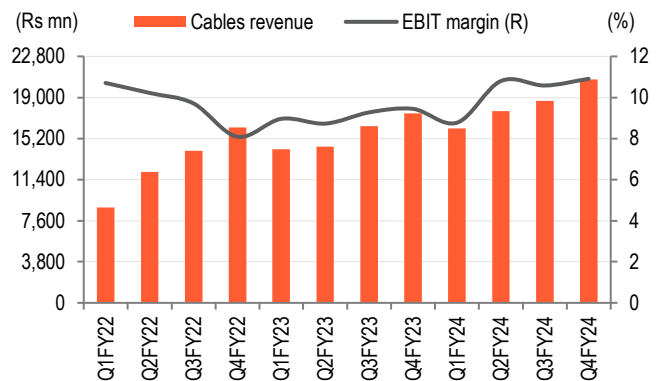
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



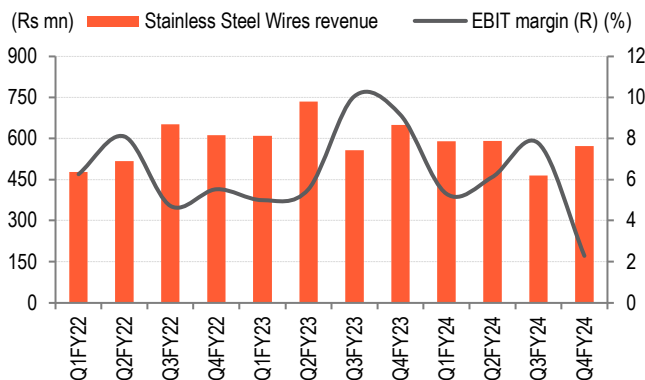
Source: Company, BOBCAPS Research

Fig 6 – Cables division growth



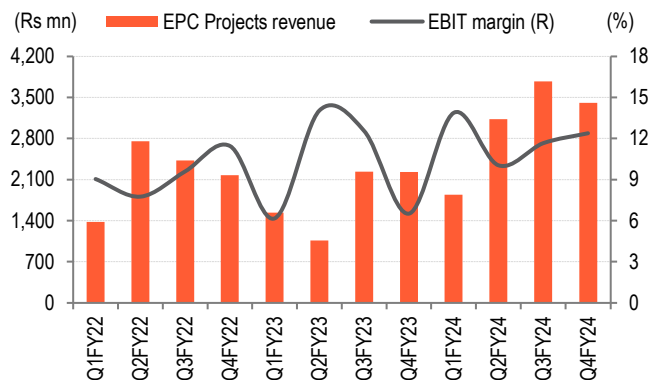
Source: Company, BOBCAPS Research

Fig 7 – Stainless steel wires division growth



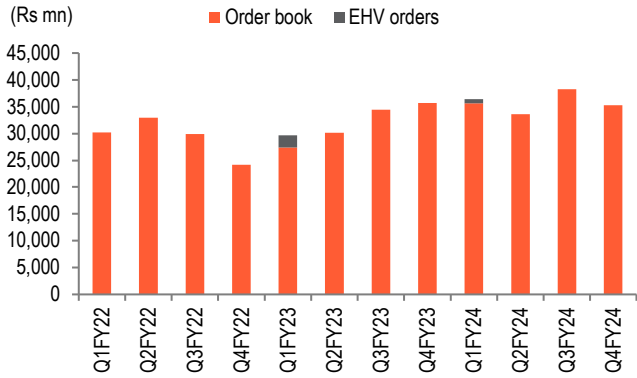
Source: Company, BOBCAPS Research

Fig 8 – EPC projects division growth



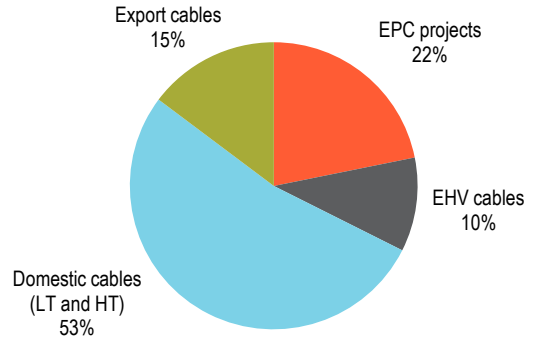
Source: Company, BOBCAPS Research

Fig 9 – Order book trend



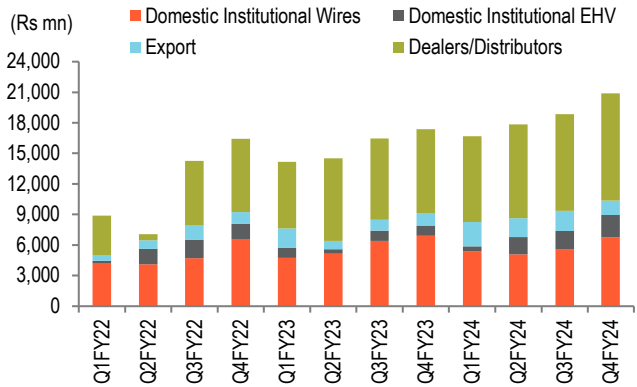
Source: Company, BOBCAPS Research

Fig 10 – Order book bifurcation, Q4FY24



Source: Company, BOBCAPS Research | EHV: Extra-high voltage, EPC: engineering, procurement, and construction, LT: Low Tension, HT: High Tension

Fig 11 – Wire segment revenue: Channel mix



Source: Company, BOBCAPS Research

Fig 12 – Wire segment revenue: City mix



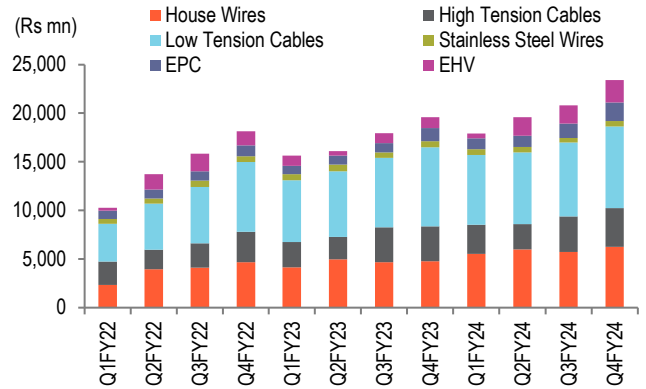
Source: Company, BOBCAPS Research

Fig 13 – Wires segment revenue: Geography mix



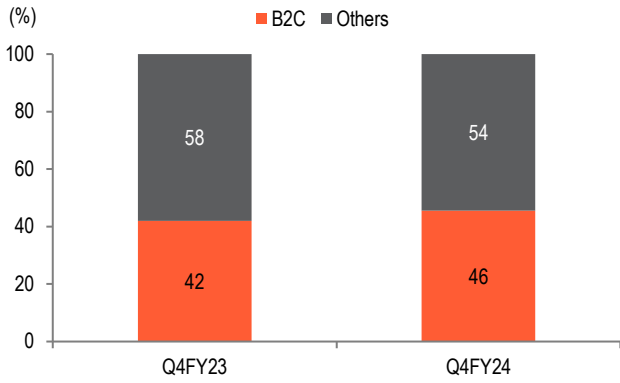
Source: Company, BOBCAPS Research

Fig 14 – Revenue breakup: Product mix



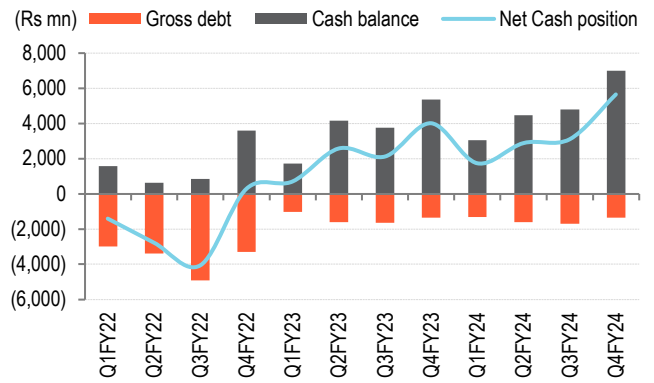
Source: Company, BOBCAPS Research

Fig 15 – B2C contribution, Q4FY24



Source: Company, BOBCAPS Research

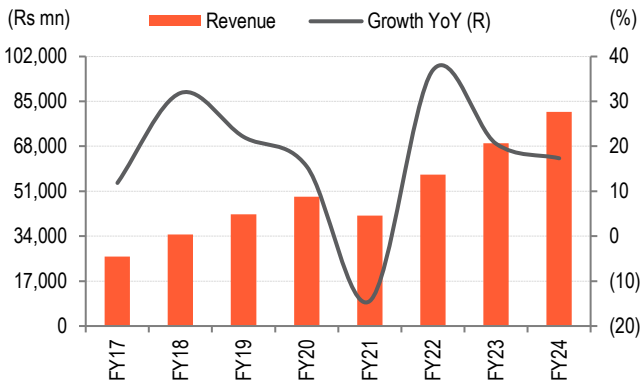
Fig 16 – Liquidity profile



Source: Company, BOBCAPS Research

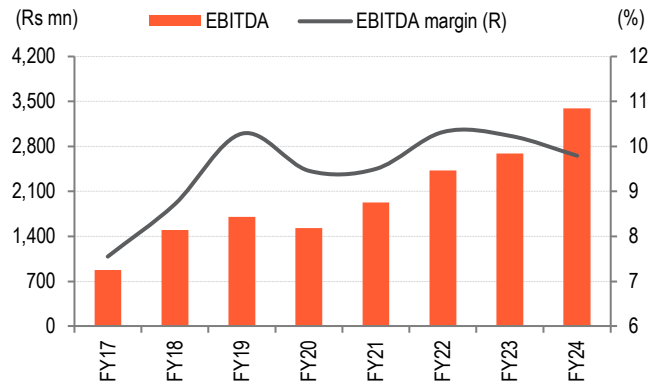
Key Metrics: Yearly

Fig 17 – Revenue growth



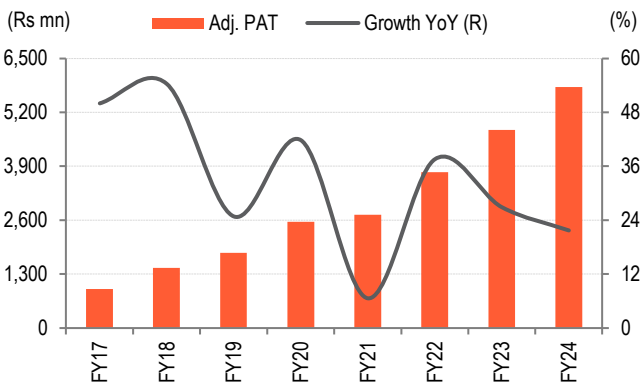
Source: Company, BOBCAPS Research

Fig 18 – EBITDA growth



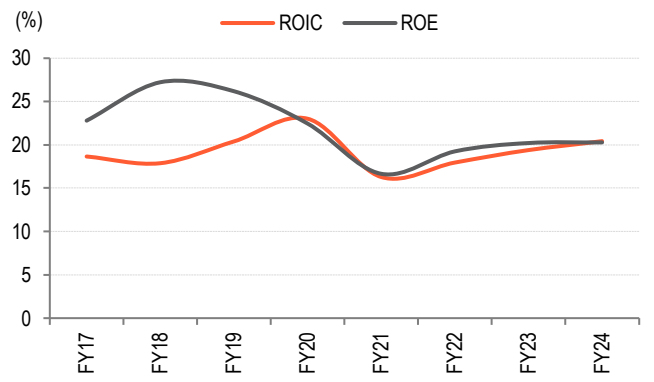
Source: Company, BOBCAPS Research

Fig 19 – Profit growth



Source: Company, BOBCAPS Research

Fig 20 – Return ratios



Source: Company, BOBCAPS Research

Earnings call highlights

- **Macroeconomic landscape:** According to management, the future of the wires and cables industry looks robust, buoyed by strong economic growth and government-led capital expenditure initiatives that are driving significant private investment, particularly in manufacturing plants like semiconductors. This surge in investment is expected to fuel an ever-increasing demand for wires and cables, as more residential housing and infrastructure projects necessitate extensive wiring solutions. Projections suggest that the next five years will be good for the wires and cables sector, with India poised to emerge as a major exporter in the global market.
- **Demand outlook:** Management anticipates significant export opportunities and sustained domestic demand for wires and cables, driven by ongoing private and public sector investments. The demand surge extends across key sectors like highways, metros, and railways. Also, large-scale construction ventures such as hotels, hospitals and real estate developments are gaining momentum. Additionally, there is an expected uptick in demand for small wires attributed to home solar projects.
- **Guidance:** Management retained its FY25/FY26 guidance of 16%-17% of revenue growth, ~11% EBITDA margin and PAT margins at 7.2%/7.4%.
- **Capacity utilisation:** KEI achieved utilisation of 92% in cables, 70-75% in house wires and 91% in stainless steel wires during Q4FY24. To address capacity constraints, the company is currently undergoing aggressive expansion efforts to meet escalating demand.
- **Capex:** In FY24, KEI invested a total of Rs 3.9bn in capital expenditures. This amount was distributed across various projects, including Rs 840mn for Chinchpada, Rs 510mn for Pathedi, Rs 1.9bn for Sanand, Rs 90mn for Gujarat, and Rs 560mn for other existing plants. Additional investment of Rs 650mn has been lined up to expand capacity at Chinchpada and will be spent over the next two months. For FY25, the company has earmarked capex of Rs 9bn-10bn for low tension (LT), high tension (HT), and extra-high voltage (EHV) wires, with commercial production set to commence by Q1FY25. The company has allocated a budget of Rs 5bn-6bn for further expansion in FY26.

Cables

- **Cables:** The cables segment experienced robust ~18% YoY topline growth, rising to Rs 20.6bn driven by a substantial 24% increase in volume in Q4FY24 (with cumulative 22% volume growth throughout FY24). Demand for wires and cables is notably buoyant, particularly from government infrastructure initiatives and real estate ventures, alongside an uptick in export demand. Heightened investment in telecom infrastructure is catalysing growth within the electrical cables sector.
- **EHV:** Extra-high voltage cables did well in Q4 with a Rs 2.2bn topline vs. Rs 990mn in Q4FY23.

Dealer and Distribution

- **Dealer & distribution network:** In the dealer and distribution market, management is focusing on achieving 20% growth in a few years for both wires and cables, with plans to expand into additional geographical regions and bolster manpower particularly in the South and East India. Efforts are underway to reinforce dealer networks and enhance margins through approvals from diverse end users and effective brand strategies. Initiatives include establishing wires and cables in 26 locations and fortifying the sales team nationwide.
- **Dealers:** The company has ~1,990 active dealers

Exports

- **Exports:** Export figures reached Rs 2.3bn in Q4FY24, with Rs 1.3bn attributed to cables and Rs 930mn to engineering, procurement, and construction (EPC) projects. Management anticipates sustained strength in exports and is reallocating some capacities to meet growing order volumes.
- **International presence:** The company has expanded its exports reach to include regions such 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:** According to management, in Western countries there is high demand within the power sector. However, Western countries are experiencing a slowdown in new manufacturing companies due to the challenges of high raw material costs and labour expenses. Consequently, India is emerging as a growth driver, capturing this demand. These countries are also exploring the China +1 strategy, further bolstering the Make in India brand. Over several years, the company has built a robust network of agents to promote its products internationally, obtaining certifications from Europe and the US, which have been instrumental in facilitating exports.

Valuation methodology

Following Q4 results, we have raised our FY25/FY26 EPS estimates by 8%/11%, buoyed by robust domestic demand and export advantages. We maintain the stock's valuation at 33x FY26E P/E, in line with the sector average and which is at a 15% discount to POLYCAB. We roll valuations to Mar'26E, and raise our target price to Rs 3,680 (previously Rs 3,120). However, given the stock's substantial 35% surge since our last report published on 24 Jan'24, we retain our HOLD recommendation.

Fig 21 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	95,676	113,952	94,765	109,415	1.0	4.1
EBITDA	11,397	14,034	10,947	13,037	4.1	7.6
PAT	7,968	9,781	7,409	8,823	7.5	10.9
EPS (Rs)	88.3	108.4	82.2	97.8	7.5	10.9
EBITDA Margin (%)	11.9	12.3	11.6	11.9	40bps	40bps

Source: Company, BOBCAPS Research

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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,969	3,200	SELL
Blue Star	BLSTR IN	3.4	1,448	1,670	BUY
Havells India	HAVL IN	12.7	1,664	1,780	HOLD
KEI Industries	KEII IN	4.3	3,893	3,680	HOLD
Orient Electric	ORIENTEL IN	0.6	230	240	HOLD
Syrma SGS	SYRMA IN	1.0	488	550	HOLD
V-Guard Industries	VGRD IN	1.8	347	310	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	57,266	69,081	81,041	95,676	113,952
EBITDA	5,887	7,019	8,375	11,397	14,034
Depreciation	555	571	614	626	638
EBIT	5,333	6,449	7,762	10,771	13,396
Net interest inc./(exp.)	404	347	439	765	1,026
Other inc./(exp.)	146	318	490	520	551
Exceptional items	0	0	0	0	0
EBT	5,075	6,419	7,813	10,526	12,921
Income taxes	1,315	1,647	2,002	2,558	3,140
Extraordinary items	0	0	2	0	0
Min. int./Inc. from assoc.	0	0	(1)	0	0
Reported net profit	3,760	4,773	5,807	7,968	9,781
Adjustments	0	0	2	0	0
Adjusted net profit	3,760	4,773	5,809	7,968	9,781

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	7,626	7,482	10,079	13,106	15,610
Other current liabilities	2,387	2,295	2,830	5,242	6,244
Provisions	0	0	0	0	0
Debt funds	3,314	1,399	1,404	2,104	2,004
Other liabilities	589	634	769	907	1,081
Equity capital	180	180	180	180	180
Reserves & surplus	21,175	25,711	31,302	38,909	48,330
Shareholders' fund	21,355	25,892	31,483	39,090	48,510
Total liab. and equities	35,271	37,702	46,564	60,450	73,448
Cash and cash eq.	3,600	5,372	7,004	5,709	8,427
Accounts receivables	13,955	13,878	15,179	20,970	24,976
Inventories	10,794	11,023	13,427	17,562	20,917
Other current assets	1,261	1,341	1,365	2,122	2,527
Investments	20	13	16	19	22
Net fixed assets	5,313	5,673	7,703	12,078	14,439
CWIP	165	146	1,209	1,209	1,209
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	162	257	662	781	931
Total assets	35,270	37,702	46,564	60,450	73,448

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	2,286	5,139	6,105	3,349	6,159
Capital expenditures	(596)	(977)	(4,000)	(5,000)	(3,000)
Change in investments	(9)	9	3	(3)	(4)
Other investing cash flows	22	(404)	472	19	24
Cash flow from investing	(584)	(1,371)	(3,526)	(4,984)	(2,980)
Equities issued/Others	667	20	11	0	0
Debt raised/repaid	56	(1,961)	(10)	700	(100)
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(1,037)	(618)	(720)	(361)	(361)
Cash flow from financing	(314)	(2,559)	(719)	339	(461)
Chg in cash & cash eq.	1,389	1,208	1,860	(1,295)	2,718
Closing cash & cash eq.	3,600	5,372	7,004	5,709	8,427

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	41.5	52.9	64.4	88.3	108.4
Adjusted EPS	41.5	52.9	64.4	88.3	108.4
Dividend per share	2.5	3.0	3.5	4.0	4.0
Book value per share	235.5	287.1	349.0	433.4	537.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	6.1	5.1	4.4	3.7	3.1
EV/EBITDA	59.5	50.1	42.4	31.3	25.3
Adjusted P/E	93.9	73.6	60.4	44.1	35.9
P/BV	16.5	13.6	11.2	9.0	7.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	74.3	74.4	75.7	75.7
Interest burden (PBT/EBIT)	95.2	99.5	100.7	97.7	96.5
EBIT margin (EBIT/Revenue)	9.3	9.3	9.6	11.3	11.8
Asset turnover (Rev./Avg TA)	175.1	189.3	192.3	178.8	170.2
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.5	1.5	1.5
Adjusted ROAE	19.2	20.2	20.3	22.6	22.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	36.9	20.6	17.3	18.1	17.0
EBITDA	27.9	19.2	19.3	36.1	23.1
Adjusted EPS	37.6	26.9	21.7	37.2	22.8
Profitability & Return ratios (%)					
EBITDA margin	10.3	10.2	10.3	11.9	12.3
EBIT margin	9.3	9.3	9.6	11.3	11.8
Adjusted profit margin	6.6	6.9	7.2	8.3	8.6
Adjusted ROAE	19.2	20.2	20.3	22.6	22.3
ROCE	24.3	24.3	24.1	26.4	26.6
Working capital days (days)					
Receivables	89	73	68	80	80
Inventory	69	58	60	67	67
Payables	49	40	45	50	50
Ratios (x)					
Gross asset turnover	7.4	8.0	7.2	5.9	5.9
Current ratio	2.2	2.8	2.6	2.4	2.5
Net interest coverage ratio	13.2	18.6	17.7	14.1	13.1
Adjusted debt/equity	0.0	(0.2)	(0.2)	(0.1)	(0.1)

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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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%

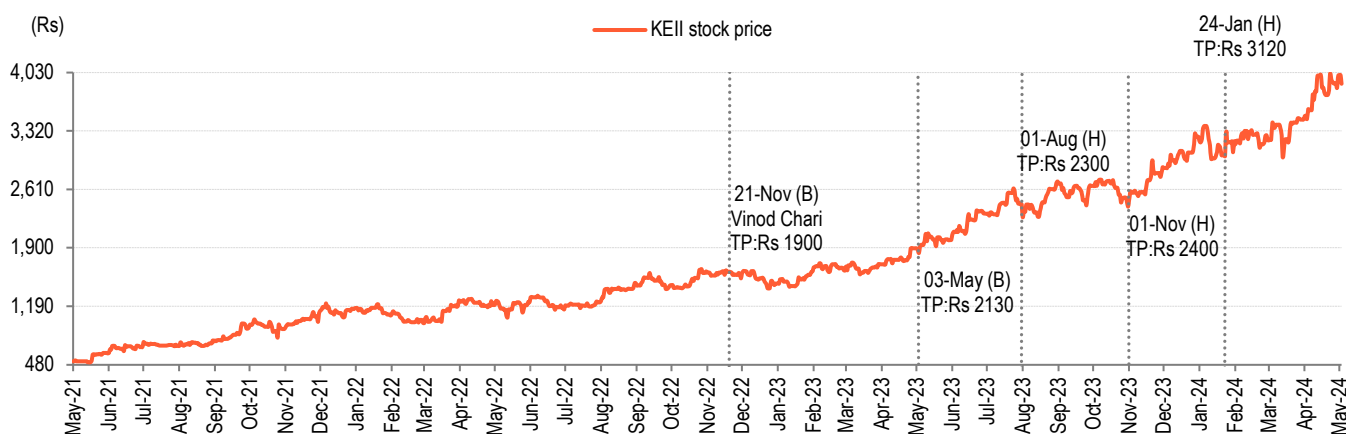
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): KEI INDUSTRIES (KEII IN)



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

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